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26th of July 2013

Subject: Access Tariffs and Financing the Gas Transmission Systems (CER 13/122)

Dear James,

The Electricity Association of Ireland (EAI) welcomes this opportunity to respond to the Commission for Energy Regulation (CER) consultation paper (CER/13/122) on Access Tariffs and Financing the Gas Transmission System. As already outlined in the EAI's presentation on this paper to the Gas & Electricity Workshop (3 July), our members consider the consultation paper, and proposals contained therein, to be premature, unsupported by evidence and potentially damaging to the entire energy market in Ireland.

The EAI endorses the presentation given at the 3rd July Workshop as its submission to the current consultation and in the interest of clarity we have taken this opportunity to reiterate a number of the key points from the presentation.

First, it is the unanimous view of our members that enhanced flexibility of the gas system will be required to facilitate and support the development of wider energy policy objectives in Ireland, particularly the achievement of the 40% renewable energy target by 2020. Gaslink have indicated an operational ability to meet this additional demand. In this consultation, CER have proposed removing the current level of flexibility in an attempt to impose an artificial demand for gas capacity that does not align with the long term, systemic changes underlying the power generation sector's demand for gas and gas capacity.

Secondly, EAI acknowledges the potential financing risk for Bord Gais Networks (BGN) of maintaining the current approach to tariffs, however the proposals forwarded in the consultation paper seek to reinforce the reliance on the current approach rather than address the underlying fundamental change giving rise to this perceived risk. In light of the potential quantum of this risk and the likelihood of it being caused by long term changes in demand, EAI consider it appropriate and prudent for the CER to undertake a full analysis of the underlying changes in the demand for gas, the distribution of costs and, following an evidence based identification of the issue(s) to be addressed, a comprehensive assessment

of suitable proposals. It is our members considered view that only through such a process can a sustainable and fair outcome be achieved. Our members accept that such an outcome may have adverse tariff implications for some groups.

Thirdly, in undertaking a comprehensive review, as outlined herein, and given the gravity of the potential issue(s), it is considered appropriate and arguably necessary that the CER would demonstrably follow the six Principles of Better Regulation before a final decision is taken on this issue¹. These six Principles are identified by the Government as being central to economic regulation in Ireland.

Finally, in light of the foregoing and of our previous presentation, the EAI calls on the CER to defer any decision on this issue until such time as a comprehensive analysis of the issue(s) has been undertaken. Evidence based decisions are necessary for regulatory certainty and the minimisation of regulatory risk in the market. It is therefore the EAI's position that while tariff changes may be inevitable for 2013/14, no further policy changes, in addition to CER/10/089, should be implemented. Our members would also consider it regrettable if the current proposals to unnecessarily reduce flexibility in the gas market were to be retained following the detailed analysis called for herein. It is necessary for future gas and electricity market development to take cognisance of the growing level of interoperability between the two markets and it may be advisable for the CER to consider the creation of a permanent forum where such developments and policy can be discussed.

Our members wish to recognise the CER's engagement in respect of this consultation to date and can indicate their willingness to continue this engagement in furtherance of the requested process of comprehensive analysis and development of a sustainable and fair outcome for all gas users.

Should you have any questions on this submission or in relation to the EAI's 3rd July presentation, please contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stephen Douglas', is written over a light blue horizontal line. To the right of the signature is a vertical line.

Stephen Douglas
Senior Advisor
Electricity Association of Ireland (EAI)

¹ The six principles of Better Regulation are; necessity, effectiveness, proportionality, accountability, transparency, and consistency (Department of Taoiseach Statement on Economic Regulation, 2013)