

The Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,

Dublin 24.

Date : 15/7/2013

Consultation : CER /13/122

Access Tariffs and Financing the Gas Transmission System

Dear James,

Electric Ireland welcomes the opportunity to comment on the CER Consultation CER/13/122 covering gas access tariffs and financing of the Gas Transmission System

At the core of CER'S concerns is the drop off in primary capacity bookings and related BGN infrastructure revenue implications ; and the level of flexibility currently on offer to system users.

Electric Ireland acknowledges that there is clearly a problem if total revenue is not sufficient to remunerate the network properly – at issue is how this problem should be resolved and the fair distribution of the cost burden across the various customer categories. Removal and / or restriction of key flexibilities seem like blunt instruments to deal with this – if implemented as proposed their immediate impacts will appear unduly burdensome, particularly to the LDM / DM sector. On the other hand the NDM sector (and its hard pressed customers) is not seeking additional costs, though it cannot be denied that there is a cost to be met. If one category doesn't pay then by definition another category will have to pay more. It must also be recognised by CER however that there are very challenging and dynamic industry issues facing all parties , not least of which are the impacts of wind, EWIC, coal prices; a severe and prolonged national recession ; and BGN forecasts that require further adjustment in light of all these factors.

Electric Ireland believes a further detailed examination of the strategic issues and costs and how they could or should be apportioned is merited in advance of a final decision in this matter. A review, supported perhaps by some additional expert external input to provide analysis, findings and recommendations could deliver a more transparent, long-term, flexible and robust methodology for fair apportionment of costs would emerge from such a review, which also takes account of the negative effect any increase in gas network charges is likely to have on the viability and competitiveness of industries located in Ireland. It is critical that such a methodology is capable of being adjusted, under agreed headings, in response to changing market circumstances and include reliable and updated economic growth forecasts covering a phased recovery over the short, medium and long-term. In reality this will probably lead to some

re-apportionment of overall costs from time to time but at least this can be achieved consistent with key principles of better regulation.

In this regard Electric Ireland feels it is worth recollecting some additional context relating to the position we now find ourselves in.

1. The authorities in NI and ROI some years ago set a target of 40% electricity demand being generated from renewable sources by 2020. It is difficult to see how BGN did not appropriately consider this in their forecasting. If they had they must surely have foreseen/forecast a significant drop in gas primary capacity bookings and usage in light of this.

2. Most renewable (RES) electricity generation sources are intermittent and unpredictable. NI and ROI have chosen to meet their RES target of 40% in the main from wind. Wind by its nature is extremely unpredictable once you go more than a few hours out, and is very intermittent. Achieving the 40% target from wind necessitates having a reliable and fast responding backup, which can both ramp up quickly when wind unexpectedly drops off, and also can quickly ramp down when wind unexpectedly arrives given the priority dispatch nature of wind in SEM. The most efficient and effective form of generation to act as backup is gas fired but flexibility (in relation to nominations, and nomination lead times, line-pack adaptability etc) in the gas system is a prerequisite to enabling gas fired power plants to react to meet system demands in response to wind fluctuations. Reducing flexibility in the gas system along the lines now being proposed by the CER (and now being progressed under Code Modification A046) will materially and negatively affect the ability of gas fired generators to do what is being asked of them, making provision of such flexibility less attractive, more risky, and more costly for all users of the gas system.

3.. IC1 supplies gas to NI and ROI. IC2 supplies gas to ROI and IOM. In the event of a increase in gas demand in NI gas would be required to move to NI via the South North interconnector, and this gas will have to come from IC2 or else put the ROI system at risk by depleting the line pack in the ROI system. Thus, in summary, the Interconnectors provide gas to 3 jurisdictions, and Security of supply to 3 jurisdictions, and are also no doubt factored into the EU directed N-1 security of supply criteria for at least 2 jurisdictions. Considering all of the above it may be timely to ask do we need to re-look at how the costs of the ICs' are being funded in a way that proportionately reflects the true benefits being gleaned from them by each of the jurisdictions impacted.

4. To achieve pan European gas and electricity markets EU Network Codes are being drafted to be completed by 2014. One gas code (Capacity Allocation Mechanism) and one electricity code (Forward Capacity Allocation) specifically demand and facilitate the trading of both primary and secondary capacity between entities. The current drafting of these codes is limited to the cross border points but the spirit of what they are advocating seems clear i.e. that the fullest possible flexibility would be facilitated for primary, secondary and commodity trading. It could be argued also that by limiting the flexibility at the exit point seriously devalues having the flexibility allowed under the EU codes at the entry points. What is being proposed by the CER in Ireland in relation to this consultation and Code Mod A046 appears contrary to the spirit of these EU codes (and, in turn, may discourage long term booking through suggested EU auctions).

5. Today BGN use gas capacity bookings as an indicator for gas network capacity planning and network investment. This is reasonable given that parties have access to flexibility mechanisms with which to trade their capacity to reflect their true requirements. If the current CER proposal goes ahead, along with Code Mod A046, future gas capacity bookings cannot be used as an indicator for gas network investment as parties would then be forced to book capacity for periods and times and in amounts they would not wish to if they had optionality around trading and capacity booking, and which therefore are no longer truly reflective of their actual needs. As such BGN will have to find an alternative methodology with which to plan its network and justify network investments as to simply use bookings could give a dramatically distorted view.

6. By moving from a regime of having flexibility in relation to how Shippers can book and trade gas capacity at both Entry and Exit points, to one where there is certain flexibility at Entry points but limited or no flexibility at Exit, it could be argued that the Irish gas network is effectively moving away from a true Entry-Exit regime to one which will more closely reflect a point-to-point system in all but name. This would be considered a backward step for Ireland as we would be losing many of the attractive benefits (e.g. ability to optimise capacity bookings in the interest of lower costs to customers) associated with an Entry-Exit regime which led to the EU proposing an Entry-Exit regime be adopted in all Member state markets originally. Electric Ireland suggests very careful consideration be given to any proposal which may bring this about.

Finally, Electric Ireland strongly supports the establishment of further workshops to allow all stakeholders an opportunity to openly debate in a more considered fashion all the issues that the consultation process to date has not been able to facilitate. These workshops could form part of and / or follow from a separate expert review (as suggested above) and assist in delivering a greater level of consensus on an agreed resolution.

Regards,

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