Fingleton White & Co. Ltd.

Response to Access Tariffs Consultation (CER/13/122)

APPROVALS FOR THIS ISSUE

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1.0 Summary

Fingleton White welcomes the publication of the Consultation Paper, Access Tariffs and Financing the Gas Transmission System, and the opportunity to submit comments.

The reduction in gas capacity bookings is due to changes in the Power Generation sector and we want to ensure that steps taken to restrict the flexibility of the Power Generation sector do not adversely affect large industrial users. Therefore Fingleton White oppose the removal of secondary transfers (Proposal 1) but support the removal of Within Day capacity trading (Proposal 2).

2.0 Background

Fingleton White are the leading supplier of Combined Heat and Power (CHP) in Ireland and through our operations division have involvement in the operation of gas fired CHP plants with a combined thermal input capacity of over 400MW. We are very concerned that changes in the activities of the electricity sector should place a disproportionate burden on the other users of the gas infrastructure. Fingleton White is keen to see the CER protecting the interests of all gas customers.

There has been a 32% increase in capacity tariffs since this time last year. This is having a big impact on customers and we therefore welcome attempts by the CER to implement structural changes to ensure that the recent interim tariff increases can be reversed

3.0 Variability versus Flexibility

The underlying issue is caused by the increased variability in the gas capacity requirements of the power generation sector as a result of the changing generation mix. As a result there has been an increased utilisation of flexible products by the power generation sector to meet this variable capacity requirement. This use of flexible products to meet the variable requirements has led to a reduction in the level of annual capacity bookings, even though the cost of providing capacity is fixed, not variable.

The power generation sector is subject to central dispatch and therefore does not have flexibility in its consumption. It is selling its generation capacity into the SEM all year round, and through the use of flexible within day capacity is only purchasing gas capacity if dispatched. The power generation capacity requirement is variable but not flexible.

In contrast to this the Industrial sector can respond to restrictions in capacity by varying production levels on any particular day. This ability to deliver flexibility when there is a shortage of capacity is of value to the system and therefore should be encouraged. This can be achieved by maintaining demand side flexibility incentives for the industrial sector.

The power generation sector requires their full capacity to be available all year round and if this capacity is to be maintained in the long term then it needs to be paid for by the power generation sector.

It is most likely that the power sector peak will coincide with the system peak (i.e. in cold weather when there is no wind). If a customer requires capacity on the day of a 1 in 50 year peak then the appropriate price for capacity on that day is equal to the cost for booking an annual strip of capacity every year there is not a 1 in 50 year peak.

If this capacity is not required by the power generation sector then the reduced requirement should be incorporated into the Gaslink gas capacity forecast and the network development plan costs revised accordingly. If the capacity is required it must be paid for by those that require it.

Since the reduced revenue is due to changes in the activities of the power generation sector it is appropriate to address the issue using measures that only affect this sector.

4.0 Response to Proposal 1

The CER has proposed to go beyond decision CER/10/089 to restrict transfers to within class by removing secondary capacity transfers entirely. There has been insufficient quantitative analysis to support this proposal to remove secondary capacity transfers (Proposal 1).

Proposal 1 would have a significant adverse and unintended impact on the Industrial and Commercial customers. However, from the slides presented at the CER Gas & Electricity Workshop, Proposal 1 in isolation would have a less significant impact on tariffs compared to Proposal 2 in isolation.

Therefore CER should not go ahead with Proposal 1.

5.0 Response to Proposal 2

Proposal 2 is targeted at the Power Generation Sector and thus addresses behaviour in the sector responsible for the reduction in booked capacity. In addition, from the slides presented at the CER Gas and Electricity Workshop, Proposal 2 in isolation will have the most significant impact on reducing tariffs.

Continuing to facilitate the use of within day capacity transfers by Power Generation customers would result in the remaining gas users paying for flexibility in the electricity sector and thus subsidising Ireland's renewable electricity generation policy objectives.

Therefore Proposal 2 to remove the ability to transfer capacity "within day" is welcomed.