

CER Decision on Gas Access Products and Tariffs - Notification to Industry

20th February 2014

The CER Decision CER/13/191 of 21 August 2013 on Access Tariffs and Financing the Gas Transmission System (the “Decision”) provided for:

1. the removal of secondary gas capacity transfers at the exit (the “secondary capacity provision”); and
2. the removal of within day purchases of short term gas capacity at the exit to 9.00h on D-1 (the “within day capacity provision”).

The key objective of the Decision was to seek to ensure that gas transmission revenues from certain sectors (in particular the power generation sector) would increase to a level such that the proportion of revenues from each respective sector would more closely match the level of peak day demand that was expected from that sector. This was termed the “equity issue” in the Decision. At the time of the Decision, the CER considered that it was necessary and proportionate to implement both provisions of the Decision in order to seek to achieve this objective.

The secondary capacity provision has been implemented since 1st October 2013.

Implementation of the within day capacity provision has been deferred by the CER on a number of occasions. Following the most recent deferral, the within day capacity provision was due to come into effect on 3rd March 2014.

The CER has decided to rescind the within day capacity provision of the Decision.

In other words, the current provisions in the Gaslink Code of Operations relating to within-day capacity will remain unchanged, and this product will continue to be available at the exit up to 03:00 on the gas day (Day D). The CER’s decision to rescind is taken having regard to certain developments in the gas and in the electricity generation sectors.

Reasons

With the deferred implementation of the within-day capacity provision, it has been possible to observe market behaviour and consequent revenues from the various sectors in the light of secondary capacity transfers having been removed, but while the within day product remained available. In early February, the CER was able to discern evidence of a trend that the volume of revenues from the power sector was, in fact, exceeding that which was anticipated in the Impact Assessment appended to the Decision. In effect, therefore, the CER was able to observe that the key objective underlying the Decision was materially being achieved in the absence of the implementation of the within-day capacity provision. It is considered that there are a number of factors associated with this trend, as set out below.

- **Constrained-on plant and within day purchases**

It is now apparent that, in the period since the removal of secondary capacity transfers at the exit on 1st October 2013, a number of power generators have been purchasing a significant amount of within-day capacity from Gaslink. A very significant element of these sales has been made to power generators that have been constrained-on to run in the SEM. The volume of revenue from these within day capacity sales has been in excess of that which was anticipated in the Impact Assessment appended to the Decision. The anticipated continuation of these sales and the resulting increased revenue, are expected to more closely match the level of peak day demand that was expected from the power generation sector, thereby materially addressing the equity issue for the time being.

- **Expected future level of constrained-on plant**

More recently, there have been a number of discussions between the CER and EirGrid regarding voltage support requirements in the Dublin region and the role of individual generation units in this regard. In light of these discussions, and given the level of “constrained-on” plant now expected to be required in the Dublin region in particular, the CER considers that a similar level of sales of within day capacity can be expected in 2014/15.

Finally, in addition to considering representations made previously in this regard, the CER has also considered recent representations from the electricity sector on the importance of the continued availability, where possible, of flexible gas capacity products such as the within day product, owing to the impact of their removal arising from circumstances prevailing in the electricity market and system. (A copy of the most recent correspondence in that regard received from the Electricity Association of Ireland on 12 February 2014 is published separately with this note.) In light of the circumstances and developments outlined in this notification, and giving appropriate weight to these representations and considerations, the CER revisited its Decision and considered that it was now possible and proportionate to rescind the within-day provision on the basis that it no longer had the particular level of necessity the CER considered it to have at the time of making the Decision.

Conclusion

In light of the above matters, and, in particular, the fact that there has been material progress towards realising the key objective of the Decision without the need to remove the within-day product, the CER has decided to rescind the within-day provision of the Decision. Consequently, within-day capacity will remain available at the exit up to 03:00 on the gas day (Day D). If, in the future, the CER needs to revisit the issue of the availability of within-day purchases of transmission capacity, having regard to relevant facts and circumstances, it will do so by way of a new consultation process.

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