Vayu Limited
3rd Floor, Macken House,
39-40a Mayor Street,
Dublin 1, Ireland

CER Draft Decision CER/15/057
Future of Gas Entry Tariff Regime

Vayu welcomes the opportunity to comment on the Commission for Energy Regulation's ("CER") draft decision paper and associated documentation on the proposed methodology that will be used to calculate the entry and exit tariff charges for using the Gaslink gas network.

On balance we welcome the draft decision to use the Matrix Expansion Constant ("MEC") methodology to set tariffs, due mainly to the fact that it is a forward looking approach and that it generates a lower diversity premium to that using the Capacity Weighted Distance Approach ("CWDA") methodology. Ultimately this should lead to lower costs for Customers than would otherwise be the case.

However, it should be noted that the CER did not address a more fundamental issue related to the gas network, principally that within the Gaslink Regulated Asset Base ("RAB") are overvalued interconnectors that are going to be severely underutilised into the future, effectively stranding them through i) a combination of lower gas demand from the power generation sector and ii) Moffat being displaced with gas from alternate sources. We also note with interest the impact of the CER decision to approve the twinning of the SWSOS, which will result in higher gas transmission tariffs at some point in the future.

Storage is a key component of the Irish gas market; however, we do not believe a 100% tariff discount to gas entering the network from storage should be approved.

It is clear that the changes in the tariff structure will result in higher charges for Customers, yet this issue was not addressed in detail in the paper. We believe that further analysis be provided in the interim period prior to a final decision being made to detail the increase in costs.

In relation to specific areas for which comment is requested on open positions, we make the following comments:

Effect of proposed Entry Exit split

On balance, we believe, the proposed entry exit split of 50:50 provides a fairer structure for the remuneration of the network. We note from the paper that this structure may benefit the NDM sector; however this may be somewhat offset by increased costs in the SEM.

Given the changes occurring in the wholesale electricity market with the transition to I-SEM, it is imperative that all implications of the proposed changes that will impact the wider market for both gas and electricity be considered. It also highlights the importance of a continued recognition of the inter-dependency of these two markets and that regular engagement on cross-over issues should continue.

We believe it would be useful to provide information to all stakeholders in relation to the impact alternative split would have on the diversity premium. If the split is to be anything other than 50:50, robust economic arguments must be put forward in support of the position. We do not believe it serves a purpose to have a transition to a 50:50 split.

Capacity Commodity split

We do not believe strong arguments have been put forward for having a transition to a 100:0 capacity commodity split from the current 90:10 split. The current transmission commodity cost represents less than 2% of the overall delivered charge on most invoices.

Storage

A number of reasons have been put forward to support the proposal for giving a 100% discount to gas entering the system from entry, security of supply being the main one. Given that Shannon LNG would, we believe, be classified as a storage facility the CER should confirm if the same principle would be applied to this facility. This was not addressed in the paper.

We understand that the current structure does not allow for a discount on the entry tariff for gas from storage. The security of supply argument is weakened in an environment when there will be lower concerns over supply when Corrib is in production. It could be argued that the discounted regime should have applied under the current arrangements and a lower discount applied when security of supply concerns are lowered.

Also we have concerns that the paper has underestimated the amount of entry tariff revenues expected to be generated from storage. The figure quoted in the paper would seem to be grossly understated at €3.3 million. Figures being calculated using information provided in the tariff models would suggest that this would be in the order of €15 million. If this is the case the impact on all other entry tariffs would be significantly higher than the €103 noted in the paper.

Treatment of the Isle of Man

The gas transportation arrangements for the Isle of Man are unique for the island. Capacity bookings are committed to until 2023 and this commitment will be applied, regardless of the cost. In the UK the concept of “User Commitment” applied to long term exit capacity bookings, whereby network users were committed to pay for capacity, for example, at an exit point until such time as the related investment costs during the committed period were recovered.

As the Moffat entry tariff is expected to be increased over the next few years, we believe there is merit in considering a similar approach in this case.

Conclusion

We are looking to be pragmatic in the proposed suggestions above and firmly believe they merit consideration. However, each will require additional analysis and investigating before they can be approved. If you wish to discuss any of these comments in more detail, please do not hesitate in contacting us.