Response to CER/13/122

Access Tariffs and Financing the Gas Transmission System

For the attention of:

James McSherry, The Commission for Energy Regulation, The Exchange, Belgard Square North, Tallaght, Dublin 24

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Kore Energy welcomes the opportunity to respond to the Commission for Energy Regulation in relation to its consultation on proposals with regard to Access Tariffs and Financing the Gas Transmission System. Kore Energy is the largest provider of energy procurement and energy price risk management services in the Irish Energy Market. It provides services to a broad spectrum of industrial and commercial energy users in Ireland, including 5 of the Country's 10 largest energy users.

The cumulative effect of changes in gas transmission tariffs for 2013 is a 35.8% increase over 2012 levels and has adversely impacted the cost competitiveness of Irish business. Furthermore, the unprecedented implementation of mid-year tariff changes presents a significant difficulty for industry in managing budgeted energy spend. Following recent meetings with large energy users, the CER will be aware of the difficulty these increases pose for Irish industry. We welcome the CER initiative to review the Access Tariffs and particularly the proposals to modify the under-lying tariff structure with a view to ameliorating further tariff increases.

According to the Bord Gáis submissions to the CER, the reason for the tariff increases is a result of a projected under-recovery in revenues by Bord Gáis for the tariff year Oct 2012/Sep 2013 as a result of a significant reduction in capacity bookings in both the power generation sector and the Daily Metered sector. According to Bord Gáis, the power generation sector has reduced its capacity booking from 95% of its peak requirement in 2011/12 to just 68% of its forecast peak requirement for 2012/13 while the booking for the Daily Metered sector has reduced from 44% of actual peak in 2011/12 to just 36% of the forecast peak for 2012/13.

While a number of factors are behind the reduction in the capacity bookings, a key factor, according to Bord Gáis, is the reduction in the cost of short term capacity from 1 October 2012 combined with the continued availability of secondary capacity trading across different market segments. Had the CER's earlier determination of CER/10/089 to restrict Secondary Capacity transfers on the system from October 2012 not been deferred until October 2013, the scale of the problem would be more readily manageable.

The CER has recognized the fact that the volume of bookings in the Power Sector has fallen significantly and that the burden of this falls on the NDM, and to a lesser extent, I&C sectors. The CER further recognizes that power generation sector demand represents 50% of peak day demand and will continue to do so out to 2021 and that the proportion of the system paid for by power generation should be reflective of the proportion of the system built to meet its demands.

Rather than imposing the punitive cost burden of increased transmission tariffs on Irish business and domestic gas users, we believe that the revenue shortfall on the part of Bord Gáis Networks should be recovered from the beneficiaries of the reduced capacity bookings, namely Suppliers to the Daily Metered segment of the gas market and gas-fired power generators. If not, industrial and commercial gas users in Ireland will be exposed to even higher charges from 1 October 2013, given the "pass-through" nature of gas transportation charges in the majority of supply contracts.

With regard to the specific proposals outlined in the current consultation document, we broadly welcome the intention to ameliorate any further increases and to spread the burden of financing the gas transportation system more equitably. We would comment on the specific proposals as follows;

Proposal 1: Potential Removal of Secondary Capacity Transfers at the Exit
We concur with the CER view that the inability to transfer secondary capacity at exit does not represent a barrier to entry to the market but we would maintain that transfer of secondary capacity between sites in the same user grouping or sector has the potential to benefit end users and would support the retention of this facility subject to the CER continuing to monitor the distribution of benefit.

Proposal 2: Potential restriction of latest time for purchase and transfer of capacity at the Exit
As the CER has identified the power sector in particular as under-booking capacity, it may be appropriate to limit capacity booking for this sector to day-ahead and remove any facility to transfer capacity within day - with the exception of spare capacity created by virtue of plant being constrained off on short notice.

Alternative Option 1:
We believe that the imposition of a Mandatory Booking requirement for all sectors would ultimately lead to higher costs across all but the NDM sector. Given the fact that the I&C and NDM sectors are currently bearing disproportionate costs, Mandatory Booking should be applied to the power generation sector where the CER has identified evidence of under-booking.

Alternative Option 2:
Removing Mandatory booking for the NDM, specifically the residential sector, could threaten the gas market equivalent of the CER mandate in the electricity market “keeping the lights on” which, in terms of the gas market is “keeping the heating on”. The facility for suppliers to under-book capacity in this sector, particularly in the context of the 1 in 50 rule, would seem to be a risk to be avoided.

Alternative Option 3:
The introduction of long-term booking incentives would be welcome, particularly if this resulted in some forward predictability in costs. The current situation where tariffs vary on from year to year, and in the current year, twice within the gas year, would be improved by the introduction of some element of fixed cost over a period of say 3 to 5 years. We recognise however that there will be need for variable elements in the tariffs to allow for the recovery of BGN allowable revenues.

We look forward to the outcome of this process which we hope will result in a more equitable distribution of the burden to financing the gas transmission system having regard to the severe burden of all recent energy cost increases to large energy users.

Yours sincerely,
Ger Fullam
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