Response to CER/12/058

Proposed Decision Paper on Public Service Obligation Levy 2010/2011

For the attention of:

Date Issued:

06 July 2012

Prepared by:

Rory O'Grady
Market Intelligence Manager
Kore Energy
Unit 4, Ballisk Business Park
Donabate,
County Dublin
Ireland

Tel: + 353 (0)1 808 55 55
Fax: + 353 (0)1 808 55 54
Mobile: + 353 (0) 87 978 98 91
Website: www.kore.ie

Response to the Commission for Energy Regulation in relation to CER/12/058;
Consultation on 2012/2013 to 2016/2017 [PC3] transmission revenue for Bord Gáis Networks

Introduction

Kore Energy provides energy procurement and risk management services to a significant percentage of Irelands large energy users, including global leaders in I.T., Food and Drink and Pharmaceutical industries and a large number of Irelands leading indigenous companies. The contribution of energy costs to the relative competitiveness of Ireland as a business location is critical to Kore Energy's client base and indeed to the broader Irish economy in terms of optimising job retention and job creation in a difficult economic environment. For these reasons, we view the propsed increases in Irish Gas Transmission tariffs for the period 2012/2013 to 2016/2017 as a critical issue for the Irish energy market and we are pleased to contribute to the consultation process via this submission.

Kore Energy Submission

The CER recognises the economic conditions under which BGN must plan for system development and maintenance for the coming 5 years and has, not unreasonably, allowed a Weighted Average Cost of Capital of 6.7%. Furthermore, the CER has made provision for adjustment of this rate should significant changes in financial markets and borrowing costs in Ireland occur during the PC3 period. The proposed floor and ceiling triggers for the implementation of any such adjustment could present an obstacle to BGN in extracting best value from the market for borrowing over the PC3 period, specifically in the case of falling costs of borrowing.

The proposal to allow €989 million to Bord Gáis Networks over the period 2012/2013 to 2016/2017 will lead to a 20% increase in Irish Transmission Capacity tariffs and a 27% increase in Irish Transmission Commodity tariffs. These increases will move Irish Transmission system tariffs which are currently 6 times those applying in the UK, to over 7 times the equivalent costs on the neighbouring gas grid. While population density and consumer numbers per kilometre of transportation system are considerably lower in Ireland compared to the UK, much of this variation is taken into account in the calculation of Irish Distribution system tariffs. What is driving Irish Transmission tariffs to disproportionately high levels are the increasing costs of capital and the unsustainable operational costs of a system which is comparable in size to that of Denmark. In Denmark, where the population density and distribution is not dissimilar to Ireland and consumer numbers per kilometre of transmission system are even lower than in Ireland, transmission tariffs are approximately half those proposed for the Irish system.

The consideration to allow this very significant increase will no doubt take into account the current economic environment in which consumers find themselves. However, the particularly difficult energy cost environment for industry in this country will become worse as a direct consequence of the implementation of this proposal, to the point of becoming intolerable for those with any alternative in terms of energy use or location. There is the further danger that pushing these costs disproportionally higher will lead to a loss of existing consumers and discourage new connections, driving the costs to the remaining consumer base even higher. We therefore urge the Commission to look to reduce the burden of an over-costly system on large energy users.

The proposal to reduce the OPEX amount originally requested by BGN by 13% is welcome, but does not go far enough to redress the gross disparity between OPEX costs for the Irish system with other similar sized systems in Europe. The need to radically reduce these costs may require radical measures which may not have been considered feasible in the past for reasons of continuity or security of supply. Some of these considerations may become subject to review in light of new sources of supply. Whether new sources of supply become available during the period of PC3, the Commission will no doubt be considering not just the current situation but the future situation in light of Corrib gas coming on-stream and the possibility of LNG becoming available, not just as an alternative source of supply, but also as a short-term storage resource.

In refusing to sanction the reinforcement of part of BGN system onshore Scotland, the Commission has taken a pragmatic decision recognising that any difficulties in this regard may be short-term and that there are remedial measures which may be taken in the event of short-term constraints on supply at Moffat. While the BGN proposal to twin the single transmission line connecting the entry point to the Irish transmission system at Moffat to the entry point to the 2 interconnectors at Brighouse Bay would certainly improve operational flexibility and, to a limited extent, security of supply, the timing of this is questionable in light of the advent of Corrib gas.

Assuming Corrib gas comes on-stream within the period of PC3, other options for reducing OPEX and alternative means of funding essential CAPEX should be examined. In terms of reducing OPEX, one possible measure to be considered might be the moth-balling of IC1. If this line is not currently redundant, it almost certainly will be when Corrib gas is flowing. Recognising the Commission's decision that the interconnector assets will not be allowed to become "stranded". A compromise might be one which sees IC1 being maintained for standby use only if the OPEX savings were of significance. In terms of alternative funding for essential BGN maintenance and capital expenditure over the coming years, the possibility of BGN disposing of IC1 might be considered within the Commission's remit to promote competition.

ENDS