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ESB PG response: Treatment of Gas Transportation Capacity Costs

ESB Power Generation (ESBPG) welcomes the opportunity to respond to the consultation paper on the Treatment of Gas Transportation Capacity Costs (SEM-12-089) which was published on the 27th September 2012. These matters are by necessity complex due to number of issues which must be considered such as investment and demand signals, product pricing, regulatory environment, impact on related markets and the interaction between prices set by markets and those set by the Regulatory Authorities.

While ESBPG is concerned about the sustainability of the current treatment of gas capacity costs, particularly if the Supreme Court ruling of Feb 2012 is considered by the Regulatory Authorities to be relevant in this case, we also recognize that the interests of customers must also be fully considered by the Regulatory Authorities in this matter. This is particularly important given the rule driven nature of SEM and the Gas Market.

In our view the impact arising for electricity customers, from the Supreme Court ruling and its potential implications on the bidding rules in SEM, can be minimized with appropriate consideration and recognition of the interdependency between gas and electricity markets. ESBPG therefore suggests a number of points that the Regulatory Authorities might consider in this regard:

1. Gas Capacity Weighting should be reviewed to address the difference between the annual and daily cost of transportation capacity - in particular the winter weighting of gas capacity has potential to significantly increase SMP.
2. The functioning of the secondary gas market would be considerably helped by continuing the transfer of NDM exit capacity between all shippers, and increased support for the secondary market.
3. Development of an enhanced range of primary gas capacity products provided to the markets by the gas network operator.

ESBPG believes that adopting these measures will lead to a functioning market for gas capacity and enable the continuance of the SEM bidding rules which, in general, have served a useful purpose since the establishment of the SEM. Assuming that the Regulatory Authorities wish to retain the bidding rules these measures would in our view minimize the impact on electricity customers.

We would welcome an opportunity to discuss further with the Regulatory Authorities.

Kind Regards

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