Response to the Consultation Paper

On

Fixed Cost of a Best New Entrant Peaking Plant for the Calendar Year 2009
Ref. AIP/SEM/08/083

1st August 2008

Introduction

Bord Gáis Networks (BGN) welcomes the opportunity to respond to the consultation paper AIP/SEM/08/083, Fixed Cost of a Best New Entrant Peaking Plant for the Calendar Year 2009. BGN believe that the BNE should be based on a Natural Gas Fired Plant. Natural gas brings significant environmental benefits and is the cleanest burning fossil fuel with up to 30% less emissions being emitted into the atmosphere as pollutants when compared to alternative fuel types.

The following outlines BGN's response to individual aspects of the consultation paper which BGN wish to comment on:

Fuel Choice

In the consultation paper the SEMC outline that the decision to run the BNE peaking plant on distillate was largely related to access to short term capacity and the liquidity of the secondary capacity. BGN would wish to emphasise that parties in RoI have access to both Short Term capacity and Secondary Capacity and that parties in NI have access to Interruptible Capacity both of which enable a peaking plant developer to get access to gas capacity within the day that they wish to generate at minimum cost. Therefore the availability of short term products, interruptible products and the trading on the secondary market has significantly reduced the cost of obtaining capacity for a peaking plant.

In the republic both a daily and monthly Short Term product is available. Daily capacity products are highly flexible and can be booked within day with the booking window closing at 01:00 on day D, thereby facilitating interoperability between the gas market and the SEM. The Short Term Daily products are available to Shippers at both Entry Points and Exit offtakes. For the monthly products the price is set at a percentage of the annual tariff for each month. The daily products are priced at a factor of the monthly price. To date in gas year 07/08 three shippers have utilised the short term capacity products and we have seen Power generation using the booking of short term products as part of their SEM strategy.

While a short term product is currently not available in Northern Ireland the current regime offers an interruptible product on the PTL system and will shortly be available on the BGE (NI) system. The interruptible product is priced at the postalised commodity charge only. That is, the capacity charge for interruptible capacity is effectively £0 per annum. At present there is no congestion in the NI gas transmission network and there is unsold firm capacity which effectively results in the NI Interruptible product being close to firm as there is minimum probability of it being interrupted.

In addition the Common Arrangements for Gas (CAG) which are currently being developed with the implementation date being October 2010 should also result in short term products being available on an All Island basis and this would be adequate timing for a peaking plant coming onstream in 2010.

The consultation paper outlined that the SEMC has yet to see evidence of liquidity in the trading of gas capacity on the Secondary Market. Based on an analysis completed by BGN on the secondary market circa 13% of total throughput is facilitated by trades on the secondary market, the 13% figure excludes intra-portfolio trades which if there were to be taken into account would show that a much more significant amount of throughput was flowing under secondary capacity. Currently 8 shippers are actively trading in the secondary market with new entrants actively utilising the flexibility offered by the secondary markets. Appendix A shows the volume of Secondary Capacity being traded between Shippers on a daily basis.

Investment Cost Estimate

We note that the Capacity Payment Mechanism (CPM) is to be based on the fixed costs that would be incurred by a Best New Entrant peaking plant using distillate fuel. BGN are of the view that the CPM should be based on a BNE using natural gas and should include for the cost of a gas connection in the base case investment costs. The estimate for the gas connection should be of the order of c. €3- 4m. This estimate will depend on the length and size of pipe.

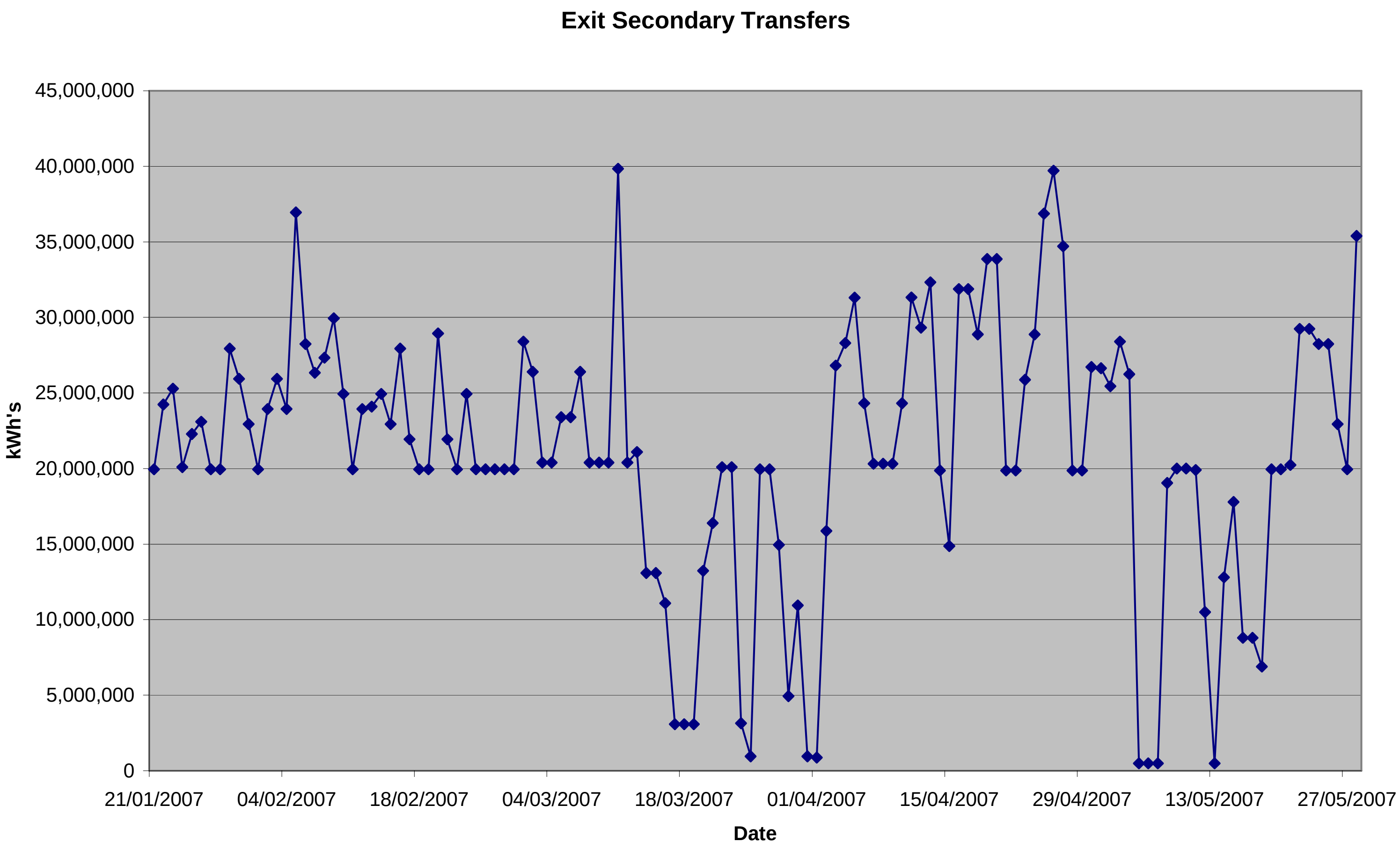
We are concerned that failure to provide for the connection cost as a fixed cost would result in natural gas utilisation of electricity generation being disadvantaged as the fuel of choice for some Power Generators.

Short Run Marginal Cost

With reference to the treatment of capacity costs in the Short Run Marginal Costs BGN would be of the view that the BNE peaking plant should be allowed to include the gas capacity charges (as well as the commodity) as a valid cost item in the short run marginal cost calculation.

BGN appreciate the opportunity to comment on the BNE consultation document and are available to meet to discuss any aspects of the above at your convenience.

Appendix A


Exit Secondary Transfers
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