



**Response to
Gas Storage Regulatory Framework
(Northern Ireland)**

28 October 2009



Airtricity welcomes the Utility Regulator’s efforts to further develop the regulatory framework for the natural gas system in Northern Ireland. Below are outlined our comments on the specific issues that the regulator has consulted on.

Concept Draft Storage Licence

Airtricity finds the general premise of the concept draft storage licensing reasonable. Specifically, licensing the asset operator provides a direct regulatory lever to the entity best placed to comply with regulatory requirements and proposing to license multiple locations under a single license provides an efficient method with lower regulatory burden.

In addition it is only practical to expect that, the licensing regime, as it is being developed will be done with full consideration of the provisions of the EU Third Energy Legislative Package.

Further Aspects of Third Legislative Package

The discussion within the consultation paper around the legislative provisions in EU context on third-party access (TPA), unbundling and transparency, sufficiently capture the essence of those provisions. These form the bases from which the commercial imperatives of ensuring non-discrimination and fostering competition logically arise. Once these three key aspects are sufficiently addressed, our view is that most other bloc legislative issues will subsequently be easily tackled.

Relevant Geographic and Product Markets

Our view is that the relevant geographic market for a gas storage facility in Northern Ireland encompasses the island of Ireland, with significant interconnection to GB. This view holds irrespective of CAG, but of course is reinforced by it. This is an important issue because it will inform the nature of any proposed facilities.

Regarding the relevant product market, Airtricity agrees with the view that the flexibility market is the appropriate choice. Indeed, as the consultation paper hints at, gas storage falls generally into the same category of providing system flexibility, though of a different nature, as indigenous production from Corrib and imports through Shannon LNG.

Market Power

Given our previous view that the relevant geographic market for a gas storage facility in Northern Ireland encompasses the island of Ireland, with significant interconnection to GB, in relation to attaining and maintaining market power, such a facility will be severely limited. As the consultation paper notes, the strong link to the GB market via NBP prices, which generally provides the marginal pricing mechanism, places a cap on the ability to manipulate prices. As also noted by the consultation, on an all-island basis, significant competition will be posed by both Corrib and Shannon LNG, further limiting market power potentials. This would describe expected normal operating conditions.

In emergencies, the potential for temporary market power may arise. That potential however also depends on the market structure that exists in relation to the storage facility. Irrespective, it must be noted that ‘potential’ does not imply ‘implementation’. Such temporary situations may be very rare to non-existent and may only hold for very brief moments, while conversely the ‘dominance’ of a storage facility only extends to the extent that it still has gas in storage – in loose parlance it is a ‘one-trick pony’. Thus market power may be more illusory than actual.

Hence caution must be exercised in making special provisions for such temporary potential market dominance. Good general rules that are applicable in most probable situations are often better. Moreover if such a storage facility were embedded in a relatively large all-island market, the commercial imperatives of continuous dealings with multiple other participants may be enough deterrent against taking opportunistic action in situations that may only arise very infrequently.

Applicability of ‘Technically and/or Economically Necessary’

It is possible that a gas storage facility in Northern Ireland is not ‘technically necessary’. With market developments such as Corrib and Shannon LNG, that view is arguable. However it is more implausible to argue against the economic necessity of a gas storage facility, particularly in providing some measure of strategic supply security. Equally are the potential benefits in managing the seasonal swing. While other mechanism for providing flexibility may exist, a dedicated storage facility probably provides the best option for strategic management of emergencies related to the interconnectors and for winter peak demand.

Appropriateness of nTPA and rTPA

Our preference would be for an nTPA regime. As the consultation paper notes, reduced regulatory intervention is generally interpreted as a positive investment signal. In addition, a regime that is more exposed to commercial interactions is more likely to develop to meet the needs of the market.

Suitability of Applying Exemptions to TPA

We view the Utility Regulator's proposals to use the indicators discussed in Ofgem's letter as a guide in considering exemptions to gas storage facilities in Northern Ireland as reasonable.

Summary

In general, Airtricity views the various proposals by the Utility Regulator in relation to developing the regulatory framework for gas storage in Northern Ireland as reasonable and sound.

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