Airtricity Response to

Common Arrangements for Gas Security of Supply

Consultation

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Scottish and Southern Energy

1. Should an obligation be placed on network operators to build and maintain the network to a 1-in-20 or a 1-in-50 peak-day?

In determining an obligation on the network operators, Airtricity takes the position that a preliminary step is required before deciding on whether 1-in-20 or 1-in-50 is more appropriate. The initial requirement must be to determine what demand is to be secured; should the statistical analysis use only domestic demand (the Directive minimum), a combination of domestic and commercial demand (the Republic's legislation), or some other combination (or indeed all demand).

Directive 2004/67/EC, referred to in the consultation paper, stipulates a minimum 1-in-20 severe winter gas supply criteria for *household* (domestic) customers (Article 4.1c). The Directive allows for Member States to afford this protection to a further category of gas users 'in particular to small and medium-sized enterprises and other customers that cannot switch their gas consumption to other energy sources' and, 'including measures for the security of their national electricity system if it depends on gas supplies' (Article 4.2). In the Republic of Ireland, S.I. 697 (2007) extends the scope of the Directive beyond domestic customers to include SMEs. In Northern Ireland however licence conditions provide for a 'Priority List', from domestic customers through commercial to finally industrial, i.e. domestic customers are in a different category from commercial customers.

The consultation paper notes that while no specific obligation exists on the Gaslink as TSO to design the transmission system to meet any severe winter criterion, it currently designs the transmission system to meet 1-in-50 peak day; presumably the demand under this criteria refers to total (firm) system demand, not just domestic demand.

If this is so, then the crucial distinction between the Directive's minimum stipulation and the current Gaslink design criteria is between *domestic* demand and *total (firm) system* demand. As earlier noted the Directive requires security of winter peak day gas supplies to meet domestic demand at the minimum. However **Article 2 of the Directive obligates determination of any further categories of gas user that should have gas supplies secured under the severe winter/peak day criteria** and how this gas supply security measure interacts with other existing and proposed measures, such as those required to secure the electricity system, including the requirement for gas-fired electricity generators to hold alternative fuels in storage, priority load shedding and electricity system operators' rescheduling mechanisms. Such a determination of the categories of gas users, other than domestics, that must be secured under this peak day criteria is essential and cascades right through the following consultation questions, i.e. unless this fundamental definition is established, other decisions cannot meaningfully be made.

When such a determination has been made definition of criteria can then be made to require building and maintaining a network that ensures gas supplies to meet, for example, 1-in-50 peak day domestic demand providing for at least a 1-in-20 peak day total (firm) system demand.

2. Is a period of five days appropriate for the period for which supplies to domestic customers must be protected in the event of a partial disruption to national supplies?

Article 1 of Directive 2004/67/EC provides for Member States to determine their respective gas supplies partial disruption period (peak day period) taking into account 'national circumstances'. With the license obligation on gas-fired electricity generators in the Republic of Ireland to maintain an ability to operate on an alternative fuel for five days, the consultation paper suggests that 5 days might suitably define the peak day period. The consultation paper also notes that a similar requirement exists in Northern Ireland though a time stipulation is not noted.

A 5-day period would seem a suitable length of time to ensure secure supplies to *domestic* customers. As mentioned in the consultation also, weather systems necessarily need to be taken account of as part of 'national circumstances'. But a 5-day period, as distinct from say a 3-day period, offers the whole system possible increased ability for fuel substitution.

This being the case however, consideration ought to be given to procedures for escalating partial disruption events to emergency protection measures in cases where such events are not resolved or resolvable within a 5-day period. A scenario can be advanced where gas supplies are cut off at the same time generators run out of fuel, primary and secondary, were their re-supply contracts to fail. At some stage a partial disruption event can turn into a national disaster and civil emergency procedures may need to be invoked.

3. Does a peak-period (as specified in 19A (1)(c)(ii) of the 2002 Act) need to be specified? Or does a 1-in-50/1-in-20 peak-day imply a sufficient period for this purpose?

We understand that peak-day requirement refers to availability of *sufficient* ***network capacity*** to accommodate a specified quantity of gas required to meet demand on a peak day, while peak period security refers to *sufficient* availability of ***gas supply*** to meet peak demand on consecutive days within the period; the distinction is between network capacity and gas commodity.

If this understanding holds true, then we do not believe that a peak-day criterion necessarily satisfies a peak-period requirement. The number of days that may be covered in the statistical analysis of peak-day may vary, while a peak-period will be a specified number of days, or determined on the basis of a formula. Hence it will be

more useful to address the two concepts separately but with a clear acknowledgement of the interrelationship between them.

Specificity in the length (or at least, determination) of peak-period is necessary to ensure that measures that are required to kick in to minimise or reverse the effects of a gas disruption are suitably provided for and synchronised. Consequently we would recommend that peak-period be specified in the CAG.

4. Are there additional minimum standards required for other energy undertakings or offshore producers?

Airtricity believes that the Natural Gas Safety Regulatory Framework in the Republic and the GS(M)R (NI) in the North, provide adequate minimum standards for gas undertakings and offshore producers. Both jurisdictions have similar requirements for gas-fired electricity generators to hold stocks of backup fuel, which provides adequate linkage to the electricity generation sector and supports security of supply for gas customers.

5. Should shippers/suppliers be required to book peak-day/severe winter capacity for a 1-in-50 or a 1-in-20 for peak-day? What costs would be incurred by shippers/suppliers in order to meet such proposed requirements?

As noted earlier, it is necessary to determine what category(ies) of demand that are being secured in order to circumscribe an appropriate requirement to reserve capacity. Again, domestic users are regarded as given on the basis of the Directive. The consultation notes that in the Republic the current Network Code places a requirement on shippers to the Non-Daily Metered (NDM) sector (roughly equivalent to the domestic and SME sectors) to reserve capacity to meet their 1-in-50 peak day demand, a capacity known as secondary capacity. In Northern Ireland license requirements stipulate capacity reservation for 1-in-20 peak day demand; the makeup of this demand is not stated.

Assuming the current Republic of Ireland provisions, some analysis may be necessary to demonstrate if a less conservative 1-in-20 peak-day requirement would not have provided a similar level of security as the present 1-in-50 peak-day requirement.

However irrespective of the demand makeup, considering that these are anticipated to be rare events and not by any means regular occurrences nor are they, save on occasion for severe winter events, predictable, it is to be wondered if a different rationale to a requirement on shippers/suppliers to book capacity on peak-day/severe winter basis can be advanced. An aspect of the CAG consultation relates to the anticipated overcapacity on the Ireland gas interconnectors.[1] Airtricity has previously argued for this overcapacity to actually serve as a security of supply

[1] CER 08/107 – Transmission Tariff Methodology and Regulation in Ireland and Northern Ireland Consultation (

capacity, a reasoning which informed the construction of IC2 in the first instance, with this capacity being paid for by a form of security of supply levy.[2] An alternative to requiring shippers/suppliers to book peak-day/severe winter capacity, would be to maintain this overcapacity as an emergency capacity to cater for events such as peak-day/severe winter capacity requirements, with such capacity being available to shippers/suppliers on a pro-rata basis of total capacity or capacity of secure demand held at the time of the event, or on some other appropriately defined basis.

6. Should shippers/suppliers be required to secure supplies for a 1-in-50 annual demand or a 1-in-20 for peak-day? What costs would be incurred by shippers/suppliers in order to meet such proposed requirements?

Supply licences in Northern Ireland place an obligation to secure supplies to meet 1-in-20 peak day demand *and* 1-in-50 severe annual demand. No such specific obligations exist in the Republic of Ireland. It is not clear exactly what such a requirement will achieve since presumably shippers/suppliers take commercial decisions to secure supplies for their anticipated demand and to minimise exposure to balancing charges as much as possible.

7. Should obligations be placed on shippers/suppliers ensuring minimum levels of diversity in their contracted sources of supply?

The current approach adopted by the CER in placing broad, non-specific obligations on shippers to factor in security of supply in making supply contracting decisions would be Airtricity's preferred approach to addressing this issue. As the consultation notes, when the other anticipated gas supply points (Corrib, SLNG, Larne, etc) come online, more scope will exist to require shippers to diversify their sources of supply.

We would strongly disagree with any proposal for a specific obligation in relation to minimum levels of supply by source, as this would result in the regulatory requirement holding commercial decisions hostage. It would guarantee a minimum level of bookings to the few gas sources and create an unacceptable level of market power and lead to market distortion.

8. Should obligations be placed on shippers/suppliers relating to long-term contracts?

A similar position to 7 exists here except that in this case shippers/suppliers will have their flexibility in contracting curtailed. In the very volatile markets experienced recently, it is unclear how regulatory diktat can do anything other than introduce operational rigidities, with potential for unintended perverse incentives. Reducing the flexibility of shippers/suppliers to fully and promptly respond to changing market

[2] CER 08/207b – Airtricity Response to CAG Tariffs Consultation (CER 08/107)

conditions, or imposing regulatory requirements that force them into uneconomic commercial contracts is likely to be ineffective in supporting security of supply and would certainly be unreasonable.

Again as in 7 an approach with broad, non-specific obligations is to be preferred.

Alternatively obligations based on outcomes, rather the methodologies, will provide greater flexibility in achieving them and may be a better regulatory approach.

9. Are shipper/supplier obligations best provided for through licence conditions or through the Code(s) of Operations?

Broad, non-specific obligations by nature seem to imply existence as licence conditions. Having argued for such a regulatory approach, provision through licence conditions appear to be better suited to serve that function. But probably a hybrid approach may be more appropriate, with general obligations forming part of the licence and detailed or technical aspects described in the Code(s).

10. Should storage operators be required to hold minimum levels of storage?

This would be another case of a regulatory requirement dictating commercial decisions. The essential mechanism of gas storage is to procure gas when prices fall below commercially determined levels and release such gas from storage again when prices rise above commercially determined levels that ensure that the storage facility remains a viable concern. Mandating a minimum level of storage requirement for such an entity forces it away from being purely a commercial interest to being a strategic resource.

Commercial storage facilities can provide strategic storage to the system, but this should be a service for which financial value should attach, not a regulatory mandate.

11. Should shippers/suppliers be required to hold minimum levels of storage?

No. This, again similar to the position in 7, creates market power for storage facility owners. If there was an abundance of choice among storage facilities, or a strategic storage facility or service existed such a requirement might be viable without creating market power or distortion. (See answer to 10)

12. Should storage stocks in GB storage facilities be considered an appropriate security of supply measure?

Given the strong dependence of the Irish gas system on the GB system and also given that some participants, such as Airtricity (SSE), own storage facilities in GB which can be deployed to meet Irish requirements, it is only prudent that such facilities are regarded to contribute to gas security of supply.

13. Would obligations in relation to storage distort the Irish gas market?

Facilitating commercial gas storage may provide benefits to the market. Providing strategic storage facilities equally so. But placing mandates such as stipulating minimum holdings of gas storage as part of commercial entities' portfolios almost certainly will create distortions. If gas storage were to be treated similar to pumped storage in the electricity system, then the TSO may be obligated to buy gas for storage in order to provide reserve at the system level, rather than attempting to get suppliers/shippers reserves to add up to total system requirement. (See answer to 10)

14. Are there sufficient incentives in place for the commercial provision of adequate storage?

Airtricity believes that there are not sufficient incentives in place; it is not clear what the market means for rewarding investment in storage are.