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Gas Division,
The Exchange,
Belgard Square North
Tallaght,
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Ref: "Common Arrangements for Gas – Security of Supply"

Dear Robert,

BGES welcomes the opportunity to comment on the above decision paper and following consideration would like to make the following comments with regard to conclusions outlined in the consultation paper.

It is important that distinction is given between Infrastructure Security of Supply, meaning capability of the Network to cater for Peak Day Demand in extreme weather conditions and molecular security of supplies of Natural Gas, meaning delivery of fuels in the event of high demand or supply constraints from our supply sources.

Infrastructure Security of Supply requires advance planning, forecasting of potential future demand requirements and significant investments of this which have a long lead time to completion. This is something which is within the direct control of Regulators and, once made, these investments will need to be recovered through Regulated Asset Base ("RAB").

Molecular Security of Supply of Natural Gas is different. The national, political and strategic issues of energy independence must be considered which may then require additional obligations being imposed on Shippers/Suppliers which will inevitably place additional, direct costs on Shippers/Suppliers. This raises the question as to what obligations should be imposed on Shippers/Suppliers which are realistically possible. It is reasonable to expect Shippers/Suppliers to resist additional obligations being imposed.

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

There is no real significant difference between 1 in 20 Day or 1 in 50 peak – day. If the network is developed to a 1 in 50 peak day basis which has been

the case to date and this provides additional linepack capability then this would seem an appropriate criteria for security of supply.

Whilst we believe we should be building a network to cope with a 1 in 50 peak day, it is also important to understand the growth in network load anticipated (e.g. from power loads) and how and when it is going to be used (i.e. it will play an important part in providing back up to the power system in which balancing will become a key issue when loads during normal temperate conditions are supplied by wind power, which will not be available during very cold peak conditions). Furthermore regardless of the development and contingency within the network, security of supply is fundamentally about access to the molecules that users want to burn, rather than physical failure of the network.

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?

It would at the very least seem appropriate that the interdependencies between gas and power are recognised in the event of disruption and we note the requirement to hold 5 days Backup supplies at power generation sites.

However 5 days seems to be a very short period to protect domestic customers especially in the context of Ireland typically being an importer of gas, it appears that this period of time i.e. 5 days should be expanded somewhat. We would need to better understand and establish which interruption scenarios are contemplated, what does partial mean, and what supplies are considered nationally important and strategic. Essentially we need to understand whether we need to address the position from a UK co-dependency or an Ireland independent perspective.

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

The definition is relatively straightforward but we believe the key issue is to understand that security of supply must ensure that molecules are available in the event of a disruption rather than the design parameters of the network per se.

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

Yes we fundamentally need to address where the molecules of gas are going to come from and it is clear that disruption to supplies is more likely to be caused by non-delivery of imported gas than an (pipeline) infrastructure source.

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?

Shippers are already obliged to book a 1-in-50 peak day in the Code and it makes sense for this to continue. It should be noted that this obligation is at Exit points only and not at Entry points. Placing a similar obligation on shippers at Entry points would mean a return to point-to-point type booking obligations and would have an effect on how entry bookings for storage are viewed along with incurring greater expense than presently.

Booking capacity will not ensure that gas is available to provide the required molecular security of supply but on the basis that the network operator needs to recover their investment then it would seem sensible to require the participants to have to book capacity on that 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?

It is important to understand whether molecular security of supply is a physical or financial (contractual) challenge. Requiring suppliers to contract for a 1-in-50 winter will not mean that in the event for example of a failure of Norwegian or Russian supplies to GB that gas will be delivered to Ireland.

Equally requiring shippers and suppliers to have this burden and then still be faced with the risk of non delivery in most of the disruption scenarios we can consider would seem expensive and pointless. Consideration needs to be given to the availability and balance of indigenous production and storage required, the amount of Great British indigenous production and storage and then the import and terminal diversity of supplies into Great Britain. Once this balance has been established we would expect market participants to be required to underwrite the costs of developing holding strategic storage, which in the context of the relatively small Irish market requires support from financially credible suppliers

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

No, see answer 6 above.

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

The diversity of supply points is the key but this potential has certain consequences. In addition to this, the market will require new pricing structures, as in the current regime, the regulatory authorities have dictated that approximately 68% of the market (i.e. the powergen sector) must be purchased (from Great Britain) on a day-ahead basis.

9. Are shippers/suppliers obligations best provided for through licence conditions or Code(s) of Operations?

We believe they are best provided for through licence conditions as the Code of Operations is solely for Shippers who may not contract for supplies. i.e. suppliers may not necessarily be shippers and hence are not party to the Code of Operations.

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

Firstly storage to the strategically desired level needs to be developed, and then a strategic stock holding can be mandated. Storage operators are not going to provide this service unless the commercial returns for them so doing make sense. The question is should this be undertaken by suppliers, the network operator or the storage developers?

11. Should shipper/supplier obligation be required to hold minimum levels of storage?

See answer 10 above – it is a smaller point to say whether the suppliers should hold strategic storage or whether the network operator should do this as essentially the customer will inevitably pay for this service through network charges.

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

Only for certain more normal scenarios and one must recognise that GB strategic storage is much lower than continental European equivalents. In the event of a prolonged disruption to supplies to GB, existing treaties govern pro-rata interruptions to Ireland. However as the most distant part of the European gas network, logically Ireland should either aim for greater indigenous production and reduced import dependency or a fairly robust level of indigenous storage recognising this weakness.

13. Would obligations in relation to storage distort the Irish Gas Market?

No, the customer will inevitably have to pay to hold stock levels under all the circumstances when strategic storage will not be used. We must however

recognise that the required financial commitments are significant, and require credible, large players with balance sheet capabilities

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

There are no explicit incentives in place currently to support the development of storage. Existing storage developments have been undertaken on a “merchant” basis and have been exempted from third party access requirements. In that regard, incentives are probably adequate for the development of individual storage projects.

However, if adequate storage means a sufficient level to cover “strategic” needs (in additions to normal market requirement), the answer is that the incentives are not adequate. Strategic level gas storage is a matter for national energy security rather than individual suppliers and developers. In the light of the relatively scale small players and small market size in Ireland, the provision of strategic storage needs to be coordinated at a national level with appropriate incentives to ensure that adequate strategic storage is put in place.

Best Regards,

Áine Spillane