



Mill House
Ashtowngate
Navan Road
Dublin 15
T:+353-1-869 2000
F:+353-1-869 2040
W:www.viridiangroup.co.uk

Robert O'Rourke
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24
Ireland

Richard Hume
Gas Directorate
Utility Regulator
Queen's House
14 Queen Street
Belfast
BT1 6ER

30 January 2009

Dear Robert & Richard

CAG – SECURITY OF SUPPLY

Thank you for the opportunity to contribute to the above consultation, and please refer to the attached annex for a response to each of the consultation questions.

In summary, we make the following main points for this response:

- **Working Together:** the two jurisdictions can deliver a better outcome, and jurisdictional energy policy action must where ever possible be focused on this goal.
- **A Holistic Strategy:** focusing on Security of Supply under CAG, may not be the best approach since it requires a holistic strategic review, one that embraces gas, electricity, renewables, sustainability and energy efficiency. We are concerned that by focusing on gas for this paper, we are not factoring in the wider security of supply measures and this may lead to a disproportionate gas response.
- **Investment:** we need to ensure an adequate return on investment is possible if we want investors to help offset the security of supply costs. This means, for example,

ensuring adequate reward and compensation mechanisms across the market and creating a stable regulatory policy climate.

- **Storage:** global energy supply markets continue to be volatile, and we should not therefore rely on one source - supply diversity is therefore important, and gas is but one part of this mix. Additional all-island storage is required, but this should be driven by encouraging investment and market based solutions. To do otherwise could be costly for consumers.
- **GB Security of Supply:** GB considerations can positively assist an all-island security of supply strategy, providing the inter-jurisdictional arrangements are robust. This area will warrant closer scrutiny.
- **Shipper/Supplier Obligations:** adoption of an indiscriminate market wide approach with the imposition of additional imposed rules on Shippers/Suppliers will make the market less attractive and represents a backward step that will damage investor confidence. The primary security of supply responsibility is therefore better managed and coordinated by the *System Operator/Transporter*, who has full oversight across the gas supply demand and balancing requirement.

There is no doubt that by the two jurisdictions working together, consumers from both will benefit from a more flexible market that is better able to balance energy supplies and react to demand requirements on an all-island basis. The paper recognises the contribution to supply security from a range of initiatives. These include network security standards, emergency and gas quality harmonisation, but it does not comment, for example, on the importance of wholesale and retail competition, the interplay between gas and electricity, and how investment can help underpin supply security for the betterment of markets and consumers.

This serves to highlight the need for a holistic approach to security of supply and we question whether by dealing solely with gas (albeit due to CAG) we fail to consider the wider context within which security of supply sits. As such, gas, electricity and renewable supply considerations all interact with each other. To take one in isolation from the other might not associate the right value or make the correct assessments in terms of what is already in place and therefore what else is required for gas.

We need to ensure an adequate return on investment is possible if we want investors to help offset the security of supply costs and require compensation arrangements where additional obligations are implemented (such as back up fuel arrangements). This means, for example, ensuring adequate reward and compensation mechanisms across the market and creating a stable regulatory policy framework. For example, how to increase flexible generation across the network and how conventional plant can therefore be incentivised to better accommodate renewables.

The recent gas dispute between Russia and the Ukraine, and its effect on European gas supplies (e.g. delivery to France dropped by 70% on 6 Jan 09), highlights the continuing volatility of global energy supplies, and therefore brings into sharp relief the risk of over reliance upon one particular supply source (in this case Russian gas).

However, we recognise that dependence on GB for natural gas supply is not necessarily a bad thing providing access can be achieved in times of an emergency and on terms that are fair and equitable between GB and the all-island requirement. In this context we note the increased signalled investment in GB security of supply measures (£10 billion in gas imports and storage facilities), which can positively assist in our security of supply strategy. But we also note there are investment risks surfacing given the current capital and debt environment, with some future storage sites becoming more doubtful (e.g. the offshore Esmond Well).

Any measures we deploy on an all-island basis should be cognisant of these cross border considerations. We should revisit the inter-jurisdictional arrangements that exist between GB, Northern Ireland and Ireland, to make sure it is fit for purpose and more specifically that it recognises today's energy markets within a pan European market context and the need for greater levels of cross jurisdictional cooperation.

We accept that over reliance on GB storage is too risky - Ireland and Northern Ireland require their own additional storage. There is a cost and this needs to be balanced against the effect on consumer prices (including fuel poverty) and the overall development of competition. We must be mindful of the increasing burden that may fall on levies to help recover such costs, and it is therefore important to explore the alternatives. But first, we ask ourselves, what is the tipping point at which the security of supply objective might be considered to be adequately satisfied, i.e. what is the standard we should set in the first place? how should this be measured/assessed? and how should any gap be plugged and from where?

Measures should therefore be carefully thought through and proportionate. Indeed, as noted by the paper, this is wholly consistent with Irish Law under SI 697 of 2007, which notes that any measures taken by the Commission:

- *'does not place an unreasonable and disproportionate burden on energy undertakings'* and
- *'is compatible with the requirements of a competitive internal gas market'.*

In this response, we are therefore mindful that measures which impinge upon Undertakings could well disproportionately affect some more so than others. For example, a requirement for Shippers to book peak day/severe winter capacity for a 1-in 50 peak day materially increases costs which Shippers/Suppliers find very challenging to bear and this also creates a significant

competition hurdle for new entrants in an embryonic retail gas market. Great caution must therefore be exercised to avoid more damaging market consequences from arising.

Adoption of an indiscriminate market wide approach with the imposition of additional imposed rules on Shippers/Suppliers will make the market less attractive and represents a backward step that will damage investor confidence. We recognise how important it is for market participants to play their part, however measures must be appropriately targeted and workable and we note there are already market rules in place that help drive all Shipper/Suppliers to take appropriate supply steps, such as capacity overrun charging mechanisms that encourage a supply headroom to be met.

In this vein, we accept there are particular security and safety considerations for domestic NDM customers, and that safeguards may be warranted for these customers. Again, there are existing rules in place - the present RoI obligations under the Code of Operations seem to already strike a fair balance between the Security of Supply objective and the cost/impact involved, and the need to protect customers.

We have documented our specific response to the consultation questions within Annex A. Please do not hesitate to contact us if you require any further information in support of our response.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Tony Thornton". The signature is stylized with a large, sweeping initial "T" and a long, horizontal flourish extending to the right.

Tony Thornton
Regulation Advisor

Mob: 07769 64 59 50

Email: tony.thornton@energia.ie

Appendix A

Response to consultation Questions

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?

Response: *within RoI, Gaslink already builds its networks to a 1-in-50 peak day demand. This has been an appropriate and rigorous safeguard thus far, and we see no reason for change.*

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?

Response: *further analysis is required to understand the impacts of 2 day, 5 day or some other period being set before an informed judgement can be made as to what is proportionate for gas. However, we are minded towards 5 days.*

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?

Response: *we agree the 1-in-50 peak day requirement within the RoI Code of Operations is sufficient to satisfy the duty as specified in the Act. For the record, the Act sets out the duty as: 'extremely cold temperatures during a peak period (which period may be specified from time to time by the Commission)'*

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

Response: *we do not necessarily agree that it would be appropriate to draw in all Undertakings. Each case must be considered in terms of the cost and overall contribution towards the security of supply objective. But first, we need to determine an appropriate Security of Supply standard.*

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?

Response: *no additional obligations are required. There are already adequate rules in place and additional measures which impinge upon Undertakings could well*

disproportionately affect some more so than others. For example, a requirement for Shippers to book peak day/severe winter capacity for a 1-in 50 peak day materially increases costs which Shippers/Suppliers find very challenging to bear and this also creates a significant competition hurdle for new entrants in an embryonic retail gas market. Great caution must therefore be exercised to avoid unintended market consequences from arising.

Adoption of an indiscriminate market wide approach with the imposition of additional imposed rules on Shippers/Suppliers will make the market less attractive and represents a backward step that will damage investor confidence. We recognise how important it is for market participants to play their part, however measures must be appropriately targeted and workable.

In this vein, we accept there are particular security and safety considerations for domestic NDM customers, and that safeguards may be warranted. The present Rol obligations under the Code of Operations, seems to already strike a fair balance between the Security of Supply objective and the cost/impact involved, and the need to protect customers.

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?

Response: *no, see our responses above. If the supply security responsibility is spread across more than one party, it will lead to serious difficulties coordinating and managing the security requirement, notwithstanding the loss of transparency that might result. The Security of Supply issue is too important to allow a bottom up/fragmented approach. It is better handled via the System Operator/Transporter.*

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

Response: *no, for the same reasons as stated above, it would be too complex and risky. It is better handled via the System Operator/Transporter.*

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

Response: *no, again, consistent with our responses to the preceding questions, this would be too complex to manage. It would also lead to wholesale market distortions and potentially inefficient procurement. The terms and duration of supply contracts are best left to the market. Gas procurement to meet a Security of Supply objective is best left to the System Operator/Transporter.*

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

Response: *Security of Supply is not best served by placing obligations on suppliers. That said, the placement of any other obligations will depend on their nature and interaction with the rest of the market.*

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

Response: *no, again please refer to our comment for the preceding questions. The Security of Supply objective is best left to the System Operator/Transporter and the costs socialised. Notwithstanding, we believe obligations of this nature could act as a disincentive on future investment with regard to storage.*

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

Response: *no, please refer to our cover letter and comments above for the preceding questions. The Security of Supply objective is best left to the System Operator/Transporter, and the costs socialised. However, there should be rules in place to ensure that Shippers/Suppliers can have access to storage gas on fair and equitable terms.*

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

Response: *yes to some extent. With regard storage, and the MOU that exists, GB storage development will greatly assist NI and RoI and as such can help offset some of the security of supply considerations that might otherwise have to be deployed. In this context we note that GB is investing £10 billion in gas imports and storage facilities. It anticipates gas storage capacity could double by 2012, albeit we see some investment risks surfacing.*

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

Response: *yes, if the obligations are commodity based. However, in the event of a national gas supply shock, all Shippers/Suppliers will require access to any available stored gas supply. Obligations should therefore be focused on securing access during an emergency.*