



Gas Storage Regulatory Framework Consultation Paper
Phoenix Natural Gas Comments
16th October 2009

Phoenix Natural Gas Limited (PNG) welcomes the opportunity to respond to the Utility Regulator's (UReg) consultation on the Gas Storage Regulatory Framework for Northern Ireland.

As a distribution operator continuing to develop a network where the growth going forward will be realised in the domestic sectors, we would welcome the development of a storage facility which can guarantee additional security of supply as well as bring real cost benefits to the Northern Ireland (NI) consumer.

This Gas Storage consultation paper refers to the cost benefits to consumers of a storage facility and quotes an amount determined as part of the Common Arrangements for Gas (CAG) Cost Benefit Analysis (CBA) of £5.75 million benefit per annum for the island of Ireland. However the CBA does acknowledge that 'this is a simplified and generalised calculation as there are other costs such as cushion gas, compression, leaching and buildings costs unique to the Larne site, that would need to be factored into the calculation to provide a more realistic figure'. It would be useful when considering a Northern Ireland framework to have a better understanding of the additional costs that will be associated with the Larne facility and what benefits it will actually bring to the Northern Ireland consumer.

We note that the paper does not deal with tariff setting or strategic storage but discusses only the proposed gas storage framework for Northern Ireland. In the Phoenix Group's response to the CAG Security of Supply consultation paper (January 2009), we felt that one of the key questions in relation to gas storage was 'Is a storage facility a commercial enterprise or is it a strategic storage facility?' In the Conclusions Paper we note that the Regulatory Authorities 'do not believe that a decision on requirements relating to either commercial and / or strategic storage is prudent at this time'. In considering the gas storage framework in Northern Ireland and in particular the key principles regarding third party access (TPA), exemptions and licence conditions surely it is essential to understand on what basis any storage facility is being developed?

PNG's responses to the specific questions asked in the consultation paper are detailed below.

1. The Utility Regulator seeks industry views on the concept draft gas storage licence presented as part of the gas storage regulation framework for Northern Ireland.

PNG does not have a specific view on who the licence holder should be. We would request that whatever option is implemented, the resulting model ensures that all parties involved are incentivised to deliver reductions in operational costs and that these are passed back to all consumers. Ultimately the decision must come down to which option delivers the greatest benefits while still ensuring that each asset owner is able to deliver a safe operational regime that meets the requirements of their respective Safety Cases.

2. Are there any further aspects of the Third Package legislation that should be considered for the future regulatory framework of gas storage in Northern Ireland?

PNG has no comments to make in relation to further aspects of Third Package legislation which need to be considered at this time.

3. The Utility Regulator seeks industry views on the relevant geographic and product markets applicable to a gas storage facility in Northern Ireland.

PNG agrees with UReg's suggestion that the GB market is a relevant geographic market as there is a strong link between the NI and GB markets established through the National Balancing Point.

We further agree with the consultation paper's assessment that the many flexibility products available in GB are also available to Northern Ireland Shippers. We therefore believe that it is appropriate to consider these products including medium and long range storage, indigenous supplies, imports from interconnectors and LNG imports within the product definition for the purpose of the analysis.

4. The Utility Regulator seeks industry views on the discussions on market power in relation to a storage facility in Northern Ireland and its influence on selecting the most appropriate TPA regime.

PNG believes that it is difficult to comment at this stage on market power when it is still unclear as to what the primary function of the storage facility in Northern Ireland will be i.e. will it be a commercial enterprise or used for strategic storage purposes.

If however the facility is determined to have significant market power then based on the consultation paper's assessment the most appropriate approach

appears to be a regulated TPA regime. PNG strongly believes that the aim of any regulatory framework for a storage facility in Northern Ireland is to ensure the facility cannot abuse any market dominance it may have.

5. The Utility Regulator seeks industry views on the application of the technically and/or economically necessary assessment regarding access to a gas storage facility in Northern Ireland.

PNG has no comment to make on the application of the technically and / or economically necessary assessment at this time.

However we note that the consultation paper suggests that Northern Ireland's strong links with GB and the significant level of access this allows to the many flexibility tools within the GB market means that a dominant position could not be achieved and the technical and economic requirements for access to a storage facility would not apply.

6. The Utility Regulator seeks industry views on the appropriateness of each regime (negotiated and regulated) as a framework for access to gas storage facilities in Northern Ireland.

As the paper points out the decision to adopt an appropriate regulatory regime will be dependent on the specifics of the application for a gas storage licence being submitted. Only when an application is submitted and assessed under the criteria set out in the third package can it be determined what appropriate regime, i.e. regulated or negotiated access, should be applied

If however a storage facility is primarily being built for the purposes of security of supply and in particular to deal with the event of an emergency arising at Moffat, on SNIP or the Irish interconnectors then the issue of market power in such an event needs to be addressed as part any agreed framework to ensure the market dominance is not abused.

Furthermore if a regulated third party access regime and a guaranteed rate of return on investment are considered appropriate then any agreed framework has to legislate against under utilisation and creation of stranded asset which will ultimately lead to increased tariffs for the NI consumer.

7. The Utility Regulator seeks industry views on the suitability of applying exemptions to the TPA requirements for a gas storage facility in Northern Ireland.

PNG has no comments to make on the suitability of applying exemptions to the TPA requirements at this time.