

Subject: CER Consultation on Natural Gas Policy Framework  
Author: IBEC  
Date: 2<sup>nd</sup> July 2002

---

## **1. *Introductory Comments***

IBEC welcomes the publication of the CER consultation paper on the National Gas Policy Framework.

The Irish natural gas market is at an early stage of development. It is characterised by its small size, deregulation of the market and a capital investment programme in the order of €1.5 billion in the transmission network infrastructure in 2002.

It is generally accepted that proven/ probable Irish reserves will not provide self-sufficiency in the short or longer-term. For that reason, the key question regarding security of supply, in the Irish context, is where Ireland's gas will come from and at what cost?

Ireland has the greatest dependence in EU on imported gas for power generation and is thus particularly exposed to UK/ EU gas markets, at a time when the UK is becoming increasingly dependent on continental supply.

Ireland's dependency on natural gas for power generation is projected to increase to approximately 60%-70% by 2015-2020.

When Ireland's long-term reserve security depends on Norway, Russia & North Africa ...it is important to remember that Ireland is at the end of a very long pipe!

While Ireland's geographic location will always be a disadvantage, it is now more critical than ever that strategic national policy making/ regulation is focussed and committed to cost limitation and asset optimisation, with a view to keeping Irish energy costs at a minimum.

How new gas infrastructure is to be paid for and who is to bear the commercial risk of such investment is at the heart of the problem in the Irish gas market and should therefore be central to any review by the CER on the natural gas policy framework in Ireland.

Currently it is proposed that this level of investment is paid for through tariffs, which presents grave difficulties owing to the high per capita cost of gas infrastructure delivery in Ireland.

When gas transmission tariffs become too high to bear two things happen:

- fuel-switching occurs where possible (contracts gas market)
- and/or businesses close (particularly those operating in global commodities markets)

The National Development Plan, under the Economic and Social Infrastructure Operational Programme, allocated €85 m out of a total €2,167 m for energy (less than 1%) – predominantly for R& D. Indeed the NDP states 'The vast bulk of capital investment in the energy sector over the period to 2006 will take place outside the provisions of the Plan for the period.' This decision and level of allocation may need to be re-visited.

## **2. *Consultation Process / Timing of Implementation***

It is not immediately clear from this document, how the CER proposes to approach the issue of future consultation on many of the key areas individually going forward.

It is suggested that the CER issue a six monthly work programme, which prioritizes key areas, contained within this document, for greater/ more detailed consultation and that a timetable for implementation is also published.

Industry members consulted warned of drawing too close an analogy to the CER Trading and Settlement Code when looking at current structure of the BGE Modifications Forum. It was generally felt that the Forum, which should be Chaired by the CER, should retain its current format, particularly when only 8 sites consume approximately 80% of gas used in Ireland.

Subject: CER Consultation on Natural Gas Policy Framework  
Author: IBEC  
Date: 2<sup>nd</sup> July 2002

---

### **3. *Transparency and Regulatory Certainty***

Competitiveness for customers is dependent upon cost effective investment into energy infrastructure, in conjunction with the provision of a certain regulatory environment and strategic government policy, which are conducive to financial investment.

In light of this members reiterated the absolute need for transparency and regulatory certainty in all aspects of market development.

### **4. *Interdependence/ Interoperability of Electricity and Gas Markets***

The development of the electricity and gas markets must take place such that the CER is cognisant of the interdependence of the two markets and of the need for the smooth interoperability of both gas and electricity network systems.

#### **Additional Comments:**

#### **Point to Point/ Entry-Exit Balancing Regime**

It was generally felt among members consulted that a point to point regime is overly restrictive and that the Irish gas market is now moving towards a multiple entry/ exit balancing system.

#### **Common vs. Contract Carriage**

This debate is somewhat academic in light of the level of capital investment and network extension currently taking place. Notwithstanding, most members consulted were in favour of retaining the current arrangement of common carriage.

#### **Interruptible Services**

This point deserves greater debate/ consultation.

#### **Spot market**

Generally felt that a spot market is unlikely to be viable at this juncture.

#### **Balancing Period**

A period of a day is adequate for the Irish gas market.

#### **Storage**

Storage should be operated on an open and transparent basis with access for third parties.

At such an embryonic stage of development, it is important that the Irish gas market is developed in a way, that is suitable to its size, customer base and in all instances with the aim of steering the market away from becoming top-heavy with costs, rules and regulations.

TH 01.07.02