Response to CER-11-206

Mitigation Measures to address Potential Capacity Constraints at the Moffat Entry Point in 2013/14

on behalf of

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Queries to

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Introduction

AES Ballylumford Limited and AES Kilroot Power Limited (collectively "AES") welcome the opportunity to comment on the Commission for Energy Regulation ("CER") and the Utility Regulator's ("UR") (collectively "the Regulatory Authorities or RAs") 'Mitigation Measures to address Potential Capacity Constraints at the Moffat Entry Point in 2013/14' consultation paper ("the Consultation Paper").

Comments

The Consultation Paper makes it clear that it the Regulatory Authorities are only consulting on measures to address the potential short-term constraint at the Moffat Entry Point in 2013/14 rather than on any potential longer-term security of supply issue. The limited amount of information contained in the Consultation Paper and the brief 2.5-week consultation period means that it is only possible to provide a preliminary response at this time.

The limited consultation period appears to be driven by Bord Gais Networks'("BGN") requirement for a decision to be made in January 2012 on a network reinforcement solution. The Consultation Paper does not indicate whether BGN has only provided the information to the RAs or whether the RAs did not issue the consultation in a timely manner. Either way it does not appear that the RAs are following good consultation practice by intending to make a potentially costly decision (if network reinforcement is approved) on the basis of what at best can only be preliminary comments on the issue given the lack of a Cost Benefit Analysis ("CBA") and impact assessment and the short response period.

The RAs state that the consultation will allow for an informed decision on the implementation of appropriate supply and/or demand side measures to remove or mitigate the risks identified with the potential short-term constraint at the Moffat Entry Point in 2013/14. AES does not see how this is possible given the absence of a CBA and impact assessment. AES believes that at best the current consultation can only be used to gain initial high level views and that a more robust consultation should be held following this initial fact gathering exercise. AES does not consider it appropriate to make a decision at this time without giving interested parties an opportunity to review all of the risks, costs and benefits of the options once they are collated.

At a high level AES considers that the RAs are consulting about a potential short-term constraint and therefore any solution should be proportionate.

The Consultation Paper states that the CER will be examining BGN's proposed solution, of reinforcing the onshore Scotland network, in January 2012 as part of the third gas networks price control ("PC3") and that responses to the Consultation Paper will be taken into account as part of the PC3 analysis. Interested parties require detailed costs, risks and benefits on all the potential mitigation measures in order to be able to properly assess the mitigation measures.

In the Consultation Paper the RAs also state that they intend to review a number of the assumptions and inputs used in the Joint Gas Capacity Statement 2011 ("JGCS"). AES again considers it important that this exercise is completed and the information made available to interested parties prior to any decision on mitigation options being made.

Potential Demand Side Measures

1. A - Interruptible Capacity Products

   As the Consultation Paper states interruptible products are available in Northern Ireland and AES considers there is merit in considering the introduction of these in Ireland. However the introduction of interruptible products can only be implemented if appropriate fuel switching arrangements are in place and this is a complex issue both at a jurisdictional level and on an all-island basis. Comments on this are set out in 1B below.

1. B - Fuel Switching by Power Generators and I/C Customers

   Fuel switching by gas-fired power generators is presented in the Consultation Paper as a relatively straightforward way of reducing gas demand coupled with the similarly simplified way in which it states that the amount of alternative fuel to be held by gas-fired generators can be extended. While the concept is relatively simple there are significant legal, operational, cost, process and market issues to be addressed in order to make such an option a viable mitigation measure.

   Switching to back-up fuel exposes the generator and the electricity system to significant cost and risk which is not acknowledged or highlighted in the paper. Similarly holding higher quantities of alternative fuel also incurs significant cost. In Northern Ireland Generators, Power NI and SONI have been working with the Department of Enterprise Trade and Investment ("DETI") and the UR over the last few years to review and update the 1992 Northern Ireland Fuel Security Code. This process has highlighted that there are a number of complex issues to be addressed, such as how to ensure that generators are kept whole so that they are no better or worse position than they were prior to switching fuels; the process by which generators are compensated; fuel stocking compensation; testing arrangements etc. Furthermore consideration needs to be given to the impact fuel switching will have on the Single Electricity Market ("SEM"). It is therefore important that the CER and the UR in conjunction with the respective Departments look at this issue on an all-island basis.

   The Consultation Paper refers to CER/09/001 'Secondary Fuel Obligations on Licensed Generation Capacity in the Republic of Ireland' but this deals primarily with the storage and provision of secondary fuel capability. CER has also published CER/10/104 'Generator Secondary Fuel Testing Compensation Arrangements Decision' and there are accompanying Eirgrid documents, however as far as AES can see these purely deal with testing arrangements and do not address the issue of compensation and market arrangements in a live situation. Irrespective of the fact that fuel switching may be a potential demand side measure to address potential capacity constraints at the Moffat Entry Point in 2013/14, AES believes that the legal, operational, cost, process and market issues associated with switching fuels in an emergency situation need to be addressed as a matter of urgency both jurisdictionally and on an all-island basis.

   Two approaches are set out in the Consultation Paper in relation to fuel switching.

   (i) Existing Emergency Managers/TSO Arrangements

   The first approach in relation to fuel switching is that "as per existing arrangements whereby emergency managers in both jurisdictions may issue a specific direction".

AES is less clear about the arrangements in Ireland but in Northern Ireland arrangements are set out in the 1992 Fuel Security Code and the Premier Transmission Limited ("PTL") Network Code. Since these Codes predate SEM it is not clear how the SEM would operate if a Security Period was called by DETI or if a Flow Order was issued by PTL since generators cannot rebid, nor can generators submit multiple bids for different plant configurations or fuels. The situation will be aided by the additional gate closures that will be introduced as part of the Intra-day trading arrangements but it will not be alleviated. There is also some ambiguity over the arrangements under which a generator can be instructed to switch fuels if PTL issues a Flow Order. As highlighted above this is why fuel security events must be considered on an all-island basis.

(ii) Pre-arranged Schedule

The second approach to fuel switching outlined is that arrangements would be put in place whereby certain gas-fired generators would commit to switch fuels for a certain number of days if required. AES does consider it appropriate to consider this type of ancillary service provided it is properly procured and subject to the resolution of the legal, operational, cost, process and market issues previously highlighted.

2. Amendment to shipper renominations at Moffat

Since the network codes contain arrangements and penalties to keep the system in balance AES sees no reason as to why they should not be reinforced as they are by PTL in Northern Ireland.

Potential Supply Side Measures

1. TSO investments in network infrastructure in onshore Scotland

BGN has proposed that twining the 50 km of pipeline from Cluden to Brighouse Bay could alleviate the potential short-term constraint at the Moffat Entry Point in 2013/14 however the Consultation Paper does not set out the costs associated with this. In the absence of a CBA it is not possible to comment meaningfully on this proposal other than to reiterate that since the aim is to alleviate a short-term constraint any solution should be proportionate. Furthermore the Consultation Paper does not indicate how the costs of network infrastructure would be allocated between TSOs in Northern Ireland and Ireland.

There may also be potential long-term constraints on the NTS side of Moffat which will require infrastructure investment and this should be considered as part of any overall infrastructure solution.

AES believes that a further consultation should be held once a CBA and impact assessment has been carried out and that a decision on network reinforcement should not be made in the absence of that.

2. Utilisation of Gas Storage/LNG

   A. Commerical/Strategic Investment in Gas Storage/LNG

      By 2013/14 gas storage will only be available at the PSE Kinsale Energy facility at Inch. AES believes that this option should be considered as part of the CBA and impact assessment of the various demand and supply side mitigation measures.

   B. Obligations to hold minimum levels of indigenous storage

      AES agrees with the RAs' view that it is not appropriate to consider this as a suitable option given the limited gas storage on the island.

3. Agreed and Anticipated Pressures at Moffat

   AES agrees that Gaslink should continue to engage with National Grid regarding the contractual and Anticipated Normal Offtake Pressure at Moffat ideally to secure higher pressures at zero cost. If however costs are likely to be incurred they should the fed into the CBA of the demand and supply side mitigation measures.