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via e-mail only

Dear Jerry / Richard,

Re: Mitigation Measures to address potential capacity constraints at Moffat

Vayu welcomes the opportunity to comment on the consultation paper (CER/11/206) jointly issued by the Commission for Energy Regulation ("CER") and the Northern Ireland Authority for Utility Regulation ("NIAUR") in relation to mitigation measures to address potential capacity constraints at the Moffat entry point in 2013/14.

Summary

We note from the paper that the CER and the NIAUR, together the regulatory authorities ("RA's"), are due to produce a decision paper on the matter in January 2012. If the decision is made in January, the process would not have been in keeping with the best practice for regulatory issues that require consultation. The CER agreed that it would use a 28 calendar day period for consultations; this clearly is not the case with this consultation as the period for review and response is a mere 18 days.

After reviewing the various measures proposed, we note the following:

- Not enough analysis has been completed or disclosed; this is essentially a summary of measures, rather a rigorous assessment of each.
- Given the capital nature of a number of measures a Cost Benefit Analysis ("CBA") should have been completed as an essential part of the process. The disclosures are simply not adequate.
- No regulatory impact assessment has been completed e.g. what would be the impact on transportation tariffs if reinforcement of the Scotland onshore system was completed.

The obvious rush to make a decision in such a short timeframe, from consultation to decision, would suggest that the preferred measure / measures have already been decided upon. In such a tight timeframe any decisions taken in January are inevitably going to be hastily made and done without any real analysis of the various measures proposed. We would like to highlight that the CER stated at the recent gas and electricity workshop on 12th of December, that “nothing is ruled in or out” in relation to the measures.

We propose that a draft decision paper be issued to allow industry have more time to make a more thorough analysis of the measures proposed. In this draft decision paper the RA’s would also have had time to assess costs, impacts etc. and should make this additional information available to industry. This draft decision could also include a ranking of the proposed measures as preferred by the RA’s and reasons for so choosing. It would then be up to respondents to agree / disagree with this ranking.

The draft decision paper should also address if a range of measures could be used to mitigate the capacity constraints rather than a “silver bullet” approach.

In our opinion, the optimum position to resolve the capacity constraints at Moffat in 2013/14 must take account of what is best for the market and the potential increases in infrastructural charges. End-users will not thank us as shippers / suppliers / RA’s for loading additional costs without very good reasons.

Assessment of Measures

The issue at hand is not uncommon in the gas industry, a supply-demand infrastructural deficit has arisen which needs to be filled. There are two ways to do this – lower demand or increase supply.

When GB was faced with similar issues in recent years it decided not to curtail or restrict demand in any way. To offset the supply shortfall GB chose to allow industry and the use of gas to be maintained and put additional infrastructure in place to meet demand levels. We saw the impacts through price spikes in Winter 2005/06 when the imbalance was very evident. A repeat of these events would not be welcomed.

As a shipper in the Irish market, we are of the view that demand side measures are not in the interests of developing the wider use of natural gas. It is the cleanest of the fossil fuels and all industry literature points to its continued use for many years as the fuel of choice.

We believe the high level principles detailed in the paper are appropriate for assessing the measures, but not all would rank at the same level e.g. security of supply should be ranked higher than environmental. We believe that transparency should also be included in the list i.e. that the measure being implemented should be easily understood and clear to users.

In our view the measures should not restrict the use of short term capacity products. This is a physical constraint issue. Shippers should still have a choice in relation to how they may be able to book entry and exit capacity.

Demand Measure – Interruptible Capacity Products

Interruptible capacity products must be introduced as part of the 3rd Energy Package and Vayu supports their introduction. In our view these should be made available at the exit as well as the entry level, as we proposed in our responses to the consultation papers on CAG. The principle for pricing these products is against the possibility of interruption. From 2013/14 there are times when capacity may be constrained at entry and therefore interruptible entry capacity should carry a significant discount to the annual tariff.

We support the principle in NI that interruptible products between a shipper and end-user should only be possible if the end-user can switch to an alternative fuel. If and when interruptible products are introduced this principle should apply on an all-island basis.

Demand Measure – Fuel Switching by Power Generation and Large I&C's

This measure is closely aligned to the previous measure. Fuel switching by these end-users would only be done in the event that they had been interrupted. In this situation, the requirement of the SEM to hold 5 days back-up fuel stock for the majority of power plants as well as having contracts in place to replenish back-up fuel is adequate. We do not believe that this requirement should be extended beyond 5 days.

There are two main reasons for this 1) significant working capital is being used to hold such fuel stocks; businesses should not be forced to hold more than is necessary and 2) holding more than 5 days' worth of back up fuel when contracts are in place to re-supply the back-up fuel will not improve overall supply levels. If supply to Moffat has been affected for 5 days or more other sectors of the market may be worse off.

The option to structure a pre-arranged schedule is interesting and warrants further analysis. We would question how feasible this is in a market where wind penetration is increasing and is dependent on dispatch instructions from SEMO. The cost benefit analysis of this option vis-à-vis the reinforcement option should be published.

Demand Measure – Amendment to shipper renominations at Moffat

The analysis produced by BGN prior to the consultation process demonstrated that there have been wide variations in the level of day ahead nominations to within day renominations. We are not in favour of restricting the ability to shipper to make reasonable re-nominations, but instead consider it may be appropriate to restrict these renominations where fundamental changes have been made. We are not in favour of introducing additional penalties / charges for reasonable renominations but again, if there are persistent offenders in relation to fundamental changes in renominations, it may be appropriate to introduce additional charges. This could be done on a scaled offence basis, depending on the level and how often they occur.

Supply Measure – Reinforce network infrastructure

On the face of it this appears to resolve the Moffat capacity constraint issue at once. However, this involves spending a significant, but as yet unknown, sum of money on infrastructure reinforcement. We are disappointed that these costs have not been disclosed; they should have been to allow for a more thorough analysis of this measure. This measure would also involve a

permanent increase in the Moffat entry tariff as these costs would be added to the Regulated Asset Base ("RAB"). We understand from the paper that work has already been carried out by the CER on this measure in the context of Price Control 3 ("PC3"), which, it is stated, will be used as part of the decision making process. This information should be therefore shared with industry to assist in the analysis of this option.

Supply Measure – Use of Storage / LNG

Given that Shannon LNG, Larne nor Kish storage will not be available for the relevant period of concern they should be discounted as mitigation measures.

The PSE Kinsale Energy storage facility is the only viable storage facility at present. The paper notes that the potential constraint is due in part to the reduction in flows from Inch from 2013/14. The 2011 Joint Gas Capacity Statement ("JGCS") notes that the existing storage operations will not be economic on a stand-alone basis as gas production gradually declines. The JGCS also notes that PSE Kinsale Energy informed the CER that it is undertaking engineering studies with a view to expanding the existing storage facilities. It would be very useful for industry if the outcome of these studies were known in advance of the decision, as it would likely drive the decision making process away from infrastructure reinforcement.

The cost of this measure should be assessed vis-à-vis the reinforcement option and if shown to more economic and will result in lower delivered costs to end-users, this measure should be supported.

Supply Measure – Obligation to hold minimum indigenous storage

We are not in favour of Irish shippers having to hold a minimum level of storage stocks for a number of reasons: 1) non-power generation shippers consumption profiles vary significantly from year to year due to Customer wins / losses. It would be very unfair to oblige these shippers hold storage stocks when it does not match their consumption profile. 2) There is very limited storage capacity on the island. 3) As the RA's have adopted the regional approach towards meeting the N-1 requirement of EU Regulation 994/2010 this should apply to all aspects of the market. The imposition of this requirement would place an undue burden on Vayu, whereas Article 6 of the Regulation that this should not be the case.

Conclusion

Having reviewed the measures, it is disappointing that the CER did not highlight the merits and de-merits of each in the context of the high level principles. This would have been useful. Industry has not had sufficient time to analyse them properly. We believe that further analysis of each is required from a cost-benefit point of view and that the decision should be issued as draft only. In our opinion, the CER should consider a range of measures to help the capacity constraint issues at Moffat from 2013/14.

We should be grateful if you would consider these views and incorporate these views in any subsequent or final decision to be made on this issue.

Yours sincerely,
Bryan Hennessy

