Commission for Regulation of Utilities

Assessment of the Celtic Investment Request

Gas Networks Ireland Response

15th February 2019

Introduction

Gas Networks Ireland (GNI) welcomes the opportunity to respond to the consultation issued by the Commission for Regulation of Utilities (CRU) on the Assessment of the Celtic Investment Request.

GNI is a fully owned subsidiary of Ervia (formally known as Bord Gáis Éireann). It owns, operates, builds and maintains the gas network in Ireland and ensures the safe and reliable delivery of gas to its customers. The company transports natural gas through a 14,172km pipeline network. This supplies energy to over 688,000 customers, including businesses, domestic users and power stations. GNI believes that the gas network is integral to Ireland's energy system and future.

Response to Consultation Questions:

GNI has reviewed the consultation document and has the following comments:

Question
What are your views on project costs and benefits provided in the Celtic investment requests?

Benefits:

- The Celtic Interconnector should be able to provide Ireland with a source of supply at Central West Europe (CWE) market prices.
- The Celtic Interconnector could potentially be able to exploit the time differences between Ireland and CWE.
- As wind/solar energy production increases in Ireland interconnection can be used to help stabilise the grid.

Risks / considerations:

- Consideration should be given to whether the Celtic Interconnector could end up being security of supply negative given the nature of French energy production and demand, and the correlation between Irish/French energy markets.
- There is a risk of French carbon price increasing relative to Irish carbon price thus making French electricity more expensive than anticipated.

Question
What are your views on the CRU's assessment of the Celtic investment request?

In relation to Celtic's potential benefits, the CRU Assessment states:

> *"Our modelling suggests much lower security of supply benefits associated with Celtic in comparison to TSOs' estimates."*

GNI agrees, based on modelling, with the CRU's security of supply comments.

- GNI's analysis suggests power demand in France shows a strong seasonal aspect as a result of wide utilisation of electric heating.
- This demand from electric heating also means that French demand is sensitive to temperature and peaky relative to baseload demand.
- Compared to other large European countries such as Germany, Spain and Italy, France's capacity above peak demand is relatively low. The country relies heavily on its interconnections with neighbouring countries to meet its peak demand in adverse conditions.

If there is an emergency event in a number of countries there is a concern that electricity will not flow across the Celtic Interconnector to Ireland where it may be needed.

In relation to Section 9.2, the impact of the Celtic Interconnector on gas demand is discussed.

"The modelled reduction in annual power sector gas demand as a result of Celtic is approximately 8.2%, which corresponds to an approximate reduction of 3.5% of total annual gas demand."

GNI agrees with the percentage reduction in total annual gas demand put forward by the CRU, and would expect the Celtic Interconnector to displace Irish gas plant given the typically favourable electricity prices in France relative to Ireland/UK. This may result in lower merit combined cycle gas turbine (CCGT) power plants no longer operating, and becoming unutilised assets. This reduction in demand would likely have a negative impact on the transportation tariffs for gas customers. It is likely that monthly bills would increase for gas customers.

Question
Do you have any additional evidence in this area that we should consider?

Investing in the Celtic Interconnector is a significant energy investment that will not just impact the electricity system but the Irish energy system as a whole, as such more consideration should be given to the impact this will have on other parts of the energy system. The transportation of gas through gas pipelines is considered the most efficient method of energy transport. Transportation of gas is unobtrusive, with pipelines buried underground and particular attention taken to minimise impact on the local flora and fauna. Over €2.5 billion has been invested in the existing gas network. The gas network is capable of withstanding extreme weather events. Winter 2017/18 had two severe weather events – extreme wind during Storm Ophelia that resulted in widespread loss of electricity supplies and there was a prolonged cold period with high winds during storm Emma. No gas outages were experienced as a result of either of these extreme events. In addition, GNI is currently developing injection points for renewable gas, an indigenous and carbon neutral energy source, which is identical in form and function to natural gas. Renewable gas is produced through anaerobic digestion. The first injection point has been constructed and is close to being operational. GNI is targeting 20% renewable gas on the network by 2030. This will contribute to Ireland's security of supply for energy.

Question
What are your views on the initial high-level regulatory framework proposed by EirGrid?

Given the level of detail available on the regulatory framework it is difficult to provide a view. However there is recognition that the WACC RAB model implemented in the Irish market has benefited consumers through stability of prices. Price stability has been driven by the transparent nature of the model and associated revenues. This has provided comfort to lenders, who in turn have provided funding at attractive rates. Any regulatory framework should protect the consumer, while at the same time encouraging investment in infrastructure projects which are of national importance.