

Gas Networks Ireland's Statement to the Seanad Special Select Committee on the UK's Withdrawal from the European Union

June 1st 2017

1. Mr Chairman, Committee Members, thank you for inviting us here today to outline to you Gas Networks Ireland's position in relation to Brexit. My name is Claire Madden. I'm the Head of Legal and Regulatory Affairs at Gas Networks Ireland and I am joined today by my colleague Mr Padraic O'Connell, Head of HR & Public Affairs.
2. Before I outline our position in relation to Brexit, let me first give you some brief background information about natural gas in Ireland. Gas Networks Ireland operates the gas network in Ireland. There are three entry points to the Irish system. The entry point from the UK, at Moffat in Scotland, supplied 40% of Ireland's gas demand in 2016. Two indigenous entry points at Inch and Corrib supplied 6% and 54% of 2016's demand respectively. It is anticipated that the Corrib gas field will supply on average up to 57% of Ireland's gas demand out to 2020. We also have a business in Northern Ireland, details of which are contained in the slide pack provided.
3. Ireland's gas market is heavily interconnected with that of the UK. While Great Britain currently supplies 40-50% of Ireland's gas demand, this has historically been as high as 92%. In turn, 100% of the gas supplies to Northern Ireland and the Isle of Man are delivered through Gas Networks Ireland's network in Scotland. For this reason, Gas Networks Ireland has a strong record of co-operation with neighbouring system operators in the UK. With the advent of Brexit, Gas Networks Ireland, as part of the Eirvia group, has considered carefully the implications for the Gas Networks Ireland business and for the Irish gas market.
4. Our findings to date have identified three main areas of focus which are: (1) 'Day 1' versus 'Day 2' issues; (2) Security of Supply; and (3) Cost of Gas. I will consider each of these in turn.
5. In relation to 'Day 1' versus 'Day 2' issues, we understand that it is the intention of the UK government to transpose all existing EU legislation into UK legislation. Should this be the case, then no immediate (what we call 'Day 1') negative repercussions are foreseen in terms of the day to day functioning of the gas market but further discussions with the UK network operator, National Grid, are needed to confirm this.

6. Of more concern is the situation wherein, at any point post Brexit (what we call 'Day 2'), new EU legislation is introduced that Gas Networks Ireland would be obliged to implement, but that the UK chooses not to, or vice versa. Ireland may be forced to seek derogation(s) from such legislation as a result.
7. Without further information as to the nature of the UK's participation in, or interaction with the single energy market, the nature of these derogations cannot now be anticipated. However, Gas Networks Ireland notes that derogations are possible under the Third European Gas Directive (which is the key legislation underpinning the European single gas market). In addition, many of the cross border requirements under European gas legislation already provide that they may not apply at interconnection points to third countries (i.e. outside the EU) subject to a decision of the Commission for Energy Regulation.
8. In relation to the second of the three main areas of focus - the issue of Security of Supply can be further subdivided into the physical security of gas supply and regulatory compliance.
9. The physical infrastructure, linking Ireland to the rest of Europe, will not change following Brexit. More generally, the fact that the supply of gas to Northern Ireland and the Isle of Man is reliant on Gas Networks Ireland's infrastructure can only serve to underpin continued cooperation between Ireland and the UK in relation to gas supplies.
10. In this context, it is worth noting, that within the framework of existing intergovernmental agreements in place since 1993 between Ireland and the UK concerning Ireland's two gas interconnectors, Gas Networks Ireland and National Grid have agreed a voluntary protocol for dealing with gas emergencies affecting GB and Ireland. We see no reason for these arrangements to change post Brexit.
11. In relation to regulatory compliance, Regulation (EU) 994/2010, concerning Gas Security of Supply, and its revision (due to be approved in 2017), require all Member States to take necessary measures so that, in the event of a disruption of the single largest piece of gas infrastructure in that Member State, the remaining infrastructure is able to satisfy total gas demand on a day of exceptionally high gas demand occurring with a statistical probability of 1 in 20 years (this is known as the infrastructure standard or N-1 test).
12. Ireland is currently grouped together in a region with the UK (North-West Region) for the purposes of compliance with the Regulation and passes the infrastructure standard (N-1 test)

on a regional basis with the UK. The UK has an installed capacity of 140% of its demand, such that in the event of an infrastructure outage it would have sufficient supply to meet Ireland's gas demand. Ireland's gas demand equates to 6% of that of the UK.

13. In the event that the infrastructure standard was applied on a stand-alone basis to Ireland, it would not be met. As such, in the absence of legislative change or other accommodation or derogation from the European Commission, there is a possibility that Ireland may be obliged to build additional infrastructure to comply with the infrastructure standard post-Brexit.
14. Gas Networks Ireland notes that the physical security of Ireland's gas networks will not change following Brexit. As such, any decision to build new infrastructure should not be based on compliance requirements alone, but should take full account of the costs and benefits to Irish gas consumers.
15. Finally, in relation to the third area of focus, there has been some commentary about possible negative effects of Brexit on the cost of gas. Our analysis to date does not support this. We have also specifically considered the possible imposition of a trade tariff to gas.
16. Currently, all members of the EU Single Market benefit from having zero tariffs on imports (essentially a free trade agreement). As the UK government has already signalled its intention to depart from the Single Market and the prospect of having a free trade agreement in place with the EU does not, at present, look likely to be completed prior to Brexit, then it appears likely that the UK will default to WTO rules for tariffs.
17. Analysis carried out by external economic advisors on behalf of Gas Networks Ireland has identified that the maximum tariff that can be applied to imports of all gases is 0.7%. In practice, the EU currently applies a zero tariff on all gas imports but could apply a tariff ranging from 0% to 0.7%. The imposition of any such tariff, whilst not posing a direct financial risk to Gas Networks Ireland, would naturally increase the cost of gas for the end user and, depending on tariffs applied to other fuels, could reduce the competitiveness of gas.
18. If such a tariff were applied against the UK, the 'most favoured nation' provisions of the WTO provide that it would also need to be applied identically to all imports of natural gas from any WTO member. Tariffs cannot be applied on a discriminatory basis to just one country.

19. As both the UK and Europe are net importers of gas, it appears that neither party would benefit from the introduction of such a tariff. We feel therefore that Ireland should not be disadvantaged in terms of gas pricing from the perspective of WTO tariffs.
20. In summary, high level conclusions to date suggest, firstly, that as the UK is expected to transpose all existing EU regulations into national law, there will initially be no major changes to the structure of the gas market or indeed to Ireland's daily interaction with the UK in the transportation of gas. Secondly, we anticipate very little, if any, impact on the cost of gas for Irish customers. Naturally, there may be greater fluctuations in the exchange rate in the short term, however analysis to date suggests that the overall cost of gas has not fundamentally changed directly as a result of the Brexit announcement. The two key concerns Gas Networks Ireland has in relation to Brexit are, firstly, the future divergence between UK and EU gas regulations, and secondly, how Ireland will continue to comply with the EU Security of Gas Supply Regulations.
21. Gas Networks Ireland continues to monitor and manage its position in relation to what is potentially a very significant transformation for the energy sector in Ireland.
22. Gas Networks Ireland is actively engaging with all relevant key stakeholders, in Ireland, Europe and the UK. In particular, as a member of both Gas Infrastructure Europe (GIE) and Eurogas in Brussels, we seek to represent the views of the Irish gas market in Brussels. Gas Networks Ireland is co-chairing a GIE working group tasked with representing the views of European system operators and infrastructure owners to the European Commission and the Taskforce on Article 50 negotiations with the United Kingdom.
23. I hope this briefing has provided some useful information to the Committee. I would like to thank the Chairman and the Committee for affording us the opportunity to outline Gas Networks Ireland's current position in relation to Brexit. We are very happy to take questions from Committee Members.

Further Information about Gas Networks Ireland:

1. Gas Networks Ireland is the subsidiary of Ervia that owns, builds and maintains the natural gas network in Ireland and connects all customers to the network. Ervia is the commercial semi-state multi-utility with responsibility for the delivery of gas and water infrastructure and services in Ireland. Gas Networks Ireland is a progressive, trusted and responsible gas infrastructure company with a strong customer focus and commercial ethos that contributes to Ireland's social and economic progress. Gas Networks Ireland ensures the safe and reliable delivery of natural gas to our customers and we continually advance the utilisation of the gas network for the benefit of Ireland. Gas Networks Ireland is a regulated network utility, regulated under licence by the Commission for Energy Regulation (CER). Our gas network is one of the most modern in Europe with almost 14,000 kilometres of steel and polyethylene pipeline.

2. Gas Networks Ireland has an excellent record in delivering critical infrastructure projects for Ireland as the gas network owner and operator, with network construction, maintenance and operation experience in the Irish, Northern Irish and UK markets. We have a proven track record of delivering major sub-sea interconnector, transmission and distribution projects. The transmission system is linked to the UK and European gas markets through two Interconnector pipelines with Scotland. There are a number of energy companies competing in the Irish gas market and Gas Networks Ireland provides non-discriminatory access to the gas network to all of these companies who in turn use the network to supply gas to consumers.

3. Safety is a core value for the company and is central to all of Gas Networks Ireland's activities. We are continuously improving our safety systems and approach. We run several annual public safety awareness campaigns to promote gas safety issues to the public including our 24-Hour Gas Emergency Service, Dial-Before-You-Dig and Carbon Monoxide awareness. Gas safety is regulated by the CER which has established a natural gas safety regulatory framework and Gas Networks Ireland is subject to ongoing audit and inspection by the CER under this framework. We report quarterly to the CER on a comprehensive range of safety performance indicators to verify that all operations are in compliance with the safety framework.

4. For decades natural gas has played a vital role in Ireland's energy mix and in Ireland's social and economic progress, currently accounting for approximately 27% of Ireland's Total Primary Energy Requirements (TPER). Natural gas is also a critical component for Ireland's electricity generation, with 52% of the country's annual electricity produced from natural gas. Gas Networks Ireland believes that the benefits that natural gas can deliver for Ireland, in terms of emission reduction, increasing

competitiveness and sustaining security of supply, have not been fully realised. With modest investment in a number of key areas, natural gas can play an even more significant role in Ireland's energy and environmental policies and in the country's economic development.

5. Natural gas is a trusted, proven fuel source with an existing reliable infrastructure that has been heavily invested in by the State over the years. Gas can play a key role in helping the government achieve its energy targets now and in supporting its decarbonised future energy plans. In addition natural gas can continue to play a key role in the economic development of the country. Many key industries depend on natural gas and gas availability is a key criteria for FDI companies when they are deciding where to invest.