Irish Offshore Operators' Association
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Operators'
Association

Mr Denis Cagney,
Commission for Energy Regulation,
The Exchange,
Belgard Square North.
Tallaght,
Dublin 24

13th August, 2008

RE: TRANSMISSION TARIFF METHODOLOGY AND REGULATION IN IRELAND AND NORTHERN IRELAND – 27th JUNE 2008

Dear Mr. Cagney,

On behalf of the Irish Offshore Operators' Association (IOOA), I would like to thank you for the opportunity to comment on the above referenced consultation paper.

As a general comment, IOOA supports the goal of the two regulators in connecting the gas markets of Ireland and Northern Ireland and would welcome the expansion of this goal to connecting also the markets of the Isle of Man, Great Britain and beyond. We believe that this is best achieved by focusing on cross border tariffing issues and enabling licenced shippers to navigate their own way through the EU transmission systems.

However, we were disappointed that the consultation paper included no initiatives with respect to how such cross border issues are to be addressed. Instead, we found the paper dwelt on issues that have been consulted on many times in recent years, without any recommendation on the way forward. We have therefore chosen to not respond directly to the questions posed in the consultation paper but instead take this opportunity to re-state the position which we have shared with the CER on many occasions.

IOOA accepts that gas flows from indigenous fields such as Corrib (or through alternative import facilities such as Shannon LNG) will, if competitively priced, displace imports from the UK through the BGÉ interconnectors. We also recognise that the CER's current regulatory practice is to sanction an increase of the Interconnector tariff in line with any such reduction in throughput. However, IOOA does not agree that domestically produced gas flows and / or gas flows through competing import facilities can or does put upward pressure on gas prices. Rather, we believe that it is the current regulatory treatment of the interconnectors that is to blame for any such increase in the cost of gas in Ireland.

IOOA believes that transmission tariffs should be stable, predictable, transparent and consistent with all applicable regulations. In our view the most practical tariff construction capable of

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satisfying all of these objectives is one structured on the principles of competing entry and exit points.

We recognise that this most closely reflects the current position. However, because of the way in which infrastructure costs are applied this gives rise to the erroneous perception that increased indigenous production can result in an increase in Irish gas prices. We believe that this can be overcome by setting the interconnector tariff at a level which provides for BGÉ to recover its allowed costs over a period longer than five years. Such an approach will inevitably result in a surplus or deficit cost recovery in any single year but these will adjust themselves over the longer period.

Although such an approach will reduce the volatility of the Moffat tariff, it will inevitably increase the uncertainty of BGÉ's year to year revenues, consequently the tariff would appropriately reflect the risk profile of the assets. This could put upward pressure on its cost of capital, as would be the case for any independent commercial investment that did not perform as expected. An alternative approach could be where in any year an under-recovery is projected at Moffat the amount projected to be under-recovered would be reflected in the calculation of the onshore tariff in that and subsequent years. IOOA could support such an approach provided that, over time, any past amounts recovered via the increase in onshore tariff would be taken into account in the calculation of future Interconnector tariffs and that such measures were coupled with other necessary reforms such as the introduction of an export facility at Moffat.

Regards

Fergus Cahill