

**ESB International Ltd**  
Stephen Court, 18/21 St Stephen's Green, Dublin 2, Ireland  
**Telephone** +353-1-703 8000 **Fax** +353-1-703-7097  
[www.esbi.ie](http://www.esbi.ie)

21<sup>st</sup> November 2008

Clive Bowers,  
Gas Division  
Commission for Energy Regulation,  
The Exchange,  
Belgard Square North,  
Tallaght, Dublin 24

Richard Hume  
Gas Branch  
Utility Regulator  
Queen's House  
14 Queen Street  
Belfast BT1 6ER

**Re: Common Arrangements for Gas paper titled "Draft Conclusions on Transmission Tariff Harmonisation in Ireland and Northern Ireland" dated 17<sup>th</sup> October 2008.**

Dear Clive and Richard,

This response is submitted on behalf of Coolkeeragh ESB (CESB) who wishes to thank CER and NIAUR for the opportunity to respond to this consultation paper.

**Summary of Comments:**

- (A) **Entry Exit Regime:** The stated preference of NIAUR and CER (the "Regulatory Authorities" or "RAs") for an Entry Exit regime is strongly supported.
- (B) **Exit tariffs:** the RAs are fully supported in their view to have two separate Exit tariffs i.e. one in each jurisdiction. However the issue of the SN Inter-connector needs to be addressed as part of any decision.
- (C) **Entry tariffs:** the option of having separate SNIP and IC tariffs, with Corrib, Inch, Shannon and any other Entry Point having a separate Entry Tariff is supported. This provides maximum transparency, the appropriate incentives for investment by developers. However the issue of the SN Inter-connector needs to be addressed as part of any decision
- (D) **SN Pipeline:** How the SN pipeline will be dealt with from an operational and tariffing point has not been dealt with in this paper, and this leaves considerable uncertainty for any respondent. How the SN is dealt with can have huge effects on many aspects, which will change peoples view on different subjects. It is suggested

the RAs should have a separate consultation on this issue which at a minimum outlines the options, and the RAs current thinking on how to deal with the SN pipeline so as to open the debate. This should occur before any final decision is made on the gas transmission tariff arrangements under CAG.

**Specific Comments:**

**(1) Postalisation:**

Postalisation of transmission tariffs is fundamentally flawed as it will bring about an increase in prices in Northern Ireland which is contrary to the underlying principles of CAG. Further trying to then fix this problem by creating a revenue transfer mechanism is certainly not an ideal solution. Postalisation is also flawed as it

- (i) lacks transparency and cost reflectivity
- (ii) is contrary to EU best practice
- (iii) will hamper investment with security of supply implications and
- (iv) will be very complex understand and to administer (with related increased costs).

While postalisation may have the benefit of reducing volatility in transmission tariffs it will not bring about a material reduction in final gas price volatility for end users given that transmission tariffs make up a relatively small proportion of the final gas cost paid by end users (given recent trends in gas prices).

For these, and other reasons postalisation should not be supported and the RAs position to discount fully this option is supported.

**(2) Entry Exit:**

An Exit Entry transmission tariff regime will

- (i) provide investment signals improving possibilities for security of supply
- (ii) is the most transparent, simple and practical tariff regime

- (iii) is compliant with EU best practice (including that used in ROI and GB)
- (iv) will avoid the added complexity of dealing with difference currencies (assuming SNIP is treated separately to the ICs).

For this reason Entry Exit is considered the best, most logical tariff regime which will bring about the most actual benefits to end users.

### **(3) Entry:**

Once the one operator controls the entire gas system on the island of Ireland, or two operators work very closely together and share real time information, then it is argued to be of little importance if the Entry regime is combined Moffat or separate SNIP and ICs. Hence the implied suggestion in the paper that a combine Moffat regime will bring additional operational benefits over separate SNIP and ICs is questioned.

Further the stated notion that a combined Moffat will bring about additional incentives to investors, is not thought to be a material argument.

Due to the quantum of the final cost made up by transmission tariffs reducing volatility of transmission tariffs is thought to be immaterial in reality.

Combining SNIP and the ICs also brings about a lack of transparency, introduces the unnecessary complexities of (a) two currencies for one Entry Point tariff calculation (and the certainty of requiring a robust reconciliation process), and (b) trying to merge two assets which are controlled by different regulators and different legal jurisdictions.

Hence the RAs are supported in their view to discount a single Entry Point and leave all non inter-connector Entry points separate. Given the fact that a separate SNIP and ICs regime does not have the disadvantages as outlined above it is thought to be the preferred option.

### **(4) Exit:**

The RAs stated preference for two Exit systems, one in each jurisdiction, is supported. Such a regime does not increase costs in Northern Ireland (or

ROI) nor require common thinking in relation to connections for each jurisdiction, thereby allowing some freedom in each jurisdiction in relation to the development of its own gas market. However this brings the complexity of what to do with the SN Inter-connector i.e. which Exit Point does it sit in and what is the tariff for using it? Please see comments on “SN Inter-connector” below.

**(5) SN Inter-connector and transit tariffs:** The paper is effectively silent as to how the SN inter-connector will be treated in the proposed CAG arrangement, and yet this pipe will be the most complex to deal with in any all island regime given it links the jurisdictions. The RAs are asked why this pipe was not given a specific section to itself due to its complexity and the many potential methods by which it could be treated?

It appears implicate in the paper that the even though the SN pipeline has always been understood to be an “Entry Point” to Northern Ireland (“NI”) (and thus an Exit Point from ROI) its costs will be merged into some onshore charge (since it is not mentioned as an Entry Point in the paper). However given that the likelihood is that there will be 2 Exit Points, one in NI and one in ROI, and that the SN pipeline is situated in both, and the likely change in the tariff regime in NI to Entry Exit, there is little detail as to how exactly the costs of the SN pipeline will be paid for except for the implied agreement by the RAs in the paper to comments from respondents to the first consultation paper on this issue (first paragraph of section 7.2.4) that *“the increase in cost [due to the SN pipeline] would be borne by the Northern Ireland consumer and apart from any future usage by ROI Shippers, it is not anticipated to be spread across Ireland consumers”*.

It is understood that in the event of separate SNIP and ICs Entry Point charges, the potential increase in SNIP charges (as postulated in Section 5.1.2) is related to the spare capacity in SNIP only. The RAs view appears to be that as SNIP will be cheaper than the ICs charge, parties in the ROI may wish to book SNIP capacity to bring gas to ROI assuming they pay a zero cost transit rate i.e. they do not pay anything for using the infrastructure in the NI onshore even though they are actually using it. The

idea of paying nothing for use of a system appears flawed and may be a dangerous precedent to set.

Further if a party who would be offtaking gas in NI and thus paying onshore charges, wishes to book more SNIP capacity, does this party have preferential treatment on access to SNIP capacity to an ROI shipper who would not pay NI Onshore charges i.e. in the latter case NI would be losing out on potential revenue from someone actually using the network it is paying for.

This also raises the issue of parties in NI who contract for Corrib gas, Inch gas/storage or Shannon LNG, and pay these Entry charges but then pay the NI Onshore rate while paying nothing in the ROI towards the ROI Onshore rate through which gas from these Entry points will actually flow. Again the issue arises does a party who will pay ROI Onshore charges get precedence for Entry capacity at these points over parties who will not be paying ROI onshore charges? There is a compelling argument to suggest that perhaps they should be given precedence given that it is in the greater good of all users in the relevant jurisdiction (in this case ROI) in which the Entry Points exist for this to occur as it will increase revenues to the system owner (in this case increased revenues to BGE from Onshore tariffs) and thus reduce unit costs for users in the relevant jurisdiction (in this case reducing Onshore charges the ROI).

These and other issues related to the SN Interconnector (e.g. tariff currency, measurement of volumes and quality, etc) should be consulted up in a separate consultation paper before any final decision on the final make-up of the gas transmission tariffing regime under CAG.

#### **(6) Mitigating the effect of low IC utilisation**

In line with other respondents to the previous paper, it is suggested that dealing with this issue should have formed part of a separate consultation paper.

Given that Corrib is expected to have a relatively short production plateau, storage is a seasonal issue, and Shannon LNG will only supply small percentage of the gas requirement of the Island of Ireland, the issue of low IC utilisation will not be a long term nor a consistent issue. Hence it is suggested that the RAs should consider taking no action to deal with this potentially small, potentially short term issue, linked to the short term Corrib peak plateau period (once Corrib is off plateau this will be very much a less material potential issue).

The fact that the RAs have decided to deal with the issue of the capacity/commodity split, and smoothing in separate consultation paper(s) is welcomed.

If there are any questions or queries in relation to any of the points raised in this response we would be more than happy to answer these.

Kind regards

*Derek Russell*

---

**Derek Russell**  
**Commercial Manager, SEM**  
**Independent Generation, ESB International**