15 Windsor Terrace,
Sandycove,
Co. Dublin.

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

21 November 2008

Re: Consultation on Draft Conclusions on Transmission Tariff Harmonisation in Ireland and Northern Ireland

Dear Clive,

As part of the Common Arrangements for Gas (CAG) project, the regulatory authorities published a consultation entitled "Draft Conclusions on Transmission Tariff Harmonisation in Ireland and Northern Ireland" on the 17th of October 2008.

We outline below our responses to the specific questions raised on page 42 of the consultation paper.

The preferred approach of implementing an Entry-Exit regime

Shannon LNG supports implementing an entry-exit regime on an all-island basis. In addition to the advantages set out by the regulatory authorities (RAs) in the consultation paper, we believe that an entry-exit regime will allow gas supplies entering Ireland at different supply points to compete on the basis of their fundamental economics.

An entry-exit regime should provide greater competition in the wholesale market for natural gas across the island by eliminating the possibility of subsidisation or cross-subsidisation between supply points or between the onshore system and supply points. This will create regulatory certainty for suppliers to enter into long-term investments with a degree of confidence that the regulatory regime is established and will be applied consistently between suppliers.

An entry-exit regime should also increase security of energy supply on the island as it will provide a transparent market signal for new gas supply points. Without an entry-exit regime in place it is less likely that new market driven supply points such as storage and LNG would be developed in Ireland – this would decrease the island's security of supply.

The draft conclusions on a fully postalised regime
We support the RAs' reasons in the consultation paper for discounting postalisation as a viable option.

It should be borne in mind that gas transmission tariffs are only one component of the delivered gas price – putting in place a transmission tariff structure that discourages new supply sources is likely to have a much greater impact on prices than transmission tariffs.

The Brattle Group prepared a report on transmission tariffs for the Department of Communications, Marine and Natural Resources in 2000. One of the findings of that report was: "A fully postalised tariff regime could be expected to raise costs in the long term."[1]

Entry asset configuration
Shannon LNG believes that the Single Entry Point option is another form of fully postalised tariffs, as there would be a postalised entry tariff and a postalised exit tariff. We therefore believe this option should also be discounted as a viable option.

Shannon LNG is in favour of allowing each entry point to compete on the basis of its fundamental economics and allowing the buyers and suppliers of gas to decide which entry point they wish to use.

Shannon LNG made a proposal on what we believe is an appropriate tariff solution for the interconnectors – see IC mitigation proposals below.

Exit asset configuration
We support the introduction of two postalised exit zones as it should encourage the flows of natural gas between the two jurisdictions.

IC Mitigation proposals
As a company that is trying to develop a new supply source of gas into the Irish market, our principle concern on any IC mitigation proposal is that it does not provide a subsidy to UK exporters of gas to Ireland.

We believe that any IC mitigation proposal should ensure that IC revenue recovery comes from gas flows through the interconnectors, not gas flows through other entry points or the exit tariff. Shannon LNG submitted a proposal to the RAs along these lines in our letter dated 15 August 2008.

We think that if further analysis is given to the proposal we made, the RAs' concerns over "backending" the depreciation (page 30) will not be a material obstacle to the implementation of this proposal. The reason for this is that given the remaining long term life of the IC assets[2], particularly IC2, even modest increases in annual inflation would result in minor effects to the tariff from increased depreciation levels, due to the decades old asset base that would prevail at that time.

Likewise any modifications that might be made to the tariffs during the remaining assets life to compensate from erroneous forecasts would necessarily be spread over a long period into the future and therefore would have a *de minimis* impact on the tariffs at that time, resulting in a largely self-correcting tariff regime.

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[1] New Pipeline Authorisation and Third Party Access Tariffs for the Natural Gas Network in Ireland – July 2000, the Brattle Group
[2] We understand that IC2 is depreciated over 100 years.

We are concerned that if an arbitrary IC tariff solution is introduced, it will appear expedient in nature and will not meet the principle that natural gas from each supply point should compete on the basis of its fundamental economics. The industry requires reasonable stability on long term tariffs to provide a measure of certainty when taking long term investment decisions.

With regard to Annex 1, we would note that the proposal advanced by Shannon LNG would, in fact, ensure that the investment in IC2 would be fully recovered, albeit at a potentially different pace than might have been the case if the UK remained the dominant supplier to the Irish market.

We hope these comments are helpful and we look forward to continued participation in this process.

Yours sincerely,

Mart Regan

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