



Robert O'Rourke
Gas Division
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

Date: 29 January 2009

*Copied: Richard Hume
Gas Directorate, Utility Regulator, Queens's House, 14 Queen Street,
Belfast, BT1 6ER*

Dear O'Rourke,

**Re: Common Arrangements for Gas, Security of Supply, Consultation Paper
19 December, 2008**

Island Oil & Gas Plc has been Ireland's most successful offshore operator and explorer in recent years. The company has successfully discovered the Old Head of Kinsale and Schull gas fields in the Celtic Sea, which are set to make a significant contribution to Ireland's security of supply issue by helping to accelerate the development of indigenous gas and providing additional options for gas storage.

Initial scoping studies indicate that Island's gas fields could provide 400mcm of gas storage working capacity with overall injection and withdrawal rates similar to South West Kinsale. A Plan of Development is currently being drafted but the Marathon Sales process needs to be finalised before the commercial arrangements of any Plan of Development can be completed.

The company has a number of development options, including full depletion of both fields (including cushion gas), but in deciding what direction to proceed, Island must

*Island Oil & Gas plc 27 Lower Mount Street Dublin 2 Ireland
t: +353 (0) 1 631 3755 www.islandoilandgas.com f: +353 (0) 1 661 4234
Bryan Benitz (U.K.) Paul Griffiths (UK) Carl Kindinger (South Africa) Adrian Doull (UK)
Island Oil & Gas is a public limited company
Registered in Dublin Ireland Registered No. 366122*



ensure that it chooses a plan with the greater overall economic value. A standalone development is possible but Marathon's Kinsale facilities offer a better possibility of maximizing value for all stakeholders. Therefore, the national strategic importance of the Kinsale facilities to the future expansion of All-Ireland Gas Storage Market needs be addressed.

Commercial Considerations:

- The capital requirements to develop this indigenous resource are significant.
- The cushion gas required for any gas storage facility is currently in place. Therefore Island will be foregoing higher near term revenues if it does not proceed with the straight blow down of the gas.
- There are no fiscal or government incentives to develop a gas storage facility

Commercialization of a gas storage field could also be limited by current trading and transmission regulations.

- Island understands that there are no regulations in place to allow the back haul of gas to the United Kingdom. Back haul arrangements would increase investment and development interest from potential gas storage companies currently operating in the UK.

The government has no fiscal or commercial incentives in place for gas storage development. Considering Ireland's geographic position and its reliance on Great Britain, the absence of gas storage incentives is wholly inadequate.

The All-Ireland market must advance its gas storage capability to a point which reflects the risks it faces if there is a disruption to GB supplies. GB storage facilities should not be considered an appropriate security of supply measure. In any GB emergency, GB domestic users will be put first, and exports through Moffat will be shut down. It is our opinion that All Ireland Gas Storage capacity should equal countries with the greatest supply risk, such as Austria, France and Germany.



Storage operators, suppliers and shippers could be required to hold minimum levels of storage but the cost cannot be allowed to increase Ireland's already high energy costs. All Ireland competitiveness cannot be sacrificed for higher regulation and cost obligations. Both jurisdictions must seek a creative way to ensure the commercialization of gas storage and security of supply can be attained without extra costs being applied to the end user.

Any new common arrangements should provide for mechanisms, such as fiscal and taxation incentives, Public Private Partnership or Public Service Obligation Contracts, whereby the strategic importance of gas storage facilities is recognized and underpinned by both jurisdictions. Renewable Energy is supported. Gas Storage should also be supported in a way that reflects its importance to the island of Ireland.

Island Oil & Gas met with the CER in June 2008 and raised some of the issues described above. The company would welcome the opportunity to meet with the CER and Utility Regulator to discuss the commercially sensitive aspects of our plans, such as capital requirements and risks.

We believe Island has the assets to deliver a significant gas storage project to the All Island market, and hope future discussions and co-operation will enhance its potential.

Yours sincerely

A handwritten signature in black ink, appearing to read "P. Griffiths", with a stylized flourish at the end.

Paul Griffiths

CEO – Island Oil & Gas Plc