



Fitzwilliam Hall,  
25 – 26 Fitzwilliam Place,  
Dublin 2

17 November 2006

Ms. Jill Murray,  
Commission for Energy Regulation,  
Plaza House,  
Belgard Road,  
Tallaght,  
Dublin 24.

**Re: CER Consultation Paper on Implications for Ireland of Planned Reforms of UK Gas Transmission Exit Reforms**

Dear Jill,

Shannon LNG is currently preparing a planning application for a liquefied natural gas (LNG) regasification facility located between Tarbert and Ballylongford in County Kerry. This LNG facility will have the capacity to inject up to 22.66 million standard cubic metres per day (MMSCMD) into the Irish natural gas network. We are currently planning that this LNG facility will be in commercial operation by 2012. We enclose a recent newsletter on the project to provide additional background information.

Shannon LNG intends to offer a competitive, stable and secure gas supply to the Irish market from 2012. This will increase competition at the wholesale level in the market and considerably increase Ireland's security of supply by providing the country with direct access to worldwide supplies of LNG from a potentially diverse range of sources.

We recognise that the Commission has significant obligations regarding security of supply and that the Irish gas market may need assurance of access to a certain quantity of Moffat exit capacity as part of this supply security. We do however consider it important that whatever arrangements are entered into at Moffat to accommodate the UK Exit Reforms, they should be sufficiently flexible so that if and when an alternative competitive long term solution, such as Shannon LNG, becomes available that may better serve the interests of the Irish natural gas consumers, the

design and approval of the Moffat exit capacity contracts will not act as an obstacle to the introduction of such alternatives to the Irish market.

We have a number of observations on the Consultation paper which we set out below.

### **Security of Supply**

In the long term, if no LNG facility is built in Ireland, it is likely the long term future of Irish gas supply will remain bound to the UK market and more specifically the Moffat exit point. Under the current Exit Reform proposals, it appears a set of commercial operating conditions is being imposed on Irish shippers at Moffat that is neither desired by them nor in Ireland's best long term interests. It appears that these proposals will effectively establish the Moffat exit point as a point similar to a UK Distribution Network, rather than an exit point to a separate jurisdiction and market.

It is quite understandable that National Grid as the UK transmission system operator is proposing this reform under Ofgem's regulatory initiative for the benefit of UK consumers as a way of promoting more efficient infrastructure investment in the UK. However, what is in the best interests of UK consumers may not be in the best interests of Irish consumers, and arguably, any proposal which has the effect of shifting more costs and risks to the Irish market might be even more likely to be adopted as being more beneficial to the UK market.

Since the marginal source of supply for the UK will be in the form of LNG imported through the many new LNG terminals operating or being constructed in the UK, Ireland's supply security would be better served by importing LNG directly and avoiding paying the cost of moving the LNG through the UK grid to reach the Irish market. Any regulatory scheme which has the effect of encouraging more UK imports (or, by the same argument, discouraging new direct supplies to Ireland, whether imports or indigenous production) will only place Ireland at a long term competitive disadvantage to the UK in the increasingly global gas market.

The UK Exit Reform proposals highlight the dangers of relying on one entry point under the control of a separate regulatory regime which has the ability to unilaterally impose rule changes such as these which may affect Ireland's cost or security of supply.

### **Competition**

We are developing the Shannon LNG facility to establish a new competitive supply of natural gas to Ireland from 2012 without seeking any assured recovery of the associated infrastructure investment. We would request that the Commission does not put in place or approve any arrangements that:

- (i) Enshrine the primacy of Moffat as an entry point to the Irish system, through locking in shippers at Moffat to long term contracts or by creating commercial advantages for these shippers over shippers using other entry points;
- (ii) Guarantee the long term, full underwriting and/or cost recovery of investments to provide additional capacity at Moffat when that capacity could be potentially provided at future competing entry points;
- (iii) Preclude shippers from easily switching (contractually or economically) to other entry points to secure a more competitive gas supply for Ireland; and

- (iv) Dampen the incentive for investment in competitive energy infrastructure in Ireland through potentially providing direct or embedded long term subsidies to regulated access points by assuring cost and investment recovery of new investment in this access capacity through charges which are ultimately imposed across the entire Irish gas system, when comparable subsidies would not then be available to shippers seeking to deliver or acquire gas supplies at new entry points.

We do not support the introduction of a public service levy to secure exit capacity at Moffat. We think that this could raise costs to consumers if capacity is unused at Moffat and shippers decide to source gas through competing entry points, unless these competing entry points are also offered a public service levy (which we do not support, as we feel it distorts the market signals). If the Commission does propose a PSO levy to cover the costs of securing exit capacity at Moffat we suggest that any arrangements that are entered into could be rescinded if, over time, utilization of the Moffat entry point falls below some threshold, demonstrating that it is no longer as critical in providing security of supply for Ireland as is the case today. This would assist in promoting investment in alternative gas supply infrastructure in Ireland which could bring an improved solution to Ireland's long term security of supply requirements.

Finally, if a Single Party is appointed to secure long term capacity at Moffat, we would recommend that this party be appointed / retained on a competitive basis with detailed and transparent terms of reference.

Thank you for providing us with the opportunity to comment on this consultation.

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Paddy Power  
Managing Director,  
Shannon LNG Ltd.