



NIE Energy Limited  
Power Procurement Business  
Unit 2, Forestgrove Business Park  
Newtownbreda Road  
Belfast BT8 6AW

Our ref. 01282011-01

Stuart Coleman  
Commission for Energy Regulation  
The Exchange  
Belgard Square North  
Tallaght  
Dublin 24.

12 August 2011

Dear Stuart,

**Regulatory Treatment of the BGE Interconnectors**

NIE Energy (PPB) welcomes the opportunity to respond to this consultation. Whilst PPB is the counter-party to Power Purchase Agreements (PPAs), which were established in 1992 as part of the restructuring and privatisation of the electricity supply industry in Northern Ireland. PPB purchases both the capacity of the contracted generating units and any electricity generated by those units on terms specified in the agreements and sell all the electricity into the Single Electricity Market.

The decisions made by CER in relation to the Regulatory Treatment of the BGE Interconnectors may have a material impact on the competitiveness of generators operating in the SEM and may impact users in Northern Ireland depending on the design of CAG.

A major thrust of this consultation paper relies on the assertion that the additional capacity on the BGE Interconnectors provides significant security of supply benefit for gas users on the Island of Ireland. On the 7th April 2008 the Regulatory Authorities published a Memorandum of Understanding (MoU) between CER (Commission for Energy Regulation) and NIAUR (Northern Ireland Authority for Utility Regulation) on the development of the Common Arrangements in Gas (CAG) project, under the All Island Energy Market Development Framework.

This Memorandum stated that the Regulatory Authorities will "establish and work with the Government to establish a single approach to Security of Supply incorporating:

- A Single Security Standard
- A Joint Capacity Statement

- A Single Approach to Storage, LNG and System Entry Points.”

Whilst the Regulatory Authorities are targeting the 1 October 2012 for the implementation of CAG it is disappointing that the Governments and the Regulatory Authorities have not provided a clear indication as to their intentions in relation to a Single Security Standard.

PPB believe that the Governments and the Regulatory Authorities must expedite their work in relation to the development of gas and electricity security standards in order for investors in the gas and electricity markets in Ireland and Northern Ireland to have a clear and transparent understanding of the same. Uncertainty in this important policy framework increases the risk for investors and may lead to delays in major infrastructure delivery in both the gas and electricity markets at a time when financing infrastructure projects is already expensive due to other macro-economic factors.

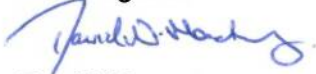
PPB strongly opposes any attempt to transfer costs associated with BGE Interconnector infrastructure to Northern Ireland gas users and any notion of a hub concept in the CAG design, which may facilitate this, would not be in the interest of gas users in Northern Ireland. We believe that this issue could have the potential of de-railing the CAG project and therefore the interrelationship between the CAG design and the treatment of the BGE Interconnectors is fundamental.

CER state that Northern Ireland benefits from the additional 17mcm/d of BGE Interconnector Capacity, however there are important issues which are ignored in the consultation which limit benefits to Northern Ireland gas users, they are:

1. The current physical constraints of the Irish and Northern Irish transmission networks at Gormanstown limit any security of supply benefits. BGE state in the Joint Capacity Statement 2011 that system modifications are required at Gormanstown and possibly Twynholm, Carrickfergus, Ballanabanagh and Brighthouse Bay.
2. Power Stations in Northern Ireland account for 72% of the gas volumes used in Northern Ireland, which have the capability of running on back-up fuels in addition to the ability to import electricity from Great Britain and Republic of Ireland.
3. Whilst there are three sub-sea pipelines providing the Island of Ireland with gas supplies from GB, there are a number of single modes of failure associated with these three pipelines. Therefore it is unclear as to whether ROI could comply with an N-1 Security Standard, in accordance with the EU Security of Gas Supply Regulation, for an outage on the Scottish pipeline.
4. Potential use of the salt cavity storage at Larne, which is planned to come online in Q4 2015 which may be a more cost effective solution for Northern Ireland gas users as well providing security against loss of the Scottish overland pipeline which would impact gas supplies to IC1, IC2, and SNIP.

We appreciate that this consultation does not cover the detailed mechanisms for the two options being presented in the paper however due to the extremely challenging timelines associated with CAG and the interdependencies between all the consultations we believe it is appropriate to raise our concerns in relation to the Regulatory Treatment of the BGE Interconnectors at this stage.

Kind regards



David Macartney  
NIE Energy Power Procurement Business

