

August 10th 2011

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

Dear Stuart,

RE: The Regulatory Treatment of the Bord Gáis Eireann Interconnectors

Bord Gáis Energy (BG Energy) welcomes the opportunity to respond to the Commission for Energy Regulation's (CER) consultation on the treatment of the Bord Gáis Eireann (BGE) Interconnectors (IC's). The review is timely in the context of proposed new future sources of gas and progress towards all island Common Arrangements for Gas (CAG). In relation to the options set out by the CER to deal with the ICs issue, BG Energy would like to make the following comments:

Firstly BG Energy agrees with the CER's proposal to rule out option 2 to 'strand the IC's' and considers it essential that the CER stands firm on this position in the final decision paper for a number of reasons:

- The IC's were built by BGE under direction by the Government for the purpose of Security of Supply (SoS) and BG Energy considers that the stranding of these assets is not within the CER's remit;
- The stranding of the ICs would be detrimental to the principle of regulatory certainty thereby setting a damaging precedent potentially compromising future investment in the gas system;
- The ICs have played and will continue to play a key role in providing SoS to the island. The ICs were crucial in ensuring the security of gas supplies during recent cold winters and will continue to do so in the future;
- The ICs provide access to the liquid Great Britain market which is essential in delivering a competitive energy market on the island and provides positive impacts with respect to electricity and gas prices;

- The ICs provide a diversity of supply which will compete with new sources of gas to the long term benefit of consumers on the island;
- As a purchaser of indigenous gas in Ireland, BG Energy considers that the ICs provide suppliers with the comfort of an essential backup source of supply to the Island of Ireland in the event of any issues compromising the availability of indigenous gas sources; and
- The availability of the ICs assists the business case for new investment in the gas system. For example, the existence of the IC Backup product in the code of operations makes the purchase of indigenous gas more attractive and marketable by providing purchasing suppliers the security of back up supply thereby enhancing the business case for new sources of production. Furthermore, the reverse flow capabilities offered by the ICs will be important to the commercial viability of storage on the island.

Regarding the remaining options proposed by the CER to deal with the ICs issue, BG Energy favours the adoption of option 3 'keep the diversity premium but cap it'. We believe it strikes the correct balance between facilitating the appropriate level of new investment in the gas system and containing costs for gas customers.

I hope you find the comments above useful in carrying out your review of the regulatory treatment of the ICs. Please do not hesitate in contacting me should you have any comments or queries on the issues raised.

Yours sincerely,

Dermot Lynch
Commercial Regulation
Bord Gáis Energy