ESB Energy International

Stuart Coleman
Commission for Energy Regulation
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By email: scoleman@cer.ie

Dear Stuart,

RE: The regulatory treatment of the BGE Interconnectors (CER/11/112)

Thank you for the consultation paper and the opportunity to comment. As ESB EI is a significant shipper who uses the Moffat Interconnector how its revenues are recovered is an important issue for us.

You cite many important features of the principles for revenue recovery, but in the main, state that to continue the move to a harmonised all island model for gas that the argument not to apply a diversity premium is strengthened.

ESB EI believes in the principles of the polluter pays and there being no freeriders that is set out in the document –this can be achieved, with the proposal for double booking or auctions proposals retaining the relativities across the island of Ireland.

ESB EI strongly supports the view that no diversity premium is necessary as the additional returns are unwarranted and agree with UR that the impact of inflating the transmission unit price due to landing indigenous gas on the Island does not lead to a greater divergence between the price at the IBP and the current NBP plus transmission costs price. This would provide perverse economic signals due to regulatory rather than market failings.

ESB EI is a significant shipper who pays towards the revenues of the interconnector and who will be exposed to the risk of any higher prices both for the regulated interconnector entry/exit charges and in turn the higher price at any Irish Balancing Point (or AIBP). We desire a competitive market where no single player either a producer or a shipper can potentially skew any market signals through their own behaviour. Thus we hope that any solution does not incidentally impose a regulatory intervention that itself skews efficient market dynamics or lessens the current and future shippers' access to a very liquid market in the UK.

In principle any increased supply of gas on the island of Ireland must result in a reduction in the wholesale price that it is available at.

Our response must be understood in the context of the wider CAG programme and the potential target models that are presently being developed at the EU level. Any

programme of change to the current arrangements must seek to add liquidity to the market and as we transition to the new EU target model it must reduce duplicating costs of change by selecting a sustainable model for the coming decade.

CAG itself is important and any proposal relating to the treatment of the BGE interconnectors in the Republic of Ireland must be mirrored in arrangements in Northern Ireland so that trade across the borders can occur and so the proposed benefits from CAG, via economies of scale, can be realised.

This decision will therefore have wider implications for the harmonised tariffs at Moffat and the discussions relating to a potential hub.

ESB EI has taken your current stand on stranded assets and your desire to have an all island market and has not therefore commented on either option 1 or 2. We have also used your term premium but we believe that this is already built into the current charges that make up the entry and exit values. Premium is therefore defined as any additional increase in the tariff charges due to reduced flow across Moffat from the current position.

Below we have commented on the options proposed.

1. Option 3 retains the premium but it is capped

    a. It will be difficult to recover the costs of the asset if it is capped at its present level as there will be unrecovered costs which will continue to spiral as additional gas enters the market.
    b. The potential for price increases is not welcomed as the regulatory intervention may skew the economic price signal which would lead to an increase price as supply.

2. Option 4 – remove premium
    a. This approach aligns with the current NI thinking for SNIP therefore it achieves some degree of harmonisation on the island.
    b. The option of either double booking or auctions fits well with the potential models of the CEER for the harmonised European gas market.
    c. It maintains the relative position of the NBP against other entry points giving Irish shippers access to the most liquid European gas market which the NBP will not be able to match given the limited forecasted new gas fields or ability to absorb new LNG terminals.
    d. It reflects the value that all users get from the existence of the underutilised assets in terms of getting access to the very liquid NBP for Irish producers therefore giving them scope to trade in an unrestricted fashion as well as get financial cover for risk of under or no production. This offers the potential for reduced costs for all users as volume trades and new products utilise the existing interconnector. It also underpins the equal treatment of any potential physical flows in the opposite direction.

ESB would currently suggest that the proposals for removing the premium and yet satisfying the allowed revenues of the owner should be considered in the context of the CEER vision for a European Gas target Model.

- Comments on the Double Booking proposal:

As ESB submitted in its response to CER/11/002, the incidence of potential stranding of the asset arises as there is increased indigenous gas. ESB also stated that those same producers gained value from the existence of the pipeline both physically and commercially.

The double booking requirement should only be applied, if it is selected, to new entrant producers of gas who will be, in the main, the beneficiaries of the trading that the interconnector now allows.

The obligation cannot be placed on all shippers as not all benefit from reduced physical flow across the pipeline will be enjoyed by them. The only benefits would be if gas at IBP was priced at less than NBP + current transmission charges whereas, new producers can benefit from the trades of the existing forward shippers to export gas to a larger and more liquid market.

- Comment on auctions with zero reserve price

Given the need to comply with ENTSOG Framework guidelines - network codes of local TSOs will need to accommodate the rules for Capacity Allocation and Congestion Management. This approach may be reasonably adopted at the earliest opportunity to bed in the change and establish a stable market environment.

3. Alternatives:

ESB EI would also welcome greater presentation on the unit cost proposal (although we again have reservations as it is dependent on the cost being transferred to the exit charge which is the same as the capped premium) and the LRMC proposal that would need to be seen in the context of the capacity commodity split consultation that is currently on going.

4. Additional revenue streams:

ESB EI is also aware that BGE has been developing new products such as linepack and reverse flow which should be making a contribution to the costs of the ICs and these contributions should be taken off the overall annual cost associated with these underwritten investments as currently proposed in the TSO to TSO reverse flow arrangements proposals document. The more products that can commercially be developed, the smaller the contribution shippers should have to make towards the underwritten costs of the ICs on an annual basis.

In conclusion ESB EI:

a. Strongly supports the view that no diversity premium is necessary as the additional returns are unwarranted and agree with UR that the impact of inflating the transmission unit price due to landing indigenous gas on the Island does not lead to a greater divergence between the price at the IBP and current (NBP plus transmission costs). This would provide perverse economic signals due to regulatory rather than market failings.
b. Supports a move to Option 4.
c. Appreciates the need for a stable regulatory environment that underpins large scale infrastructure that is not a merchant/ commercial decision.
d. Understands that the CAG and an all island market is dependent on having consistent treatment of the interconnectors and requires the facilitation of trade across the island with cross border capacity transfers.
e. The need to develop Irish price signals on the island should not weaken competition by pricing out access to the very liquid UK NBP because of regulatory methods for the revenue recovery of assets.
f. Still sees the need for a complete matrix of options that will provide a unified Irish gas market solution that delivers benefits to all customers through reduced costs. This must be built into the current work programme.
g. Wants to see reduced costs for all customers through the efficient transportation of gas on the island and through more gas entry on the island.

Yours sincerely

John Lawlor