Shannon Foynes
PORT COMPANY

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

16 March 2012

Re: The Regulatory Treatment of the BGÉ Gas Interconnectors

Dear Mr. Coleman,

The Shannon Foynes Port Company (SFPC), a commercial semi state company, is Ireland's second largest port operation with statutory jurisdiction over all marine activities on a 500 km2 area on the Shannon Estuary, stretching from Kerry/Loop Heads to Limerick City. The strategic location of our terminals offers access to the vibrant economy and population of a large part of Ireland.

As an island economy, a healthy maritime sector is critical to our national competitiveness. Virtually all (98%) of our imports and exports pass through Irish ports, and their success is vital to the growth of the national economy. SFPC in turn handles approximately 33% of the national bulk traffic and therefore you will appreciate the important role we play in facilitating international trade.

As mentioned in our letter to the CER dated 19 August 2009 we alluded that our Board had set a key strategic objective of promoting the Shannon Estuary as Ireland's premier energy port given its plentiful supply of deepwater sites, the existence of large scale energy providers/ users such as ESB, Endesa & Rusal and the supporting gas and high voltage electricity grid connections already in situ.

Our concerns regarding this consultation, the regulatory treatment of the BGE gas interconnectors, are expressed under the following headings;

1) consents process

2) diversity & security of supply

Directors: Michael Collins (Chairman), Edmund Jennings, Cllr. Pat Keane, Pat Keating (Chief Executive), Cllr. David Naughton, Cllr. Kieran O'Hanlon, Ger Reidy, Joe Treacy.

Incorporated in Ireland No. 332414

1. Consents process

In order for Ireland Inc to win new foreign direct investment an efficient, transparent, and investor friendly consents process is an absolute necessity. Conversely, an inefficient consents process costs time, money, and undoubtedly increases the risk that a project will not proceed due to the flight of capital to more efficient jurisdictions. Given the favourable characteristic's of the Shannon Estuary, namely, its deep sheltered water; it is particularly suited to energy related projects. Consequently, the primary statutory consents necessary for such projects are typically planning, foreshore and licensing from the energy regulator or the CER. With regard to investment in the energy sector, if Ireland is to remain an attractive place to invest then it is essential that each one of the consenting entities considers all applications and/or implements change to the underlying regulatory regime in a transparent and timely fashion paying due regard to both the consumer and investors interests.

The CER states its Mission as follows;

"In a world where energy supply and prices are highly volatile, the mission of the CER, acting in the interests of consumers is to ensure that: the lights stay on, the gas continues to flow, the prices charged are fair and reasonable, the environment is protected, and electricity and gas are supplied safely"

It is noted that the Shannon LNG project received planning in 2007 (within 6 months under Strategic Infrastructure Legislation). Although the project was known about for years, it was not until January 2011 that the CER consulted on fundamentally changing the future treatment of the interconnectors. That a consultation which directly impacts a strategic infrastructure project was initiated almost five years after the project was announced is not consistent with the intention of the legislation enacted by the Houses of the Oireachtais for national strategic projects of this nature. The subject matter of the consultation, a change to a fundamental tariff structure, by its nature causes uncertainty for both current and future investors and therefore should be concluded with the utmost urgency. It is noted that the current consultation is in its 15th month. The implications are that time delays in the consents process coupled with uncertainty caused by long drawn out consultative reviews could act as barriers to entry for new entrants to the market. It is hard to reconcile the aforementioned with the CER's own Mission as time lags and uncertainty can decrease market accessibility for new shippers invariably increasing the risk that the lights will not stay on or the gas will not continue to flow as securely as it otherwise might.

2. Diversity & Security of Supply.

By its own Mission the CER will ensure that the gas keeps flowing and the lights stay on. These objectives are closely linked given that roughly 70% of Ireland's electricity is currently produced from gas. Currently circa 90% of our gas is sourced via the interconnectors making this country almost solely reliant on one source of gas for electricity generation. In this regard, the Report of the Review Group on State Assets completed in April 2011 highlighted the need for the development of gas storage and liquefied gas projects, extracts of the relevant recommendations of the Review Group are as follow;

***Recommendation 17:** The Review Group recommends that policymakers and the regulator should facilitate the development of gas storage capacity in Ireland on a commercial basis.*

***Recommendation 18:** The Review Group recommends that, if security of supply is the goal, policymakers and the regulator should facilitate the development of liquefied natural gas importation capacity in Ireland on a commercial basis.*

It is clear that the Review Group advocates projects such as Shannon LNG in order to increase both diversity and security of supply for the benefit of Ireland Inc. The CER rightly has concerns regarding the imposition of unnecessary future costs on the Irish consumer, however, with the advent of Corrib, the continuance of interconnector transmitted gas and Shannon LNG there will be significant additional competition in the Irish gas market which should actually drive costs down for the consumer.

Indeed, it appears that a consequence of the preferred option emanating from this consultation is that Irish based shippers will essentially be liable for the cost of the interconnectors, even though they may never use the interconnectors while UK based shippers will no longer bear the full cost of the interconnectors even though they will use them. The ultimate implication is that the Irish consumer could suffer higher gas costs into the future as costs are being unnecessarily transferred on to potentially new sources of gas notwithstanding that Article 41 of the Gas Directive prohibits cross subsidies.

Finally we understand that the current interconnectors will need upgrading to the tune of €250m worth of capital expenditure. If our understanding is correct this cost will be included in the regulated asset base (RAB) advocated in another CER consultation ultimately implying that higher tariffs are on the way for Irish consumers. Given that projects, such as Shannon LNG, are privately funded and will not be included in the proposed RAB does it not follow that these privately funded projects should be embraced as in addition to providing additional competition, such projects provide improved security of supply without adding to the RAB?

Yours sincerely,

Pat Keating
Chief Executive Officer