

March 16th 2012

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) proposed decision paper on the treatment of the Bord Gáis Eireann (BGE) Interconnectors (IC's).

On the options determining entry costs at each location to the gas system, BG Energy considers that the optimum approach should strike the correct balance between facilitating the appropriate level of new investment in the gas system and containing costs for gas customers. Following an initial review of international precedent and considering wider developments across Europe, BG Energy considers that implementation of the Long Run Marginal Cost (LRMC) methodology is *a reasonable* approach for a large utility network. Empirical evidence would suggest that it has the potential to best balances the competing objectives of providing correct signals for appropriate long term network infrastructure development and minimising costs to customers. The adoption of LRMC for determining entry costs would also be compliant with requirements to incentivise investment as set out in Articles 13 and 14 (2) of the Gas Regulation¹. However there are many different methodologies for the implementation of a LRMC approach depending on the incentives and signals that are required for the specific system.

It is difficult to give definitive support to the CER's proposal at this stage in the absence of any impact assessment regarding the potential impact of LRAIC on future

¹ Regulation (EC) No 715/2009, 'Tariffs, or the methodologies used to calculate them shall facilitate efficient gas trade and competition, while at the same time avoiding cross-subsidies between network users and providing incentives for investment'.

entry points other than Moffat. In the absence of such indicative modelling, it is impossible for respondent's to fully support a principle of LRAIC. Participants need to be in a position to fully understand all pricing options and their implications for costs to customers and investment in the Irish transmission system before providing their definitive approval for one form of pricing over another.

Therefore, BG Energy will await the outcome of the CER's upcoming modelling exercise to determine appropriate pricing for each entry point before providing express judgement for one methodology over another. BG Energy considers that in the interests of completeness, the CER should provide an impact assessment of all pricing methodologies not only LRAIC in its analysis. As well as providing an indicative view of tariffs under each methodology at different entry points and potential new entry points, the analysis should also assess the underlying rationale, practical consideration and appropriateness of each form of pricing for a large utility system. This should allow the CER to properly evaluate each option and propose a solution to industry that is legitimate, transparent and appropriate.

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