

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

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By e-mail: scoleman@cer.ie

The Regulatory Treatment of the BGE Interconnectors

Proposed Decision Paper CER/12/013

Dear Stuart

Having spent many years developing, negotiating and agreeing gas transportation arrangements for gas into Ireland including the original BGE Code of Operations, UK Exit Arrangements, Moffat Agency Agreements, and with long experience as both a UK and Irish gas buyer and shipper, I would like to make the following comments.

- I fully support the proposed CER treatment of Moffat Entry and Interconnectors. Any mechanism which either stranded Interconnectors or created a barrier to entry of UK gas (i.e. higher entry tariffs) would NOT serve the best interests of the Irish gas user, domestic, commercial or industrial. It would be quite insane to create a situation where the price of gas, effectively set by UK NBP plus transportation, was any higher than it needs be. Any such arrangement would in time create annual volatility in transportation prices, as users moved out of or in to Moffat, in addition to the inherent commodity price volatility.
- I support some version of LRMC to be used in setting the economic cost of each entry. This is sustainable and gives predictability. Moffat entry will be significantly higher than other entry points based on compression costs alone, but at least will be consistent with actual costs. Adding interconnector costs on to this would be anti- consumer. The Irish Interconnectors as supply pipes are significantly different to say the Bacton/Zeebrugge interconnector which was entirely designed to be a trading pipeline.
- While I understand the EU and regulatory attraction of Auctions, I would urge caution in the design of such auctions. Auctions have had a mixed history with some unintended consequences. The original auctions of UK entry capacity resulted in significant overpayment for capacity particularly at St Fergus – capacity bids reached about 5p/th - when commodity gas was about 10-12p/th. This spooked the market and was of no benefit to gas users as prices moved up to over 20p/th almost overnight. The excess monies, collected at St Fergus, was recycled back to UK Local Distribution Zones but Irish shippers exiting at Moffat got no rebates while enduring the higher prices.

Similarly the original UK Auction of Mobile phone licences, while achieving its objective for the Treasury, nearly bankrupted the successful bidders and has resulted in Mobile Phone users paying over the odds ever since.

- Whatever Auction mechanism is eventually agreed I suggest some 'ticket to ride' is part of the design. i.e. one must be a shipper with a legitimate interest at the exit point – somewhat similar to the certification originally required to book UK exit capacity at Moffat.
- It is important that this decision sets the long term sustainable framework for gas transportation in Ireland.

I wish to state that I do not represent any party with a vested interest in the proposed decision.

Yours

Diarmuid Lynch

Corbawn Dale
Shankill
Co Dublin