

ESB Energy International LimitedCúirt Stiabhna
18-21 Faiche Stiabhna
Baile Átha Cliath 2
Éire
Fón: +353 (0) 1 7026541www.esb.ie**ESB Energy International Limited**Stephen Court
18-21 St. Stephen's Green
Dublin 2
Ireland
Tel: +353 (0) 1 7026541www.esb.ie

4th July 2012

Dear Jerry

Re: CER/12/066

South-North Gas Pipeline and Compliance with EU Law: Tariffing Arrangements for flows to and from the Gaslink System.

ESB EI welcomes the CER's attempts to facilitate trade across the North South gas pipeline and to apply fair charging principles. ESB EI understands that some delay was inevitable as EU arbitration was necessary and ESB EI is happy to see that the CER's proposals are in keeping with the advice given.

ESB EI sees the approach of retaining existing principles easing the path towards the next phase of CAG that will deliver technical cost savings and trading benefits. The time period for the introduction of the IEM3 and the potential plans to integrate IC1 and IC2 into the onshore system charges will also have implications for charging and the treatment of the SNP asset. With these changes in mind, ESB EI would welcome the CER's comments and plans on how it will deal with these matters in future charging methodologies.

You have explicitly asked for comments on the 5 specific tariff proposals or intentions. ESB EI will comment on each proposal and ESB EI looks forward to engaging with the CER on further developments.

1. Interconnector IC Tariffs

ESB supports maintaining the existing tariff methodology.

2. Tariff for exit from the Gaslink system

ESB accepts that the EU guidance must be adhered to. However, ESB welcomes the CER's recognition that although inter-jurisdictional support and continued facilitation of flows to increase trade must be maintained, there are also concerns that no on-going charge, as had been proposed to the EU, will lead to potentially no bookings being made. As there is no incentive in terms of product pricing or charges the only approach is to have a default price as set out in step 7 of the tariffing methodology.

Stiúthóirí: Pat O'Doherty, Jim Dollard, John Redmond **Directors:** Pat O'Doherty, Jim Dollard, John Redmond

Oifig Chláraithe: Cúirt Stiabhna, 18-21 Faiche Stiabhna, Baile Átha Cliath 2, Éire **Registered Office:** Stephen Court, 18-21 St. Stephen's Green, Dublin 2, Ireland.

Cláraithe in Éirinn – Uimhir Chláraithe: 137737 **Registered in Ireland No.** 137737

The value of the **potential** bookings over a period should be based on the historical needs for support that the interconnection provides for security to the North. ESB believes that the number of security occurrences may be smaller than 10 and thus lead to a higher default charge, itself leading to an incentive to book capacity. ESB would welcome any evidence that has been used to determine the draft figure of 10 days.

Any K factor should be minimised as the potential for price distortions between the GB and Irish electricity wholesale prices may lead to flows and effects that are not related to underlying electricity market fundamentals. With the imminent trading over the EWIC any distortionary effects should be minimised. Again this reflects the need to consider the impact of proposals in the gas market to areas in electricity.

3. & 4. Remuneration for the use of the SNP in Ireland & charges for end users

ESB EI awaits further proposals from the CER and UR.

5. Northern Ireland to Ireland flows – Virtual reverse flow

ESB EI has previously indicated its concern with the principles underlying the charging structure of the virtual reverse flow products at Moffat, these include:

- The basis of pricing is an IT system and administration costs without the value derived from using the asset being charged for.
- With a zero charge there remains the possibility that a diversity premium will be created.

ESB EI agreed to this approach but was insistent that it should be a temporary measure and it should not set precedent for tariff pricing.

ESB EI trusts that the CER will monitor flows and any impact that the pricing methodology has on trade. ESB EI looks forward to seeing a timeline for reporting and reviewing the impact of past tariffing arrangements for the Virtual Reverse flow product at Moffat and the proposals outlined in this paper for the SNP.

If you have any further questions please do not hesitate to contact me.

Yours Sincerely,

Jagtar Basi
Economist