



Irish Offshore
Operators'
Association

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16 July 2012

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Ref CER/12/066: South-North Gas Pipeline Compliance with EU Law: Tariffing Arrangements for flows to and from the Gaslink System – Consultation Paper

Thank you for the opportunity to comment in response to this consultation paper on the South-North Pipeline (SNP). The comments herein are offered on behalf of the Irish Offshore Operators' Association (IOOA).

The consultation paper has again raised considerable concern among our members. Similar to the broad thrust of our comments offered in respect to the regulatory treatment of the BGE interconnectors, an infrastructure gas asset has been constructed without clarity as to how tariff structures are to be put in place or costs allocated among the two jurisdictions addressed. IOOA does agree that a fair proportion of the IC2 costs associated with ensuring security of supply benefits should be reflected in tariffs for gas transported to Northern Ireland. However, this should have been addressed and agreed long before any such an investment was allowed, saving the state the cost of having to go to the EC for arbitration.

We believe any solution put forward should reflect the long-term interests of the Irish market and thus avoid:

- gold-plating revenues for the infrastructure owners;
- retrospectively removing any investment risk that should properly be borne by the infrastructure owners;
- distorting competition from other entry points;
- smearing of under-recovery onto the onshore system unless there is a legitimate case for doing so; and
- discounting a legitimate option of stranding inefficient investment by stating “in any event, Gaslink will continue to be fully remunerated for relevant assets”.

The letter from the EC attached as Appendix 1 of the consultation paper states that *“it is not possible to place an ongoing charge on a system user who may wish to only use the system (the interconnectors) on a small number of occasions as a precondition for access to the system”*. This prohibition is not exclusive to system users located in



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Northern Ireland and it is therefore not possible to place a similar ongoing charge on system users in Ireland. Furthermore EU Regulation 715 requires that tariffs take into account the need for system security and reflect actual costs incurred insofar as such costs correspond to those of an efficient and structurally comparable network operator and are transparent. We believe therefore that only that part of actual interconnector costs that the CER determines to be efficient can be included in the Moffat tariffs. Any part deemed to be inefficient must be excluded from the calculation of the Moffat tariffs and any shortfall in revenues thus lost to BGÉ. Indeed, the EC has stated that it is not possible to recover any such shortfall by way of a levy or tariff on users of other entry points or by way of a levy or tariff at end user sites on gas sourced at such other entry points.

EU Regulation 715 requires that the security of supply value of the interconnectors (if any) be recovered via the Moffat tariff. Hence, users (if any) in Northern Ireland who import gas through the interconnectors will have already paid for this security of supply benefit (and any security of supply benefit afforded by the interconnection with the GB NTS) and the legality of recovering the security of supply cost again at the exit from the interconnectors must be questionable.

Under EU legislation, gas consumers in the vicinity of the South-North pipeline are free to move their gas connection from the BGN system to the South-North pipeline and, at the current cost for exiting the BGÉ onshore network, even a small power station or similar sized load would cover the cost of the proposed exit charge. There is no requirement for any inter TSO arrangement to facilitate any such transfer. We note that the CER has reserved its right to review their position if and when there are connections to the SNP. This may have the effect of discouraging such load switching but type of regulatory uncertainty will also discourage other investments.

The Irish gas quality specification was changed in 2008 to bring it into line with that the Northern Ireland gas specification and was to enable the free flow of gas between the two jurisdictions. We were surprised therefore to learn that only gas from IC2 can flow through the South-North pipeline. However, notwithstanding this fact, there is no reason why gas swapping arrangements cannot be put in place to enable the sale of gas from other entry points in Ireland into Northern Ireland. There is also nothing to stop the physical flow of gas from Northern Ireland to users located along the route of the South-North pipeline.

Yours sincerely,

Simon Stanton

Gas Infrastructure Sub-Committee

cc. Fergus Cahill – IOOA Mgt. Committee
