



MANX ELECTRICITY AUTHORITY

Lucht-reill Lectraghys manninagh

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October 2012 to September 2017 Transmission Revenue for Bord Gáis Networks, Consultation Paper CER/12/058

Manx Electricity Authority ("MEA") Response

MEA welcomes the opportunity to comment on the consultation in respect of PC3 transmission revenue.

We must note with some concern the specific impact on IC tariffs – a 53% and 79% increase in capacity charges and commodity charges respectively – as a result of the proposals for PC3. We would hope that any final decision gives due weight to the potential economic impact on gas customers in the Isle of Man.

As we have noted in previous consultations, Moffat is, and is likely to remain, the sole entry point for natural gas into the Isle of Man. All of Mann's 45,000 electricity customers rely on natural gas, with approximately 85% of electricity demand generated by gas, and 20,000 households also use natural gas as a home-heating source.

We do of course recognise the wider statutory and regulatory duties of the CER, and duly acknowledge those particular pressures – on the cost of capital, for example – as a result of the economic downturn and broader banking crisis. However, we would caution that a proposed 50%+ increase in IC tariffs over one year may be less than helpful for our customers, particularly in the difficult economic climate that currently exists, and we would urge the CER to consider any practical means, where such means might exist, to mitigate such a large year-on-year IC tariff increase for Gas Year 2012.

We would hope that there may be ways to offer some short-term respite to gas customers while of course ensuring that BGN is able to properly finance the efficient operation of the network over the course of the control period, perhaps by deferring early PC3 revenue to be recovered later in the period, for example. We would suggest that the proposed reduction in the depreciation period for the ICs, to 50 years from 100, might be premature at this time. We would note the reasons for using such a period in the first place and the subsequent continuation of this policy for PC2. CER's response on this issue in the PC2 decision paper (CER/07/110, para. 5.2) stated: "... BGN's case for changing the depreciation rate used for the second interconnector is not compelling ... If Corrib gas does flow as planned, then flows over the interconnectors are likely to drop commensurately. CER does not therefore consider that a change to the depreciation rate for the second interconnector is appropriate at this time." We would contend that this (i.e. likely non-utilisation of the ICs due to future Corrib flows) still applies for the forthcoming control period, and

that depreciation should remain at 50 years, at least until ultimately resolved as part of the Regulatory Treatment of the Interconnectors workstream.

However, we would not presume to limit or prescribe any reasonable course of action, including or excluding any of the above, should better alternatives present themselves. We do believe that it is necessary to attempt to cap excessive year-on-year tariff changes either between or within control periods. Reasonable tariff stability is after all, we would argue, one intention behind having multi-year control periods in the first place. Annual tariff 'step-change' increases are not helpful for anybody, and should we believe be avoided if at all possible as a matter of principle.

We trust that this is helpful and would be happy to discuss any part of our response to this consultation.