**GNI Response to CER Consultation Paper CER/15/099:
Enduring Access charge arrangements for the Corrib Linkline**

Version 1.0

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1 Introduction

GNI welcomes the CER's consultation paper on the enduring Access charge arrangements for the Corrib-Linkline. GNI believes this consultation to be part of a wider consultation process on the future of the gas entry regime, and GNI's response should be read in the context of the wider consultation process.

In what follows, GNI responds in turn to the specific points raised in the CER's document.

2 Commentary on points raised by CER document

2.1 Section 2.3 Question Do Stakeholders have a view on this approach?

The CER is required to set tariffs for network users for every entry point into and exit point out of the transmission system. The CER has correctly identified the Linkline as forming part of the transmission system. The relevant entry point is therefore Bellanaboy and the entry tariff should apply at Bellanaboy. The tariff itself must, amongst other things, reflect costs (insofar as such costs correspond to those of an efficient and structurally comparable network operator), be transparent, include an appropriate return on investment, take into account the need for system integrity and improvement, and provide incentives for investment and maintaining or creating interoperability for transmission networks.

Gas produced at Corrib will enter the transmission system at the Bellanaboy Entry Point, and a single charging methodology should be applied reflecting this. GNI suggests an approach in which the cost recovery of the Linkline can be facilitated within a single overall charging methodology, thus, avoiding two different charging methodologies on the transmission system. GNI outlines this approach below.

Proposal for a single charging methodology

GNI's allowed regulated revenue is set by the CER and GNI operates under a "revenue cap" regime which means that its allowed revenue is recovered via capacity booked and volume transported with a k-factor adjustment to account for variations in capacity bookings and volume flows. This means that if bookings or flows are lower, or higher, than expected in a given year, tariffs increase, or decrease, in future years to make good the loss, or gain, in revenue (via the "K factors").

The Linkline is owned and operated by GNI. As the CER document correctly states the Corrib Partners have underwritten the Linkline and bear the associated costs. The CER is proposing that the Linkline is therefore not regulated under a revenue cap regime and that a target revenue is set based on projected flows. If flows are lower than expected, the revenue accruing to GNI in relation to the Linkline would then also be lower.

GNI is of the view that the commercial and regulatory arrangements can be respected while applying the matrix methodology on a single system basis (i.e. with an entry point tariff at Bellenaboy set using the matrix methodology). GNI's suggested approach is as follows:

- Each year, CER sets a target revenue for the Linkline – this would be set to be identical to the revenue which the CER would allow under its proposed Linkline tariff arrangements;
- This target revenue would be added to GNI's allowed revenue and the total would be used as the basis for setting tariffs under the matrix methodology;
- Projected bookings are used as part of the determination of the target revenue.
- Based on actual bookings actual revenue could be higher or lower than the target revenue
- The revenue associated with the linkline is not subject to a K-factor so any under or over recoveries are not underwritten by customers; and

- The remainder to GNI's revenue is subject to K factors related to over- and under-recovery as is currently applied.

Under this approach, a single tariff methodology is used nationwide, and yet the actual Linkline revenue is entirely dependent on bookings and flows at Bellanaboy, and is therefore not underwritten by final customers, i.e. zero flow results in zero revenue.

GNI believes that the CER should reconsider its position on the overall tariff for the Linkline. This can, and should, be brought in line with the current proposals for wider tariff reform and this can be achieved while avoiding any underwriting of the Linkline, as GNI have outlined above.

In the remainder of this response, GNI consider the further questions raised by the CER within the context of the CER's current proposals.

2.2 Section 3.1 Notional commercial arrangements

The CER proposes to use notional commercial arrangements as a framework for considering the WACC for the Corrib-Linkline.

The notional commercial arrangements as outlined by the CER broadly reflect a reasonable hypothetical relationship between a gas field company and a gas pipeline company contracting to build a pipeline between a production source and centres of demand.

2.3 Section 3.2 Time period of WACC

The CER invites feedback on the appropriate point in time at which to calculate the WACC. The CER considers three points in time at which the WACC for a project can be set:

1) when the notional contract was signed, i.e. before construction begins;
2) when the project has been completed, i.e. after construction; or
3) when gas starts flowing through the pipeline.

Options 1) and 2) would appear consistent with the likely arrangements between the notional producer and gas Pipeline Company. It is highly unlikely a pipeline company would agree to a WACC being set at the time gas starts to flow, which could be several years after the project has been completed. This approach would expose the pipeline company to financial market volatility between construction and first gas. Furthermore, the timing of flows would depend on the wholesale gas market and completion of the upstream project, neither of which are within control of the pipeline company.

Given where we sit today, of these remaining options, Option 2 has the benefit that the costs are largely understood at the time the WACC is set, and that the cost associated with bearing construction risk (which would be expected to be higher than the ongoing WACC) can be capitalised into the asset base.

Adding to this that the project is now close to completion, GNI believes that Option 2 is a reasonable approach to follow in this instance.

2.4 Section 3.3 Annuitisation approach

The CER has asked stakeholders for their views on the annuitisation approach applied within the notional arrangements.

GNI note that annuitisation has some merits given the context of the notional arrangements.

Within a diversified asset base, the effect of new and replacement investments and a broad range of sources of demand will be that asset values and tariffs remain relatively stable over time. This is not the case with a single asset linked to a production site. The value of such an asset (absent refurbishment capex) will decline over time and demand is also likely to fall as the field depletes. In this situation, an annuitisation approach will lead to a more stable tariff and hence can be considered appropriate.

We note in addition that annuitisation is part of the expansion constant calculation in the matrix approach, which is being proposed by the CER in the wider consultation.

Within the context of the proposed arrangements, GNI therefore believes that annuitisation is a reasonable approach.

2.5 Section 4.0 Financial parameters

The CER seeks feedback on a set of financial parameters:

2.5.1 Cost information

GNI would like to stress that values used in the consultation document are estimates, and have to be finalised once the project is completed. GNI agrees with CER's intention to review these costs as part of the upcoming price control.

2.5.2 Depreciation period

In the context of what the CER are proposing it seems reasonable to GNI to linearly depreciate the asset over its useful lifetime. However, please note our comments in 2.6 below.

2.5.3 WACC

GNI believes that the proposed WACC seems appropriate given the risk profile of the asset under the considered notional arrangements.

2.6 Bookings

The CER seeks feedback on its proposal to use maximum technical capacity rather than bookings to calculate the access charge under the notional arrangement.

Tariffs should be calculated using projected bookings and flows, which would also be in line with existing practice and the proposed methodology in the wider consultation.

2.7 Section 5.0 Post-Corrib arrangements

The CER seeks input from stakeholders on arrangements for the period after Corrib's production has ceased.

At this stage it is hard to foresee how regulatory, industry and wider economic developments will impact on any arrangements set up now. Although, exit users will still make use of the Corrib-Linkline after Corrib gas production has ceased, any other developments are premature. It therefore seems more practical to discuss future arrangements when there is more information as to the likely future landscape and therefore the issues arising which will need to be addressed.

3 Summary of Response

GNI believes that the CER should reconsider its position on the overall tariff for the Linkline. This can, and should, be brought in line with the current proposals for wider tariff reform and this can be achieved while avoiding any underwriting of the Linkline, as GNI have outlined in our response to Q1 in Section 2.1 above.

GNI also believes that the CER should base tariff calculations on projected booked capacity rather than technical capacity.