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Via email: bhussey@cer.ie

Dear Barry,

'Enduring Access charge arrangements for the Corrib Linkline: Consultation Paper', CER/15/099

Thank you for the opportunity to comment in response to the issues contained in this paper. The contents of this letter and the attached annex are offered on behalf of Shell Exploration and Production Ltd (SEPIL). SEPIL is the developer and operator of the Corrib gas field.

This response largely reiterates comments we have previously made to CER. To that degree CER will be familiar with our views. However, we would nevertheless reiterate one fundamental point. In particular, future arrangements must be based on a principle of full cost recovery for parties who have helped fund the investment in the Linkline.

The Linkline is an integral part of the Corrib development, one which will have significant benefits for the gas market in Ireland. These benefits include enhancing security & diversity of gas supply, as well as potentially facilitating the further development of the gas transmission network. Against that background it is only equitable that parties are able to recover their investment costs.

More generally, such an approach seems best placed to enhancing the investment climate. In that context, we note that CER is seeking to develop arrangements applicable not only to the Linkline but also future similar investments.

I trust that you find the comments in this letter and the attached appendix helpful. Should you require any clarification or further information, please do not hesitate to contact me. In the meantime, please note that the contents of this letter and the attached annex are not confidential and so may be published on the CER website.

Yours sincerely,

Ronan Deasy
Managing Director

Annex 1

Question: Do stakeholders have a view on this approach?
The CER has long-signalled its preference for a so-called 'two asset base' approach. However, what is unclear is the extent to which it is based on an approach adopted by regulators elsewhere in Europe with regards to network expansion. As such, we believe current and future market participants would welcome clarification on this point, especially given the comment on page 9:

'It should be noted that this approach broadly is intended not just to address the arrangements for the Linkline but also to provide a regime for any such future developments'.

Question: Do stakeholders view this notional commercial arrangement as an appropriate framework for considering the WACC for the Corrib Linkline?
The model contained in the report of a notional gas field company subject to minimum take-or-pay obligations is an appropriate one. However, missing is a recognition that the tariff in question will apply to shippers (for shipping Corrib gas) in the upcoming years.

Therefore, the model should take into account that shippers will not be subject to any minimum take-or-pay restrictions but does not do so. This is an important omission as- there will be a higher risk for the notional transportation company, which should attract a higher WACC.

Question: Do stakeholders view this as the appropriate time period at which to calculate the WACC for the Corrib Linkline access charge?
It is important that the period covering the delay in production, ie. 2006/7 to 2015 is factored into the WACC calculation. Not do to so would penalise the parties who have funded the Linkline.

One suggestion is for this period to be addressed by switching the booking profile to later years. Alternatively, thought could be given to some uplift to the risk elements in the WACC parameters. Either option or a combination of them would produce a more appropriate WACC.

Question: Do stakeholders view this annuitisation approach as reasonable? Are there alternatives to this approach that are consistent with the notional arrangements developed here, and what justification is there for using an alternative approach?
In short, yes, this approach seems a reasonable one. In particular, it appears best placed to provide a stable tariff applicable for the lifetime of the Linkline.

Question: Do stakeholders have a view on the choice between using the maximum technical capacity and the expected flow profile for the purpose of the tariff calculation, and why? Are there alternative approaches that might be used? What are the merits of any alternative approach?
In our opinion, the use of the maximum technical capacity level is inappropriate as it will lead to shippers making inefficient capacity bookings. In particular, they would be required to book capacity in order to generate target revenues on which to base tariffs but the amount concerned would be in excess of what they actually require.

Arrangements that effectively require inefficient and/or excess capacity bookings are likely to be unacceptable to shippers. With this consideration in mind, we support the use of the expected flow profile as it will allow shippers to book capacity that more accurately reflects their likely needs.

Question: What do stakeholders think of the approach outlined here – in particular the approach to the depreciation, WACC and annuitisation of the access charge?
SEPIL considers the most appropriate approach to the depreciation period would be to opt for one shorter than the expected field production lifetime. With regards to the approach taken to calculate the WACC, the consultation document suggests a figure in the range 6.6 – 7.2%, with a recommendation to use a figure of 7.0%.

As stated above, it is important that the period covering the delay in production, ie. 2006/7 to 2015 is factored into the WACC calculation. We furthermore note that GNI proposed to use 10% for a merchant approach in its Energy Call for Proposals document related to the Twinning Project (CER 14795b, section 3.16).

However, in trying to develop an approach that is applicable in all cases and not just the Linkline, it would be worth allowing for a reasonable degree of flexibility. As such, there may be occasions where a WACC outside this range (this may be lower or higher than the figures suggested) is considered appropriate.

As stated above SEPIL supports the annuitisation approach.

Question: What would be the appropriate approach to the access charge regime in the period after the Corrib field has been exhausted?
In the event that 3rd Party gas did materialise, opportunity cost would be an appropriate basis for subsequent tariffs. As such, the tariff calculated for Corrib based on the production profile and indexed to inflation will be fit for purpose for the whole technical lifetime of the Linkline.