

ESB EI response: Reverse Flow Arrangements at Moffat

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Date 28/01/11

Executive Summary

Given the current European position for the requirement of a reverse flow to exist either in physical or virtual term, ESB agrees that an approach can be adopted for compliance.

ESB EI agrees that there should be minimal disruption to the commercial arrangements that currently oversee the very liquid European Gas market as it affects Ireland.

In principle ESB agrees that:

- A reverse flow can be established
- An additional agency agreement (Reverse Flow Agreement) can be established with its own signatories
- Costs of establishing and operating this service should be borne by those signatories to any new arrangements
- The commercial principles underpinning trade in gas should be maintained.
- Alignment with CAG should be maintained.

The current arrangements can be adjusted to accommodate the European Union requirements for a virtual reverse flow by establishing a parallel agreement. The costs of establishing and operating this new arrangement should be borne by the signatories to that new agreement.

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1 Background to the proposed changes

1.1 Compliance with EU directives.

Although the Irish Administration does not accept that any infringement of EU requirements has occurred the CER believes that additional market liquidity can be achieved by facilitating a virtual reverse flow.

ESB EI can support this change and believes that the method adopted can maintain the effective light touch regulation that currently governs the liquid trading arrangements in gas.

1.2 Benefits of a Virtual Reverse Flow.

ESB EI sees the economic case presented by the regulator in creating a virtual reverse flow. The welfare enhancement provided by this netting facility will provide for greater liquidity and trade.

However, in the provision of this service there should be no additional costs imposed on the existing users of Moffat for physical flows. Ensuring the allocation of costs to the relevant users will ensure that no additional costs are imposed on current users.

2 Principles that should govern the new Arrangements

2.1 Managing Contractual Arrangements

Any new approach or system created to facilitate the virtual reverse flows should not lead to the wholesale change to any existing contracts. Making significant changes to existing arrangements would undermine the certainty that has led to the gas market being one of the most liquid markets in Europe.

2.2 Managing Information flows

Whether the Transporters or another agent undertakes the administration of new reports and settlement systems will be of little consequence as long as the exchange of information is timely and secure.

Information that is submitted should remain simple and necessary and should preferably remain with the party that can most effectively determine the net position of gas flow over the interconnector.

2.3 Product design

The products on offer should be aligned with the existing products available. If firm products are required then effective arrangements to secure these must be taken by the parties who offer this firm capacity.

2.4 Nominations & re-nominations

Nominations and re-nominations should facilitate liquidity but should be timely enough to ensure that security of supply is not adversely affected.

The nominations and re-nominations must comply with the requirement to ensure that the virtual flow is equal to or less than the physical flow across the interconnector. Any limitations should be managed through a fair allocation methodology.

2.5 Allocating the capacity

Any allocation methodology should ensure that equal access is provided and that the most economic bids accepted. In line with this requirement an auction approach would be transparent.

In either case (first come first served or an auction) there should be no hoarding and a use it or lose/sell it condition may provide the relevant check on behaviour.

3 Conclusions

Given the proposals made in the consultation document ESB EI would support the introduction of a standalone Reverse Flow Agreement.

This agreement would make all costs related to the facilitation of this new service transparent and chargeable to those availing of the service.

ESB believes that any change should ensure that:

- Costs of establishing and operating this service should be borne by those signatories to any new arrangements.
- The commercial principles underpinning trade in gas should be maintained.
- Alignment with CAG should be maintained.