

---

### **Reverse Flow Arrangements at Moffat**

Gaslink welcomes the opportunity to respond to the CER Consultation Paper CER/10/238 “Reverse Flow Arrangements at Moffat” (the “Consultation Paper”) which was published on 22<sup>nd</sup> December, 2010. The Consultation Paper sets out in detail the current Moffat arrangements and outlines various methods by which a Virtual Reverse Flow service might be provided.

Gaslink as Operator of the Transportation System in Ireland identified certain key principles against which Gaslink believes the development of Virtual Reverse Flow and the choice of model should be considered.

These key principles are:

- Virtual Reverse Flow service should be made available as soon as possible.
- Virtual Reverse Flow must be made available in a manner which does not adversely impact security of gas supplies to the island of Ireland and the Isle of Man.
- Approximately 95% of gas flows from the UK to ROI through the Moffat Interconnector and 100% of gas flows to Northern Ireland and to the Isle of Man flow through the Moffat Interconnector. Virtual Reverse Flow Service should not unduly adversely affect these gas flows.
- Arrangements at any Entry Point should incentivise Shippers to participate in the market and thus encourage competition. Shippers have developed Entry Point arrangements (the Moffat Agency) to reduce the commercial risks inherent in transporting gas between two jurisdictions with separate regulatory regimes. The benefits of these Entry Point arrangements which have operated successfully since 1998 should to the extent possible be preserved for the benefit of Shippers delivering natural gas at the Entry Point and consumers.

It is inevitable that the provision of a Virtual Reverse Flow service at the Moffat Entry Point will impact on the existing arrangements at that Entry Point irrespective of the model chosen for the implementation of Virtual Reverse Flow.

Following detailed consideration the Transporter’s preferred option is to endeavour to progress a TSO to TSO arrangement.

There are challenges associated with development of such arrangements (the resolution of which are not within Gaslink’s sole control) however, as is outlined below each model has its inherent difficulties and Gaslink is of the view that the development of the TSO to TSO arrangement would be the optimal solution and provides a regulated, robust and efficient service.

## Background

The Consultation Paper outlines a number of potential approaches to Virtual Reverse Flow at Moffat. These approaches are derived from previous principles papers issued by Gaslink to Shippers for consideration. Gaslink’s initial proposal was based on the premise that the Moffat Agent would carry out Nominations, Matching and Allocation to facilitate Virtual Reverse Flow. As a proposal to encompass Virtual Reverse Moffat Reverse Flow was not forthcoming from the Moffat Agent, Gaslink presented an alternative proposal. This alternative proposal suggested that certain functions with respect to the development of an Offtake Profile Notice, currently performed by the OPN Agent and functions with respect to matching and allocation of Reverse Flow would be carried out by the Transporter.

In order to develop a response to the issues raised pursuant to the Consultation Paper Gaslink sought to identify the primary advantages and disadvantages of two basic approaches to Virtual Reverse Flow identified in the Consultation Paper i.e. Transporter to Transporter (TSO to TSO Arrangement) and the agency based arrangement. These primary advantages and disadvantages are outlined below.

### **TSO to TSO arrangement**

#### Primary advantages

- This model is consistent with arrangements being developed across Europe;
- The arrangements would be directly controlled by Gaslink and National Grid;
- Shippers would not be required to adhere to multiple Agency Agreements;
- The Code of Operations would address Irish Shipper Reverse Flow issues;
- It is directly regulated. Each of Gaslink and National Grid are subject to direct regulation and matters provided in the Gaslink Code can be modified, if necessary by direction of the CER;
- The costs associated with the service can be considered in the development of the regulated tariff and the Regulator would oversee cost recovery

The primary disadvantages of a **TSO to TSO arrangement** are as follows:

- National Grid does not to date support TSO to TSO arrangement with respect to matching of Nominations and Allocations.

- 
- In order to undertake a Matching/Allocation function detailed negotiation of the terms would be required:
    - o To include arrangements whereby information could be made available to the TSOs to undertake the matching and allocation function; and
    - o To secure that there should be no liability attached to the TSOs in connection with the function
  - Any such arrangement would require appropriate systemised interfaces.

### **AGENCY arrangement**

#### **Primary Advantages**

The advantages of an **Agency arrangement** are as follows:

- National Grid is supportive of such an approach;
- There is a precedent of an existing successful agency arrangement;
- Agency arrangements can be developed to facilitate Shipper flexibility;
- The Transporter has no Liability associated with Agency arrangements;
- Shippers have an opportunity to develop the detailed arrangements which are then proposed to the Transporters for approval or designation ;

The disadvantages of an **Agency arrangement** are as follows:

- Agency arrangements are inconsistent with arrangements being developed across Europe giving rise to enhanced risk of redundant costs with respect to system and contract development;
- Agency is not directly regulated, it may be difficult to change depending on the modification arrangements within any proposed agency. The Transporters and the Regulators facilities with respect to directing or implementing changes are limited to a very serious option of terminating the TSO’s, acceptance or approval of the Agency.
- Agency arrangement modification rules may delay development of transportation arrangements;

- In terms of Virtual Reverse Flow a new Agency arrangement to accommodate Virtual Reverse Flow will require modification to or termination of the existing Moffat Agency and OPN Agency. Change is not within the control of the Transporter or those Shippers wishing to develop the Reverse Flow Agency;
- It is more cumbersome for Incoming Shippers and accordingly, potentially a disincentive to market entry;
- Shippers have the responsibility of developing the arrangements however, notwithstanding that Shippers have to develop arrangements, the Transporters have to develop default arrangements. These default arrangements must be systemised to cater for the possibility that the Agency arrangements may not operate on a Day or over a longer period (the Code currently includes default arrangements which will apply if the Moffat Agency arrangements at the Entry Point do not operate).

For the purpose of this response we have outlined those advantages/disadvantages of Agency on a general basis; it is noted that the consultation paper contemplates the possibility of a dual agency arrangement at Moffat i.e. one Agency for Entry or Forward Flow and a separate agency for Reverse Flow. Such an arrangement has, in our view, difficulty not alone in initial development but increased ongoing difficulty in ensuring the inter-operability of two Agency Agreements inter-se and with the two TSOs.

#### **ADDITIONAL CONSIDERATIONS**

The foregoing attempts to identify the primary advantages and disadvantages of TSO to TSO and Agency arrangements which are the suggestions outlined in the Consultation Paper. Gaslink believes however, it is important to highlight potential consequences of failure to obtain consensus or agreement with either National Grid or Shippers with respect to the development of appropriate arrangements for Virtual Reverse Flow.

The CER has already indicated that it is appropriate to develop Virtual Reverse Flow. The European Commission has indicated that the provision of such a service is required pursuant to existing EU Regulation. Regulators and Transporters across Europe generally appear to be of the view that Virtual Reverse Flow is not currently a mandatory requirement in all circumstances however, it remains the case that it will become mandatory in due course.

If therefore it becomes incumbent on the Transporter to develop and provide a Virtual Reverse Flow Service without co-operation in the development of Agency arrangements or TSO to TSO arrangements it may well be the case that the Transporter will have to develop a virtual service through modification of the Code of Operations.

In order to develop a service on such a unilateral basis it would be necessary to:

- Modify the Code of Operations to provide capacity nomination and allocation arrangements with respect to Reverse Flow;
- Modify the current arrangements with respect to the Moffat Entry Point in particular with reference to Allocations to take account of Virtual Reverse Flow quantities;
- Modify the current arrangements to develop the OPN.

These Modifications would have the inevitable consequence that the current Moffat Agency would be inconsistent with the Code and accordingly, the Transporter could not continue to accept Allocations from the Agent as the Agency is currently drafted. Current arrangements with respect to the development of the OPN could not continue.

The Transporter would be extremely concerned at the consequences for Irish Shippers and industry if the benefits of the current Matching and Allocation arrangements could not be preserved such that, for example default allocations pro rata to nominations would apply however, as indicated the preservation of such arrangements is not within the control of the Transporter. The Transporter would request therefore that in addition to considering the advantages and disadvantages of the models proposed in the Consultation Paper the parties must also consider the consequences of failure to develop an appropriate arrangement.

Shippers must also have regard to development in the UK and the potential impact of UK developments on the existing arrangements.

## Conclusions

The Transporter believes it is possible to progress development of the Virtual Reverse Flow Service based on either the TSO to TSO model or on the basis of an Agency model. We have sought to identify relevant considerations with respect to both options in this response paper.

The Transporter is of the view that a TSO to TSO arrangement would however deliver a permanent regulated and robust long term service and would request appropriate direction, authorisation and support to endeavour to progress development of such arrangements as soon as reasonably practicable.