



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Tariff for Virtual Reverse Flow Product at Moffat

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Abstract:

The Commission for Energy Regulation ('CER') is working with Ofgem, Gaslink and National Grid to implement a virtual reverse flow service at the point of interconnection between the Irish and Great British ('GB') natural gas transportation systems at Moffat in Scotland (the "Moffat Interconnection Point") from December 2011. This paper sets out the decision of the CER regarding the tariff to apply to the virtual reverse flow product offered on the Irish side of the Moffat flange from December 2011.

Target Audience:

Gas Suppliers, Shippers, Storage Operators, Producers, Gaslink, National Grid, the NGEM, DCENR, Ofgem and the Utility Regulator of Northern Ireland (UR).

Related Documents:

- Joint TSO Paper – “Moffat Virtual Reverse Flow – Basic Transporter Virtual Reverse Flow Arrangements – Draft for Industry Consultation”
http://www.gaslink.ie/files/Copy%20of%20library/20110707113903_Joint%20TSO_Moffat%20Arrangements.pdf
- CER/11/113 - Decision Paper on Institutional Arrangements for Virtual Reverse Flow at Moffat
- CER/10/238 – Consultation Paper on Reverse Flow Arrangements at Moffat
- A043 – Gaslink Code Modification Proposal “Virtual Moffat Reverse Flow”
- Gaslink Code of Operations
- Regulation (EC) 1775/2005 of the European Parliament and of the Council of 28 September 2005 on conditions for access to the natural gas transmission networks
- Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply
- OFGEM Notice of decision to modify Condition C8D of National Grid Gas Plc's National Transmission System (NTS) Transporter licence to add an NTS entry point (Moffat Entry Point)
<http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/Documents1/ModC8DdirectionMoffatfinal.pdf>
- UNC Code Modification Proposal – 0352 - The Introduction of an Interruptible Reverse Flow service at Moffat Interconnector
<http://www.gasgovernance.co.uk/0352>

- OFGEM'S approval of the Connected System Agreement
http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/Interconnectors/Documents1/CSA_approval.pdf

Executive Summary

The Commission for Energy Regulation ('CER') is working with Ofgem to implement a virtual reverse flow service at the point of interconnection between the Irish and Great British ('GB') natural gas transportation systems at Moffat in Scotland (the "Moffat Interconnection Point") from December 2011.

As part of this project, the Regulators (CER and Ofgem) requested both TSOs at the Interconnection Point (Gaslink and National Grid) to work together to progress and jointly publish a Consultation paper on TSO-TSO arrangements to facilitate a virtual reverse flow at Moffat. This Joint TSO Consultation Paper was published on 7th July 2011¹ and contained proposals relating to virtual reverse flow arrangements such as virtual reverse flow capacity availability calculations, nomination timelines, capacity allocation mechanisms, booking processes and interruption methodologies for each side of the Moffat flange. It also set out proposed tariffing or pricing arrangements for virtual reverse flow products offered on each side of the Moffat flange.

This CER Decision paper focuses only on the proposed tariff proposal set out in the Joint TSO Consultation paper. It summarises the written and oral comments of respondents to the proposed tariff presented in the Joint TSO Consultation Paper and sets out the CER's decision regarding the tariff to apply to the virtual reverse flow product offered on the Irish side of the Moffat Interconnection Point from December 2011. The pricing arrangements of the virtual reverse flow product offered on the GB side of the flange are a matter for Ofgem².

For the avoidance of doubt, the tariff set out in this Decision paper applies to the virtual reverse flow product defined in the Gaslink Code of Operations, as amended under Gaslink Code Modification A043.

It must be highlighted that the Virtual Reverse Flow Tariff Decision set out in this paper will apply for an interim period only. Further analysis will be undertaken by the CER in the future to determine the appropriateness of this tariff arrangement in the context of future developments to the Irish gas market and in particular the pending Decision on the regulatory treatment of the BGE interconnectors.

¹Joint TSO Consultation Paper
http://www.gaslink.ie/files/Copy%20of%20library/20110707113903_Joint%20_TSO_Moffat%20Arrangements.pdf

² Please see the Joint TSO Consultation Paper for further detail.

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1.0 Introduction

1.1 The Commission for Energy Regulation

The Commission for Energy Regulation ('CER') is the independent body responsible for overseeing the regulation of Ireland's electricity and gas sectors. The CER was initially established and granted regulatory powers over the electricity market under the Electricity Regulation Act, 1999. The enactment of the Gas (Interim) (Regulation) Act, 2002 expanded the CER's jurisdiction to include regulation of the natural gas market, while the Energy (Miscellaneous Provisions) Act 2006 granted the CER additional powers in relation to gas and electricity safety. The CER is working to ensure that consumers benefit from regulation and the introduction of competition in the energy sector.

1.2 Purpose of this Paper

The purpose of this Decision Paper is to:

- set out the decision of the CER regarding the tariff to apply to the virtual reverse flow product offered on the Irish side of the Moffat Interconnection Point from December 2011
- respond to relevant tariff related submissions received to the July Joint TSO Consultation Paper and
- outline the next steps in relation to these matters.

1.3 Comments Received

The CER received responses to the Joint TSO Consultation Paper from five parties. These responses are listed below and published in conjunction with this paper on the CER website.

1. PSE Kinsale Energy Limited
2. ESB International
3. Tynagh Energy Limited
4. Bord Gáis Energy
5. Irish Offshore Operators' Association

In reaching its decision, the CER has taken into consideration the arguments presented in the submissions and representations made by the parties above.

1.4 Structure of this Paper

This paper is structured as follows:

- **Section 2** details the relevant legislation pertaining to the issues and decisions set out in this Decision Paper, as well as other background information.
- **Section 3** sets out the CER's decision, in light of the tariff related responses received to the Joint TSO Consultation Paper, on the tariff to apply to the Virtual Reverse Flow product offered on the Irish side of the Moffat flange from December 2011.
- **Section 4** sets out the principal points from respondents to the Joint TSO Consultation Paper and includes the CER's views in this regard.
- **Section 5** sets out the next steps in relations to these matters.

2.0 Background Information

At present natural gas enters the Irish transportation system at two points, the Inch Entry Point in County Cork and the Moffat Entry Point in Scotland. The Moffat Entry Point constitutes a connection between two regulated natural gas pipeline systems, the National Transmission System ('NTS') in Great Britain and Gaslink system in Ireland. Gas physically flows in one direction from Moffat in Scotland downstream to three jurisdictions (Ireland, Northern Ireland and Isle of Man) via two sub-sea interconnector pipelines (three including the Scotland to Northern Ireland Pipeline ('SNIP')). Currently 96% of Ireland's natural gas demand, and 100% of Northern Ireland's and Isle of Man's demand, is met through this Interconnection point.

The transportation of natural gas in Ireland is governed under the Code of Operations ('Code'), a legal and contractual framework between the Transporter and Shippers detailing the rules for the provision of transportation services on both the Transmission and Distribution Networks. The transportation arrangements embodied in the Code, including the range of capacity products on the Irish network, have been developed by the Irish Transmission System Operator ('TSO'), Gaslink, with approval by the CER, to best meet market demand, European legislative requirements and system integrity needs. The charges for transportation services offered by Gaslink on the Transmission and Distribution networks are regulated by the CER.

2.1 EU Infringement - Regulation (EC) 1775/2005

In June of 2009 Ireland received a formal notice of infringement from the European Commission stating that Ireland was non-compliant with Regulation (EC) 1775/2005³ for, inter alia, failing to offer a "backhaul" or "reverse flow" service, at least on a virtual basis, at the Moffat Interconnection Point. The European Commission hold the view that the requirement to make available maximum capacity at all relevant points under Article 5(1), when read in conjunction with obligation to provide firm and interruptible third party access services referred to in Article 4, implies that TSOs must offer capacity in both directions on their pipeline system. In cases where it is not technically possible to physically transport gas in both directions, the infringement letter notes that "it is still possible for a TSO to offer capacity as a "counter flow" or "backhaul" in the other direction, on a virtual basis"⁴.

The UK Government received a similar formal notice of infringement for not offering capacity in both directions at Moffat. Although the Irish authorities' interpretation of Regulation 1775/2005 in respect of the requirement to make available either virtual or physical reverse flows at interconnection points differs to the European Commission's, as a matter of policy Ireland undertook over the past 12 months to develop Virtual Reverse Flow arrangements at Moffat.

³ Regulation (EC) 1775/2005 of the European Parliament and of the Council of 28 September 2005 on conditions for access to the natural gas transmission networks.

⁴ Letter of formal notice – Infringement No 2009/2188 – Commission of the European Communities, 25th June 2009.

2.2 Virtual Reverse Flow – progress achieved to date

The introduction of a virtual reverse flow service at an interconnection point between two separate gas transportation systems with differing regulatory, contractual and transportation regimes is complex. It also cannot be implemented unilaterally by one jurisdiction alone. To establish a workable virtual reverse flow service for shippers requires compatible changes to be made to the existing arrangements on both sides of the Moffat flange, as well as the support and cooperation of the relevant Regulatory Authorities and System Operators in each jurisdiction and the community of Shippers registered to trade at the flange.

To initiate the changes on the Irish side of the flange, in January 2010 Gaslink submitted a Code Modification Proposal to the Gaslink Code of Operations⁵ to accommodate the introduction of virtual reverse flow at the Moffat Entry Point on the Irish system. Subsequent to this proposal, in June 2010, Gaslink also issued draft Virtual Moffat Reverse Flow Business Rules for consultation. In addition to these draft business rules, both the Moffat Agent and Gaslink have presented separate proposals regarding the administration of virtual reverse flow nomination and allocations at industry fora, such as the Code Modification Forum and the Moffat Agency Meetings.

Although a lot of progress had been achieved by the end of 2010 the CER was keen to expedite the development of a virtual reverse flow service at Moffat and to this end issued a Consultation Paper (CER/10/238) in December 2010 seeking views on how virtual reverse flow arrangements should be designed and implemented at the Moffat Interconnection Point.

2.3 Joint Regulatory and TSO Engagement

In parallel, and recognising the urgency and cross border challenges of implementing virtual reverse flow at Moffat, the CER engaged with OFGEM and UR in the form of monthly Joint Regulatory meetings to address many of the issues with implementing a virtual reverse flow service at Moffat that were outlined in the December Consultation (CER/10/238) paper.

Further to discussions with Ofgem, in July 2011 the CER issued a Decision Paper on the Institutional Arrangements for virtual reverse flow at Moffat (CER/11/113). This paper set out a decision to progress the development of TSO-TSO arrangements to administer virtual reverse flow nominations and allocations at Moffat to achieve the implementation of the service by 1st October 2011. This decision was made with a view to avoiding further delay in Ireland meeting its obligations under Regulation 1775/05/EC and mitigating the risk that alternative proposals to modify the existing Agency arrangements to accommodate virtual reverse flow are not successfully passed.

Following the publication of the CER Decision Paper CER/11/113, and at the request of the CER and Ofgem, Gaslink and National Grid published a Joint TSO Consultation

⁵ Gaslink Code of Operations Modification Proposal Number A043 – “Virtual Reverse Flow” – Submitted 28th January 2010

paper on the TSO-TSO arrangements, which contained proposals detailing, for each side of the Moffat flange and where possible in a coordinated manner, virtual reverse flow capacity availability calculations, nomination timelines, capacity allocation mechanisms, booking processes and interruption methodologies. This Joint TSO Consultation paper also set out proposed tariffing or pricing information for virtual reverse flow capacity offered on each side of the flange.

2.4 Moffat Agency Arrangements

It was noted at the time by both RAs that the decision to progress with TSO-TSO arrangements did not prevent or exclude a virtual reverse flow service being implemented via modification to the existing Agency arrangements should such a proposal be successfully passed by the Moffat Shippers.

In this regard, the Regulators are progressing with the implementation of a virtual reverse flow service at Moffat via modifications to the Moffat Administration and OPN Agreements (which are currently being advanced through the Agency modification process) and amendment to the Gaslink Code of Operations as per Code Modification A043. Assuming that these arrangements can be progressed in a timely manner these will be used in preference to the TSO-TSO arrangements outlined above.

For the avoidance of doubt, the tariff set out in this Decision paper applies to the virtual reverse flow product defined in the Gaslink Code of Operations, as amended under Gaslink Code Modification A043.

2.5 Legislative Background

Under the Gas (Interim) (Regulation) Act of 2002, the CER is responsible for approving the commercial and legal framework governing access to, operation and development of the gas market, including Third Party Access, Transportation Services, Connection Policy and Financial Security Arrangements. Under Section 14 of that Act the CER may set the basis for charges for transporting gas through transmission systems.

The transportation of natural gas in Ireland, including the development and availability of capacity products on the network, is governed under the Gaslink Code of Operations, published by the Transporter with the approval of the CER. The Code of Operations may be modified by a direction of the CER, or through a process whereby modifications are proposed by a Shipper, an interested third party or the Transporter following which the relevant modifications are progressed through an appropriate consultative process chaired by the CER. Under Irish legislation the CER may direct changes to the Code, but the CER where possible facilitates consultation on all Code Modifications, including modifications to fulfil any legal requirement to ensure that services, including mandatory services, are provided in a manner which is effective, efficient and suitable to industry. Regardless of the modification process, the CER decides on all modifications proposals to the Gaslink Code.

Transportation arrangements relating to gas flow nominations and gas allocations across Moffat flange, however, are not directly governed under the Gaslink Code of

Operations⁶, but via an Agency Regime. This Regime is governed under two agreements, the Moffat Agency Agreement (MAA) and the Offtake Profile Notice (OPN) Agency Agreement, which provide for the administration of gas flow nomination matching and allocations on both sides of the interconnector point, as well the generation and management of the 'offtake profile' of gas flows. These voluntary Agreements, which predate the CER, are agreed and signed between the Agent and Shippers at the flange and are subject to only indirect regulatory oversight by each of the national regulatory authorities in the jurisdictions upstream and downstream of Interconnector Point.

The natural gas transportation arrangements in Ireland must also comply with European legislative requirements relating to, among other things, setting non-discriminatory rules for access conditions to natural gas transmission systems, harmonised principles for capacity-allocation, tariffs and congestion-management, the determination of transparency requirements, balancing rules and imbalance charges, and the facilitation of capacity trading, as well as security of supply and infrastructure requirements⁷.

Many of these European rules are now contained within the 2009 "Third Package", which, in respect of natural gas, consists of a Directive⁸ concerning common rules for the internal market in natural gas and a Regulation⁹ on conditions for access to the natural gas transmission networks. The requirement to establish EU Network Codes under the Gas Regulation (EC) 715/2009, which will embody many of the above rules, are still being developed and it is expected they will become applicable after the implementation of a virtual reverse flow service at Moffat. Thus the service will have to be reviewed once the European rules become legally enforceable to ensure compliance.

It must be noted that virtual reverse flow arrangements at Moffat will be implemented before the introduction of the Common Arrangement for Gas ('CAG'). At this point in time the CER is of the view that the reverse flow service will be preserved under the CAG transportation arrangements. However, the service may need to be reviewed, including the tariffing arrangements, to ensure it is consistent with the new All-island transportation arrangements and available to all Shippers on the Island, both Northern Ireland Shippers and Irish Shippers.

⁶ Although, default arrangements do exist in the Gaslink Code of Operations

⁷ These requirements are contained in the Gas Regulation 715/2009, Gas Directive 2009/73/EC, Security of Supply Regulation 994/2010, Gas Regulation 1775/2005

⁸ Gas Directive 2009/73/EC

⁹ Gas Regulation 715/2009

3.0 CER's Decision on Tariffs for Virtual Reverse Flow Product at Moffat

This section sets out the CER's decision regarding the tariff to apply to the virtual reverse flow product offered on the Irish side of the Moffat Interconnection Point from December 2011. The pricing arrangements of the virtual reverse flow product offered on the GB side of the flange are a matter for Ofgem¹⁰.

For the avoidance of doubt, the tariff set out below applies to the virtual reverse flow product defined in the Gaslink Code of Operations, as amended under Gaslink Code Modification A043.

Please note that the Virtual Reverse Flow Tariff Decision set out below will apply for an interim period only. Further analysis will be undertaken by the CER in the future to determine the appropriateness of this tariff arrangement in the context of future developments to the Irish gas market and in particular the pending Decision on the regulatory treatment of the BGE interconnectors.

3.1 CER's Decision

The CER examined the BGN VRF tariff proposal put forward in the Joint TSO Consultation paper, and decided that, for an initial and interim period of this new service at the Moffat Interconnection Point, it is more appropriate to instead set the Virtual Reverse Flow tariff to reflect the incremental costs of offering the service.

Tariff Arrangement

- The cost of developing and administering the new virtual reverse-flow arrangements will be recovered via a registration fee charged to those Shippers who register to become a Shipper at the Virtual Exit Point under the Gaslink Code.
- For the gas year 2011/12, the registration fee will be € 25,000 per Shipper and will be paid irrespective of the quantity of Virtual Reverse Flow Capacity booked or VRF nominations made by the Shipper.

There is still uncertainty surrounding the final cost of implementing the virtual reverse flow service at Moffat. In order to commence recovery of the incremental cost, the registration fee for the 2011/12 gas year will be set to € 25,000. When

¹⁰ For further details please see the Joint TSO Paper – “Moffat Virtual Reverse Flow – Basic Transporter Virtual Reverse Flow Arrangements – Draft for Industry Consultation”
http://www.gaslink.ie/files/Copy%20of%20library/20110707113903_Joint%20_TSO_Moffat%20Arrangements.pdf

the final cost of implementing the virtual reverse flow service is known, this will be recovered over 10 years. If the CER continue with the current interim arrangements, the annual registration fee will be set by dividing the annual virtual reverse flow cost amount by the ex ante estimated number of shippers registering. Methodologies for over and under recovery will be determined in the event that the interim arrangements are maintained.

Capacity

- Virtual Reverse Flow Capacity = € 0 per peak day MWh
- It is not possible to sell virtual reverse flow capacity on the secondary market

Commodity

- Virtual Reverse Flow Commodity charge = € 0 per MWh

Code Charges

- Please note that all Gaslink Code of Operations related charges (e.g., overrun charges, failure to interrupt charges, scheduling charges) that are calculated with reference to a capacity tariff level or a commodity tariff level, will be calculated using the full Moffat Entry Capacity and Entry Commodity charge as appropriate for purposes of applying these charges to the Virtual Reverse Flow service.

Interruptions

- The virtual reverse flow product is a day-ahead interruptible product and only in the case of interruption will a refund be applied to the Shipper. The refund applied would be in proportion to the quantity interrupted. However, and for the avoidance of doubt, given that the virtual reverse flow capacity will be charged at a zero price, all applicable refunds will also be zero.

4.0 Response to Comments Received

For the purposes of this CER Decision Paper the CER examined the tariff-related comments of all respondents to the Joint TSO Consultation Paper. We would like to thank the respondents for their contributions to the consultation process.

The principal tariff-related points raised by respondents are summarised below and are accompanied by the CER's response.

4.1 *Application of discounted price for VRF product*

One respondent supported the requirement that a Shipper must hold existing Forward Flow 'Entry' capacity at Moffat to avail of a discounted price for purchases of Virtual Reverse Flow Exit Capacity. This same Respondent suggested that this discount should be set at 70% to 80% of the Forward Flow tariff, arguing that these tariffing arrangements would contribute to the security of gas supplies and the development of storage on the island.

Two respondents disagreed with the proposal that Shippers without Forward Flow capacity at Moffat must pay the full Forward Flow tariff to access the Moffat Virtual Reverse Flow service, stating that this tariff proposal is neither market-based nor cost reflective. Both respondents argued that the proposed Virtual Reverse Flow tariff was not market-based as it would not compete with the commercial alternative (i.e. swaps) to virtually transport gas from the IBP to the NBP. Further, one of these respondents was also of the view that the tariff should reflect the actual costs incurred in offering the service, which the Respondent believed would be minimal and thus a significant discount should apply relative to the Forward Flow firm prices.

Contrary to these views, a fourth respondent argued that a discount should not apply to the VRF product. The VRF tariff, this Respondent believed, should reflect the value received the virtual reverse service, namely "reverse flow shippers get the opportunity to flow gas to the UK (a more liquid market at NBP) through administered processes which are likely to be cheaper than financial swaps". This Respondent advocated that the virtual reverse flow product is a separate product that should be "priced separately and treated independently" and questioned the principles on which a discount on the VRF capacity product should be given to existing forward flow shippers.

Commission's Response:

The CER is of the view that, for an initial and interim period of this new service at the Moffat Interconnection Point, it is most appropriate to set the Virtual Reverse Flow tariff to reflect the incremental costs of offering the service. This will be recovered via a registration fee charged to Shippers wishing to virtual reverse flow at Moffat and the VRF capacity and commodity charges will be set to zero. Given the uncertainties of estimating the extent to which this service will be used in the initial period, the CER considers it appropriate to recover the VRF costs via a fixed per Shipper registration fee as opposed to a variable 'per MWh' or 'per peak day MWh' charge. Any under or over recoveries arising will be reflected in the following year's tariff/registration fee.

It must be highlighted that this tariff arrangement will apply for an interim period only. Further analysis will be undertaken by the CER in the future to determine the appropriateness of this tariff arrangement in the context of future developments to the Irish gas market and in particular the pending Decision on the regulatory treatment of the BGE interconnectors.

BGN proposed that Shippers who have an existing Moffat entry booking for forward flow will be offered virtual reverse flow capacity at a discounted tariff, and otherwise the full Moffat Entry capacity price would be charged for virtual reverse flow capacity. A concern with the BGN proposal is that it may not encourage use of the virtual reverse flow service. The interim period provides an important opportunity for potential users of the virtual reverse flow service to test this new product, and also an opportunity to assess the robustness of the VRF Code rules and systems and perhaps highlight areas of improvement to the service for the future.

4.2 Commodity charge of the VRF tariff

One respondent agreed with the proposal that the same commodity charge should apply to both forward and virtual reverse flows. The other respondents were silent on this aspect of the tariff proposal.

Commission's Response:

The CER holds the view, at least for the moment, that it is more appropriate to recover the cost of providing the virtual reverse flow service via a Shipper registration fee given the difficulties of deriving an accurate variable/'per MWh' charge ex-ante to recover these costs as described above. The CER will review this arrangement in the future.

4.3 Impact of VRF tariff level on Interconnector revenues

Two respondents argued that if the VRF service was priced too high shippers would not use the VRF service and instead avail of 'swaps' to virtually reverse flow gas from IBP to NBP. This, the Respondents claimed, would lead to lower revenues collected on the interconnectors by BGN (as forward flows across Moffat would be reduced through the execution of swaps and BGN would also forgo revenues received from the sale of the VRF product) and a higher tariff for forward flows. However a third respondent disagreed, arguing that if tariff discounts and refunds for interruption are applied to the virtual reverse flow service, the "maximum revenue reduction" would not be generated on the interconnectors.

Commission's Response:

In respect of the VRF tariff level on the Interconnector revenues, the CER recognises that the risk of setting a tariff that is "too high" is that reasonable incremental revenues

from the sale of the virtual reverse flow service may be foregone if parties instead use swaps to virtually reverse flow gas from IBP to NBP. If the virtual reverse flow tariff is set “too low”, revenues on the interconnectors are also foregone given that the revenues earned by the Transporter from the use of the virtual reverse flow service would be lower than appropriate. There is also the risk that ‘too high’ a regulated virtual reverse flow tariff may set ‘too high’ a benchmark for swap contracts, to the detriment of those parties selling gas for virtual reverse flow to Great Britain (‘GB’).

The CER is of the view that the setting the virtual reverse flow tariff to reflect the additional costs of offering this service (via a Shipper registration fee) is a reasonable first step given the uncertainties that exist in this area. However, as noted above, further analysis will be undertaken by the CER in the future to determine the appropriateness of this tariff arrangement in the context of future developments to the Irish gas market and in particular the pending Decision on the regulatory treatment of the BGE interconnectors.

4.4 Price should reflect the risk of interruption

One respondent stated that the proposed tariff should take account of the risk of interruption and be priced accordingly.

Commission’s Response:

The CER has decided to set the Virtual Reverse Flow tariff to reflect the incremental costs of offering the service for the reasons stated above. This will be recovered via a registration fee charged to Shippers wishing virtual reverse flow at Moffat and the VRF capacity and commodity charges will be set to zero. Therefore, reflecting the risk of interruption into the price is no longer applicable.

4.5 Methodology used to determine VRF tariff discount

One respondent queried how a “transparent methodology” to calculate the applicable VRF tariff discount be developed?

Commission’s Response:

As set out in Section 3 of this Decision paper, a ‘VRF tariff discount’ does not form part of the CER’s decision the VRF tariff arrangement to apply for the interim period.

4.6 No refund should be provided

Given the virtual reverse flow product is dependent on forward flows and thus by nature an 'interruptible' product, one respondent argued that no refund should be provided.

Commission's Response:

As a virtual reverse flow service is only made possible by the existence of forward flows, which can vary and are not guaranteed, by its nature VRF is an interruptible service and cannot be sold as a firm service. While the ex-ante probability of interruption is held to be zero it would be unreasonable to offer no refund in the unlikely event of an interruption.

However, as noted above in section 3, given that the virtual reverse flow capacity will be charged at a zero price, all applicable refunds will also be zero.

5.0 Next Steps

Setting the tariffs for the VRF product on the Irish side of the Moffat flange is only one step in the process to implementing virtual reverse flows at Moffat.

The next steps to finalise the implementation of a virtual reverse flow service at Moffat are set out below. It is proposed that:

- Approval and implementation of Gaslink Code Modification A043
- Approval and implementation of Modification to the MAA and OPN Agreements (as required)
- Ofgem to issue a decision on the designation of the modified MAA
- Proposed Implementation Date: December 2011 (caveat: cannot be implemented unilaterally by one jurisdiction and requires cooperation between TSOs, Shippers and Regulators from each jurisdiction to meet this implementation date)