

# ESB EI response: Moffat Virtual Reverse Flow – Basic Transported Virtual Reverse Flow Arrangements – Consultation Paper.

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Dear Celine & Nick,

Thank you for your current draft of the rules for implementing TSO to TSO virtual reverse flow. Thank you too for attending and contributing to the working group that drafted the proposed modifications to the Moffat Agency Agreement.

ESB EI understands the needs of the Regulatory Authorities to mitigate any exposure to risk that they perceive in the facilitation of the virtual reverse flow across the Moffat interconnector. However, ESB is confident that the preferred industry approach as recognised in CER's decision paper (CER/11/113) will be achieved through industry consensus.

ESB EI recognises that the principles adopted for the design of the rules are very close to those that governed the industry working group that was tasked to consider the necessary changes to be made to the Agency Agreement. ESB also notes that there are many common themes that run through the two proposals so we hope that the proposed industry modification is acceptable to you as per the requirement in the CER's decision paper (CER/11/113).

This document has now provided greater clarity on the products, allocation requirements and interruption procedures that must be adhered to by industry as signatories to the Unified Network Code. Given the continuing efforts by industry to meet the requirements of the RAs' the path for the modification to the Agency Agreement should be made easier.

This document has highlighted several points and has asked for comments. Below ESB EI has set out its response:

### 3. General Principles:

- The VExitP capacity must include exit at NI as efficiently as possible. This may require the NI SNIP arrangements to move to entry/ exit before this is possible but the move is important to ensure that the full benefits of interconnection as per the EU analysis can be enjoyed.

### 4. Co-ordination – matching, Nominations and Allocations:

- The TSO is not intending to carry out matching – this lack of matching will potentially leave some shippers exposed to ‘settlement’ risk unless the method for liaising between shippers is efficient. This again supports the need for an Agent Agreement to manage exposures as this exposure is unsatisfactory and having the TSO duplicate the activities of the Agent is an unnecessary cost.

### 5. Product

- ESB agrees that the reverse flow product remains interruptible because of its dependence on the ‘total’ volume of nominated forward flow. However, the significant benefit afforded by the forward flow shippers to the reverse flow shippers should be a factor that is considered when assessing the value of the exit tariff.
- ESB also supports the limits that are proposed on the volume of reverse flow product that is available due to the need to maintain some minimum technical standards.
- Given the degree of interruptibility that is the nature of the virtual forward flow product ESB EI welcomes products that increase stability and reduce interruption because this would reduce costs and effort for settlement. As there may not be an immediate uptake of virtual reverse flow the proposed approach proposed by Gaslink in the development of a seasonal product will prove useful.
- The seasonal product, as it is a potential maximum available, can be pro-rated down once the physical flows are known and the adjusted nominal reverse flow can be used to determine the allocated volumes for settlement. **In any event this calculation for settlement should not lead to an adjustment to the allocated flows of forward flow shippers.**
- The seasonal product aligns the likelihood of the greatest reverse flow with winter peak – the times that highest prices will be available in the UK market and the time that greatest demand and limited interruption is desired - resulting in the greatest value for reverse flow shippers being given its fullest opportunity to be realised.
- ESB also agrees that the settlement of charges and allocated flows will also become complex as the number of forward flow re-nominations will have an impact on the available reverse flow at any period within day, this will require reverse flow shippers to act accordingly so as to ensure that the allocations to forward flow shippers are in no way affected.
- There is a potential that short-term products will be desirable.

## 6. Tariffs

ESB supports the addition of the pricing principles to avoid free riding. Where a user gets value from the services provided a tariff should be set that reflects this. In this instance 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 therefore, resulting in the potential of extracting greater value for their product.

ESB also strongly agrees with:

- the principle that forward flow shippers should not be adversely affected
- the equalisation of both entry and exit tariffs
- the revenue earned from the reverse flow product will contribute to the recovery of the allowed revenues for Moffat.

In relation to the application of tariffs ESB has some questions:

- On what principles should existing forward flow shippers be afforded a discount on the reverse flow tariff for capacity? All shippers seeing access to the reverse flow product should face the same costs. The reverse flow product is a separately product that, although it contributes to the same total revenue pot, should be priced separately and treated independently without any cross flow relationship being taken in to consideration.
- If there is a first mover advantage this may act as a barrier to further indigenous gas production or storage which the reverse flow product is incentivising.
- If a discount is to be applied how will a transparent methodology for its calculation be developed? Either it is to be determined by consultation through the RAs or proposed by the existing forward flow shippers. Either is unsatisfactory as it does bestow a commercial advantage that is unnecessary given the equal footing all potential users now have.
- ESB EI agrees that the same commodity charge should be applied to both forward and reverse flows.
- ESB EI supports the case to minimise the exposure of end consumers from regulated charges and services potentially leading to a greater divergence between the prices at the IBP and the current (NBP + transmission fees). Those who do not participate in reverse flow should not be affected and the greatest reduction in unit charges through the additional revenue stream should be maximised.
- With the principles of no free riding and to have no adverse impact on current forward flow shippers ESB EI is concerned that the maximum revenue reduction is not generated if either discounts to existing forward flow shippers or refunds for interruption to reverse flow shippers is implemented. The reverse flow is a separate product that although dependent on forward flow shippers is to be bought and sold on the merits of the value that the shipper will receive.
- Until such time that significant reverse flow is experienced the tariffs should not be discounted.
- ESB EI understands the traditional method for discounting tariffs for an interruptible product but in this instance the value from accessing the larger UK market provides a significant premium to reverse flow shippers compared to being contained within the island of Ireland. As there is currently no flow and given by its very nature the reverse

flow product is interruptible (as it is dependent upon forward flows and minimum technical requirements) no refund should be provided.

- Under these circumstances and to protect the principle that forward flow shippers and end users are not adversely affected no discount or refund should be facilitated.

#### 7. Interruptibility

ESB supports the principles purported and in particular the introduction of penalties (failure to interrupt charge) placed on parties to ensure that Gaslink can illicit the most appropriate behaviour from industry participants when technical circumstances dictate a requirement to re-nominate reverse flow shipping.

The method of applying a scaling factor to all parties appears reasonable if the method applied is transparent.

#### 8. Nominations

The administration of nominations and allocations will require agreement and the principle to make it as efficient as possible.

As per the previous principles of not affecting forward flow shippers it is paramount that the volume used to allocate flows is not taken in the aggregate but is allocated by the flow direction with any restrictions, errors, or differences in physical flows being applied to reverse flow shippers in the first instance.

#### 9. Process & Impact

ESB believes that the proposals have kept changes to a minimum but that the Moffat Agency Modification - which was voted for in principle but was awaiting clarity on products and processes from Gaslink – will provide an alternative and less disruptive change.

ESB welcomes the work that has gone into providing this alternative to the modification of the Moffat Agency Agreement but also sees that it was work that would have been necessary to define both product and allocation methods.

This approach although compliant with EU requirements leaves the shippers with the need to separately match flows on either side of the Moffat Flange, this risk in addition to any unforeseen emergencies exacerbates the risks faced by existing shippers. As such the modification to the MAA with several of the products and processes detailed here will provide a lasting solution.

If you have any questions please get in touch with Jag Basi.

Regards

John Lawlor.