

21<sup>st</sup> July 2011

Ms Celine Hayes,  
Market Arrangements,  
Gaslink,  
6 Lapps Quay,  
Cork

**Re: Response to Moffat Reverse Flow Consultation Paper Dated 7 July 2011**

Dear Ms Hayes,

Kinsale Energy would like to thank Gaslink for the opportunity to respond to the its consultation paper on the Moffat Virtual Reverse Flow (MVRF) arrangements and tariffing. Kinsale Energy has reviewed the consultation paper and its comments on the paper are outlined below:

**Tariffing** – BGN has proposed that shippers without primary forward flow capacity bookings on the interconnector must pay the full forward flow tariff to access the MVRF service. This tariffing regime does not meet the European requirements for tariffing. The tariff proposed for the MVRF service is neither market based nor cost-reflective as stipulated in Article 13 of Regulation (EC) 715/2009.

*Market Based Tariff* - For the MVRF service to be a market based tariff, it must compete with commercial alternatives available to Irish shippers to virtually transport gas from the IBP to the NBP. Currently Irish shippers can ship gas from the IBP to the NBP by agreeing to provide gas to an Irish counterparty at the IBP and for that counterparty to reduce its Moffat forward flow nomination accordingly. These are called swaps. The current tariffing regime proposed by BGN for the MVRF service is not competitively priced to compete with swaps and will not be used by any Irish shippers due to competitive alternatives that exist in the market.

*Cost Reflective Tariff* - There is no evidence of significant costs involved in administration and operation of the MVRF service. Thus for the MVRF tariff to be cost reflective and reflect the actual costs incurred offering the MVRF service, Kinsale Energy would expect a significant discount relative to forward flow firm prices. In addition, the MVRF service is an interruptible service; the proposed tariff should take the risk of interruption into account and be priced accordingly.

*MVRF Reasonable Tariff* - BGN and Gaslink should note that the MVRF service could actually reduce the costs of forward flow if a reasonable tariff was set for the MVRF service. If the tariff for the service is set too high, companies requiring the MVRF will use other options that are currently available to Irish shippers (swaps). If this were to occur it would lead to lower revenues recovered on the interconnector by BGN and a higher tariff for forward flows. For example say there are 100 units flowing from Ireland to the UK and Kinsale Energy wants to backhaul 10 units per day. If the tariffs for MVRF are too high, Kinsale Energy will use a swap to complete the transaction. This would mean that BGN will receive revenue from 90 units of gas flowing on the interconnector instead of 100 units. However if, for example, the MVRF service at a competitive price to alternative options, then Kinsale Energy would backhaul the gas using the MVRF. BGN would receive revenues from 100 units of gas that has flowed in the forward direction plus any additional revenues attained for the VMRF service. Thus if BGN competitively price the MVRF service, Irish shippers will use the MVRF service and this could potentially lead to lower forward flow tariffs for the Moffat interconnector. By charging the same tariff for flows in both directions on the Moffat interconnector, the cost of forward flow will increase as Irish shippers will use alternative to reverse flow gas to the NBP.

**First Come First Served (FCFS) Basis for Capacity Allocation** – Kinsale Energy’s preference is for auctions as the method of capacity allocation as auctions are a non-discriminatory market based method of allocating capacity. However if there is sufficient MVRF capacity available on a day for reverse flow shippers wishing to use the MVRF service, then the FCFS method of allocating capacity is adequate.

**Minimum Flow Rate** - BGN determine the minimum flow rate should be applied for the MVRF service, however if due to the setting of a high minimum flow rate MVRF capacity is not available on a day, then BGN have failed in the provision of the MVRF service. Kinsale Energy is surprised by the high minimum flow rate that is applied when determining the MVRF capacity available on a day. Currently it appears that the minimum flow rate is set too high which reduces the amount of MVRF capacity that can be made available on a day and increases the risk of curtailment of the MVRF service. Gaslink should provide further information on how the minimum flow rate has been determined and what the revised minimum flow rate will be once the works at the Beattock compressor station have been completed. Gaslink should also outline whether all options for maximising the MVRF capacity made available on a day have been considered. When determining the minimum flow rate, the consultation paper does not seem to consider that Irish Shippers can use alternative methods to backhaul gas to the NBP (swaps). If this occurs, then the physical forward flow rate will fall below the minimum flow rate determined for the MVRF service anyway.

Gaslink should also note that the daily EODQ’s provided in Figure 3 and Figure 4 of the MVRF service consultation paper are net of gas that has been virtually reverse flowed to the NBP over the years listed.

**Seasonal Product** – Whilst BGN can offer seasonal products, there is an obligation under European legislation on BGN to make MVRF capacity available every day if the year.

**European Requirement** - It is a European requirement that the VMRF service be made available to Irish shippers. If BGN make a MVRF service available but is not used due to the service being uncompetitive when compared to alternatives in the marketplace, then BGN have failed to provide the MVRF service.

On behalf of Kinsale Energy, I would to thank you for the opportunity to allow Kinsale Energy to comment on the consultation paper. Kinsale Energy looks forward to working with the Gaslink and the Commission for Energy Regulation on this issue. Kinsale Energy is available for further discussion on the content of their response should further clarification be required.

Yours Sincerely



Brian Mc Glinchey

Commercial Manager