



Irish Offshore
Operators'
Association

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Mr Andrew Kelly,
Gas Networks Ireland
Gasworks Road
Cork

12th December 2016

By email: andrew.kelly@gasnetworks.ie; marketdevelopment@gasnetworks.ie

Re: Code Modification Proposal A078: Oversell of Capacity Option

Dear Andrew

IOOA welcomes the opportunity to provide further comments in response to Code Modification Proposal A078. This letter should be read in conjunction with our previous response supporting implementation of this proposal and the slides presented at the Code Modification Forum (23rd November) that set out an alternative means of doing so.

In IOOA's previous response we made clear why we supported the proposal – the reasons given remain valid and there is no need to repeat them – and welcomed confirmation from the regulator that it was supportive of the principle underpinning A078. As requested by CER, IOOA subsequently discussed with GNI the following:

- detailed rules that would apply to the proposed use of the overrun mechanism;
- the extent to which there would be any IT, operational issues or current code provisions that would need to be addressed; and
- likely timescales for implementation.

In those discussions, it became apparent that an alternative mechanism to the use of the overrun charge would be the overselling of capacity to the GNI grid. Indeed, this would be our preferred option because it is relatively simple to implement from GNI's perspective and could be done so almost immediately.

IOOA was therefore surprised at the nature of discussions at the last Code Modification Forum. Indeed, it remains difficult to see the relevance of many of the issues raised. For example, we do not see how the imbalance regime, derivation of cash-out prices or VRF service would be impacted as a result of the overselling of capacity at Bellanaboy.

That said, IOOA would like to offer further comments in with regards to three specific issues raised at the meeting: the role of the Corrib Allocation Agent; the impact on GNI's revenues and tariffs; and the scale of the oversell.



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The Corrib Allocation Agent

The role of the Agent is to allocate gas volumes between the upstream producers and their respective shipper counterparties. The important point to note is that it is the shippers who are responsible for buying entry capacity to GNI's network - the Agent has no role in purchasing or allocating entry capacity to the GNI grid.

Moreover, the Corrib Allocation Agent operates under a commercial agreement: the Bellanaboy Administration Agreement (BAA). In that regard, the arrangements mirror the approach taken currently at the Inch entry point and in other markets - as well as formerly at the Moffat entry point - in helping ensure that the right parties are allocated the correct volumes of gas prior to their arranging its entry to the Grid. The Corrib Allocation Agent has also confirmed that in the event of a dispute between an upstream producer and a downstream shipper at the Bellanaboy entry point, the BAA includes a dispute resolution process for use in such circumstances.

Impact on GNI's Revenues and Tariffs

The overselling of capacity may result in revenue over-recovery of the GNI portion of the Bellanaboy entry tariff. If so, it would be redistributed through the K-factor methodology that GNI applies to the tariff setting process:

- a) Any over-recovery in Gas Year 1 of the GNI portion of the Bellanaboy entry tariff would be returned to all shippers through the K-factor adjustment in Gas Year 3. A common k-factor applies to all entry points so all entry point tariffs in Gas Year 3 would reduce as a result of the over-recovery at Bellanaboy.

The important point is that since the k-factor adjustment would be smeared across all entry points, the relative tariff differential between them will remain unchanged.

It is also useful to make the point that the impact of revenue under or over recovery has been managed at other entry points, particularly Moffat, over recent years. For example, in 2014/15 there was a €15.1 million over-recovery, which is being redistributed via tariffs for 2016/17 & 2017/18. The common k-factor applying to all entry points reduces the tariff instability effect.

Impact on Corrib Partner's Linkline Revenues and Tariffs

The overselling of capacity in any year may result in revenue over-recovery on the Corrib Linkline in that year. However, this over-recovery will have no impact on the future Corrib Linkline element of the Bellanaboy entry tariff as this will not vary over time as determined in CER decision CER/15/141.

How much to oversell?

IOOA would reiterate its view that the oversell should involve selling double the current physical limit of 103.87GWh/d (**note: physical gas flows would not exceed this level**). Such an



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approach would strike the right balance between more efficient capacity booking & utilisation on the part of shippers and providing producers with sufficient comfort that they will be able to get gas to market.

In conclusion, IOOA considers that the oversell option offers a straightforward way of implementing A078. It should be implemented with immediate effect.

Yours sincerely

Brian McGlinchey
Chairman IOOA Gas Sub-Committee and on behalf of:

AzEire Petroleum
Cairn Energy,
Eni,
Faroe Petroleum,
Fastnet Oil & Gas,
PSE Kinsale Energy,
Kosmos Energy,
Lansdowne Oil & Gas,
Providence Resources,
Repsol,
San Leon Energy,
Serica Energy,
Shell,
Statoil,
Vermilion Energy Ireland,
Woodside.

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