



**Irish Offshore  
Operators'  
Association**

## Irish Offshore Operators' Association

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Aidan Hogan / Yvette Jones  
Gaslink Independent System Operator Ltd.,  
Gasworks Road,  
Cork

14 October 2014

By email: [ahogan@bge.ie](mailto:ahogan@bge.ie) & [yjones@bge.ie](mailto:yjones@bge.ie)

CC Denis Cagney ([dcagney@cer.ie](mailto:dcagney@cer.ie))

### **Re: Code Modification AO63 – Nominations, Imbalance Charges & Allocations**

Dear Aidan / Yvette,

Founded in 1995, the Irish Offshore Operators' Association (IOOA) is the representative organisation for the Irish offshore oil and gas industry. Its members are companies licensed by the Irish Government to explore for and produce oil and gas in Irish waters. The IOOA provides a forum in which its member companies work together to identify and tackle issues facing Ireland's offshore industry. By cooperating and providing a common approach to issues such as safety, the environment, legislation and employment, the IOOA proactively assists in the development of oil and gas exploration and production in Ireland's waters. IOOA's members consist of the following companies: Azeire Petroleum, Cairn Energy, Chrysaor, Eni, ExxonMobil, Fastnet Oil & Gas, PSE Kinsale Energy, Kosmos Energy, Lansdowne Oil & Gas, Providence Resources, Repsol, San Leon Energy, Serica Energy, Shell, Statoil and Woodside. Although not being a formal member of IOOA, Vermilion Energy Ireland has also contributed to this letter as if it were an IOOA member

I refer to the above referenced document and to the presentation to the Code Modification Forum held on 24 September and at which attendees were requested to provide their opinions as to the sourcing of balancing gas and the required use of "Common Units" at Interconnection Points. IOOA's members are grateful to Gaslink for the constructive engagement with the industry on these matters and our comments are set out below:

#### **Consultation Document:**

- The draft Business Rules state that the timings applied to Virtual Reverse Flow Nominations may differ from the general timings included in the business document. IOOA's members do not agree that this is necessary and will elaborate further on this in their response to Code Mod AO64.
  - IOOA's members welcome the removal of the ZIP requirement as it acted to inhibit the development of liquidity at the IBP, especially given most gas originated from a single source, the UK NBP. However, the current Code also obliges Shippers to balance and the ZIP requirement was the mechanism adopted to give effect to this obligation. In future
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market based incentives will have to be relied upon. It is not clear from the draft business document that the full implications of the ZIP removal have been fully considered.

- IOOA's members recognise that the task of processing and matching nominations going forward will be performed by the Initiating Transporters but view this as merely formalising BGN's current role as Moffat Agent. We do not see this change in isolation as either necessitating or justifying any change to the current nomination and / or allocation procedures. All changes must be independently explained and justified.
  - The language used throughout section 4 (e.g. Entry Points which are not Interconnection Points (4.1.4), in respect of each Interconnection Point (4.1.6), etc.) suggests that the draft Business Rules will apply to several interconnection points. How many Interconnection Points are envisaged?
  - The concept introduced in paragraph 4.3.2 e) doesn't make too much sense. Transporters at Interconnection Points are and must be entitled to profile the aggregate of their Shippers nominations on a Day but to reject a Shipper's nomination (in whole or in part) on the basis of such reprofiling will invariably result in that Shipper being out of balance on the Day. Balancing actions taken by the Transporter to ensure the efficient operation of the System are fundamentally different to balancing actions taken to ensure a balance between individual Shipper inputs and outputs. The Transporter must be made to rely upon the balancing market to bring the System into balance and not reject Shippers nominations on the basis of actions taken by the Transporter. The Shippers should be left to balance their own position as best they can.
  - IOOA's members believe that the Interconnection Agreement is fundamental to a proper understanding of the draft Business Rules and are disappointed that it was not made available as part of this consultation. It is not evident from the draft Business Rules document as to what changes to the Moffat Connected Systems Agreement are being considered at this time.
  - Paragraph 5.3.10 introduces a new concept of a "Shipper's Final Entry Allocation in respect of Shrinkage Gas". This is just one of many issues that should have been explained and / or justified by way of footnotes in the draft document.
  - The GB NBP marginal buy and sell prices have been used for nearly two decades to successfully balance the much larger GB System. Hence the proposed multipliers of 0.9 and 1.1 to balance the BGN System appear unnecessarily punitive and must be explained. IOOA's members do not believe such a penal System can be justified. The more fundamental question of whether they are being proposed to balance the System or to penalise Shippers needs to be answered. For instance, many Systems only impose imbalance charges on days when the System is out of balance.
  - Such a penal regime will specifically penalise those Shippers that rely upon indigenous gas and do not have ready access to the GB NBP. Unless the Transporter is required to try and balance the System at the IBP at market prices then Shippers (producers or buyers) of indigenous gas may be forced to book Interconnector capacity purely to access the
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balancing market. It is surely unjustified to put such Shippers to such unnecessary additional cost.

- Indeed the trend generally in Europe seems to be to move to lower or non-existent penalties where using liquid markets to balance. Holland with the TTF and the UK with the NBP are cases in point. It seems perverse to propose using a liquid market to balance (such that market prices give the correct economic signal to balance) and still impose such obvious penalties. Even if the Transporter has to try and balance at the IBP first they will always have the liquidity of the GB NBP to fall back on.
- The removal of imbalance tolerances, while supported by IOOA's members as necessary to drive Shippers to achieve a balance, also exacerbates the penal nature of the 0.9 and 1.1 imbalance multipliers.
- The proposed removal of tolerances and the ZIP requirement will bring the Gaslink System more into line with the GB System but the draft Business Rules paper is unclear as to whether the obligation to balance is to be removed.
- IOOA's members do not agree that where inputs are greater than outputs in the case of the Interconnector balancing portfolio (5.3.3), no imbalance charges will apply. There can be no justification for this special treatment and all inputs and outputs should be treated equally for balancing purposes.
- The draft Business Rules propose that After the Day Trades and the after the day reallocation of the Moffat allocated quantity be discontinued. IOOA's members believe that the case for retaining the After the Day Trades will become even more compelling if the above referenced multipliers of 0.9 and 1.1 are retained. Regarding Moffat, IOOA's members understand that this reallocation provision was introduced to mitigate the impact of a constraint on the GB side which would result in Shippers holding interruptible capacity on the GB side being allocated less gas than they might otherwise have expected.

### **Sourcing of Imbalance Gas:**

- IOOA's members agree that, at this time, the IBP offers insufficient liquidity as a short term wholesale gas market to serve as the only basis for operational balancing. The lack of liquidity at the IBP going forward cannot be predicted but with a need to ZIP and the majority of each day's gas coming through the Interconnector there has been no historical need to trade at the IBP. Therefore we support the rationale of the need to trade within the GB's Balancing Zone.

We do not however see this as a mutually exclusive choice. Domestically produced gas should be allowed to participate in the balancing market together with other entry paid gas on the Irish System. We disagree with the assertion that balancing gas secured would be more expensive than that from a UK platform. IOOA's members cannot conceive of a situation where if the Transporter has access to balancing gas at the GB NBP that balancing at the IBP would be more costly. IOOA's members strongly support the principle

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that the most efficient gas source should be used, be it from domestic production or from the NBP, and balancing arrangements should reflect this. Having the option to access both the NBP and the IBP should give the most efficient outcome, with the GB NBP effectively acting as the price cap.

Requiring the Transporter to attempt to balance at the IBP will also facilitate demand side balancing, whereas end users would be excluded from a system wholly reliant on GB for balancing gas.

- In GB, only entry paid gas is used to balance the System. IOOA's members strongly believe that Shippers with spare Moffat capacity should be allowed to bid Moffat entry paid gas into the Irish balancing market and that the current arrangement whereby capacity is reserved by the Transporter on the Inter-connectors for balancing gas sourced in GB should be discontinued.
- During the discussion on 24 September it was suggested that, under the current proposal, Irish production would be able to participate in the balancing arrangements via the proposed Virtual Reverse Flow mechanism. IOOA's members do not believe partaking in the balancing market via VRF to be realistic nor even feasible and has previously raised its concerns on the effectiveness of the VRF proposal and will be issuing a separate letter on this shortly.
- IOOA's members believe that if the Irish market is to develop along the lines intended by the EU, creating a competitive market, the very purpose of the changes we as an industry are implementing, then the IBP must be used to balance the Irish System (even if balancing by the Transporter is also permitted at the GB NBP). It seems to us inconceivable that Shippers are to be forced to balance at a point that is not accessible to them, while applying penal imbalance charges when they inevitably fail. While the Inter-connectors can only flow physically in one direction how can the Irish System rely upon the GB NBP to address days of excess supply in Ireland.

### **Common Units:**

- IOOA's members appreciate the difficulties associated with having to operate facilities using several standard units and reference conditions. However, since Shippers are required to nominate in units of KWh, we do not understand how the reference condition / common units issue can impact upon Shippers.

IOOA's members look forward to working with Gaslink on finalising the changes to the code of operations envisaged by code modification A063, developing an operational balancing platform for Ireland that meets with the appropriate EU codes, and resolving the issue surrounding common units and its application to shippers.

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Yours sincerely,

Steve Boldy  
Chairman IOOA Gas Sub-Committee and on behalf of :

Azeire Petroleum,  
Cairn Energy,  
Chrysaor,  
Eni,  
ExxonMobil,  
Fastnet Oil & Gas,  
PSE Kinsale Energy,  
Kosmos Energy,  
Lansdowne Oil & Gas,  
Providence Resources,  
Repsol,  
San Leon Energy ,  
Serica Energy,  
Shell,  
Statoil,  
Vermillion Energy Ireland,  
Woodside

Cc: Patrick Shannon Chairman IOOA  
IOOA Management Committee  
IOOA Gas Sub-Committee

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