



**Irish Offshore
Operators'
Association**

Irish Offshore Operators' Association

Suite No. 2119, Fitzwilliam Business Centre, 26, Upper Pembroke Street, Dublin 2, Ireland
Tel: +353 1 637 3996 Fax + 353 662 0365 Email: info@iooa.ie Website: www.iooa.ie

Robert Flanagan
Gaslink Independent System Operator Ltd.,
Gasworks Road,
Cork

17 October 2014

By email: roflanagan@bge.ie & marketarrangements@gaslink.ie

CC Denis Cagney (dcagney@cer.ie)
John Melvin (jmelvin@cer.ie)

Re: Code Modification AO64 – Virtual Reverse Flow at Interconnection Points

Dear Robert,

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.

IOOA's members support the introduction of the within day Virtual Reverse Flow (VRF) service and see it as essential for balancing the market in Ireland and reducing the market power of incumbent forward flow shippers. IOOA's members note that Gaslink has listened to industry and included many of the suggestions proposed by IOOA. Whilst the VRF service outlined in the draft business rules is a vast improvement on the existing arrangements, some changes are required to make the VRF service fit for purpose for the Irish market.

IOOA's members request that the VRF service be implemented next summer to allow for Corrib gas on the system but in any event the latest implementation date should be October 2015.



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Specific comments on the proposed Business Rules:

Minimum Forward Flow (MFF)

IOOA's members are concerned that the full forward flow capacity is not being made available for the VRF service and an arbitrary tolerance is being proposed to reduce the VRF capacity. Gaslink's desire for a MFF at Moffat as a reason for restricting the amount of capacity available for VRF is not supported and is ill-founded in logic. Indeed, imposing restrictions on VRF goes against commitments given by Gaslink in its letter to IOOA dated 19 February 2014 and its Network Development Plan 2014 (Section 9.4) in which Gaslink confirmed that indigenous gas supplies nominated for delivery at entry points will not be affected by flows at Moffat; Gaslink confirmed in its February 2014 letter that flows from Moffat to Dublin could be zero on certain days to accommodate flows from indigenous entry points. The current application of the MFF to the VRF service runs contrary to the above commitments given by Gaslink.

IOOA's members ask Gaslink to re-consider the imposition of any restriction. If MFF is appropriate at any time for technical reasons we would urge Gaslink to consider that the driver of forward flows at Moffat is not the availability of VRF capacity but is rather a result of the physical supply demand position in Ireland driven primarily by daily Irish indigenous gas production and Irish gas demand.

As discussed by IOOA's members at the Code Modification Forum meeting on 24 September 2014, there are three methods in which indigenous production can be sold in Ireland:

1. at the IBP,
2. at the NBP using an Irish shipper to facilitate a swap, or
3. at the NBP using the transporter's VRF service.

Gaslink has confirmed that for the first two methods it is acceptable to facilitate nominations that will reduce Moffat flows to Dublin to zero and potentially force batching of its compressors; but in the third case Gaslink has said it will not allow this to occur due to concerns that its compressors may be damaged due to batching. If batching is required, preventing it via one route will simply mean it occurs via the other two. In addition, Gaslink has identified that there may be days in Ireland when combined flows from Corrib and Inch exceed Ireland's demand. In such cases Gaslink will have to resort to batching of flows irrespective of any restrictions on the availability of VRF capacity.

The main drivers behind the new suite of EU network codes are to enhance cross-border trade and access to markets; not batching in certain circumstances imposes restrictions on the VRF service which diminishes the degree of cross-border trade and hampers flows of gas between markets. Furthermore, being selective in Gaslink's operation of the system appears to be discriminatory against VRF shippers.

IOOA's members are concerned that applying a MFF can have a destabilising effect on VRF nominations which may prevent potential VRF shippers from using the service. Please see the attached appendix for examples of instability in a VRF service with a MFF.



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If there is to be a mandated MFF, IOOA's members request that Gaslink provide clarification on two key issues:

- Whose obligation will it be to nominate forward into Ireland?
- How will the MFF be mandated? - is it a case that all shippers or all shippers with forward capacity booked have to nominate a minimum on all days irrespective of their demand? This would seem onerous and cumbersome.

It would seem that the consequences of a mandated MFF would be a need to balance the Irish System at the IBP, giving price signals that encourage producers to shut in or use storage, or for customers to increase demand. If VRF is artificially restricted then if balancing is only to be at the UK NBP there will be serious and adverse consequences for Irish gas putting it at a commercial disadvantage to imported gas from the UK. This would be a perverse position for Ireland to adopt.

Hence if Gaslink ultimately adopt a MFF then it is likely to result in significant financial harm to several of IOOA's members. The MFF must therefore be kept to an absolute minimum - conservatism must be avoided. Gaslink must explain and justify its need for a MFF and must quantify the MFF that it deems to be necessary. In the interest of transparency, the methodology for determining the MFF must also be consulted on. Furthermore, for days that VRF nominations are interrupted due to a minimum flow event, the minimum flow used on a day must be justified after the event.

A MFF will be of concern only on days when gas demand exceeds indigenous production by less than the minimum flow. It should be possible for Gaslink to predict the number of times that a minimum flow event is likely to occur in a year. Such analysis will provide perspective as to the magnitude of this problem.

Available Interruptible VRF Capacity & Over-Nomination Restrictions

Gaslink is trying to make a firm service available by listing the available interruptible VRF capacity and allowing shippers to nominate against the same. This is quite a complicated approach which increases the cost of implementation.

IOOA's members are concerned that there is a misalignment in nominations timelines between the forward flow nominations and the VRF nominations. Gaslink is trying to determine the available VRF capacity that it will make available as a semi-firm VRF service. However, day-ahead forward flow re-nominations (15:00) commence before the VRF auction commences (15:30) so changes to the forward flow and the available VRF capacity may occur before or during the VRF auction process. Gaslink should align the forward and reverse flow auction windows.

It is IOOA's members' understanding that capacity that is booked in the day-ahead booking window is given first priority and a Use It Or Lose It (UIOLI) rule will not apply to this capacity (inferred from Table 3.2.1). But available within-day VRF capacity should not be restricted to the available VRF capacity that is not booked, as doing so runs contrary to EU regulations - not recognising the UIOLI principle is worst practise regulation. Potentially shippers could hoard capacity and so restrict other shippers from accessing the market, hampering cross-border trade. The available within-day VRF capacity should be equal to the available VRF capacity that has not



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been nominated, irrespective of bookings. Should a shipper that has booked VRF capacity subsequently nominates against it later in the day, then the within-day VRF shippers should be interrupted accordingly. In any event, if Gaslink continues with its proposal as currently worded, it should explain how its proposal will prevent the hoarding of capacity.

When interrupting VRF nominations, IOOA's members request that Gaslink confirm how it intends to treat capacity that was booked but not nominated against: does it further restrict the amount of available VRF capacity, or is it to be disregarded for the purpose of interruption? If the latter, then why not permit shippers to over-nominate into that unused booked capacity?

IOOA's members suggest that Gaslink complete the following to alleviate IOOA's members' concerns and to simplify the systemisation:

- Align the day-ahead auctions for forward and VRF services; VRF shippers can bid for the full forward flow technical capacity
- Allocate the available interruptible VRF capacity after the day-ahead auction based on the total forward flow nomination and assign VRF capacity in the auction up to the available interruptible VRF capacity figure.
- For the purpose of day-ahead and within-day over-nominations, the full technical capacity, minus the VRF capacity booked on the day-ahead auction, should be available to shippers to over-nominate against. Interruptions should occur based on the suggested hierarchy in the business rules; this would maximise the use of the VRF capacity on an hour-by-hour basis and prevent a shipper hoarding VRF capacity and preventing other shippers accessing the VRF service when capacity is available.

Please note that IOOA's members understand the risks of interruption associated with interruptible services and would expect to be interrupted if the nominations for the VRF service exceed the forward flow nominations. This is a business risk that IOOA's members are willing to take when accessing the market-based VRF service in which the full forward flows are made available for VRF.

Registration Fee:

There is an existing service and registration process in place. It would be helpful if Gaslink could indicate if this modification will entail any changes (if any at all) to the current procedure for signing-up to the service. For example, will there be a standard set of T&Cs?

On a related note, we understand that the fee for using the service will be subject to a separate decision from CER. However, IOOA would nevertheless like to take this opportunity to signal the need for visibility as early as possible of the likely scale of the overall cost of the VRF service and the structure of its application, e.g. between shippers, the extent to which it will be based on usage, etc.



Other Issues

- IOOA's members believe that the best way to prevent inefficient operation of the Moffat Interconnector is to ensure that balancing actions can be taken at the IBP, at least as an alternative to (and if more efficient in priority to) balancing actions at the UK NBP, rather than use an arbitrary restriction on VRF flows. We ask that Gaslink confirm, when flows at Moffat drop to the level at which batch flow operations are required, whether restrictions will be imposed on forward flow shippers? If such restrictions are not placed on forward flow shippers, then presumably the Transporter will take balancing actions - but for such actions to be effective they would have to be made in Ireland at the IBP.
- If the full nominated forward flow is not to be made available, then the ability to trade at the IBP must be maintained and the ability to balance at the IBP be enhanced. The transporter should take balancing actions where they have the lowest cost, be they at the IBP or the UK NBP.
- There has been discussion in the CAM forum of access from the IBP to Northern Ireland. Such access would require the use of the South North Pipeline or SNIP. To affect this Gormanstown and/or Twynholm will need to be designated as Exit Points from the Irish System. There is logic to this as these points are now on the Irish System as entry to the system is at Moffat. If they are to be Exit Points (and the Isle of Man could be treated similarly) then access to them (or exit at them) will have to be on a virtual basis given the physical characteristics of the Irish System. Therefore Gaslink should also give consideration to how any VRF service facilitates access to Northern Ireland.

IOOA's members have some specific questions that we hope can be clarified at next week's code modification meeting -

- 1.3.2 – will the proposed use of unbundled capacity be subject to change in October'15 with the implementation of CAM and bundled products at Interconnection Points?
- 3.1.11 & 3.2.4 – will this be a new IT system with the transporter especially for VRF or an existing one?
- 4.7.1(g) IOOA's members are unclear as to what this section means

To conclude, for Ireland to have an effective gas market, shippers need access to a reliable and fair VRF service at Moffat. They also need to have access to the balancing market at the IBP. IOOA's members look forward to working together with Gaslink on the further development and introduction of a VRF service that is fit for purpose and meets the needs of the Irish gas market. IOOA's members suggest that Gaslink's technical department should be at the next code modification meeting to discuss the MFF limits that Gaslink are suggesting should apply to VRF.



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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



Appendix – Instability of VRF with a mandated MFF

Assume that gas demand is such that the Forward Flow Nomination (FFN) for a day is 100 GWh and that the Moffat minimum flow (MMF) on that day is 20 GWh. Assume also that five shippers have each purchased 20 GWh of indigenous gas for delivery on that day and that all five wish to sell their gas into the UK market. Under the proposed VRF business rules:

1. All five shippers are required to submit bids for VRF capacity under the auction process. It is assumed that they each bid in different prices and that “shipper1” bids in the lowest price and “shipper5” bids in the highest price.
2. Hence, the VRF capacity that will be offered at auction will be 80 GWh (FFN of 100 less MMF of 20) and, since the aggregate of the five VRF bids will be 100 GWh, the bids of only the four highest bidders will be accepted.

Unsuccessful in accessing the GB market, the shipper1 will sell its gas in Ireland and the buyer of that gas will reduce its Moffat nomination thereby reducing the FFN to 80 GWh.

3. The VRF capacity will be reduced to 60 GWh (FFN of 80 less MMF of 20) but the aggregate of the four remaining VRF bids will be 80 GWh. The VRF capacity available to each of the four shippers will be reduced from 20 GWh to 15 GWh.

Unable now to access the GB market for all of their requirements, the four shippers will sell their interrupted quantities into Ireland and the buyers of that gas will reduce their Moffat nominations reducing the FFN to 60 GWh.

4. The VRF capacity will be reduced further to 40 GWh (FFN of 60 less MMF of 20) but the aggregate of the three remaining VRF bids will be 60 GWh. Hence, the VRF capacity available to each of the four shippers will be reduced from 15 GWh to 10 GWh.

The four shippers will now sell the additional interrupted quantities into Ireland and the buyers of that gas will reduce their Moffat nominations reducing the FFN to 40 GWh.

5. The VRF capacity now available will be reduced to 20 GWh (FFN of 40 less MMF of 20) but the aggregate of the two remaining VRF bids will be 40 GWh. The VRF capacity available to each of the four shippers will be reduced from 10 GWh to 5 GWh.

Again the four shippers will now sell the new additional interrupted quantities into Ireland and the buyers of that gas will further reduce their Moffat nominations reducing the FFN to 20 GWh

6. The VRF capacity will now be reduced to 0 GWh (forward flow of 20 less MMF of 20) and all shippers will be fully interrupted.
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Unable now to access the GB market, the four shippers will now sell the remaining interrupted quantities into Ireland and the buyers of that gas will further reduce their Moffat nominations reducing the FFN to 0 GWh.