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*Promoting choice and value for
all gas and electricity customers*

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Dear Celine

Re: Gas interconnector licence

Background

Bord Gáis Éireann (BGE) (UK) Ltd holds a gas interconnector licence for the gas interconnector between Moffat, in South West Scotland, and the Republic of Ireland.

The gas interconnector licence requires that the Authority¹ approves any relevant bilateral agreement between BGE (UK) Ltd and any relevant gas transporter. Furthermore, the gas interconnector licence requires that the Authority approve any modification to an approved bilateral agreement.

One such bilateral agreement is the Connected Systems Agreement (CSA). The CSA is an agreement between BGE (UK) Ltd and National Grid Gas (NGG), which owns and operates the National Transmission System (NTS) for gas in Great Britain (GB), for the connection between their two networks at Moffat. The CSA contains provisions for taking (or exiting) gas from the NTS at Moffat.

Under current arrangements, gas can flow physically from GB to Ireland, with shippers purchasing GB exit capacity at Moffat and Irish entry capacity. Currently there is no service offered by BGE (UK) Ltd and NGG to transport gas in the reverse direction from Ireland to GB. BGE (UK) Ltd and NGG are currently working to offer an interruptible virtual reverse flow service at Moffat. The virtual reverse flow service works by netting off virtual reverse flow from commercial forward flows to give the physical flow from GB to Ireland.

To introduce a virtual reverse flow service BGE (UK) Ltd and NGG must amend the CSA, amongst other documents.

Proposed modifications to CSA (bilateral agreement)

BGE (UK) Ltd and NGG have worked together to propose a revised CSA. On 8 September 2011 BGE (UK) Ltd submitted the revised CSA to the Authority for approval.

The proposed amendments to the CSA include:

- identifying Moffat as an entry point to the NTS, but forbidding physical entry flow onto the NTS at Moffat
- revising the number of meter readings BGE (UK) Ltd provides from one to three (currently BGE (UK) Ltd provides a single end of day physical meter read, this will

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

be increased to three readings - gross commercial exit quantities, gross commercial entry quantities and net physical quantity)

- making provisions for the supply of exit flow profiles – these instruct NGG how the physical gas flow from GB to Ireland will be profiled on an hourly basis.

Ofgem view

The Authority's principal objective is to protect the interests of existing and future consumers. The interests of consumers are their interests taken as a whole, including their interests in the security of the supply of gas to them. The Authority is required to carry out its functions in the manner it considers is best calculated to further the principal objective, whenever appropriate by promoting effective competition. Subject to this, the Authority is required to carry out those functions in the manner which it considers is best calculated to promote economy and efficiency on the part of those licensed, amongst other things.

Revising the CSA is one step to allow users of the interconnector access to a virtual product for reverse flow gas from Ireland to GB.

We consider that this will improve the efficiency of gas trade between Ireland and GB by allowing the commercial equivalent of reverse flows where there are more economic sources of gas – such as from storage or future gas fields – or reductions in demand. Furthermore, by introducing a virtual reverse flow service the amount of capacity made available from existing assets is maximised.

Virtual reverse flow of gas from Ireland to GB gives potential for additional supplies to be traded in the GB market which should benefit competition.

Ofgem considers that the revised CSA which, amongst other changes, allows virtual reverse flow at Moffat gives potential benefits to consumers. These come from more efficient use of existing assets, improved security of supply and greater potential competition.

This approval relates solely to the revisions to the CSA. It should be noted that Ofgem's decision to approve the CSA revisions and the comments included in this decision letter are without prejudice to Ofgem's discretion in respect of any future decisions.

The Authority's decision

Following consideration of the documentation provided and having regard to the Authority's principal objective and statutory duties and for the reasons set out above, the Authority has decided to approve the changes to the CSA, in accordance with the provisions of BGE (UK) Ltd's gas interconnector licence.

Martin Crouch
Partner, European Strategy

Signed on behalf of the Authority and authorised for that purpose.