



Making a positive difference
for energy consumers

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Dear Andrew,

Approval of the modified trilateral agreement under the gas interconnector licence.

GNI (UK) proposed modifications to one of its trilateral agreements on 7 June 2017 to the Authority for approval. This was submitted pursuant to Standard Licence Condition (SLC) 3 of the gas interconnector licence ('licence').¹ The same modifications were also submitted under SLC 11A 'Approval of terms for access to the licensee's interconnector' as the document modified is considered to be both GNI (UK)'s bilateral agreements and its access rules.

This letter sets out our approval of the submitted proposals under SLC3.

Background

European Network Codes (ENCs)

A key step in establishing cross-border harmonisation between Transmission System Operators (TSOs)² in Europe is the development of ENCs. There are two ENCs relevant to this decision letter, these are:

- Capacity Allocation Mechanisms in Gas Transmission Systems (CAM)³: Establishes common rules for TSOs to allocate capacity. It does this by introducing standard capacity products (in terms of duration), auctions of bundled capacity products at interconnection points (IPs) via a cross-border web-based booking system, coordination of maintenance of pipelines or parts of transmission networks by TSOs and communication procedures by TSOs.
- Interoperability and Data Exchange (INT)⁴: Covers ways in which network operators manage gas flows across borders, deal with differences in gas quality, exchange data between themselves and market players, rules for matching nominations to flow gas at either side of an IP and rules for allocating gas flow quantities after the gas flow day. INT also requires adjacent TSOs to agree and set out certain rules in interconnection agreements.

¹ The current version of the gas interconnector licence and SLCs can be found at epr.ofgem.gov.uk. We consider that SLC3 covers the GNI(UK) trilateral agreement with National Grid Gas plc (NGG) and Gas Networks Ireland (GNI).

² References to TSOs in this letter include interconnectors.

³ Commission Regulation (EU) No 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing regulation (EU) No 984/2013: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0984&from=EN>.

⁴ Commission regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules: http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1430734293842&uri=OJ:JOL_2015_113_R_0003.

Moffat Specific Arrangements

Arrangements at Moffat are unique and involve a number of parties.

- National Grid Gas plc (NGG) owns and operates the national transmission system in GB.
- GNI (UK) owns the gas interconnector between Moffat, in South West Scotland, and the interface between UK territorial Waters and Manx Waters, for which it holds a gas interconnector licence. The GNI (UK) interconnector is connected to the NGG system at Moffat and splits into two different pipes before leaving the Scottish mainland.
- Gas Networks Ireland Limited (GNI) owns two interconnectors that connect with GNI (UK)'s interconnector pipes at the interface between UK Territorial Waters and Manx Waters and continue to the Irish mainland. The GNI interconnectors form part of the Irish entry-exit system which has an entry point at Moffat.
 - In order to offer Irish entry-exit capacity at Moffat, GNI must have access to GNI (UK)'s interconnector pipelines between Moffat and the interface between UK Territorial Waters and Manx Waters in combination with its own interconnectors.
 - GNI then contracts directly with Irish shippers to offer Irish entry and exit capacity at Moffat.
 - As a result GNI (UK) has no direct relationship with Irish shippers despite the Irish shippers flowing gas on the GNI (UK) interconnector.

To facilitate implementation of the ENC's, the parties at Moffat mentioned above, created two tripartite agreements. One agreement is between GNI (UK), NGG and PTL⁵ (PTL TRI); while the other is between GNI (UK), NGG and GNI (GNI TRI). A tripartite agreement is necessary because GNI (UK), as NGG's adjacent TSO at Moffat, does not have a commercial relationship with downstream shippers in NI and Ireland. To ensure full coverage of the ENC's, these are required in addition to the interconnection agreement between GNI (UK) and NGG⁶.

The GNI TRI (and PTL TRI) covers arrangements at the Moffat IP between the three signatories for (i) how capacity is allocated and bundled, (ii) how nominations to flow gas are made, and (iii) how gas flow quantities are allocated to shippers after the gas flow day. This facilitates implementation of the ENC's in respect of gas flowing from GB to Ireland (and, in the case of the PTL TRI, GB to Northern Ireland).

Virtual Reverse Flow at Moffat

CAM requires unidirectional interconnectors to offer a daily capacity product in the opposite direction from physical flow to shippers on an interruptible basis. As a part of their compliance with CAM, Moffat parties provide virtual reverse flow from Ireland to Great Britain.

On 13 September 2016 the Commission for Energy Regulation (CER) approved Modification No. A064 to GNI's Code of Operations ('A064'). A064 was raised by GNI in order to increase the flexibility of GNI's virtual reverse flow product at Moffat as instructed by CER based on feedback from industry amongst other things.

⁵ PTL own and operate the gas interconnector between Great Britain and Northern Ireland.

⁶ The interconnection agreement sets out principles for how TSOs will interact with each other at the physical interconnection between their two systems.

Under the proposals in A064, GNI offers virtual reverse flow capacity on an interruptible basis at within-day auctions, and allow shippers to submit single or double sided nominations against those products. The proposals also include rules for GNI to reduce nominations in the event of an interruption to the product.

In order to reflect these proposals fully at Moffat, GNI (UK), NGG and GNI have agreed to make changes to the GNI TRI.

Proposed modifications

GNI (UK) submitted modifications to the GNI TRI on 7 June 2017 to the Authority for approval under SLC 3 of the gas interconnector licence.

The modifications proposed by GNI (UK) are additions to the nomination arrangements in Annex B of the GNI TRI. These include that:

- GNI may notify GNI (UK) of an interruption (and the cessation of that interruption) to the GNI system before or during the gas day.
- Where GNI notify GNI (UK) of an interruption to the GNI system, the confirmed quantity of gas flows that can be nominated to flow on the NGG side (confirmed nomination) will be equal to the nominated quantity of gas flows that GNI can make available on the GNI side (processed quantity).
- GNI (UK) will forward any revised nomination quantities to NGG.

Ofgem views

Ofgem's principal objective is to protect the interest of existing and future consumers. The interests of consumers are their interests taken as a whole, including their interests in the security of supply and their interests in the fulfilment by the Authority, when carrying out its functions as designated regulatory authority for GB, of the objectives set out in Article 40 of the Directive.⁷

Those objectives include promoting a competitive and secure internal market in natural gas, developing competition and properly functioning regional markets and eliminating restrictions on trade and enhancing the integration of national markets. Furthermore, the Authority, as National Regulatory Authority (NRA) for GB under Article 41 of the Directive, has a duty to ensure compliance by TSOs (which includes GNI (UK)) with the requirements of relevant Community legislation (including the ENCs).

The proposed measures allow GNI to interrupt and stop an interruption to virtual reverse flow at any point within the nomination cycle, the period in which a shipper can indicate their intended flows. As a result, the proposal also allows GNI to revise the confirmed nominations of gas flows to be more reflective of the actual flows possible when an interruption to virtual reverse flow on GNI occurs or ceases. As the standard method to allocate gas flows to shippers is based on the confirmed nominations, then shippers will be billed more accurately for flows of gas in the event of an interruption and cessation of an interruption for virtual reverse flows as a result of the proposal. This will have marginal benefits in terms of promoting effective competition between persons engaged in shipping of gas.

This increased flexibility to stop interruptions of virtual reverse flow within the gas flow day and therefore resume virtual reverse flows to GB could have marginal benefits in terms of security of supply.

⁷ Commission Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0094:0136:en:PDF>.

Decision on the proposed modified GNI TRI

Upon review of the documents submitted on 7 June to Ofgem for approval with the main features as summarised above, and having regard to the authority's principle objective and statutory duties, the authority the Authority has decided to approve the modifications to the GNI TRI, in accordance with the provisions of SLC3 of GNI (UK)'s gas interconnector licence.

We note that there are a few minor clerical errors which do not materially affect our decision to the approve the modifications to the GNI TRI and ask GNI (UK) to consider addressing these the next time it amends these agreements under SLC 3(1).

Yours sincerely



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