

All,

Due to the time of year, I have had some problems compiling comments on this proposed modification (A074) but have summarised some points below.

Introduction

1. The proposed modification (A074) is to amend the second-tier imbalance prices from 0.95/1.05 of SAP to 0.75/1.25 of SAP; i.e. impose a more penal regime for second-tier imbalances.
2. It is apparent from the information provided by email (CMF action 498; 29 July) and discussions at the recent Code Modifications Forum (13 July) that the 'urgent' problem this modification is seeking to address is poor shipper behaviour resulting in the system being left long (e.g. 9th July; Shippers left in aggregate 15GWhr of gas on the network).
3. Nevertheless, it is important to recognise the importance of good shipper behaviour in respect of Nominations (Nom) and Renominations (Renom), and the requirements of the Code of Operations and the obligations placed upon shippers by their licences. Any potential regulatory response to a proven issue of poor shipper behaviour must be both appropriate to address the issue and proportionate to the issue. In the context of this modification, it is therefore instructive to separate out different types of shipper behaviour and likely impact of the modification on these different behaviours.

Different Shipper Behaviour

4. Three broad categories of Nom/Renom behaviour can be identified;
 - a. General/historic poor behaviour – all categories of shippers and refers to a failure to Nom/Renom in a timely manner with the most up to date information;
 - b. New patterns of behaviour – potentially all shippers and refers to recent changes in behaviour; e.g. those exhibited in the email of 29 July (CMF Action 498);
 - c. Instructed behaviour – largely Power Gen and refers to actions required to be taken by the shipper by EirGrid.

Limitations on Shipper Behaviour

5. It is also important to recognise the limitations on shippers in altering their behaviour in certain circumstances, namely;
 - a. Inability to Renom after 02:00 on D, including potential issues caused by Renom lead-times to effective Renom quantities;
 - b. Renom rejections, specifically the INFR

Analysis

6. It is unclear from the evidence presented to date whether the urgent issue to be addressed is a long-standing issue, new observable behaviour arising from the commissioning of Corrib, new observable behaviour arising from the introduction of Corrib, new observable behaviour arising from the behaviour of existing shippers at Moffat or a combination of two or more of these factors.
7. For shippers that have experienced general/historic poor second-tier imbalance performance, the proposed modification will make it more penal for them to continue their behaviour and the magnitude of the change is likely to be such that they will improve their behaviour.
8. If the urgent issue to be addressed is a result of new patterns of behaviour from shippers, it is necessary to first understand the cause of this recent change in behaviour before one seeks to address it. It is difficult to see what changes at Moffat could precipitate such a recent and significant change in shipper behaviour and no direct evidence has been provided to support an argument that this is the problem. If the change in behaviour is from shippers at Corrib, one must understand if this behaviour is purely temporary (i.e. linked to commissioning contracts) or whether it is likely to endure (e.g. the prevalence of 'take-or-pay contracts' and the associated discounts contained in such

contracts). If the issue is temporary and the commissioning of Corrib is complete, while the recent events have placed an undue burden on the disbursements account, the basis for such a change in the Code would seem to have expired. If however there remains a commercial incentive on shippers to 'dump' gas onto the GNI system – e.g. contractual discounts > second-tier imbalance multipliers – the proposed modification will have no effect on the targeted behaviour. It is therefore questionable how appropriate this proposed regulatory response is to the broadly identified problem of the system being left long by shippers, as the arrangements may still be commercially advantageous to such shippers, just to a lesser extent than at 0.95. Nevertheless, in such circumstances, the behaviour would persist and these new patterns of behaviour would endure.

9. For shippers that are instructed to take certain actions (e.g. Power Gen instructed on/off or to change their load-profile by EirGrid), it is important to distinguish between periods when actions can be taken and periods where no action can be taken, despite the best intentions of the shipper (e.g. limitations identified in para 5). Outside of these periods of limitation, that are considered to only place binding constraints on Power Gen shippers (i.e. all other shippers can act commercially to mitigate exposure to second-tier imbalances), there is no reason to view Power Gen shippers as being different to other shippers and poor shipper behaviour and the views expressed in the preceding paragraphs equally should apply. However, during periods of limitations to Renoms, where Power Gen shippers cannot respond to behavioural signals, a change to the second-tier imbalance multipliers places an inappropriate, disproportionate and arguably discriminatory burden on Power Gen shippers exposed to such imbalances in the particular circumstances of the limitations identified above. In these circumstances, the amendment to the second-tier imbalance multipliers cannot and will not alter shipper behaviour during these periods, although it may improve poor behaviour in all other periods. It is important to note that late changes in profiles from EirGrid, coupled with the bringing forward of the end of Renom time, are increasingly common for Power Gen and are likely to increase in the future with the increased penetration of intermittent renewables on the power system.

Summary

10. In summary, it is unclear that the proposed modification will have its desired effect. To the extent that all shippers, in aggregate, have historically exhibited poor nom/renom behaviour, this proposed modification may improve that situation. If the modification is to address recent changes in behaviour by shippers, likely associated with Corrib, it is unclear from the evidence presented that it can have its desired effect and that the commercial incentive to leave the system long by substantial amounts are removed from shippers; such commercial incentives will be governed by the contracts. In such circumstances, a more appropriate regulatory response may be for these specific shippers to be formally reminded of their requirements under both the Code of Operations and their Licence(s) by the CER and for them to undergo retraining with GNI. The proposed modification can have no impact on the behaviour of Power Gen shippers exposed to second-tier imbalances by the renom limitations and changing profiles issued by EirGrid. Power Gen shippers would however be exposed to penal increases in an already penal regime for actions taken outside of their control.

Next Steps

11. On the basis of the evidence presented to date and the potential multiplicity of causes underlying the current urgent imbalance issue(s), it seems apparent that further analysis is required to identify the appropriate and proportionate response to the issues(s).
12. Should the CER be minded to approve the proposed modification in its current form, it is considered necessary that some amendment and/or provision is made for Power Gen shippers who are instructed to act at specific times (e.g. between 02.00 and 06.00) or to such a degree (e.g. INFR < 0), by EirGrid, that their best intentions cannot give rise to an effective renomination and they are exposed to this more penal second-tier imbalance multiplier for potentially very large quantities of gas. We suggest that there are at least three options available for consideration;
 - i. Part I, Section 6 (Legal & General) of the Code of Operations currently provides a dispute resolution process, including the submission of a Dispute Notice and final determination by the CER; this process is adopted in Section 11 (Invoicing & Payment) to settle disputes

arising under this section. While it would appear that this option is currently open to shippers to pursue in the event of any issue arising under the Code, it does not appear to be well suited to the issue(s) identified herein; i.e. shipper exposure to second-tier imbalances arising from EirGrid instructions which the shipper cannot respond to in the gas market/system. Some simplification of this process is likely required and should be dependent on the provision of appropriate evidence (e.g. date/time stamped updated profile(s) from EirGrid).

- ii. Consideration could be given to the more general issue of making the Code more amenable to the challenges faced by Power Gen shippers in a centrally-dispatched market and the increasing demands on gas-fired generators with the increased penetration of intermittent renewable generation capacity. Included in this review could be a mechanisms by which Power Gen shippers are protected from exposure to penal charges that are designed to influence behaviour at times when the generator cannot alter/improve their behaviour.
- iii. Part D (Nominations, Allocations & NDM SP Reconciliation) of the Code of Operations Section 1.12 (revised 8th Sept 2015, previously 1.10; "Plant Trips") contains an alternative approach that could be expanded to deal with the circumstances outlined herein. The provision as it applies to plant trips is simple, based on evidence provided, the imbalance tolerance of the shipper at that point is increased such that they are not penalised for the trip. A similar approach to instructed Power Gen changes in requirements which they are unable to respond to, supported by relevant evidence, would seem to be a simple and relatively straight-forward solution.

13. In the event that a Code Modification is required to put any of these proposed changes in place, we would be happy to work with GNI and/or CER to devise a relevant Mod. Notwithstanding this, we remain unconvinced that the proposed change is required and/or that it can have its expected effect. We consider further analysis and assessment, and consideration of the specific requirement of Power Gen shippers at specific times where they cannot affect changes in their behaviour, to be necessary and critical to the achievement of GNI's intended outcome, that all shippers operate within their Code and Licence requirements, which we fully support.

ENDS

Should you have any questions on the comments made above, please contact me to clarify/discuss.

Kind regards,

Derek

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