



Gas Industry Balancing Workshop

Clarion Hotel, Cork

5th October 2016

12:00 – 14:00

Attendance:

Gas Networks Ireland:

Andrew Kelly, Kieran Quill, Gráinne Greehy, Brian Mullins, Wilma Cullen, Lisa Walsh

Industry:

Karen Trant	CER
Colm Ó Gormáin	CER
Sarah McCauley	CER
Henk Kreuze	Vermilion
Brian McGlinchey	IOOA/ Kinsale Energy
Terry Burke	Statoil
Amrik Bal	Shell
Kevin Murray	Bord Gáis Energy
Chris George	Gazprom Marketing & Trading
Dermot O' Kane	EBI
Martin Regan	EBI
Derek Scully	Energia
Bryan Hennessy	Vayu
Keith Deacon	Tynagh Energy
James Tyrell	ESB
Karol O' Kane	ESB
Lisa Fahy	SSE

1. Actions from last Workshop

- The Transporter provided an overview of the actions undertaken since the last Workshop on 1st June, as outlined below:

No.	Action	Responsibility	Status
1	Industry to contact the Transporter directly for any further information about imbalances required by shippers.	Industry	No requests for further information from industry
2	The Transporter will review the availability of data on Cumulative Imbalance Costs and revert back to industry participants regarding their request for this data.	GNI	Complete
3	Industry participants to provide their feedback within two weeks on: 1) whether they consider changes to 2nd Tier multipliers to be required; and if so, 2) their views on the amended multipliers proposed by the Transporter.	Industry	Complete
4	Industry participants to provide their feedback within two weeks on: 1) whether they consider a balancing platform to be appropriate to introduce; and if so, 2) their views on the balancing platform proposed by the Transporter.	Industry	Complete – Balancing Arrangements Consultation Complete
5	The Transporter will assess the responses provided on the proposed 2nd Tier multipliers and balancing platform within two weeks of its receipt.	GNI	Complete

2. Balancing Arrangements Consultation

Overview of Industry Responses

- The following briefing material was circulated in advance of this Balancing Workshop:
 - An **Excel File** which included each complete industry response to the Balancing Arrangement Consultation and an overview of all responses.
 - A **PDF** version of the overview of all responses.
 - The original versions of all Consultation Response, which are available [here](#).
- A hard copy of a “*Roadmap of Key Considerations for Balancing Frame – Overview of Industry Response*” was circulated to each participant at the start of the Workshop.
- The Transporter presented the Overview of Industry Responses to the Balancing Arrangement Consultation Paper (available [here](#)), as per the relevant slides.

Stage 1 (Selection of a Platform Option)

There was general agreement among Workshop participants that the Transporter should progress to move towards participating on a Trading Platform (and not progress the option of

a Balancing Platform), to be operated by an independent third party, for the reasons outlined in Slide 8.

Stage 2 (Signing up to a Trading Platform)

- Concerning the completion of relevant contracts, it was suggested that bilateral arrangements could be incorporated within or outside of the Code of Operations.

Credit Arrangements

- A detailed discussion on the different types of suggested credit arrangement to implement took place.
- The Transporter outlined that credit arrangements would be required for balancing sell transactions to protect the shipping community in aggregate, as the disbursement account would be negatively affected if a Shipper to a trade did not pay/went into default. A balance would need to be struck between no credit arrangements (where the Shippers would bear all the consequences of a Shipper defaulting and extensive credit arrangements (which may deter Shippers from participating with the Transporter on a Trading Platform).
- The Transporter stressed that credit arrangements between Shippers and the TSO for the Trading Platform would be separate from credit arrangements for capacity that are currently in place.
- The Transporter confirmed that it was investigating the most efficient method of setting up credit arrangements between the TSO and each individual Shipper in order to be able to trade on the Platform, which may include extending/repeating existing capacity related credit arrangements.
 - The Transporter indicated that it would look into this suggested approach from an administrative perspective.
 - The Transporter also noted that best estimates of activity between each Shipper and the TSO would have to be agreed, as part of the credit arrangement set-up process.
- The possibility of Shippers co-ordinating a Joint Letter of Credit was discussed.
 - A participant commented that the costs associated with a Joint Letter of Credit may not be equitably split among relevant Shippers, as it would be dependent on Shippers' individual credit ratings.
- It was agreed that the Transporter would draft a suite of credit arrangement options that it would be willing to accept from individual Shippers, in order to trade with them on a Trading Platform. These are likely to mirror the suite of options available on the existing financial security policy.

Stage 3 (Utilisation of a Trading Platform)

- Each of the key issues, as outlined in Slides 11 – 18, were discussed.
- Concerning Slide 12, the Regulator questioned what the purpose of an Oversight Committee would be.
 - The industry participant who suggested the formation of this Committee responded that its purpose should be to review initial operation of the new trading process (i.e.

the TSO operating on the Trading Platform to take necessary balancing actions) to ensure the whole market is functioning appropriately.

- The Transporter commented that GNI Grid Controllers are not professional gas traders, and that their primary function is to operate the network system.
- An industry participant questioned whether the Transporter expects to see a reduction in the number of balancing actions that it would have to take, as a result of participating on the Trading Platform.
 - The Transporter responded that it envisaged that it would hopefully need to take less balancing actions as a result of Shippers trading out their imbalances amongst themselves.

Liquidity and Use of the Balancing Services Contract

- The Transporter and industry agreed that clear policies and procedures would have to be established and implemented, to ensure there is no ambiguity in terms of the decisions made and actions taken by the Transporter when participating in trades on the Platform.
 - This point withstanding, the Transporter elaborated that care is required in determining how the TSO is to be appraised on decisions made, given the main function of GNI Grid Control is to operate the network system.
- Concerning the question posed by IOOA in its Consultation response about how capacity is invoiced under the current Balancing Services Contracts, the Transporter indicated that short term capacity was incorporated into balancing gas arrangements for 2015/2016 Balancing Services Contracts, but that both the Buy and Sell Balancing Services Contracts for 2016/2017 have moved to an all-inclusive price.
- An industry participant commented that the Transporter should base their decision whether to use the Trading Platform or Balancing Services Contract to secure a necessary balancing action on the basis of which option is more price efficient.
 - In this regard, the Transporter highlighted that the Balancing Services Contracts are indexed against UK gas price indices, which are only available after the day, so a direct 'like for like' comparison is not achievable, as the price under the Balancing Services Contract has not yet been determined at a given point in the gas day (only the rolling UK gas indices are available).
- The Transporter noted that if it is choosing to take a balancing action, it is because there is an urgency to do so.
- It was suggested that the Transporter should notify shippers in advance of placing a bid/offer on the Trading Platform, to promote liquidity.
 - An industry participant commented that in other jurisdictions, TSOs take balancing actions on Trading Platforms at specified times during the day, and that perhaps this might be an effective means of promoting liquidity on a ROI Gas Trading Platform.
 - The Transporter and industry agreed that automatic linepack notifications (i.e. the network's aggregate long/short position), which should become available on an hourly basis in the future, should promote liquidity.

- The Transporter stressed that pricing and trade duration (i.e. bid/offer windows) Work Instructions, including at which point to revert to the Balancing Services Contact, will be clearly established, prior to the TSO commencing trading activity on a Platform.
- There was a consensus that agreement on pre-defined price differentials is required.

Cashout Prices

- The imbalance cashout prices proposed by industry to be implemented in situations of different long/short Shipper positions and trading activity were presented, as per slides 16-18.
- It was noted that the Balancing Services Contact price is a reference price, in terms of trade decision making.
- Industry participants questioned the rationale for cashout prices, referring to the concept a rolling imbalance in place of a cashout price, where a Shipper would pay a penalty for their imbalance, but be able to use/trade their surplus gas the next day.
 - The pros (such as starting ‘fresh’ every day) and cons of such an approach were discussed.
- The concept of a single pricing approach, based on each individual Shippers’ long/short position relative to the system position (as outlined in Industry Consultation Responses) was also outlined.
- It was agreed that in the longer term, dynamic pricing should be implemented once a live and liquid Trading Platform is in operation on which the TSO participates.
- All parties agreed that a **two phased approach** should be adopted, and that the minimum requirements to ensure that the TSO can participate on a Trading Platform should be the primary focus for now.
 - **Phase 1:** Goal of ensuring an enduring balancing solution is achieved, where the TSO and Shippers participate on a live and liquid Trading Platform.
 - **Phase 2:** Once Phase 1 is complete, explore and evaluate whether 1) tolerances should be removed, and 2) the cashout price regime should be amended.
- It was agreed that incorporating the Phase 2 concepts into the drafting of Business Rules for the Transporter participation on a Trading Platform would delay the process of transiting to the Platform.
 - It was suggested that perhaps a practical approach is to leave cashout prices and tolerances as they are for the first six months of the Transporter participating on the Platform. However, other industry participants suggested that a shorter timeline is more appropriate.
 - A Governance Oversight Committee (as previously discussed) could possibly decide when is the appropriate time to move to more dynamic based pricing, depending on liquidity on the Platform.
 - However, an industry participant commented that holding off on such amendments would not provide the desired balancing incentives to Shippers (i.e. that actions taken on a day need to be linked to activity).

- It was agreed that industry will respond to the Transporter within two weeks, to indicate their preferred option(s) for possible cashout prices for the different scenarios outlined in Question 10, highlighting which of the suggested cashout prices (as per industry Consultation responses) they would consider agreeable for each scenario (*see relevant Table in Appendix 1*).

3. Next Steps

- The proposed next steps were outlined, as per Slides 20-21.
- The Transporter commented that the sections of the Code of Operations that will require the most changes, as a result of the TSO moving to trade on a Trading Platform, will be those pertaining to imbalance cashout prices.
- The Transporter indicated that it is ready to issue a tender for the provision of Trading Platform services in the coming weeks, subject to internal approval and CER direction to do so.
- The Transporter stressed that drafting of Business Rules is the key focus at present.
 - It was agreed that the Transporter will circulate a first draft of Business Rule for the Transporter participation on a Trading Platform in advance of the next Balancing Workshop.
- It was agreed that the next Balancing Workshop will take place on the 23rd November, following the Code Modification Forum Meeting (scheduled to take place that morning).

Timelines

- An industry participant questioned when the Transporter considers it feasible for the TSO to participate on a Trading Platform, assuming that such a Platform will be up and running.
 - The Transporter indicated that speculative timelines are difficult to predict at present, since:
 - terms and conditions will take time to finalise.
 - impacts on the disbursement account will have to be clearly established in advance of any Platform participation.
 - required systemisation changes, which will be determined based on agreed Business Rules, will also take time to establish and implement.
 - there is currently no consensus among stakeholders about the cashout prices and credit arrangements to apply to Platform trade activity.
 - In light of these required actions and changes, the Transporter felt that a proposed date of March 2017 would be an ambitious target and that it would most likely be later than this date before the Transporter would be ready to participate on a Trading Platform.
 - The Transporter stressed that it is not trying to delay the process of transitioning to a Trading Platform in any way, but that each of these required activities will take time to implement correctly to ensure a robust process and accurate billing/disbursements account updates are delivered.
 - The Transporter highlighted that once Business Rules have been agreed, this will proffer all stakeholders a better idea about associated proposed timelines.

- An industry participant questioned whether the Transporter will be able to provide specific timelines for transitioning to the Platform at the next Balancing Workshop.
 - The Transporter responded that hopefully it will; however, timelines concerning the IT systemisation aspect of the transition process are unknown at present.
 - The Transporter stated that internal meetings concerning progressing this aspect of the transition process are scheduled for the coming weeks.
- A number of actions were taken by the Transporter, as laid out in the following table.

No.	Action	Responsibility
1.	Transporter to draft a suite of credit arrangement options that it would be willing to accept from individual Shippers, in order to trade with them on a Trading Platform.	Transporter
2.	Industry to respond to the Transporter within two weeks, to indicate their preferred option(s) for cashout prices for the different scenarios outlined in Question 10, highlighting which of the suggested cashout prices (as per industry responses) they would consider agreeable for each scenario (<i>see relevant Table in Appendix 1</i>).	Industry
3.	Transporter to circulate a first draft of Business Rule for the Transporter participation on a Trading Platform, in advance of the 23 rd November Balancing Workshop.	Transporter

Appendix 1: Overview of Responses to Question 10 (The following Table outlines a series of potential scenarios (A-F); these include GNI undertaking/not undertake balancing actions, and trades taking/not taking place on a Platform. In each blank cell, please insert details on the cashout price that you consider appropriate to apply in each scenario).

Scenario	Cashout Buy Price to Apply to Shippers' Short Positions	Cashout Sell Price to apply to Shippers' Long Positions
<p>A. GNI has no balancing (buy or sell) requirements, but there are trades on a Platform.</p>	<ul style="list-style-type: none"> • SMP Buy (Tynagh) • IBP, SMP Buy (Vayu) • Similar to UK NBP, where cashout is +/- pence or cents around SAP. UK is presently +/-1.1p. (SSE) • Weighted average of trades on platform plus 1p/therm (Statoil) • Cash out price linked to either IBP SAP (i.e. weighted average of all trades on the trading platform) plus a small differential (e.g. 1p/therm) or the highest price IBP buy action, whichever is higher (IOOA) 	<ul style="list-style-type: none"> • SMP Sell (Tynagh) • IBP, SMP Sell (Vayu) • Similar to UK NBP, where cashout is +/- pence or cents around SAP. UK is presently +/-1.1p. (SSE) • Weighted average of trades on platform minus 1p/therm (Statoil) • Cash out price linked to either IBP SAP minus a small differential (e.g. 1p/therm) or the lowest price IBP sell action, whichever is lower (IOOA)
<p>B. GNI has no balancing requirements, and there are no trades on a Platform.</p>	<ul style="list-style-type: none"> • SMP Buy (Tynagh) • NBP, SMP Buy (Vayu) • Similar to UK NBP, where cashout is +/- pence or cents around SAP. UK is presently +/-1.1p. (SSE) • Cash out price linked to NBP SAP plus a small differential (e.g. 1p/therm (Statoil, IOOA)) 	<ul style="list-style-type: none"> • SMP Sell (Tynagh) • NBP, SMP Sell (Vayu) • Similar to UK NBP, where cashout is +/- pence or cents around SAP. UK is presently +/-1.1p. (SSE) • Cash out price linked to NBP SAP minus a small differential (e.g. 1p/therm (Statoil, IOOA))
<p>C. GNI has balancing buy requirements, and has to utilise the balancing services contract.</p>	<ul style="list-style-type: none"> • SMP Buy (Tynagh) • NBP, SMP Buy (Vayu) • GNI should make it known to the market if it uses a Balancing Services Contract, but its use should not actually affect the market (SSE) • Cash out price is the cost of the buy under the balancing services contract which should include the cost of the short-term transportation capacity booking to get gas from entry point to IBP (Statoil, IOOA) 	<ul style="list-style-type: none"> • SMP Sell (Tynagh) • NBP, SMP Buy (Vayu) • GNI should make it known to the market if it uses a Balancing Services Contract, but its use should not actually affect the market (SSE) • Weighted average of trades on platform minus 1p/therm (Statoil) • IOOA's answer to 10A or 10B above dependent on whether there are trades on the platform (IOOA).
<p>D. GNI has balancing sell requirements, and has to utilise the balancing services contracts.</p>	<ul style="list-style-type: none"> • SMP Buy (Tynagh) • NBP, SMP Sell (Vayu) • GNI should make it known to the market if it uses a Balancing Services Contract, but its use should not actually affect the market (SSE) • Weighted average of trades on platform plus 1p/therm (Statoil) • IOOA's answer to 10A or 10B above dependent on whether there are trades on the platform (IOOA). 	<ul style="list-style-type: none"> • SMP Sell (Tynagh) • NBP, SMP Sell (Vayu) • GNI should make it known to the market if it uses a Balancing Services Contract, but its use should not actually affect the market (SSE) • Cash out price is the cost of the sell under the balancing services contract which should include a mark-up to reflect short term transportation capacity booking (Statoil, IOOA)

<p>E. GNI has balancing buy requirements, and trades these out on a Platform.</p>	<ul style="list-style-type: none"> • SMP Buy (Tynagh) • IBP, SMP Buy (Vayu) • Similar to UK NBP, set the cashout by buying up or selling down to a price that's on the screen and hence setting the cashout buy or sell price (SSE) • Highest priced balancing buy action by GNI taken on the Platform on the day (Statoil, IOOA) 	<ul style="list-style-type: none"> • SMP Sell (Tynagh) • IBP, SMP Buy (Vayu) • Similar to UK NBP, set the cashout by buying up or selling down to a price that's on the screen and hence setting the cashout buy or sell price (SSE) • Weighted average of trades on platform minus 1p/therm (Statoil) • IOOA's answer to 10A above (IOOA)
<p>F. GNI has balancing sell requirements, and trades these out on a Platform.</p>	<ul style="list-style-type: none"> • SMP Buy (Tynagh) • IBP, SMP Sell (Vayu) • Similar to UK NBP, set the cashout by buying up or selling down to a price that's on the screen and hence setting the cashout buy or sell price (SSE) • Weighted average of trades on platform plus 1p/therm (Statoil) • IOOA's answer to 10A above (IOOA) 	<ul style="list-style-type: none"> • SMP Sell (Tynagh) • IBP, SMP Sell (Vayu) • Similar to UK NBP, set the cashout by buying up or selling down to a price that's on the screen and hence setting the cashout buy or sell price (SSE) • Lowest priced balancing sell taken by GNI on the Platform on the day (Statoil, IOOA)