



Gas
Networks
Ireland

Balancing Arrangements

Workshop 5 October 2016

Agenda

1. Actions from last workshop
2. Balancing Arrangements Consultation
 - Overview of Industry Responses
3. Next Steps

1. Actions from last workshop

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 2 nd 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 2 nd Tier multipliers and balancing platform within two weeks of its receipt.	GNI	Complete



2. Balancing Arrangements Consultation

Balancing Arrangements Consultation Paper



Focus of Consultation Paper (<http://www.gasnetworks.ie/en-IE/Gas-Industry/System-Operator/Sub-Page-1/Balancing-Arrangements-Consultation-Paper/>)

- **11 questions** posed concerning:
 - views on a Trading Platform.
 - views on a Balancing Platform.
 - views on transitioning to a Platform.

Balancing Arrangements Review of Platform Options

Regulation EU 312/2014
'Balancing Network Code' Compliance

25 August 2016

Issued for Industry Consultation



Overview of Industry Responses

Eight responses received in total from:

- Tynagh Energy
- SSE
- Statoil
- IOOA
- ESB
- Bord Gáis Energy Limited (BGE)
- Vayu Energy
- Energy Broking Ireland (EBI)

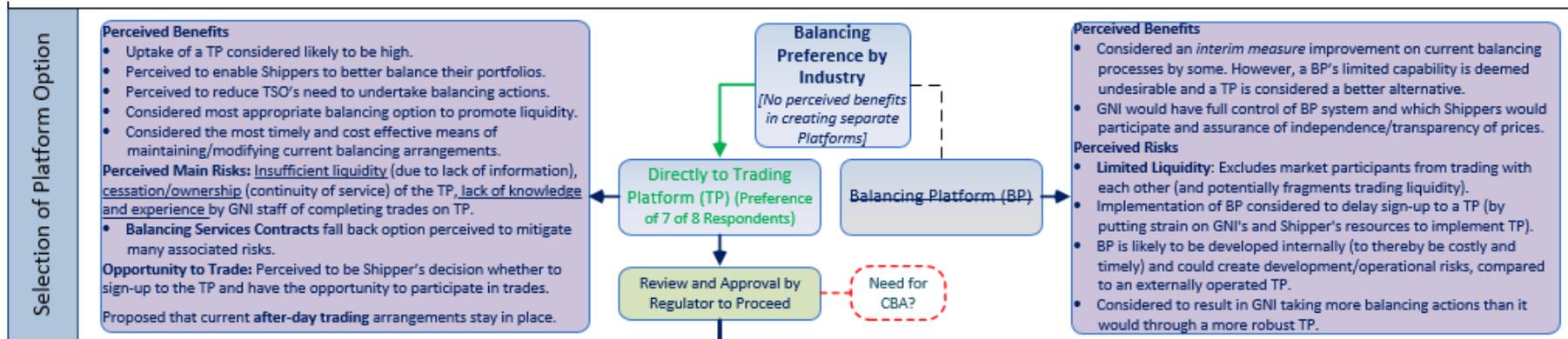
All Industry Responses are available at the following link: <http://www.gasnetworks.ie/en-IE/Gas-Industry/System-Operator/Sub-Page-1/Balancing-Arrangements-Consultation-Paper/>

Briefing Material, including an Excel file detailing all responses and an overview of responses (also presented in a PDF), has been circulated.

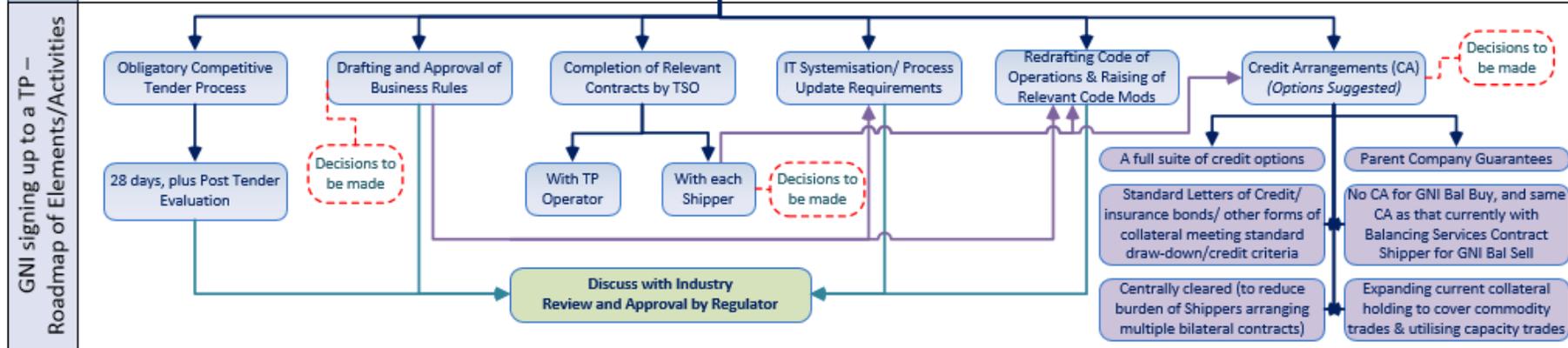
Roadmap of Key Considerations for Balancing Framework

Overview of Industry Responses to Balancing Arrangements Consultation (see hand-out)

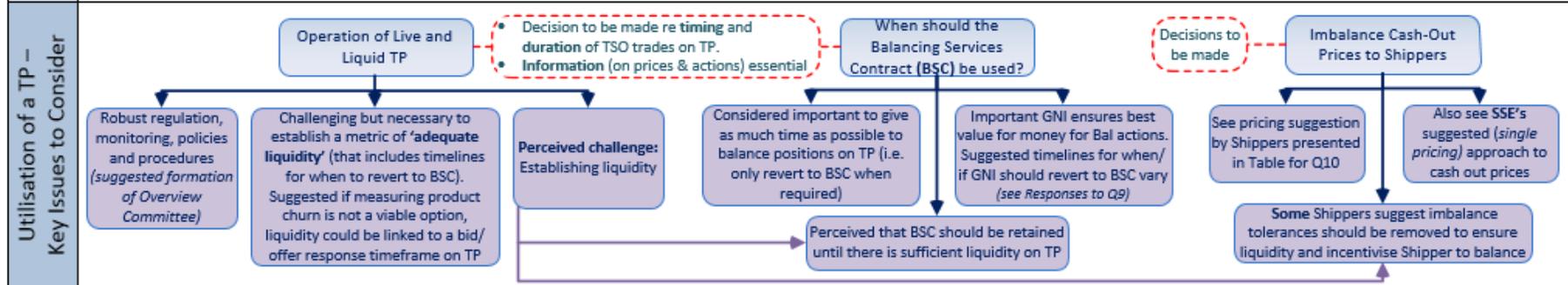
Stage 1



Stage 2



Stage 3



Stage 1: Selection of Platform Option (Questions 1, 2, 4, 5, 6, 7)

Perceived Benefits

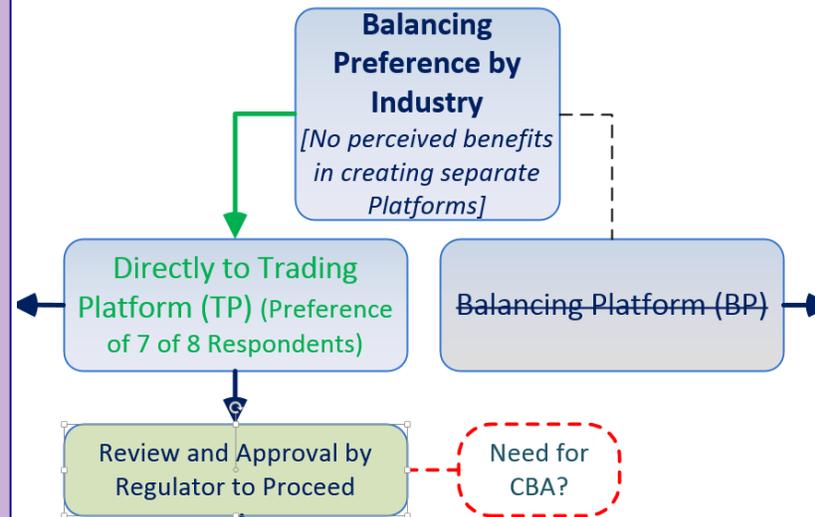
- Uptake of a TP considered likely to be high.
- Perceived to enable Shippers to better balance their portfolios.
- Perceived to reduce TSO's need to undertake balancing actions.
- Considered most appropriate balancing option to promote liquidity.
- Considered the most timely and cost effective means of maintaining/modifying current balancing arrangements.

Perceived Main Risks: Insufficient liquidity (due to lack of information), cessation/ownership (continuity of service) of the TP, lack of knowledge and experience by GNI staff of completing trades on TP.

Balancing Services Contracts fall back option perceived to mitigate many associated risks.

Opportunity to Trade: Perceived to be Shipper's decision whether to sign-up and have the opportunity to participate in trades.

Proposed that current after-day trading arrangements stay in place.



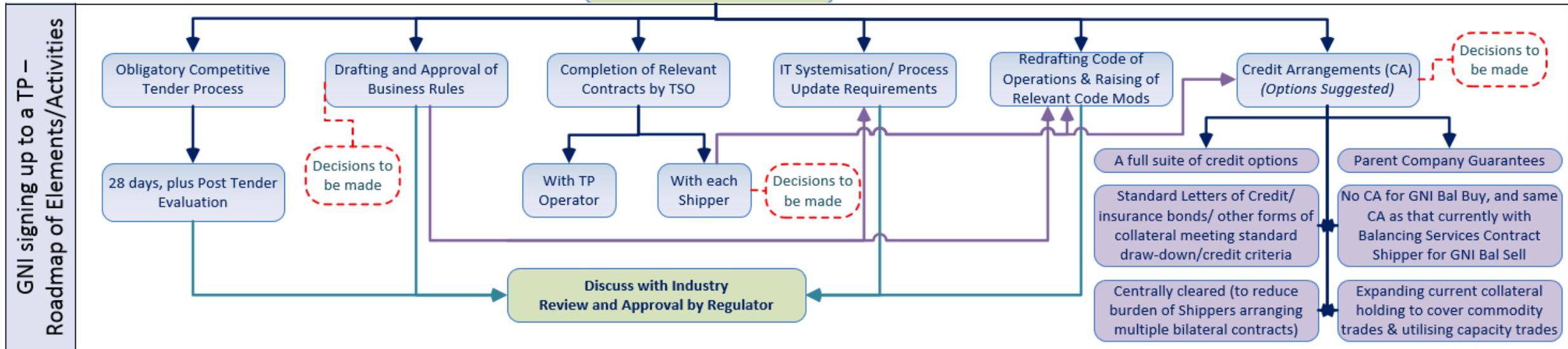
Perceived Benefits

- Considered an *interim measure* improvement on current balancing processes by some. However, a BP's limited capability is deemed undesirable and a TP is considered a better alternative.
- GNI would have full control of BP system and which Shippers would participate and assurance of independence/transparency of prices.

Perceived Risks

- **Limited Liquidity:** Excludes market participants from trading with each other (and potentially fragments trading liquidity).
- Implementation of BP considered to delay sign-up to a TP (by putting strain on GNI's and Shipper's resources to implement a TP).
- BP is likely to be developed internally (to thereby be costly and timely) and could create development/operational risks, compared to an externally operated TP.
- Considered to result in GNI taking more balancing actions than it would through a more robust TP.

Stage 2: Signing up to a Trading Platform – Roadmap of Activities



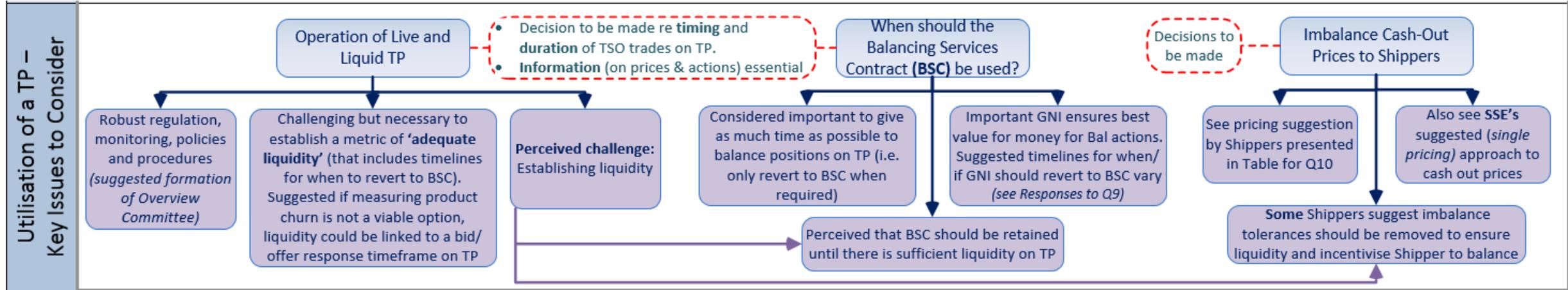
- Multiple, interrelated, preparatory activities involved in signing up to a Trading Platform.
 - For instance, completion of relevant contracts by the TSO with each Shipper would have an impact on the Code of Operations and credit arrangements with Shippers.

Suggested Types of Credit Arrangements to be put in place (Question 8)

- **A full suite of credit options** (including traditional products of Parent Company Guarantees, Letters of Credit and Margin Call's, provision of unsecured credit limit, buy only option (i.e. GNI is the seller) with no credit required, cash deposit, and post day payment (BGE).
- **Standard Letters of Credit, insurance bonds**, other acceptable forms of collateral meeting standard draw-down and credit criteria, to be established by GNI (SSE).
- **Parent Company Guarantees** (ESB).
- A **contract based off the standard IBP 2015 Contract**, with the TP being centrally cleared, to reduce burden of Shippers arranging multiple bilateral contracts (Tynagh).
- **No credit arrangements** being required between parties when GNI is **purchasing gas**, and that the **same credit arrangements** as are currently in place with the Balancing Services Contract Shipper being implemented when GNI is **selling gas** (Statoil, IOOA).
- Suggested that there may be merit in allowing each Shipper a **line of credit reflecting their individual financial position** and should an amount be required to be put in place to cover any shortfall, options available under the **current GNI financial security policy** could be used (Vayu).
- Expanding current collateral holding to cover commodity trades, and utilising capacity trades (Tynagh).

Stage 3: Utilisation of a TP – Key Issues to Consider

(each issue is discussed in turn)



Operation of a Live and Liquid Trading Platform

- Considered challenging but necessary to establish a metric of ‘**adequate liquidity**’ (that includes timelines for when to revert to Balancing Services Contracts, otherwise, the opportunity to call on the Contract may have passed or be significantly reduced due to flow rates).
 - Suggested that if measuring product churn is not a viable option, liquidity could be linked to a bid/offer response timeframe on TP.
- **Perceived challenge:** Establishing liquidity.
- Need for robust regulation, monitoring, policies and procedures stressed (*suggested formation of an Overview Committee*).
- IBP activity to date (*see next Slide*).

IBP Activity to Date

IBP Trade Summary			
Time Period	Months	Number of Trades	Quantity of Gas Traded (kWh)
01/10/2013 to 30/09/2014	12	394	170,007,856
01/10/2014 to 30/09/2015	12	184	180,514,563
01/10/2015 to 30/07/2016	10	1,854	8,857,253,392

Use of Balancing Services Contract (BSC) (*Question 9*)

- Considered important to give as much time as possible to balance positions on a Trading Platform (i.e. only revert to BSC when required).
- Important that GNI ensures best value for money for balancing actions. Suggested timelines for when/if GNI should revert to BSC vary.
 - For example, one Shipper suggests that if GNI are unable to transact required volumes on chosen platform prior to the three hour dead-band time period (02:00 to 05:00), the BSC should be utilised.
 - Another Shipper suggests establishing a window of approx. two hours in duration, after which time the BSC would be reverted to (Vayu).
- Perceived that BSC should be retained until there is sufficient liquidity on a TP.

Concerning both liquidity and use of the BSC

- Decision to be made concerning **timing** and **duration** of TSO trades on a TP.
- **Information** (on prices and actions) is considered essential.

Question asked concerning Question 9 *(what criteria should apply to determine when GNI should revert to the Balancing Services Contract?)*

- How is capacity invoiced under the Balancing Services Contract; what type of transportation capacity is charged by the Balancing Services Shipper (short term vs annual) to deliver balancing services gas from Moffat to the IBP?
 - Short term capacity used to procure balancing gas for 2015/2016 Balancing Services Contract.

Imbalance Cashout Prices to Shippers (Q10) (Slide 1 of 2)

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) • Cashout 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) • Cashout 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) • Cashout 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) • Cashout 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 BSC.</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 BSC, but its use should not actually affect the market (SSE) • Cashout price is the cost of the buy under the BSC 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 BSC, 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).

Imbalance Cashout Prices to Shippers (Q10) (Slide 2 of 2)

Scenario	Cashout Buy Price to Apply to Shippers' Short Positions	Cashout Sell Price to apply to Shippers' Long Positions
<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 BSC, but its use should not actually affect the market (SSE) • Cashout price is the cost of the sell under the BSC 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)

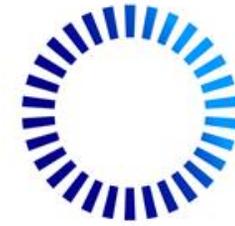
Cashout Prices and Provision of Information

Cashout Prices and Removal of Tolerances

- Some Shippers feel that for either Platform to work efficiently, GNI must implement the removal of First and Second Tier imbalance tolerances, which would incentivise each shipper to balance to zero on the Platform every day (Statoil, IOOA)

Provision of Information considered Key

- Information provision is considered to protect GNI against having to take numerous balancing actions during a day, such as morning balancing buys and evening balancing sells.
- It is felt that the more information (i.e. near real-time, hourly, linepack data) GNI makes available, the more likely it is that a liquid trading price at the IBP (Irish Balancing Point) develops (Statoil, IOOA, ESB, BGE).
- Some feel Balancing Action Notifications should be provided to industry in advance of a balancing action(s) transacting within a balancing window(s) each day, to ensure that liquidity is maximised when GNI is transacting on a Platform (Statoil, IOOA).



3. Next Steps

Summary of Activities Required Going Forward

Issues requiring industry/GNI/CER agreement:

- **Business Rules for use of selected Platform**
 - Contractual arrangements
 - Credit arrangements
 - Liquidity and protocol for use of balancing services contract
 - Governance/oversight
- **Tolerances and Cashout Regime**
 - Price matrix to apply in various scenarios
 - Tolerances – change, remove, amend?
- **Information Provision**
 - Publication of data on system linepack
 - Signalling of Bal buy/sell requirements and information on GNI participation on a Platform.

Other Activities:

- Tender for Platform
- IT system upgrades (will depend on business rules agreed)
- Business process amendments (e.g. grid control operations, validation of balancing actions, invoicing/settlement)
- Code Modifications to reflect new regime

Proposed Next Steps

- CER consideration of Industry Responses and Workshop discussions.
 - Direction to proceed with Platform Option.
 - Following this, GNI to issue first draft of Business Rules. A number of issues need to be discussed (as outlined in the previous Slide).
 - Further Workshops with Industry.



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Thank you for your participation