SSE response to Code Modification A094 and A095, Regulation EU 312/2014

27th July 2018

Q1. What do you believe is the appropriate tolerance level for each category of customer (LDM, DM and NDM)?

SSE in the round broadly understands the TSOs proposals to remove tolerances across the LDM and DM sector. However, we note that the Balancing Network Code is specific in the preamble at paragraph 6 where it is stated that "In order to enable network users to balance their balancing portfolios, this Regulation also sets out minimum requirements for information provision to implement a market-based balancing regime".

Since the Balancing Network Code came into force, Ireland has been applying interim measures, which are catered for under Article 45 to Article 51 of the Network Code, and include the facilitation of tolerances in instances where network users do not have access to, amongst other things "sufficient information regarding their inputs and offtakes".

LDM Sector

In the first instance, we note that for the LDM sector the issues faced in terms of inputs and offtakes relate to the timing of when such LDM customers are required to be available to the electricity system operator. In SSE's view the issue here pertains more to the timing of information from the electricity operator, rather than from the gas operator. Of course, there is a dead-band period from 00:45 to the beginning of the next gas day, where our gas traders must use their own judgment to nominate what is expected for the remaining 5 hours before the beginning of the next gas day. Therefore, it is arguable that whilst "sufficient information" is available for the majority of the gas day, it is apparent that during the dead-band the information available is simply not available. As the amendment to the Gas Day was an EU initiative, it indicates a lack of joined up thinking between the electricity and gas sectors at an EU level.

We recognise that GNI is obliged to move towards the removal of tolerances, but ultimately the fact of the matter is that there is not sufficient information available to LDM network users during the cut off period. We would suggest that as broadly speaking the majority of gas is consumed during the gas day, that an application of a small tolerance (2.5%) to be applied compensates for the fact that information is not available during the dead-band period.

DM sector

In the case of the DM sector, SSE uses a daily forecast is used. This forecast is not amended throughout the day. We have analysed SSE's DM portfolio across Ireland since the beginning of January.

SSE's DM sites have on average been 9.4% above the forecast level. This varies, from close to zero to over 35%, which is indicative of a lack of information available for these sites.

When one considers the purpose of the Regulation as intending to "give network users the certainty that they can manage their balance positions…" [1]it is apparent that this is not the case. When one consider that the I/C constitutes 24% of demand[2]then this indicates that at an aggregate level a large volume of gas does not have sufficient information associated with it. We do agree with GNI that the current level of tolerance is high, but do not believe that the removal entirely is appropriate. SSE proposes that a tolerance level of 10% is applied to the DM sector.

It should be noted that on balance, it is apparent that it is the DM sector in particular which suffers from a lack of metered information which facilitates accurate nominations. As such, we would suggest that it is entirely reasonable that a tolerance, is at a minimum applied to the DM sector given the entire lack of information available to this sector.

---

1 Preamble

2 Taken from the 2017 Gas Networks Ireland Network Development Plan

Q2. What are your views as to the appropriate dates for the two-step reduction proposed?

SSE is of the view that it is preferable for reductions to occur in one-step rather than two steps. This is on the basis that shippers will be required to amend internal processes to take account of tolerance reductions. From a process point of view a two-step approach, which presumably would be quite close to each other runs the risk of causing more complexity for shippers, as processes would require revision as soon as the first process (to take account of the initial tolerance change) is put in place.

We would suggest that as the tolerance reductions must be in place for April 2019 ,3 factors must be considered;

I-SEM go Live – Shippers will require a bedding in period in I-SEM initially.

Boosting liquidity a the IBP- The removal or reduction of tolerances will boost IBP liquidity which SSE is supportive of. Therefore, although there is a requirement to consider I-SEM, from a gas perspective it makes sense to boost liquidity sooner rather than later.

Internal processes for shippers- a period of time will be required to reflect the necessary changes in internal work processes. Therefore, a reasonable period of say 2 months would appear reasonable for updating and training.

Given that I-SEM is to go Live on 1st October, we are of the view that a balanced approach would be to aim for implementation between December 2018 and February 2019.

This aims to ensure that the implementation is well ahead of the April 2019 deadline, take account of boosting IBP liquidity but is also a prudent time after initial bedding in of I-SEM. An implementation period between December 2018 and February 2019 also allows sufficient time for internal process updates for those responsible within shippers for nominations.

Q3. What is your view as to the magnitude of the small adjustment to be used in the calculation of the marginal sell price and the marginal buy price?

In the GB market, the small adjustment is SAP +/- 1.3p/therm. Applying the approach that GNI propose which is based on a percentage of SAP could result in either excessively punitive adjustments. For example, in March 2018, UK NBP reached ~£5/therm. In this case the small adjustment would be 25p, which does not constitute a small adjustment.

Analysis of other EU markets indicates that there is a range of small adjustments in place. France and Portugal applies 2.5%, Belgium applies 3% and Germany applies a 2% small adjustment. This indicates that broadly speaking the level of the adjustment is low. Indeed, in the ACER Balancing implementation report ACER specifically references those member states with higher adjustments as not applying the intent of the small adjustment calculation.

Given the intrinsic links between the Irish and GB markets, and the role of Moffat gas as the marginal source, SSE is of the view that a monetary cap applied is appropriate and in line with the EU Network Code requirements. This gives certainty to shippers which is important when balanced against the fact that the removal or reduction of tolerances will already impact shippers risk profile, which must in turn be built into market offerings.

A variation of this could be a mechanism whereby whereby the small adjustment (in c/therm) is applied at a level that is commensurate with the average of 2.5% of NBP spot prices over a period of 1 year. This calculation would then be factored into the Code of Operations and updated annually to take account of gas prices3.

For example, if average NBP spot prices4 were €0.60/c/therm, then a 2.5% adjustment would result in an adjustment of 1.5 c/therm. If in the subsequent year, the gas price rose to an average of €0.70/c/therm then the adjustment would be 1.75c/therm. In this way, given that supply/demand dynamics in the UK may have a significant impact on Irish wholesale prices, this approach would remove the fluctuations that would otherwise arise where the small adjustment was linked to the wholesale market.

---

3 Using the GB approach of 1.3p/therm the percentage differential would be 2.45% over 2018

4 Over a period of 12 months

Q4. Do you believe the liquidity threshold criteria provided above are appropriate?

SSE is of the view that any action which GNI proposes to boost IBP liquidity is to be supported, and the four-metrics applied appear appropriate, and note that metrics 1 to 3 have broadly been met. However, where the four metrics are not met as required then the default to the NBP should apply.

We also seek clarification on metric 4. This indicates that metrics 1-3 should apply for at least 90% of the days under review. SSE is not clear what this period relates to.

We also have a clarification query. On page 7 of the consultation paper, should the First Tier Sell price be SAP NBP-5% minus transportation costs, where a valid SAP IBP is not published?

Q5. What is the appropriate date for the implementation of the new methodology for calculation of the cashout prices?

SSE is of the view that the new methodology should be applied as soon as possible, given that liquidity at the IBP has now been demonstrated.

As such, we are neutral with regards to when GNI implement the new methodology. As we understand that a number of shippers have now concluded bilateral agreements with GNI, it would be prudent for GNI to move to the new methodologyy as expeditiously as possible.

We welcome and thank GNI for progressing these matters since 2015, with the aim of fostering a liquid IBP to the benefit or Irish gas shippers and consumers.

sse