



Energy for
generations

ESB
4th Floor, 85 Tottenham Court Road, London W1T 4TQ
Phone: +44 (0) 20 7396 1034
esb.ie

Andrew Kelly
Market Development, GNI
By email:
marketdevelopment@gasnetworks.ie

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Dear Andrew

Thank you for the opportunity to provide feedback on your proposed Code Modifications, A094 and A095, concerning the implementation of Regulation EU 312/2014 ("BAL").

We note the comment at the beginning of the consultation document, that the purpose is to give industry a "final chance" to input to the implementation of BAL. ESB Generation & Trading hopes to work with GNI, CRU and industry to implement BAL in a way that is appropriate for Shippers and end-users in the Republic of Ireland; further dialogue and industry input will likely be required to ensure this. Modifications to the Code of Operations may also be relevant in this context.

We have provided our answers to your specific questions below, with further explanation and examples as relevant. We will be happy to discuss our response bilaterally with you in further detail and look forward to the group discussion at the Code Modification Forum scheduled for 8 August.

Yours truly

Kirsty Ingham
Commercial & Regulation Manager, GB
ESB Generation & Trading



5.1 A094: Changes to Shipper Portfolio Tolerances

Q1. What do you believe is the appropriate tolerance level for each category of customer?

We believe the current level of tolerance should be maintained until such time as conditions 50.1 (a), (b) and (c) can be shown to have been adequately met. As we have previously submitted to GNI (see response dated 7 June 2018), and continue to assert, there remains:

- a) Insufficient liquidity at the short-term wholesale gas market (EBI platform);
- b) Insufficient access to gas to meet short-term fluctuations in demand or supply, and
- c) Insufficient timely information regarding inputs and offtakes.

Points (a) and (b) on liquidity and access to gas are addressed below in our response to Q4, where we refer to EFET discussion of these issues.

For point (c), we would like to provide two example user groups: power stations and Daily Metered users (noting that GNI proposes to maintain tolerance for NDMs).

Power stations

Under SEM, and in the future under I-SEM, the electricity TSO (Eirgrid) dispatches power plant. An indication of requirement is provided allowing the generator to estimate gas offtake and nominate to GNI. Eirgrid can, however, change its instruction to the generator throughout the day, and the generator must follow Eirgrid's instruction – with clear implications for the need to offtake gas. There is limited opportunity for a generator to take action to balance its position, especially in circumstances of a notification from Eirgrid late at night (e.g. the EBI “dead zone” or the period after around 7:00 pm when trading rarely occurs).

Balancing tolerance currently mitigates some of these variances from originally indicated running patterns, but generators currently are still put into a position of gas imbalance above tolerance levels by the electricity TSO and suffer penalties without scope for mitigation. Specific and clear examples can be given for plant which are on the margin and have regular late or unexpected revisions to their generating schedules, and also for events where an unplanned outage in one station has seen another plant instructed to pick up generation unexpectedly. Both sets of circumstance result in imbalance and in tolerances being exceeded. If tolerances were removed entirely, the financial implications would clearly be increased.



We note that for NDMs *“in circumstances where the shipper has followed Transporter NDM nomination advices, an NDM forecast tolerance would cover the absolute difference between the Final NDM exit allocation and the final NDM nominations advice for a shipper”*. The logical continuation of this principle is for power generators to receive the same treatment in relation to instruction from the electricity TSO, as they act in good faith for the benefit of the end-user. We are minded to explore the possibility of a modification to the Code of Operations in this regard.

Daily Metered users (DMs)

Allocation information for DMs is provided on the day after consumption (i.e. D+1) on an indicative basis. The final allocation, on which the final imbalance positions are assessed, is provided four days after the day of consumption (i.e. D+4). No meter reading information is provided to the Shipper. The Shipper, however, must make a nomination to GNI ahead of the consumption day using the limited information available. He has only an indicative, or rough idea, of what was consumed on the previous day as the basis for this. Regression analysis incorporating weather data is generally used by Shippers, we understand, to generate the forecast for the following day – which in itself is likely to be inaccurate, but with its basis as a rough idea of the final allocation, this is little more than a guess. It is very clear that the provision and quality of timely information for Shippers is inadequate, firstly for them to make accurate nominations and secondly to balance their positions.

Maintaining tolerances for the DM sector is therefore necessary. The level of tolerances that is appropriate, in reference to your question, needs to be analysed and assessed objectively. Any reduction in tolerance needs to be monitored. The current 30% appears high, but in the context of the lack of timely information for Shippers, this may not be the case.

Ex-post trading of imbalances once the final allocations are known has been used in some markets in the past to address information inadequacy. The general trajectory, in the spirit of the EU Network Codes and Regulations, has been towards improving and standardising data provision with the aims of improving efficiency and competition, and ensuring that certain types of end-user are not discriminated against.



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

We are extremely concerned about the uncertainties stemming from the introduction of I-SEM: an increase in re-schedules and late instructions from the electricity TSO may result. These could be as a consequence of the new mechanisms, or a result of bedding in of new systems and operating processes. The introduction of I-SEM clearly provides a specific and relevant exception for the island of Ireland from implementation of BAL (and potentially other Regulations) at the current time.

We are also concerned that the timing of I-SEM introduction could coincide with both the proposed reduction in tolerances and the winter season. It is possible that an absence of seasonal gas storage, from Rough in particular, combined with daily Entry pricing at Moffat (within the transport charges element), will drive the imbalance penalty prices very high during winter, and that this will be during the period when we also anticipate the quantum and frequency of imbalances to increase for power generators due to the market changes from I-SEM. We suggest that any reduction in tolerances should begin once I-SEM is live and stable, and after the winter period. The prudent course of action may be to request from ACER a continuation of all tolerances after the BAL implementation date in April 2019 (alongside NDM tolerances, which we understand will be maintained) in order to manage the risks presented by I-SEM implementation and its timing.



5.2 A095: Revised Methodology for calculation of Daily Imbalance Charges

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?

We note that there appears to be some confusion within the consultation document on the proposed level of the *small adjustment*: 3.5% on p. 2 and 5% on p. 4 (and previously 10% was proposed as the maximum possible under BAL). Neither level has been justified with any analysis, for example, a benchmark comparison with other comparable markets, or an assessment of the previous changes in the +/- adjustment on Shipper imbalance outcomes, or a review of the cost to the TSO. We propose a *small adjustment* of 0.5%.

We welcome the change in the current consultation document to the “First Tier” imbalance definition to comply with the definition of tolerance in BAL, and also the change to “Second Tier” from SMP NBP +/- to SAP NBP +/-, which resolves the issue of pancaking of *small adjustments*.

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

In our opinion the liquidity measures proposed are wholly inadequate and EFET agrees that they are misleading in the context of reliable price indices.

If it were to be believed that the number of trades and trading parties were appropriate measures, three of each would appear to be rather low in any case. Where measures of this kind have been raised to show growing liquidity in other markets, the scale is in the hundreds of trades and in the tens of active participants.

Other measures include churn rates (of 8-10 to demonstrate liquidity), narrowing of bid/offer spreads, consistency of the presence of bid/offers available to players, reductions in volatility, volume of each or the average trade in relation to the traded volume or the market volume, prevalence of products of various terms (“depth”), etc. Some of these measures would also seem inappropriate for a platform aimed at physical within day balancing trades alone.

GNI (and EBI) may not be best placed to set measures and assess liquidity objectively. An independent liquidity assessment of the Irish market, carried out by



a recognised body in European energy trading, such as EFET, may be relevant and we would be supportive of this.

The concern that we have previously raised is our lack of confidence in the market to be able access balancing gas when needed and the prospect of extreme (and unjustified) imbalance prices.

Specific to the current situation in Ireland, the contractual frameworks required for trade between counterparties are not in place, i.e. bids and offers cannot be matched between players because they do not have the paperwork in place to allow it. We are severely limited by this at the EBI platform, despite concentrated efforts over several months. Some large players are not present at all on the platform and conduct their activities “off screen”. Others will likely only be active at certain times of year due to the nature of their operations. We also suggest that the period of analysis for EBI trading may be atypical.

We have provided information previously on the lack of trading activity at the EBI platform after 19:00 and the “dead zone” after EBI closure at 02:00. This means that for a third of the Gas Day, at least, there is no platform trading to provide access to short-term physical gas or set a relevant imbalance price.

We also previously highlighted in our June response that GNI needs to gain experience in trading on the platform and that experimental or misleading test trades are occurring; whether wilful or not, the setting of a skewed reference price, and provision of false or misleading signals, or price at an artificial level contravene REMIT.

A further issue is that settlement in Euro is required when the market standard and trading takes place in GBP. This creates a complication for participants, and a potential barrier to entry which does not promote the development of liquidity.

Reverting to question of what measures or indicators would support a market for balancing gas, we have referred to EFET. EFET is not against a structured removal of imbalance tolerances, as long as there are suitable protections including:



EFET Measure	Comment on current situation
Is there enough data available on historical consumption (and supply) for shippers to be able to predict the demand and supply accurately?	WD - On days of high wind, this can lead us into a long position without prediction.
Does the TSO provide frequent updates on total system and NDM demand?	Four times a day for NDMs and hourly for LDMs. No indicatives for DMs which is one of the big problems.
Does the TSO provide near real-time information on flows or pressures in the system, so that you can see whether the system is “packing or draughting” (going long or short) at any time?	We recognise that GNI has done a lot of work in this space and are appreciative of it, but there is still a lot more data that can be provided on a real-time basis that would help us manage our balancing positions.
Are you informed or can you reasonably work out whether your shipper balance is long or short during the day?	To a certain degree, but again the lack of information with respect to DM always adds a large volume of unpredictability.
Is there a VTP where you can trade imbalances within day?	Volume is scarce in the evenings, forced to transact in UK. We appreciate efforts of all work being delivered by EBI, but the market is still in its infancy.
Is there access to adequate flexibility tools?	ESB has always championed more interoperability between the gas & power market. There are a number of WD & DA products that offer shippers flexibility but we believe a lot more could be offered.
Are there any obligations on dominant players to make flexibility available, for example by underwriting the balancing market with a regulated bid-ask spread, to give shippers confidence that imbalance prices will remain within reasonable levels?	There has been a precedent set in SEM for dominant players to provide products and liquidity to the Irish power market. We believe that a similar approach could be taken in Irish gas market.
Are guidelines published by the TSO on how they balance the system (do they buy/sell back to the edge of an acceptable linepack range, or back to a central linepack target value at end of day? Do they give warning? Do they operate Red, Amber, Light and Dark Green zones like in Netherlands?	ESB would appreciate more information with respect to this space.



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

We refer to our response to Question 2, in that it would be prudent to allow the implementation of I-SEM prior to any changes.

We welcome the publication of shadow pricing and the continued review of the development of EBI. Analysis of this should be used to assess next steps and justify future changes to the balancing regime.