Consultation on Gas Code Modifications A094 and A095

Naturgy (formerly Vayu) welcomes the opportunity to comment on Gas Networks Ireland's ("GNI") consultation paper on the proposed modifications to the Code of Operations (the "Code"), to reflect the requirements of Regulation EU 312/2014 – Balancing Network Code (the "Regulation"): Modification A094 – Changes to Shipper Portfolio Tolerances and Modification A095 – Revised Methodology for calculation of Daily Imbalance Charges.

To be clear from the outset, we strongly disagree with the proposal to remove all tolerances, apart from the Non-Daily Metered ("NDM") sector. We believe that the proposals are not in keeping with the Regulation in this key area and that the approach being adopted by GNI is discriminatory towards those shippers with a focus on the Daily Metered ("DM") sector of the market. Shippers with a large NDM portfolio of customers gain a distinct advantage when compared to other shippers.

Our response to the specific questions raised by GNI in this consultation is set out below. We are open to discussing this response in more detail and we would welcome any questions that you might have.

Specific Questions

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

   <u>Naturgy Response</u>
   The intention of the Regulation is that shippers would be allowed a "tolerance" where there is a daily imbalance quantity and where there is no access "to sufficient information regarding their inputs and offtakes". We would argue that in the case of forecasting off-takes for nomination purposes, shippers to DM sites do not have "sufficient information", relative to the LDM and NDM sectors. Shippers may develop a model to predict their DM offtake, but this is virtually impossible to do with any great level of certainty.

   Within this DM sector there are many sites of scale with consumption patterns that are unpredictable and therefore could easily generate imbalances outside current tolerance levels. It is unfeasible for shippers to contact each site every day outside normal working hours (and which would most likely be late into the evening) and get the site's expected consumption for that day. A move to zero tolerance for the DM sector would be discriminatory.

   Until there is real time access to all DM sites' hourly consumption, we do not believe that the tolerance levels should be amended.

   Given that LDM sites have hourly telemetry and the latest time for submitting renominations is 02:00 on any day, there is an argument for relaxing the tolerance levels, but we believe that they should not be reduced to zero. In our view, a tolerance level of 10% for LDM3 sites and 5% for LDM2 sites would more appropriate.

   We agree that the NDM tolerance could stay at 2.5%.

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

   Naturgy Response

   We believe that a two-step reduction of tolerances is appropriate for those sectors impacted by the decision. However, the impact of this change will take some time to assess and for shippers to improve their own processes and procedures to improve forecasting. In our view a 12-month period would be more reasonable, with a proposed final implementation date of 1 October, 2019.

   For new entry points, we believe that there should be a "soft-landing" period of 12 months whereby a tolerance of 5% would be allowed for any difference between nominations and allocations.

3. *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?*

   Naturgy Response

   The Regulation stipulates several criteria that should be applied when setting the level of the small adjustment, where by it shall:

   (a) be designed and applied in a non-discriminatory manner in order to:
       (i) not deter market entry;
       (ii) not impede the development of competitive markets;
   (b) not have a detrimental impact on cross-border trade;
   (c) not result in network users' excessive financial exposure to daily imbalance charges.

   Although, the Regulation also allows for this adjustment to be no more than 10%, we believe a +/- 2% level is enough of an incentive for shippers to minimise imbalances and still meets the criteria above. Shippers operate at low margins and a level much above this +/- 2% would, we believe, give rise to excessive financial exposure at current gas prices.

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

   Naturgy Response

   We believe that the liquidity levels are appropriate.

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

   Naturgy Response

   Given that GNI have only become active at the IBP since 1st of June, we believe that there is merit in applying the new methodology no earlier than 1 April, 2019, which would allow all parties to analyse trades and activity over the more critical winter period.