

# **Final Modification Report**

## **Code Modification A063:**

### ***‘Nominations, Imbalance Charges & Allocations: EU Network Code Implementation’***

**2 March 2015**

*Issued to CER for Approval*

*Issued to Industry for Information*



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**Table No. 1: Supporting Information**

<b>Date</b>	<b>Reference</b>
2 March 2015	<a href="#">Business Rules version 3.0</a>
18 Sep 2014	<a href="#">Initial Modification Report</a>
Aug '14 – Feb '15	<a href="#">Code Modification A063</a> : relevant documents on Gaslink website
Sep '14 – Jan '15	<a href="#">Code Modification Forum minutes &amp; slide packs</a>

**Table No. 2: Summary of timeline to date**

<b>ITEM</b>	<b>DATE</b>
<b>Impact Assessment Workshops</b>	Jan 2014
<b>Code Modification Proposal Issued</b>	21 Aug 2014
<b>Business Rules v1.0 &amp; Initial Modification Report</b> <ul style="list-style-type: none"> <li>issued for Industry consultation</li> </ul>	18 Sep 2014
<b>Consultation Period No. 1</b> <ul style="list-style-type: none"> <li>in respect of Business Rules v1.0 (&amp; Industry Workshop No. 1)</li> </ul>	18 Sep – 14 Oct 2014
<b>Industry Workshop No. 1</b> <ul style="list-style-type: none"> <li>presenting and discussing Business Rules v1.0</li> </ul>	24 Sep 2014
<b>Industry Workshop No. 2</b> <ul style="list-style-type: none"> <li>Further info / examples/ data presented re Imbalance Charges</li> </ul>	22 Oct 2014
<b>Consultation Period No. 2</b> <ul style="list-style-type: none"> <li>in respect of Industry Workshop No. 2</li> </ul>	22 Oct - 6 Nov 2014
<b>Business Rules v2.0 (&amp; accompanying notes)</b> <ul style="list-style-type: none"> <li>issued for Industry consultation</li> </ul>	27 Nov 2014
<b>Consultation Period No. 3</b> <ul style="list-style-type: none"> <li>in respect of Business Rules v2.0</li> </ul>	27 Nov - 12 Dec 2014
<b>Discussion at Code Modification Forum Meeting</b> <ul style="list-style-type: none"> <li>in respect of Business Rules v2.0</li> </ul>	10 Dec 2014
<b>Discussion at Code Modification Forum Meeting</b> <ul style="list-style-type: none"> <li>proposal to address imbalance charges via 'interim measures' report</li> </ul>	21 Jan 2015

## **1. Introduction**

### **1.1. Background**

Code Modification proposal A063 '*Nominations, Imbalance Charges & Allocations: EU Network Code Implementation*' is the Transporter's proposal regarding the implementation of the 'Balancing Network Code' (Regulation 312/2014) in the Irish gas market. The Regulation requires EU member states to implement the Regulation by 1 October 2015. The Transporter commenced the code modification process in August 2014, issued business rules in September 2014, and has engaged in a series of consultations (including written consultations, dedicated workshops and general discussion at Code Modification Forum meetings) in the intervening period. For further detail in relation to the Transporter's proposal and the consultation timelines to date, please refer to table no. 1 and 2 respectively.

### **1.2. Purpose of document**

This Final Modification Report provides a summary of Industry responses to date, an indication of system impacts, and next steps towards implementation of this modification. The purpose of the document is to inform the CER regarding its decision as to whether it directs the Transporter to progress with the development of Code legal drafting on the basis of the business rules v3.0. Business rules v3.0 represents the Transporter's final proposal, amended as appropriate in response to Industry consultation and discussions with the CER.

The report is issued to Industry for information. There is no formal consultation period in respect of the Final Modification Report.

### **1.3. Current Status of Code Modification Process**

The initial scope of this modification (and the associated business rules v1.0 & v2.0) included the following elements; Information Provision, Nominations, Daily Imbalance Charges and Allocations.

However, further to a review of the business rules, Industry responses, and discussions with the CER, it was decided at the Code Modification Forum of 21 January 2015 to amend the scope of the business rules. Given that the information provision, nominations and allocations sections of the business rules were generally well received by Industry, these elements of the business rules were to be put forward for CER approval. In contrast, the topic of daily imbalance charges remained the subject of some considerable debate and has therefore been removed from the scope of this modification. The ongoing review of issues relating to daily imbalance charges (and indeed other operational balancing considerations) is to be progressed by way of the 'interim measures' report which will be issued for Industry consultation during March 2015.

Accordingly, the Transporter has submitted revised business rules v3.0 to the CER for review, with the daily imbalance charge section removed from the document. The next step in the Code Modification process is for CER to issue a decision in relation to the business rules and this Final Modification Report. The CER may approve or reject the business rules. Should the CER approve the business rules, the Transporter shall then develop Code legal drafting for subsequent Industry consultation. The Transporter expects that this consultation will take place during July 2015.

## 2. Summary of Consultation Responses

A summary of the written responses received to the consultations is provided in table no. 3:

Written Consultations	DATE
<b>Consultation Period No. 1</b> <ul style="list-style-type: none"> <li>• Business Rules v1.0 &amp; Industry Workshop No. 1</li> </ul>	18 Sep – 14 Oct 2014
8 Respondents: <ul style="list-style-type: none"> <li>• Bord Gáis Energy</li> <li>• Irish Offshore Operators Association (IOOA)</li> <li>• Landsdowne Oil &amp; Gas plc.</li> <li>• Kinsale Energy Ltd.</li> <li>• SSE Airtricity</li> <li>• Statoil Gas (Hibernia) Ltd.</li> <li>• Vermillion Energy Ireland Ltd.</li> </ul>	
<b>Consultation Period No. 2</b> <ul style="list-style-type: none"> <li>• in respect of Industry Workshop No. 2</li> </ul>	22 Oct - 6 Nov 2014
3 Respondents: <ul style="list-style-type: none"> <li>• ESB</li> <li>• Irish Offshore Operators Association (IOOA)</li> <li>• Kinsale Energy Ltd.</li> </ul>	
<b>Consultation Period No. 3</b> <ul style="list-style-type: none"> <li>• in respect of Business Rules v2.0</li> </ul>	27 Nov - 12 Dec 2014
2 Respondents: <ul style="list-style-type: none"> <li>• Vayu Ltd.</li> <li>• Manx Utilities</li> </ul>	

*Table No. 3 Summary of Industry responses*

Note that the summary of Industry comments which follows is not intended to be an exhaustive representation of comments received, but rather highlights those issues which appeared most prominent. For a complete view of all comments received, please see the individual response documents submitted by Shippers and minutes of the Code Modification Forum Meetings on the Transporter's website.

In terms of both written and verbal Industry comments, the topic of most concern throughout the consultation periods was that of daily imbalance charges. Industry opposition to the proposed increased imbalance charges was both consistent and unanimous across the consultation periods.

The other topics (information provision, nominations and allocations) did not give rise to substantial Industry comment, with any queries typically probing the understanding of the proposals as opposed to expressing concern or opposition.

The key Industry concerns (common to multiple written respondents and reiterated verbally at Code Modification Forum meetings and workshops) relating to the daily imbalance charge proposals are summarised as follows:

- While Industry acknowledged that the proposed removal of tolerances may be required under the Regulation, it strongly questioned the need for substantially increased cash-out prices in addition to this, pointing out that the removal of tolerances alone represents a significant financial impact to Shippers.
- Industry requested the Transporter to reconsider the proposed changes to the daily imbalance charge pricing structure given that substantial changes to the market (e.g. new indigenous supply from Corrib imminent, other EU Network Code changes such as CAM and the new nominations process) are due in the short term.
- Shippers in the power generation sector highlighted the fact that in the latter hours of the gas day, they may be subject to imbalance charges as a result of changes to their dispatch schedules from the electricity TSO. Furthermore, they question whether this was appropriate given that the Shipper does not have any control over its imbalance position once the renomination window is closed.
- On a related topic (although not specifically included within the scope of the business rules consultation), Shippers in the power generation sector noted that similar issues arise in relation to capacity overrun charges and suggested that a review of the current capacity overrun rules is undertaken.
- As a more general point, Shippers in the power generation sector urged the CER and the Transporter to ensure that market rules in the gas and electricity sector were considered jointly in order to deliver an effective and holistic Irish energy market.

A number of other comments and queries were submitted by Industry in relation to daily imbalance charges:

- One respondent requested the Transporter to consider retaining After Day Trades as a means of facilitating a Shipper reducing its exposure to imbalance charges.
- One respondent welcomed the proposal to move to a monthly cash-out of the disbursements account while another highlighted that this may have a negative impact on a Shipper who only transports gas on a seasonal basis.
- Given the removal of tolerances, Industry queried the accuracy of the current NDM forecasting methodology.

### 3. Estimated System Impacts & Costs

#### System Impacts:

The code and system impacts of the proposed modification are classified below in terms of the three constituent elements of the business rules:

	<b>Code Impact</b>	<b>IT Impact</b>	<b>Interaction with Adjacent TSOs</b>
<b>Information Provision</b>	LOW	LOW	NONE
<b>Nominations</b>	HIGH	HIGH	HIGH
<b>Allocations</b>	MEDIUM	MEDIUM	HIGH

The most significant impact occurs in relation to the new nomination process. Effectively, the nomination processing and matching function which is administered by the Moffat Agent at the Moffat Interconnection Point is being assumed by the TSOs at the Interconnection Point by means of a joint process. This means that an entirely new nominations process must be designed and the IT systems of the adjacent TSOs must be configured to exchange information and process nominations as part of a joint procedure.

By way of example, for a Shipper registered in both Ireland and GB, it will be possible to submit a single nomination to Gemini (which will subsequently be processed jointly by the two TSOs), which effectively acts as an Exit nomination from the National Grid system and an entry nomination to the Gaslink system. Alternatively, a Shipper registered only in Ireland may enter into an arrangement with a GB counterpart to submit matching nominations to the respective TSOs in much the same way as is currently the case with the Moffat Agent.

In practice, this means that the existing Moffat Agent IT functionality is being removed and a new TSO-TSO process is being designed and built in GTMS.

#### Costs:

As per Decision Paper CER/14/140 of 27<sup>th</sup> August 2014 (*'Decision on BGN Allowed Revenues and Gas Transmission Tariffs for 2014/15'*), the projected costs associated with the implementation of the European Network Codes (namely, Capacity Allocation Mechanisms (CAM), Congestion Management procedures (CMP), Balancing (BAL), Interoperability & Data Exchange (INT&DE), and Tariffs (TAR)) over a four year period up to Gas Year 2016/17 is €6,961,632 of which €5,000,000 is IT capital expenditure to be spent between 2014/15 and 2015/16. It is estimated that approximately 120 functions on GTMS will require amendment and that a further 80 new functions will be developed.

## **4. Implementation Timelines: Current Status & Next Steps**

### **4.1. General**

The Transporter has submitted revised business rules v3.0 to the CER for review, *with the imbalance charge section removed* as per the proposal at the Code Modification Forum meeting of 21 January 2015. The next step in the Code Modification process is for the CER to issue a decision in relation to the business rules and this Final Modification Report. The CER may approve or reject the business rules. Should the CER approve the business rules, the Transporter shall then develop Code legal drafting for subsequent Industry consultation. The Transporter expects that this consultation will take place in July 2015.

Given that the imbalance charges section is not being considered for CER approval at this time, issues relating to daily imbalance charges will be progressed via the 'interim measures' report which will be issued for Industry consultation during March 2015. Should it be necessary to amend the Code as a result of the content of the interim measures report, a further Code modification proposal may be required to formalise the Code changes.

### **4.2. Information Provision**

The information provision requirements outlined in the business rules represent a relatively small proportion of the overall development. It should be noted that the proposed information provision changes may not be implemented by 1 October 2015. The implementation will be addressed as soon as possible after that date, and in any case no later than May 2016.

### **4.3. Nominations**

The proposed nominations process (including amended gas day of 05:00 – 05:00) will be implemented as and from 1 October 2015. While the business rules provide an outline of the proposed nominations process, the TSOs at the Interconnection Points are currently in the process of agreeing the more detailed measures to support this process.

Pending the outcome of these discussions, further detail (matching rules etc.) regarding the process will be communicated to Industry and the Transporter intends to hold a dedicated nominations workshop in Q2 2015, including issues relating to the retirement of the Moffat Agent. The matching rules which shall be applied to the process shall be communicated by means of the Interconnection Agreement consultation<sup>1</sup> which is scheduled for June 2015.

### **4.4. Allocations**

The business rules provided introductory information in relation to Allocations at Interconnection Points, including that an Operational Balancing Agreements (OBA) would be established between the TSOs at the points. As with the nomination process, the Transporter is currently developing OBAs with the adjacent TSOs. The agreed OBAs will be included as a constituent part of the Interconnection Agreements and will therefore be part of the Industry consultation in June 2015.

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<sup>1</sup> The Transporter and its adjacent Transporter will be the parties to the Interconnection Agreement (IA). Those elements of the Interconnection Agreement (IA) relating directly to Code rules and directly affecting Shippers will be included in the IA consultation. Other elements of the IA which do not directly affect Shippers and relate to the contractual arrangements between the parties to the agreement will not be included in the consultation.