



Irish Offshore
Operators'
Association

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Aidan Hogan,

Gas Networks Ireland,
Gas Works Road,
Cork

24 March 2015

By email: Aidan.Hogan@gasnetworks.ie

CC Keelin O'Brien (kobrien@cer.ie)

Re: Balancing Network Code Interim Measures Report Consultation

Dear Aidan,

IOOA's members welcome the opportunity to comment on this consultation paper. In principal, IOOA's members agree that at present there is very little liquidity at the IBP and support the introduction of the proposed interim measures to attempt to increase IBP liquidity.

There seems to be a perception that liquidity can never develop at a location such as the IBP. However, the IBP and the Irish market in general in its present format do not encourage any trading at the IBP so it is not surprising there is no liquidity. At present there is only one major source of gas, Moffatt (highly liquid NBP), shippers are required to ZIP and hold capacity; all of which either remove or inhibit the need to trade at the IBP.

While supporting the attempts to increase liquidity at the IBP IOOA's members do not believe that the interim measures proposed go far enough to encourage increased liquidity and have suggested additional steps that are required as a prerequisite to increasing liquidity at the IBP during gas year 2015/16. Please see below comments from IOOA's members on issues of concern:

Balancing Platform / Balancing Services – IOOA's members agree that the balancing platform will have a role in increasing liquidity at the IBP and support GNI in developing such a platform. Until the IBP is determined as being sufficiently liquid, GNI should also give consideration to a balancing services contract of last resort from the NBP. IOOA's members strongly support the principle that the most efficient source of gas should be used on the day, be it from domestic production, domestic storage, Irish shippers, Irish consumers, or from the NBP and that the balancing arrangements under development should reflect this. Having the option to access both IBP and NBP should give the most efficient outcome with NBP acting effectively as a price cap.

We note that section 5.1.13 of the Interim Measures Report states that the delivery point for balancing gas will move to the IBP in gas year 2016/17. GNI should move the delivery point for balancing gas to the IBP for gas year 2015/16 in order to maximise the chance of improving liquidity at the IBP. If balancing gas is traded at the NBP then it precludes indigenous producers,



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indigenous storage, Irish shippers and consumers (via their shippers) from trading balancing gas and may in certain circumstances lead to unforeseen consequences.

GNI appear to be targeting a balancing platform for gas year 2016/17; GNI should consider creating a balancing platform for gas year 2015/16 at the IBP. It is possible to create a trading platform for gas year 2015/16 albeit without a traded screen. GNI can place its gas balancing services contract with a shipper and this can be the supply contract for a shipper of last resort. Separately GNI can enter into IBP trading framework agreements with a number of interested shippers to deliver / offtake entry paid gas to / from the system (transporter) at the IBP. On a day when a quantity of gas is required to be purchased or sold by GNI, a request for bids could be issued by email with the best commercial offer transacting with GNI.

Certain shippers may only have the capability to supply gas for balancing during certain periods of the gas year and moving to this type of model would allow these shippers to partake in balancing services. This would aid in the movement of the IBP towards a balancing platform and allow all Irish shippers to partake in balancing services for gas year 2015/16 and increase IBP liquidity. Adopting this approach will lead to lower costs for shippers and consumers which will be to the advantage of all participants in the Irish market.

Tolerances – IOOA's members support the interim measures of reducing tolerances in gas year 2015/16 but would support the full removal of tolerances in 2016/17. However, we note that if there is Operational Balancing Arrangements (OBA's) in place at some but not all entry points, then tolerances at non OBA entry points may be required to reflect the tolerances at OBA entry points. However, IOOA believes that the removal of tolerances should be coupled with the removal of imbalanced penalties, other than say a minimum differential between SAP and the applicable SMP.

Interim Imbalance Charge – IOOA's members welcome the removal of the proposed penal 0.9 / 1.1 imbalance multipliers on gas imbalance charges. IOOA's members support the interim report's suggestion that on days when operational balancing actions are taken by GNI that the cost of these balancing actions should be reflected in the imbalance charges for that day. IOOA's members suggest that for days when no operational balancing actions are required, the imbalance charges should be similar to that in GB (SMP buy and SMP sell) as cash out prices in GB provide sufficient incentives for GB shippers to cash out on all imbalances by way of a minimum differential between SAP and the applicable SMP.

GNI should also consider reviewing how other countries throughout the EU are implementing balancing arrangements to see if appropriate methodologies could be applied to Ireland.

ZIP Removal – As outlined in previous IOOA correspondence, IOOA's members support the removal of ZIP as it was acting to inhibit the development of liquidity at the IBP.

IBP Trade Notification Capacity Restriction Removal – IOOA's members support this proposal as it may have been inhibiting the development of liquidity at the IBP.

Definition of STSPs – IOOA's members agree that by taking more frequent smaller balancing actions in gas year 2015/16 that this could aid GNI in the understanding and development of



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appropriate STSPs for the Irish trading platform. However, for this to be effective GNI needs to take smaller more frequent balancing actions with multiple parties (not just one counterparty). Opening the balancing market to multiple counterparties at the IBP in 2015/16 coupled with smaller more frequent balancing actions would give more shippers the opportunity to bid in gas using unutilised entry capacity and lead to increased IBP liquidity.

Feasibility of ROI Trading Platform / Adjacent Trading Platform – IOOA's members consider that in order for the ROI Trading Platform to be developed, that consideration has to be given to the possibility of trading in parallel on an adjacent Trading Platform.

Obligation to Balance - The proposed removal of tolerances and the ZIP requirement will bring the GNI system more in line with the GB system but it is unclear from the interim measures whether the obligation to balance has been removed. GNI should clarify this point. IOOA's members believe that financial incentives should be enough to allow GNI to operate the system safely and securely, as they have access to a balancing market to maintain the integrity of the system. For instance if someone persists in over delivering then prices for balancing at the IBP will drop. However, if GNI only rely on balancing at the NBP (for a balancing contract) then the price of gas in Ireland wouldn't drop with potentially perverse results.

Balancing Market Transparency - The acquisition and disposal of line pack gas by GNI should be a transparent process so as not to create shocks in the balancing market. They should be encouraged to use the balancing market but they should tell shippers in advance of their intended plans.

IOOA's members thank GNI for the opportunity to respond to this consultation. A meeting between IOOA's members, GNI and POYRY would be worthwhile to discuss the concepts outlined above. I will be in contact to set up this meeting.

Yours sincerely,

Steve Boldy
Chairman IOOA Gas Sub-Committee and on behalf of:

Azeire Petroleum
Cairn Energy,
Chrysaor,
Eni,
ExxonMobil,
Fastnet Oil & Gas,
PSE Kinsale Energy,
Kosmos Energy,
Lansdowne Oil & Gas,
Providence Resources,
Repsol,
San Leon Energy,
Serica Energy,



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Shell,
Statoil,
Vermilion Energy Ireland,
Woodside.

Cc: Patrick Shannon Chairman IOOA
IOOA Management Committee
IOOA Gas Sub-Committee