Balancing Network Code – Commission Regulation No 312/2014 - Interim Measures Report

Dear Aidan,

ESB GWM welcomes the opportunity to respond to the Interim Measures Consultation. This consultation is a consequence of the earlier Code Modification A063 *Nominations, Imbalance Charges & Allocations: EU Network Code Implementation*. As per EU Balancing Regulation EU 312/2014, there are three possible options available to the TSO to ensure compliance (chapter XI):

1. Full implementation – trading platform to be established by October 2015
2. Use of adjacent balancing zone – defers implementation to 2016 or
3. Adopt interim measures

We agree with the TSO that Option 1 is not viable given the required implementation date of October 2015.

This response examines Option 2 and 3 in more detail but would like to first draw your attention to some salient points extracted from the Interim Report regarding liquidity at the IBP.

Over the period 1st January 2013- 22nd December 2014:

- only 8 shippers traded at the IBP;
- The maximum number of trades on a single day was 2; and
- there were large periods where there was no activity at all.

To conclude trades are both infrequent and low in volume at IBP. In contrast, the ROI's adjacent trading platform, NBP, is the most liquid gas trading platform in Europe. It seems irrational to try and stimulate liquidity at the IBP (and with it potentially have unintended consequences) when there is an established, easily accessible, liquid market, (which is where we currently source approximately 95% of our gas) adjacent to ROI.

Interim Measures:

Article 45 (1) makes it explicit that where there is an absence of sufficient liquidity, Interim Measures are permitted. This consultation proposes investigating the feasibility of developing a trading platform or a balancing platform at the IBP and if either is deemed to be feasible, the detailed design, IT build and testing of said platform and subsequent implementation. It seems futile to try and stimulate liquidity at the IBP at this point in time given the presence of the NBP. There is no guarantee that any attempt to establish either a trading or balancing platform at IBP will be successful and it is extremely likely that the end result will be a move to the adjacent balancing zone but only after significant sunk costs and "instructed" industry participation in trying to boost liquidity at an essentially illiquid hub.

Given that there is no current visibility on costs related to the proposed feasibility studies or IT build or development, we believe there is insufficient detail provided by the consultation to assess the financial consequences of the proposed changes. The consultation states that a cost benefit analysis (CBA) will be conducted however, in line with good regulatory practise, a CBA should be completed in advance of any final decision becoming operational. It is extremely likely that any CBA would highlight how economically inefficient it is to try to establish a liquid IBP hub given the current illiquidity and the proximity and liquidity of neighbouring NBP. In addition, while attempting to increase liquidity there may be 'regulatory interventions' that could affect behaviour and economic solution s in a perverse way.

Section 5.3 examines Interim Imbalance Cashout and proposes a differential cashout for First Tier imbalances to introduce an incentive for shippers to reduce their first tier imbalances. As per Figure 3, shippers currently and historically tend to balance their position. It must be acknowledged that imbalances can arise for a shipper due to inaccurate end of day running information from EirGrid and/or inaccurate end of day gas takes from BGN. Improved end user information is essential and shippers should not be penalised for a situation outside of their making. The proposed introduction of a fixed differential is too vague and we cannot agree with this proposition. A consequence of increasing the risk borne by the shippers could potentially include increased costs for shippers and ultimately increased costs for end users. ESB GWM does not agree with the proposed changes for cashout prices as we do not feel there is sufficient supporting evidence to justify their implementation.

If the TSO wish to pursue interim Measures, ESB GWM suggest that the approach taken by the NI TSOs is considered. This approach involves initially using Balancing Services under Article 48 as the most appropriate means for achieving Balancing Regulation compliance. This allows for time to evaluate the impact of CAM and Corrib becoming operational. It would also mean that a CBA could be completed as a pre-cursor to any decision regarding a trading platform, balancing platform or moving to the adjacent NBP.

<u>Balancing:</u>

As per the NI TSO's Consultation "EU Balancing Regulation EU312/2014 Interim Measures Report",

Article 8 says that: *The TSO is entitled to procure balancing services for those situations in which short term standardised products will not or are not likely to provide the response necessary to keep the transmission network within its operational limits or in the absence of liquidity of trade in short term standardised products.*

Paragraph 8 (3) says:

Balancing services shall be procured in a market-based manner, through a transparent and non-discriminatory public tender procedure in accordance with the applicable national rules, in particular:

(a) prior to any commitment to contract for a balancing service, the transmission system operator shall publish a non-restrictive call for tender indicating the purpose, scope and related instructions to tenderers, to enable them to participate in the tender process;

(b) the results shall be published without prejudice to the protection of commercially sensitive information and individual results shall be disclosed to each tenderer.

To date, Gaslink has used a competitive tender process to award balancing contracts which have acted as the main operational balancing tool. This arrangement has worked efficiently and complies with the definition of Balancing Services in Article 8.

ESB GWM proposes that the existing system of using balancing contracts continues until October 2016 and that at this point the TSO will have access to trades at the NBP. We believe that this solution is suitable for the ROI market and will ensure that a competitive, functioning liquid market is available to all ROI shippers. We would not support the TSO proposal, Section 5.1.13, to move the delivery point of balancing gas contracts to the IBP. We believe that as adequate liquidity will not be developed at the IBP, that moving the delivery point from NBP to IBP will result in increased costs to end users.

We would appreciate if the TSO can consider our earlier response to A063 when reviewing this response.

Should you have any queries in relation to the above response please do not hesitate to contact me.

Yours sincerely,

Karol O'Kane