

Initial Modification Report

Code Modification A068

‘EU Network Code Implementation: Balancing’

22 June 2015

1 Introduction, Background & Related Documents

This Initial Modification Report is published further to the modification proposal form issued on 20 April 2015 and should be read in conjunction with business rules version 1.0, as issued concurrently with this report. The primary items addressed by this modification proposal relate to the daily imbalance cash-out price and the associated tolerances which make up the Shipper Portfolio Tolerance.

The proposed modification intends to incorporate those aspects of [Regulation EU 312/2014](#) (Balancing Network Code) which relate to operational balancing (Chapter 3 of the Regulation), daily imbalance charges (Chapter 5 of the Regulation), and neutrality arrangements (disbursements account) (Chapter 7 of the Regulation). It also engages Chapter 10 of the Regulation ‘Interim Measures’.

The items included in the scope of this modification A068 have been consulted on previously as part of [Code Modification Proposal A063’ Nominations, Imbalance Charges & Allocations: EU Network Code Implementation](#). However, further to a review of the A063 business rules, Industry responses, and discussions with the CER, it was decided to amend the scope of the A063 business rules, such that those proposal relating directly to ‘balancing’ were removed. The other subject areas of modification A063, namely information provision, nominations, and allocations remained in the business rules, which were approved by the CER in March 2015.

Following the separation of balancing issues from the A063 modification process, the Transporter reviewed its initial proposals and proposed utilizing the provisions of Chapter 10 ‘Interim Measures’ of Regulation 312/2014. Interim Measures allow for a gradual implementation of the Regulation over an interim period in circumstances where low levels of liquidity are deemed to pertain in a Member State’s short term wholesale gas market. The Transporter published its ‘Interim Measures Report’ for consultation in March 2015, with CER approval of the [Interim Measures Report](#) following in April 2015. The purpose of the interim measures are to stimulate liquidity in the market through the amendment of tolerances and daily imbalance cash-out prices as the first step towards developing a potentially liquid short-term market over a longer period.

Code Modification A068 therefore sets out the proposals (based on the Interim Measures Report) which are to be implemented in the Gaslink Code of Operations for 1 October 2015. All balancing related items originally included in modification A063 are addressed in the following sections.

2 Proposed Modification

The proposed modification is described in detail in the business rules document issued with this report, however the key features of the modification are outlined below at a high level:

Daily Imbalance Cash-out Price

It is proposed to amend the First Tier Imbalance Price such that a +/- 2% differential between a positive and negative imbalances is introduced:

- where a Shipper's Final Daily Imbalance Quantity is positive (i.e. Inputs > Outputs), the applicable Daily Imbalance Price shall be the System Average Price (SAP) x 0.98; and
- where a Shipper's Final Daily Imbalance Quantity is negative (i.e. Inputs < Outputs), the applicable Daily Imbalance Price shall be the System Average Price (SAP) x 1.02.

It is proposed to retain the Second Tier Imbalance Price as it exists currently in the Code of Operations.

Shipper Portfolio Tolerance

It is proposed that the individual tolerances which contribute to a given Shipper Portfolio Tolerance are reduced. Typically, tolerances are reduced by approximately 25% relative to the current levels. At Interconnection Points where Operational Balancing Agreements apply, it is proposed that tolerances be reduced to zero.

The combination of the proposals in relation to the Daily Imbalance Cash-out Price and the Shipper Portfolio Tolerance aim to introduce an incentive for Shippers to balance their individual positions.

Neutrality Arrangements

It is proposed that the Transporter's Disbursement Account be cashed out to Shippers each month (as opposed to the current annual cash-out) on the basis of monthly throughput.

Additionally, it is proposed that the Transporter maintains its cash neutrality in respect of the disbursements account by means of a 'neutrality charge' (the difference between the amounts received or receivable and the amounts paid or payable by the Transporter due to performance of its balancing activities) which is payable to or recoverable from the relevant Shippers. Each Shipper shall be liable for payment of its portion of the Neutrality Charge proportional to its throughput in that month.

It is proposed to defer the implementation of this proposal until 1 October 2016. Further information is provided in Section 3.

Other Proposals Included in Business Rules

Other items addressed as part of this modification include Scheduling Charges, Trade Notifications / IBP Nominations, After Day Trades and Balancing Portfolios.

3 Estimated System Impacts, Costs, and Implementation Timelines

System Impacts & Implementation Dates

The amendments required to the Transporter's IT System (GTMS) in respect of the Daily Imbalance Cash-out Price, Shipper Portfolio Tolerance and Trade Notifications / IBP Nominations are relatively minor in nature and can be implemented with minimal effect on other functionality. The Transporter proposes that of these amendments be implemented on 1 October 2015.

However, in the case of the 'neutrality arrangements' (in particular the proposals relating to the monthly 'cash-out' of the disbursements account). The proposals present substantial change in terms of the operation of the disbursements account and the associated calculations. Such extensive changes require detailed IT design & build work and robust testing to ensure that the transportation billing cycle is not compromised as a result of the modifications. Accordingly, the Transporter does not believe that it is feasible to implement the proposed changes by 1 October 2015 and therefore propose that the existing annual cash-out process be retained for gas year 2015/16, with the new proposals detailed in Sections 4.3 & 4.4 of A068 Business Rules implemented by 1 October 2016. Additional information publication requirements in relation to balancing charges and neutrality charges are nonetheless included in the business rules for implementation by October 2015.

Costs

As per Decision Paper CER/14/140 of 27 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.

Implementation Dates

The implementation date in respect of Regulation EU No. 984/2013 (Balancing Network Code) is 1 October 2015.

4 Summary of Forum Discussions

Code Modification Proposal A068 was introduced at the Code Modification Forum meeting of 22 April 2015 in conjunction with a presentation in respect of the Interim Measures Report. The main focus of discussion at the meeting was in relation to the Interim Measures Report in general rather than the specifics of modification proposal A068. However, a Shipper representative queried why it was proposed to reduce the Daily Metered (DM) tolerance in manner which appeared disproportionate to the reductions proposed for other sectors.

At the Code Modification Forum Meeting of 3 June 2015, the Transporter outlined the main elements to be included in the modification proposal, indicating that the proposals would be largely in line with the recommendations of the Interim Measures Report. Industry did not comment on the proposals at the meeting.

Notwithstanding that substantial discussion did not take place in respect of the specific proposals of modification A068 at the above mentioned meetings, considerable Industry comment (both written and verbal) has been received in respect of the balancing proposals included as part of modification A063 and in respect of the Interim Measures Report. In summary, while Industry acknowledged that the removal / reduction of tolerances may be required under the Regulation, it strongly questioned the need for substantially increased cash-out prices in addition to this, highlighting the potential financial impact on Shippers. Industry was unanimous in urging the Transporter and the CER to consider a more gradual introduction of changes to the imbalance charges and tolerances. Further details in relation to Industry comments received in response to previous consultations can be found on the [Transporter's website \(Modification A063\)](#).

5 Transporter's Assessment of the Proposed Modification

It is the Transporter's view that the proposed modification addresses the requirements of the Network Codes in a practical manner with due consideration given to the specific characteristics of the Irish gas market.

6 Consultation period in respect of IMR

Any comments in relation to this Initial Modification Report will be accepted until 6 July '15

Comments in respect of the Initial Modification Report and/or the business rules may be submitted to marketarrangements@gaslink.ie and aidan.hogan@gasnetworks.ie.