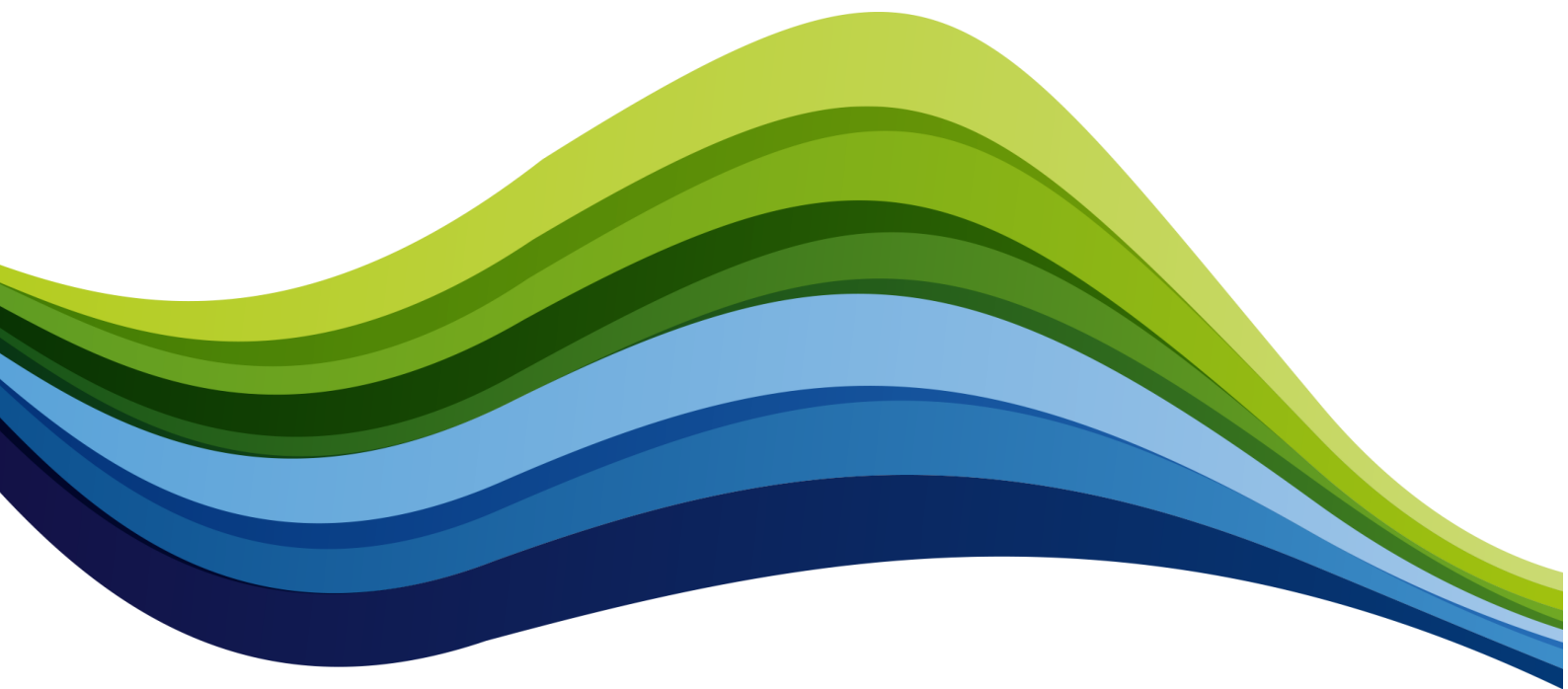


Balancing Business Rules for industry consultation

Code Modification A068 – Balancing



Introduction

SSE welcomes the opportunity to comment on the Gaslink and Gas Networks Ireland balancing business rules and Initial Modification Report for Code Modification A068 – ‘Balancing’.

The modifications being proposed are to implement particular 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 implementation date for Regulation EU No. 984/2013 (Balancing Network Code) is 1 October 2015.

Proposed modification

The proposed changes contained in the business rules include:

1. Daily imbalance cash out price;
2. Shipper portfolio tolerance;
3. Neutrality arrangements;
4. Changes to Scheduling Charges, Trade Notifications / IBP Nominations, After Day Trades and Balancing Portfolios.

Response

As a shipper and supplier SSE is concerned with the proposed changes for a number of reasons. The Shipper Portfolio Tolerance (SPT) is reducing and over the next five years shall be removed entirely. This will leave shippers with greater risk in terms of cash out exposure. In effect shippers and suppliers will face complete exposure to metering tolerances without the tools available to manage or eliminate them.

SSE understands that the underlying rationale is to encourage shippers to balance in order to reduce the total cost of balancing actions otherwise required by the system operator. However, we would suggest that more innovative balancing products, for example, gas procured at the IBP could be a viable alternative in some areas.

Shipper Tolerances

SSE would suggest that if Shipper Portfolio tolerances are to be reduced, then the reduction should not be set to zero but to no less than can be effectively measured taking account tolerances at meter installations. Shippers should be exposed to the manageable risk, but not the residual error at GNI meters.

Given the reductions in SPT we would like to highlight the importance of the accuracy and reliability of GNI metering (imbalance uses allocations not nominations) and NDM forecast data. Accuracy and reliability of metering is not something that shippers can either manage or improve – the balancing changes outlined in the modification should not remove the incentive for GNI to improve both. By entirely shifting this exposure to shippers, GNI lose one economic signal that should otherwise inform their performance.

Imbalance Prices

Under the new regime, the First Tier Imbalance Price will be more punitive than present (currently UK SAP). Although the proposal in the modification is that the Second Tier Imbalance Price remains the same, it will also become more punitive because it is calculated as a compound of the First Tier Price. This compounding has not been adequately justified in the consultation paper. Shippers and suppliers will face significant increases in imbalance costs with a greater exposure to second tier imbalance given decreases in Shipper Portfolio Tolerance.

Power Generation

Consideration should also be given to the fact that generators on the Irish system do not control the dispatch of their power plant. Generation is centrally dispatched by EirGrid in its capacity as the Transmission System Operator (TSO). Accordingly, the TSO can instruct generators to dispatch/desync at very short notice without reference to gas system operation. This creates a potential imbalance/cash out exposure that is exacerbated by the new regime given gas day trading and nomination ceases at 0400h, two hours prior to the end of the gas day. In the event of plant dispatch close to the end of a gas day, generation operators and their contracted Shipper Suppliers are unable to re-balance their position and will be disproportionately penalised.

Again – an economic signal is created that will not inform generator behaviour – the TSO will continue to issue dispatch instructions which plant operators will need to follow. Neither Gaslink nor EirGrid would like to see production and consumption decisions informed by a calculation referencing the level of penalty imposed¹ in the two respective systems. When a generator follows their dispatch instruction, they will incur an imbalance charge because they do not have an opportunity to either:

- renominate or;
- reflect their true marginal costs through commercial offer data.

Without modification, the rules proposed place an unnecessary and unmanageable risk on a specific type of gas market participant – SSE believes that GNI should work with EirGrid, CER and generators to come up with a workable solution that reflects the interactions between gas and electricity in a central commitment and dispatch system.

Conclusion

In summary, SSE acknowledges the objective of the EU network codes and the intent to improve access arrangements to the gas markets on a European wide system basis. Further, the changes will bring the Irish imbalance regime more in line with that in the UK. Risks should be placed on the parties best able to manage them – for some areas of gas system operation participants are in the best position to resolve them. In other areas, specifically:

- Metering quality;
- Overnight power generation dispatch;

Shippers and suppliers cannot improve or resolve the issues creating imbalances. In these areas, GNI needs to find alternative solutions.

¹ The intention of the gas balancing regime clearly cannot be to make generators choose between the relative merits of following a dispatch instruction or sticking to a specific nomination based on the relative costs of electricity or gas system imbalance.