Energy for generations

Generation & Wholesale Markets

Response to:

GNI - Balancing Options Assessment Consultation - 25 January 2016

ESB Generation and Wholesale Markets (GWM) welcome the opportunity to respond to GNI's consultation on the Balancing Options Assessment. It is important that the balancing options available under the Network Code (that GNI will be considering under a Cost Benefit Analysis in 2018) take full cognisance of the recent market changes, and the tangible benefits that each option can provide is known so that it can be compared to its relative costs. Industry participation is therefore critical to this process to ensure that the impact of each option is fully understood ahead of its potential implementation.

We have set out our response to each of the recommendations below. In summary, we welcome the general approach taken to monitor the changes in the market resulting from, the new entry point at Bellanboy, the imminent launch of the independent trading platform at IBP and the outcomes of the Interim Measures Reports (IMRs). However we are concerned that the mechanism being considered in these IMRs will not drive the outcomes being sought (liquidity at IBP) plus the fact that it has been recognised by industry and the RAs that liquidity will be limited in any case.

Recommendation 1

ESB GWM supports GNIs recommendations that a), there will be a period of continuous monitoring between 2015 and 2018 to allow time for other developments in the gas market to mature (the independent trading platform at IBP and the introduction of Bellanaboy) and b) that the existing balancing services contract is retained indefinitely until a conclusion from the Cost Benefit Analysis (CBA) is known. This is a prudent approach as otherwise there is an increased risk of unnecessary costs being imposed on participants should the Transporter proceed with one of the alternatives allowed for under the Network Code.

We would however question the implicit assumptions in the paper around the impact that certain interim measures are expected to have on the development of a liquid IBP. Where a shipper has access to both NBP and IBP, the decision to trade at either hub is a commercial decision irrespective of penal imbalance arrangements. Therefore the interim measures such as increasing cash-out prices or reducing tolerances will not necessarily concentrate activity into the IBP nor should that be an objective as it may introduce greater costs and market inefficiencies .

Introduction of an independent trading platform at IBP is a welcome development, as *inter alia*, it will give GNI a clear indication of whether a liquid hub at IBP can be attained naturally ahead of the CBA. As stated in previous correspondence, it is our view that striving to create a liquid market at IBP through regulatory interventions is not necessary and ultimately futile when a liquid hub at NBP is already available.

However, the establishment of the independent trading platform, if liquid, may offer opportunities for GNI to take balancing actions that may be more cost efficient than those that would have to be taken through the balancing services contract. If this was to happen, ESB GWM would support an approach where GNI joins the independent platform and seeks more economic balancing actions so long as the balancing services contract remains as a fall-back where an economic price does not reveal itself.

Recommendation 2

ESB GWM is concerned about the assumptions in the consultation paper with regard to the timings and outcomes of the second Interim Measures Report (IMR #2). There is an assumption that the outcome of IMR #2 will require a Code Modification and that this Modification should be raised and progressed ahead of a decision on the report's findings and recommendations (i.e. that a Code Mod is raised in parallel with the consultation on IMR #2 ahead of a Decision on the Report's conclusions).

Any Code Modification resulting from IMR #2 will likely mean a further reduction in tolerances and/or an increased spread in imbalance cash-out prices. ESB GWM contends that any further changes need to be clearly supported by evidence that it will actually result in a further reduction in balancing actions being taken by the Transporter.

Article 22 of EU Network Balancing Code 312/2014 states that the '*daily imbalance charge shall be cost reflective and shall take account of the prices associated with transmission system operator's balancing actions, if any, and of the small adjustment...*' The purpose of the small adjustment is to ' *incentivise network users to balance their inputs and off- takes'*.

Under the Interim Measures for Balancing, it is our view that this 'small adjustment' in cash-out prices is being used as a driver to incentive activity/liquidity in IBP rather than act as an incentive for shippers to balance. In other words, the current cash-out prices will incentivise some shippers to balance at NBP and so its impact will not been seen at IBP. As a result, the severity of the cash out prices could be ratcheted further with no impact on activity at IBP as hypothetically all shippers could be already balancing their position to the greatest extent possible at NBP.

At a high level, the intent of the Balancing Code is to minimise balancing actions taken by the Transporter by incentivising shippers to balance through the market. As highlighted, monitoring liquidity at IBP is not an indicator of whether shippers are taking balancing actions or otherwise. Instead any changes to cash out prices or tolerances need to be measured against the impact it has on the number and quantum of balancing actions taken by the Transporter. ESB GWM recommends that this indicator is used when determining the effect of making imbalance arrangements more severe as it will give a clearer indication of whether it is working as an incentive for shippers to balance. It is our contention that this point has been reached already and any imbalances seen today are largely as a result of circumstances outside of a shippers control (e.g. forecasting of electricity and gas demand).

Recommendation 3

ESB GWM welcomes a full CBA being carried out in 2018 of the various balancing options after sufficient monitoring of the existing market changes has been undertaken. As stated before, it is our view that the intent of the Balancing Code is that the Transporter takes balancing actions only where necessary (shippers should be incentivised to balance) and that, if required, these balancing actions should be taken in the most cost effective manner. Article 9 of the EU Network Balancing Code 312/2014 states that the Transports shall 'take into account cost- efficiency within the respective levels of the merit order' of the various balancing products (which includes balancing contracts). This means that the Transporter is not obligated to establish a trading platform or a balancing platform if it proves too costly and provides no tangible benefit.

A Cost Benefit Analysis should be relatively straightforward if the independent trading platform at IBP is launched as expected in the coming months. If successfully established the cost of balancing actions taken as per the status quo (balancing services contract) can be simply compared with the costs of actions were they taken on the independent trading platform. Similarly, if the independent platform does not stimulate liquidity at IBP then it is our view that this verifies that the establishment of a balancing/trading platform by GNI would be futile as it would require unnecessary regulatory intervention to succeed. Under the later scenario, the balancing services contracts could remain as they are allowed for under the Balancing Network Code.

ESB GWM does not have any views on the various short term products outlined but notes that it is pre-emptive to make decisions in this regard ahead of the completion of the CBA.

ESB GWM would welcome the opportunity to discuss any aspects of this response and should you have any queries please do not hesitate to contact me.

Yours sincerely,

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15th February 2016