

Balancing Arrangements

Review of Platform Options

If you have any questions in relation to our response, please don't hesitate to contact me at lisa.fahy@sse.com



Introduction

SSE welcomes the opportunity to comment on GNI's consultation on Balancing Arrangements and the options for platform solutions. Balancing is becoming increasingly important for the gas market with the introduction of further production and shift in responsibility to shippers to ensure their portfolio is balanced.

The consultation is timely given industry's appetite to more actively engage in the balancing market and to move away from this current contract arrangement which is not transparent and may not deliver the best value for customers.

Response

Balancing Platform

Two types of platform have been proposed in line with the options provided for under the Regulation¹ - trading or balancing. The approach to ownership and contractual requirements is also examined with. There are pros and cons with either option; these have been discussed in detail in the paper.

SSE's preference is for a brokered independently owned trading platform to be put in place. This would see the TSO operating as a participant. In terms of the operating model and given the time, resource and knowledge requirement for the TSO to develop a trading platform, SSE believe that contracting a third party to operator the platform is the best option. This option should deliver the best value for money to customers as a competitive tender process will be used. Market participants are already familiar with bilateral contracts and financial arrangements required for a brokered platform.

The inherent flexibility and anticipated liquidity that a trading platform could deliver make it the most attractive option for the Irish market. SSE notes the contractual implications of establishing a balancing platform but does not consider any insurmountable or significant enough not to proceed.

Liquidity

An area which warrants further discussion is establishing whether there is liquidity or not. Liquidity in other markets is often linked to churn before delivery of the final product. Gas can change hands upwards of 15 times at NBP, with the trading at TTF surpassing NBP in 2016. The challenge is to establish the metric to determine liquidity in the Irish context. If measuring product churn is not a viable option at the outset due to slow trading uptake, SSE suggests liquidity could either linked be linked to a response timeframe in which a bid for the required action is notified on the platform.

Approach to cash out

Cash out pricing in Ireland is currently a dual pricing approach which rewards management of individual shipper portfolios rather than the collective system portfolio. Put simply, the System Sell Price (SSP) and System Buy Price (SBP) are the 'cash-out' prices that are used to settle the difference between contracted consumption and the amount that was actually

¹ The Balancing Network Code, Regulation EU 312/2014.

consumed on the day. Under single pricing, a SSP and SBP would be calculated depending on whether the system as a whole was long or short. SBP (when the system is short) and SSP (when the system is long) are calculated by reference to the cost to GNI of its actions to balance the system.

The industry could consider the introduction of single cash out price as an alternative to administratively set multipliers once a trading platform is in place. This would see shippers incentivised to manage their portfolios more effectively to ensure the overall system balance is maintained. This means that imbalances which help the system as a whole are rewarded to the full value of the saving to GNI in not having to balance the system.

Moving to single cash out approach could underpin the benefits of a trading platform and help to develop liquidity at IBP.

GNI questions

1. *What, if any, do you consider the potential benefits of GNI participating in a Trading Platform to be?*

A trading platform should provide for liquidity and flexibility in the Irish market. Shippers will also be able to trade between them making portfolio balancing easier and should reduce the need for TSO led balancing actions.

2. *What, if any, do you consider the potential risks of GNI participating in a Trading Platform to be?*

Ownership of the platform may be an issue if the operator is no longer in a position to provide the service. This risk can be minimised through contractual arrangements and sufficient notice being given to the TSO.

3. *Are you aware of any party that is proposing to operate a Trading Platform at the IBP, which would satisfy the requirements of the Regulation?*

Yes.

4. *If a Trading Platform is chosen, it will be the exclusive mechanism of completing balancing actions (unless balancing services contracts are required to be used on a day, due to insufficient liquidity). Therefore, Shippers not participating in such a Trading Platform would be unable to act as counterparty to a GNI balancing action. What are your views on this eventuality?*

SSE does not see this as an issue given that it would be commercially and operational more beneficial for shippers to use the trading platform. This should be a natural incentive to participate.

5. *What, if any, do you consider the potential benefits of GNI participating in a Balancing Platform to be?*

Ease of balancing actions although the limited capability of the platform is not desirable and a trading platform is a better alternative.

6. *What, if any, do you consider the potential risks of GNI participating in a Balancing Platform to be?*

SSEs view is that putting a balancing platform in place will delay the implementation of a trading platform.

7. *Is your preference for GNI to:*

a. move to a Trading Platform, as soon as possible, thereby initially bypassing TSO utilisation of a Balancing Platform?

b. move to a Balancing Platform, as a first step, and then review its success or otherwise, before deciding whether to advance to participating in a Trading Platform?

i. If this is your preference, what criteria should be evaluated to measure the success or otherwise of the Balancing Platform? For example, number of balancing actions successfully completed on the Platform, price achieved, need to revert to balancing services contracts, etc.

c. engage in another course of action?

SSEs view is that GNI should move to a trading platform as soon as possible and engage with industry and the CER to progress the necessary changes in a timely manner.

8. *What types of credit arrangements should be put in place between GNI and a counterparty on either Platform (e.g. Parent Company Guarantee/Letters of Credit etc.)?*

SSEs preference would be for standard Letters of Credit to be used although we would also consider insurance bonds and other acceptable forms of collateral meeting standard draw-down and credit criteria to be established by GNI.

9. *In conditions of insufficient liquidity on a Platform, what criteria should apply to determine when GNI should revert to the relevant balancing services contract on a given day?*

SSE has proposed options in this area and believes further stakeholder discussions are required.

10. *The following Table outlines a series of potential scenarios (A-F); these include GNI undertaking/not undertake balancing actions, and trades taking/not taking place on a Platform. In each blank cell, please insert details on the cashout price that you consider appropriate to apply in each scenario.*

Scenario	SSE View
A and B	Should be based similar to UK NBP, where cashout is +/- pence or cents around SAP. UK is presently +/-1.1p.
C and D	If GNI have separate balancing contracts and have to utilise them it should be made known to the market, but not actually affect the market.
E and F	Similar to UK NBP, GNI sets the cashout by buying up or selling down to a price that's on the screen and hence setting the cashout buy or sell price.

Conclusion

SSE supports the introduction of a trading platform as soon as possible to incentivise better shipper behaviour with less intervention being warranted by the TSO. Further liquidity at IBP will be welcomed and should lead to a more balanced system for all users.