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ESB GWM Response to GNIs *Balancing Arrangements – Review of Platform Options Consultation*



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ESB GWM welcomes the opportunity to respond to GNIs *Balancing Arrangements – Review of Platform Options*. ESB GWM would ask GNI to review our previous response to GNIs earlier Balancing Options Consultation (January 2016) in conjunction with this response. Within this earlier consultation, 3 options were put forward by GNI:

1. Trading Platform
2. Balancing Platform
3. TSO trading on an adjacent platform

In this current consultation, only 2 possible options are explored:

1. Trading Platform
2. Balancing Platform

GNIs Interim Measures report (2015) proposed that the interim measures to be taken would include, among others;

- A feasibility study into the establishment of a Trading Platform and a Balancing Platform at IBP and
- A feasibility study into the TSO accessing an adjacent trading platform

We understand that the feasibility studies did not occur. This consultation does not include the option of examining the use of an adjacent hub. ESB GWM would suggest that there is merit in continuing to consider the possibility of using one of the world's most liquid hubs, NBP, as an option for balancing.

At present, gas flow is unidirectional but due to the presence of Virtual Reverse Flow (VRF), gas can be virtually exported to NBP providing GNI a virtual means of exporting gas if the system is long. VRF business rules could be amended so that the TSO has first access to a proportion of the VRF capacity to ensure balancing actions are given priority access.

In addition, GNIs most recent draft Ten Year Network Development Plan, states that GNI are considering applying to the Connecting Europe Fund in November 2016 for funding to investigate physical reverse flow at Moffat [Section 8.2 Physical Reverse Flow at Moffat]. If physical reverse flow is a possibility over the medium term, trading at NBP gives GNI access to a liquid, transparent market in which to balance ROIs gas network which would ensure a transparent, low cost balancing solution for Shippers.

As per our response to the earlier consultation paper, ESB GWM would question whether the proposed interim measures such as reduced tolerance levels for LDM and DM shippers or amending the daily cash out price can foster liquidity in the Irish market due to the relatively small size of this market. ESB GWM has not yet seen any analysis of IBP activity and believe that this analysis may provide a good indicator of liquidity in the Irish market. If liquidity is extremely low, the rationale of using either a Trading or Balancing Platform are questionable. ESB GWM believe that it is in the best interest of the gas consumer that the balancing option chosen is both cost efficient and enduring.



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In addition, this consultation does not give any indication of costings for development of either a balancing or trading platform. Without this information, it is difficult to fully assess either potential option. A material difference in costings for either solution, would be an influencing factor in determining the optimal solution.

This response will now address the questions in the consultation.

Views on a Trading Platform

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

A Trading Platform provides increased functionality to Shippers in comparison to a Balancing Platform. This increased functionality could encourage more activity to take place over the Trading platform and increase liquidity. Increased liquidity could provide GNI an opportunity to take balancing actions in a more cost efficient manner than those available within the balancing services contract.

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

Liquidity remains a key concern in the development of a platform. ESB GWM would seek further information regarding IBP activity to date to be presented at the next Balancing Workshop in October.

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?

ESB GWM is aware of entities offering an independent platform but cannot say if these platforms satisfy the Regulations. This would be a matter for assessment during any procurement/tendering process.

4. If a Trading Platform is selected, 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 a counterparty to a GNI balancing action. What are your views on this eventuality?

This appears to be a reasonable proposition. If a Shipper wants to be active in the balancing market, there should be a transparent process to participate in the Trading Platform.

Views on a Balancing Platform

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

The proposed Balancing Platform offers limited functionality and ESB GWM feels that liquidity could be a major issue.



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

Limited liquidity is a concern as without a sufficient number of counterparties participating, the Balancing Platform would not provide GNI a means of balancing the system when required.

Views on Transitioning to a 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?
- 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?

As outlined above, ESB GWM feel that the ability of using an adjacent hub to balance the system, provides GNI with a liquid, transparent hub where balancing activities can be undertaken in a cost effective manner. GWM would request GNI to reconsider this option and to explore it in the upcoming Balancing workshop.

Both the Balancing and Trading Platform have unknown costs as well as question marks regarding the possibility of achieving sufficient liquidity levels. If a Trading or Balancing Platform is established with low levels of liquidity, GNI will not be assured that these platforms will permit successful, cost efficient balancing actions to be taken. If no counterparty is available when a balancing action is required, the balancing services contract will be called on with increasing frequency. Given that balancing activities under the balancing services contract would be less certain if there is an operational Balancing or Trading Platform, the counterparty offering the balancing services would presumably include this increased uncertainty in their pricing, potentially making balancing activities more expensive on a per therm basis that is currently the case. In the event of reduced liquidity and increasing balancing costs occur, it would signify a failure of the reformed balancing regime. One of the objectives of Regulation (EU) No 312/2015 (Balancing) is to ensure competitiveness and keen energy prices.

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.)?

Parent Company Guarantee.

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?

The price and volume of gas available should determine the actions GNI take. If the price on a Platform is greater than that agreed in the balancing service contract, the balancing service contract should be used.



10. N/A

11. Are there any additional comments/considerations that you wish to make at this stage?

As per our previous response:

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 Transporters 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 believe that the decision regarding balancing options is being expedited by GNI due to Shippers requests. In this case, it is correct that the Cost Benefit Analysis is completed now before any final decision is made with regards to next steps. The expected cost of all options is a requirement before any decision can be made. We would ask that any Cost Benefit Analysis includes the option of trading at an adjacent hub.

If you would like to discuss this response in further detail, please feel free to contact me.

Kind regards,

Karol O'Kane