

Gas Networks Ireland Consultation Paper

Balancing Arrangements – Review of Platform Options

Vayu welcomes the opportunity to comment on the Gas Networks Ireland (“GNI”) consultation paper on the options for a platform to allow GNI carry out its gas balancing activities.

In general, Vayu supports the move to a Traded Platform, which is in line with the EU balancing regulation. This structure allows all shippers and GNI to participate on a transparent and market based platform to carry out gas trades. In any event market participants can choose whether or not to become active in the market, which is a commercial decision for each shipper.

Furthermore, we have noted in previous submissions on the issue of balancing that we would like to see a fundamental change in the regime and re-iterate here that the structure should be overhauled to look at the position for the market in its entirety and how individual shippers can assist in the overall balancing of the system.

We are, as always, open to discussing our views in more detail and our comments on relevant consultation questions are as follows:

Views on a Trading Platform

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

Whilst GNI has a wealth of experience building, operating and maintaining a gas network, Vayu supports the GNI view that it would **not** be prudent for it to develop its own trading platform. However, we do believe that there would be merit in participating in such a platform. It is common in other countries that the TSO would participate in trading platforms and is in keeping with the preferred option in Regulation EU 312/2014. We believe that the platform would provide a level of assurance as to the independence and transparency of prices for market participants. In addition, GNI would not incur the cost of developing or maintaining the platform; nor the ongoing training for market participants.

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

We are unaware if GNI has had much prior experience or knowledge of participating in a trading platform, but it undoubtedly carries a number of risks. The main risks we believe that need to be addressed are i) that processes and procedures are not robust and incorrect volumes are traded or not traded, as required; ii) that insufficient training has been done internally on the operation of the platform; and iii) GNI may take unnecessary risks on an expected gas position by stepping into the market to buy or sell gas when not required and enter into transactions that replicate the current balancing actions.

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 logical step and it will be a commercial decision for individual shippers should they wish to participate or not. Given the supply-demand position in the market at present, it would appear that a balancing services contract would only be required if the market was in a long position i.e. surplus gas and low liquidity.

Views on a Balancing Platform

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

Our favoured option would be for a trading platform, however we believe that if an alternative structure such as a balancing platform was created it would provide a level of assurance as to the independence and transparency of prices for market participants. In addition, GNI may not have to incur significant costs developing and maintaining the platform when other 3rd party providers with more experience could launch and operate the platform.

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

GNI would be the main participant on this platform and counterparties will respond to long or short imbalance positions. In this situation GNI would become a market maker for imbalances; market participants may or may not respond to these price signals. If no participant provides the gas shortfall or takes the surplus gas, GNI will have no option, but to follow a number of courses of action, which would include entering a balancing services contract or forcing participants to amend nominations.

We are unaware if GNI has had much prior experience or knowledge of participating in any form of traded platform, but it undoubtedly carries a number of risks. The main risks we believe that need to be addressed are i) that processes and procedures are not robust and incorrect volumes are traded or not traded, as required and ii) that insufficient training has been done internally on the operation of the platform.

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?

Vayu agrees with this approach.

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.*

Vayu does not agree with this approach.

c) engage in another course of action?

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.)?*

We are aware that credit arrangements for imbalances form a key component of the Uniform Network Code in GB. We do not believe that all these arrangements should apply to the Irish market, given its scale. The current arrangements have operated successfully to date. There may be merit in allowing each shipper a line of credit that reflects their individual financial position and should an amount be required to be put in

place to cover any shortfall the options available under the current GNI financial security policy could be used.

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?

In the short term, we agree that it would be prudent for GNI to continue with the balancing services contract until such time as liquidity has sufficiently developed. However, we expect that there would be limited occasions where a lack of liquidity would require GNI to revert to this contract. In the event that this were to occur, we believe that GNI should establish a window period (of, say, no more than 2 hours in duration) within which a request for balancing gas would be responded to. In the event that no shipper provided this balancing gas it must then activate the balancing contract.

Given that GNI are of the view that the balancing services contract will be required a Moffat bundled capacity booking (or indeed a booking at an alternative entry point) must be underwritten by GNI.

*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	Cashout Buy Price to Apply to Shippers' Short Positions	Cashout Sell Price to apply to Shippers' Long Positions
A. GNI has no balancing (buy or sell) requirements, but there are trades on a Platform.	IBP, SMP Buy	IBP, SMP Sell
B. GNI has no balancing requirements, and there are no trades on a Platform.	NBP, SMP Buy	NBP, SMP Sell
C. GNI has balancing buy requirements, and has to utilise the balancing services contract.	NBP, SMP Buy	NBP, SMP Buy
D. GNI has balancing sell requirements, and has to utilise the balancing services contracts.	NBP, SMP Sell	NBP, SMP Sell
E. GNI has balancing buy requirements, and trades these out on a Platform.	IBP, SMP Buy	IBP, SMP Buy
F. GNI has balancing sell requirements, and trades these out on a Platform.	IBP, SMP Sell	IBP, SMP Sell

Where IBP is Irish Balancing Point and NBP is National Balancing Point.

11. Are there any additional comments/considerations that you wish to make, at this stage of the Balancing Arrangements consultation process? If yes, please elaborate.

Fundamentally, we believe that there has not been enough discussion or debate on possible viable alternatives. We noted in previous submissions on this issue that a system wide approach should be applied to balancing and possibly apply a structure that works on a traffic lights basis, as is the case in the Netherlands. Recently, the real issue for the Irish gas system can be seen from publication of system data, which shows a well over-supplied gas network. The solution should address the causes and examine overall system set up.

As we suggested in the proposed table of pricing above, an alternative to this may be adopt a different tiered pricing regime e.g. if system is long give a benefit to a shipper with a short position in the market and

actually contributes to system imbalances. Conversely, charge penal rates when system is short and shipper also has a short position.

Another alternative may be to introduce a different more penal pricing regime in more serious situations (similar to that currently proposed), where the integrity of the overall system is the issue and not impose these penal rates on individual shippers who may be in a position to contribute and help the integrity of the system.

We also believe that information regarding whether the overall market is in a long or short position should be published on a timely basis e.g. 10 minute intervals.