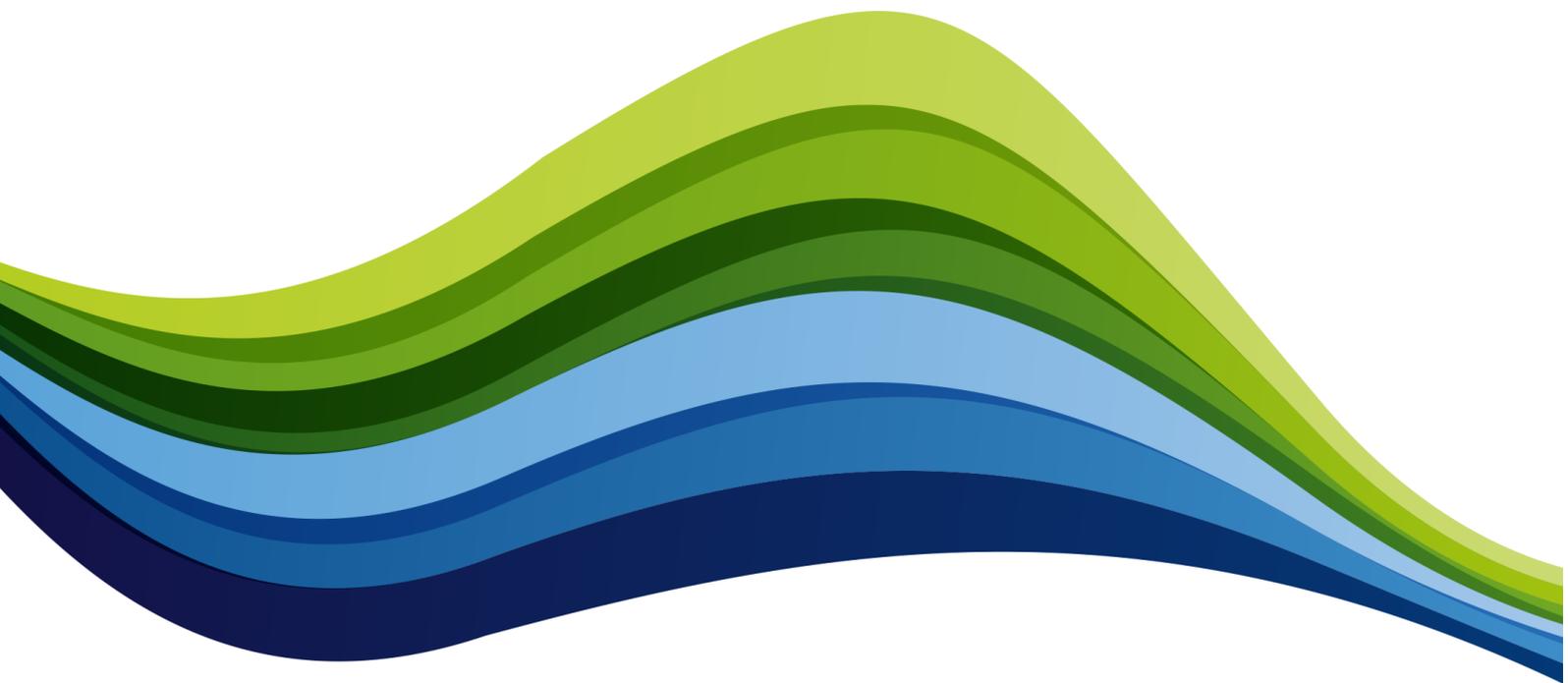


Consultation on Changes to Daily Imbalance Charges: Second Tier Imbalance Price

Code Modification A074

July 2016



Introduction

SSE welcomes the opportunity to comment on the Gas Networks Ireland (GNI) proposed modification to alter the second tier imbalance prices paid to shippers. The intention of this modification is to incentivise individual shippers to ensure that their individual portfolios are in balance at the end of each gas day.

Proposed and amended modification

The modification will result in a lower price being paid to shippers for Second Tier Imbalances where they have a positive imbalance at the end of a gas day and a higher charge being levied on a shipper for Second Tier Imbalances where they have a negative imbalance quantity at the end of a gas day. The proposed implementation date for this modification

is 1 August 2016.

The sections of the code to be modified are:

- Part E, Section 1.6 (d)(i)(1) – the current multiplier of 0.95 will change to 0.75;
- Part E, Section 1.6 (d)(ii)(1) – the current multiplier of 1.05 will change to 1.25.

In addition to this, we believe that a clause should set out the circumstances in which these modifiers will apply i.e. gas days in which the System Operator has declared a system stress event or have activated their balancing gas options.

Response

SSE is generally supportive of the proposed modification and its intent to further incentive 'good behaviour' across the gas system. 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, any imbalance price linked to the GB SAP will inevitably be imperfect – while the NBP is generally perfectly correlated with Irish gas prices, correlated periods of GB and IE system stress are less likely. To give an example, an Irish Power Generator that has been constrained on during the 2 hour gap should not necessarily receive a substantial penalty (or incentive) for a sudden interruption at a GB storage facility. Similarly, shippers should never be incentivised to create an Irish system imbalance as a result of GB system issues.

Therefore, we would suggest that a conditional element is included in the code. Until a balancing platform is fully developed, SSEs view is that the proposed modified imbalance price should only apply when the System Operator has either declared a period of system stress or if they have activated their options under the bilateral Balancing Gas contract.

Power Generation

The Irish system has central dispatch with Generation being 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 0235h, two and a half hours prior to the end of the gas day (0500h). 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 pay the imbalance price.

Conclusion

In summary, while SSE is in favour of amending the imbalance regime to better incentive shipper behaviour, 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 addition given the potential quantum of the penalty the inclusion of a conditional element in the clause would be prudent.