



Irish Offshore
Operators'
Association

Irish Offshore Operators' Association

Suite No. 2119, Fitzwilliam Business Centre, 26, Upper Pembroke Street, Dublin 2, Ireland
Tel: +353 1 637 3996 Fax + 353 662 0365 Email: info@iooa.ie Website: www.iooa.ie

Mr Conor Long,
Gas Networks Ireland,
Gasworks Road,
Cork

29 July 2016

By email: conor.long@gasnetworks.ie; marketdevelopment@gasnetworks.ie

Re: Initial Modification Report – Code Modification A074 – Changes to Daily Imbalance Prices: Second Tier Imbalance Prices

Dear Conor,

IOOA's members welcome the opportunity to respond to this consultation. Please note that given GNI's recent confirmation that A074 is not required due to any network safety concerns, this response details IOOA's views on the commercial and market development implications of GNI's proposal.

As a general comment, IOOA would like to express its immense disappointment with the process followed by GNI. In particular, GNI has once again refused or been unable to share with industry complete data and analysis required for a well-considered and comprehensive appraisal of a Code Modification in a timely manner. In the case of A074, waiting until the closing date for comments to provide incomplete clarification information is simply not good enough. This type of approach compares badly with other European markets and we are therefore not only frustrated but also surprised with the CER's apparent condoning of this practice.

Additionally, IOOA's members consider that the proposed increase in second tier imbalance price will not change significantly shipper behaviour as the modification is intended to do as it does not target shippers that are causing the imbalances in any way. This proposed code modification is treating the symptom of the problem rather than the underlying cause and the bigger issue at hand needs to be addressed. This proposed code modification runs contrary to the spirit of the interim balancing regime which requires all EU countries to adapt a market based solution to balancing by 2019 but permits interim arrangements as you move towards compliance - the proposed changes are not an acceptable interim arrangement.

IOOA's specific reasons for strongly opposing A071 are as follows:

- **Requirement for Market-Based Dynamic Balancing Prices** - IOOA's members have been active in the balancing workshops and have presented a number of solutions to assist GNI with implementing the Balancing Network Code (BAL NC) in advance of 2019. A market-based dynamic balancing regime in which cash out prices (determined on a balancing platform) vary in-line with the status of the network length / shortness of the system line pack is what is required to tackle the current large imbalances that are being left within GNI line pack. The threat of negative pricing (which may occur in extremely exceptional circumstances) which can be achieved through market-based dynamic pricing achieved on a balancing platform is the ultimate incentive for shippers to remain balanced on a day and



GNI needs to deliver such a market-based dynamic balancing regime as soon as possible. On a day a shipper or producer may be happy to sell its gas at a multiplier of 0.75, in which case the proposed code modification will have no impact.

- Trading / Balancing Platform - Corrib gas field flows will likely present a significant change to the operation of the network. GNI should be adapting to these changes in a forward-looking, timely and efficient manner. It is not surprising that rehashing the old methodology is not working! Indeed, a further rehash is unlikely to produce better results. We would reiterate the need for development and implementation of a Trading/Balancing platform for the IBP. IOOA's members remains disappointed that GNI hasn't prioritised putting this at the forefront of balancing at the IBP – such a platform would provide GNI with a market based solution to facilitate dynamic IBP pricing providing genuine market signals to shippers. In IOOA's presentation given on 20 April 2016 we provided some context on why IOOA's members considered that the removal of tolerances, which encourage complacency amongst shippers, would help assist shippers towards using the platform to balance thus enhancing liquidity. GNI's proposed modification is going the opposite way – it will not solve the problems GNI has in balancing the system currently.
- New Multiplier Methodology - GNI needs to detail the basis for determining the new multipliers to ensure that they are set at an appropriate level best designed to encourage efficient balancing. In contrast, the multipliers contained in the modification proposal appear to be arbitrary to say the least. In short, assuming that the proposed modification works in the way described by GNI, there is no means by which to determine that 0.75 / 1.25 is a more correct range than 0.9 / 1.1. Also why is GNI changing the multiplier from 1.05 to 1.25 when system being long is the issue? Shippers need to be exposed to the full market consequences of their operations and not some arbitrary and ineffective penalty.
- GNI Imbalance Costs Incomplete Analysis – Based on the clarification information (CMF Action C498) provided today (two hours before the closing date of this consultation), the net imbalance of shippers over the period from Oct'15 to March'16 is 150,000,000kWh (approx. 5million therms) added to GNI's linepack. The analysis that GNI presented in slide 23 of the second imbalance workshop in which it showed that shipper imbalances were costing the shippers €1.9million is incorrect as while it shows the net cost to shippers of the shippers' imbalances (the €1.9million), it neglects to take into account that the system has been left long by 5million therms (approx. €1.9million at 30p/therm gas price) which when this gas is sold will reduce the net cost to shippers and may even make shippers money. Thus moving to multipliers of 0.75 / 1.25 will result in a profit from imbalance actions being returned to shippers instead of a cost as shown in the GNI presentation. We note that the Irish system is cashed out on an annual basis and not on a daily basis, nevertheless, we have considered the six-month period above as the shipper cashout period for our analysis. We reserve the right to make further comments on the information provided today (the closing date of the consultation) which is two months after the initial request for this information was made at the second imbalance workshop.



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- Corrib Commercial Operation - Commercial operation of the Corrib gas field has just commenced. During the commissioning phase the Corrib operator tells the Corrib partners how much gas to flow on each day and the partners must flow this gas into the system. Once commercial operation commences each of the Corrib partners will determine how much gas they want to sell on a day. By choosing an implementation date for this code modification that coincides with commercial operation of Corrib means that if the situation that this code mod is trying to address improves it will not be clear if this is because of the implementation of the code modification or the new operating regime of the Corrib gas field.
- Implementation Date - IOOA's members are concerned that the consultation closes on the 29th July yet there is a proposed implementation date of the 1st August – the time for review of the responses does not appear to be such that an appropriate review of any responses can be carried out. Also this extremely tight timescale goes completely against the usual process of discussing the responses at the code mod forum with views from GNI and CER around the next steps. In view of this sub optimal process we would strongly urge any changes of this nature are delayed until 1st November at the earliest to ensure due process is followed and to allow time to (i) identify changes in shipper behaviour due to the Corrib commercial operation outlined above, and (ii) assess whether Ireland's gas consumers and shippers would be better served by a market based system that allows shippers to balance themselves and minimise GNI intervention, and (iii) fast track the implementation of such a market based balancing system.

In conclusion, IOOA's members are concerned that due to the events of the 9th and 10th, of July that GNI has decided to raise a code modification at worryingly short notice and with an unacceptable level of information provision. This code modification seems to rehash a failing methodology and not move Ireland to a sustainable balancing regime. Far better would be to consider the nature of the ongoing impact Corrib flows may have on network operation (commissioning activities have now been completed) before considering any need for a modification proposal of this type. In any event, an efficient gas balancing regime would be more likely if GNI addressed the issues contained in Appendix 1 (this contains areas of concern that IOOA's members have in relation to balancing) and implementation of the EU Network Code on Gas Balancing (including development of interim measures).

Notwithstanding the above if GNI proceeds to implement this proposal then the CER should insist on it being a temporary measure until the market based balancing solution, which is urgently required to address the current issues with the Irish system, is implemented. Additionally, in relation to the approval of A074, the CER should also insist that GNI provides and agrees with industry a clearly defined methodology for reassessing the optimal level of multipliers to be applied on a weekly basis until the optimal level is determined. Finally, the CER should request GNI to immediately commence consultation on the business rules for an IBP based balancing platform as a matter of urgency – this can be consulted on independent of whether GNI or a third part provider provide the balancing platform. We are available to discuss our response in more detail should GNI or the CER wish to.



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Yours sincerely,

Brian McGlinchey
Chairman IOOA Gas Sub-Committee and on behalf of:

AzEire Petroleum
Cairn Energy,
Eni,
Faroe Petroleum,
Fastnet Oil & Gas,
PSE Kinsale Energy,
Kosmos Energy,
Lansdowne Oil & Gas,
Providence Resources,
Repsol,
San Leon Energy,
Serica Energy,
Shell,
Statoil,
Vermilion Energy Ireland,
Woodside.

Cc: Patrick Shannon Chairman IOOA
IOOA Management Committee
IOOA Gas Sub-Committee
Karen Trant CER (ktrant@cer.ie)
Colm O'Gormain CER (cogormain@cer.ie)

Appendix 1

- Balancing Contract - GNI remains committed to the existing balancing contract and we agree with this sentiment until liquidity is established at the IBP. We do however repeat our previous comments this should only be used as a last resort and the new platform should be supported and implemented urgently. The long overdue implementation of VRF has been successful for shippers but it remains the only balancing tool open to most.
- IOOA Previous Responses - It is IOOA's member's view that their position presented in the balancing workshop (via presentation) dated 20 April 2016 and IOOA's members' previous response to your Balancing Options Assessment dated 15 Feb 2016 remain valid.
- Shipper Communications - Inadequate communications from GNI to shippers on days such as those that occurred on 9/10 July are an issue and GNI fall short in this area during such occasions. By communicating with shippers promptly allows shippers to react and maximises a shippers opportunity to trade out imbalances thus reducing the linepack imbalances that that GNI is exposed to.
- Management of Shipper Imbalances - There continues to be a lack of balancing tools available to Irish Shippers to manage their imbalances particularly on days where demand is at extremes.