

Balancing Network Code

Commission Regulation No 312/2014

Interim Measures Report

7th April 2015

for CER Approval



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1. Introduction

- 1.1.1 Commission Regulation (EU) No 312/2014 established a Network Code on Gas Balancing of Transmission Networks (Balancing Code). This came into force on 26 March 2014 and requires implementation of its provisions by October 2015¹. The Balancing Code is part of the implementation of the Third Package and is one of the codes envisaged under Article 6 of Regulation (EC) 715/2009.
- 1.1.2 The Congestion Management Procedures (CMP), Capacity Allocation Mechanism (CAM), Balancing, Interoperability and Tariff Network Codes will define the transmission access rules that will provide the foundations for the European integrated gas market.
- 1.1.3 The Balancing Code is based on the aspiration to create a properly functioning short term wholesale market within each entry/exit zone in Europe. This aspiration foresees the trading of short term standardised products on a liquid, competitive trading platform within each entry/exit zone.
- 1.1.4 However, in the absence of sufficient liquidity in the short term market then the Transmission System Operator (TSO) can propose interim measures that will facilitate the transition to the full implementation of the Balancing Code by 2019. The Balancing Code requires the TSO to prepare the Interim Measures Report and to issue this to stakeholders for consultation. Following the consultation, the Interim Measures Report will be submitted to the NRA. The NRA is then required to consult with adjacent NRAs prior to making a decision and informing the EU Commission and the Agency for Energy regulators (ACER).
- 1.1.5 This document is the Interim Measures Report as required by Chapter X of the Balancing Code. It sets out the following:
- A description of the state of development and the liquidity of the short term wholesale gas market;
 - The interim measures that are proposed;
 - The reasons for the application of the interim measures including
 - an explanation why the interim measures are needed due to the state of development of the short term wholesale gas markets;
 - an assessment of how the interim measures will increase the liquidity of the short term wholesale gas market; and
 - an identification of the steps that will be taken to remove the interim measures including the criteria for making the steps and the assessment of the related timing.
- 1.1.6 This Interim Measures Report has been issued to stakeholders for consultation. Three responses were received and the main issues raised were as follows:

¹ Article 52 ‘Transitional Provisions’ allows implementation within 24 months of 1st October 2014 where the approval of the National regulatory Authority is given provided that no interim measures are implemented.

- One respondent was broadly supportive of the approach proposed in the Interim Measures Report, but had a preference that some of the proposed changes, including moving the delivery point of balancing contracts to the IBP, should take place from October 2015. It was also suggested that a simplified non-screen based Balancing Platform could be put in place for October 2015.
- Another respondent raised an issue relating to uncertainty faced by power generators in the in the last few hours of the Gas Day that, it is claimed, limits the opportunities to achieve a balance position. The respondent urged that some relief should be given to imbalances that occur between 2am and 5am on the Gas Day.
- The third respondent stressed the importance to properly consider a full review of all options before any decision is taken on a move to a Balancing Platform or a Trading Platform. This respondent also argued that the NBP should continue to be the focus of balancing services and opposed any changes to the cashout regime.

1.1.7 We have taken these comments into consideration in this version of the Interim Measures Report, which is now submitted to the CER for its consideration and decision on approval.

2. Background and Requirements of the Balancing Network Code

2.1. Background

- 2.1.1 The Balancing Code seeks to address the lack of harmonization in balancing rules across Europe. In many parts of Europe the current rules are not consistent with efficient outcomes since individual network users are unable to manage their risks and opportunities.
- 2.1.2 The Balancing Code has been designed to promote market based balancing. This is a key element of the Third Package vision; that well-functioning traded markets, at least for short term flexible gas, should exist within each entry/exit zone.
- 2.1.3 The foundation of the market based approach is individual network user incentives to balance based upon trading within the entry/exit/balancing zone. The concept being that if all network users are close to balance then, in aggregate, the system will be close to balanced. Balancing responsibilities are devolved delivering efficient outcomes via the functioning of the market and, leaving only a residual role for the TSO.
- 2.1.4 These principles were already defined in the Regulation. However the European Commission's Impact assessment indicates that "gas balancing rules differ widely across Europe and in many cases are neither adapted to multiple market players competing in the wholesale gas market nor facilitating cross-border trade"².
- 2.1.5 To rectify these inadequacies the Balancing Code better defines the approaches to be used to deliver a market based balancing regime. The rules do not provide a precise description but do define the key building blocks.

2.2. Critical elements and aspirations of the Balancing Code

- 2.2.1 The fundamental objective of the Balancing Code is to introduce market mechanisms into the balancing regime. Primary responsibility for balancing gas flows on the system resides with network users, with the TSO having a residual role. The model requires daily cashout of all network user imbalances and a short term wholesale flexible market for gas where buyers and sellers can trade to achieve a balance. The functioning of such a regime depends critically on the incentive framework to encourage network users to self-balance. Imbalance exposures should be reflective of the costs to mitigate those imbalances; the philosophy being that it should be (slightly) cheaper for a network user to get to a balanced position rather than to face imbalance exposure.
- 2.2.2 Other key ideas in the Balancing Code include:

² European Commission Impact Assessment – establishing a Network Code on Gas Balancing of Transmission Networks.

- the TSO (in its residual role) should transact, as far as possible, in the same short-term flexibility market as the network users;
- the network users shall have appropriate information so that they can efficiently manage their opportunities and risks;
- the network users shall have flexibility to manage their physical gas flows on the system via the ability to renominate physical flows;
- the network users shall have access to a properly functioning short term market;
- the TSO shall be financially neutral to the overall costs arising from TSO balancing actions and imbalance cashout; and
- the TSO shall have a role to encourage the market to develop via its efforts to encourage trading within the zone, its balancing decision making and its efforts to assist the transition to a fully functioning market.

2.2.3 The Balancing network code therefore defines the:

- essential enabling features of the enduring model;
- timelines for delivery; and
- Interim Measures that can be used to assist the transition to a properly functioning market.

2.2.4 The Balancing Code places significant obligations, particularly on the TSO, to work towards a properly functioning market including a responsibility to endeavour to create a Trading Platform where both TSO and network users can trade. However the Balancing Code cannot mandate a properly functioning market and if this cannot be easily achieved, then TSOs may use Balancing Services. An additional alternative is to transact in an adjacent market where greater liquidity might exist.

2.2.5 In many countries, including RoI, the Balancing Code will involve fundamental changes to the balancing regime. The changes all have one aim; to foster liquidity within the entry/exit zone's short term wholesale market.

2.2.6 A short term wholesale market cannot be created overnight. Therefore the Balancing Code recognises that a transition plan may be necessary in countries where liquidity is low. Interim Measures are therefore envisaged to assist the transition. These should be considered as stepping stones to the full implementation of the Balancing Code and accordingly, the use of Interim Measures should deliver progress towards this. The Interim Measures are therefore complementary to the delivery of the other essential features of the Balancing Code.

2.2.7 The Balancing Code contains the following chapters which are outlined in more detail in Annex A:

- I: General Provisions
- II: Balancing System
- III: Operational Balancing
- IV: Nominations
- V: Daily Imbalance Charges

- VI: Within Day Obligations
- VII: Neutrality Arrangements
- VIII: Information Provision
- IX: Linepack Flexibility Service
- X: Interim Measures
- XI: Final and Transitional Provisions

2.2.8 Many aspects of the Balancing Code must be implemented by October 2015 and these have been set out in v3.0 of the Business Rules that have been developed for Code Modification A063.

2.2.9 This Interim Measures Report defines a provisional Balancing Code transitional plan and describes the Interim Measures that are proposed for October 2015. We have also looked beyond Gas Year 2015/16 to consider how the Interim Measures may evolve in future years. Whilst the Balancing Code foresees the end of Interim Measures by 2019, it may be possible to achieve the full implementation of the Balancing Code before this date. This report is structured as follows:

- Section 3 contains a description of the state of liquidity of the short term wholesale gas market within RoI at the Irish Balancing Point;
- Section 4 details a transitional plan and the Interim Measures that are proposed to be applied in RoI;
- Section 5 sets out the reasons why the proposed Interim Measures are needed, an assessment of how they will increase liquidity, and the steps that will be taken to remove the interim measures including timing and criteria for assessment;
- Section 6 identifies Next Steps.

3. Assessment of gas market liquidity in RoI

3.1. Introduction

- 3.1.1 The Balancing Code provides several routes to the delivery of the enduring provisions. With minor exceptions the code rules should be implemented by October 2015. Subject to an application by the relevant TSO the National Regulatory Authority (NRA) may consider the possibility of granting an extension until October 2016.
- 3.1.2 In the absence of sufficient liquidity in the short term wholesale market, the TSO may use Interim Measures to effect a transition to a properly functioning short term wholesale market.
- 3.1.3 The assessment of liquidity must be made in the context of the broader commercial and operational framework and so this section outlines this context before providing analysis to assess whether the short term wholesale market is sufficiently liquid.

3.2. Overall regime context

- 3.2.1 The gas market in RoI has been based on entry/exit principles since 2005 when the point-to-point regime was replaced. Whilst the current balancing regime is based on many of the principles that feature in the Balancing Code, compliance will have a major impact on the operation of the RoI regime.
- 3.2.2 The Irish Balancing Point (IBP) was established as a virtual trading point (VTP) when the entry/exit regime was introduced. The IBP allows the exchange of entry-paid gas between network users via the submission of trade notifications to Gaslink, the TSO.
- 3.2.3 Shippers are incentivised to balance through cashout prices that are derived from the UK gas market at the National Balancing Point (NBP). The TSO takes a residual balancing role similar to that envisaged by the Balancing Code and administers a neutrality account – the Disbursements Account. The existence of tolerances in the RoI regime has dampened some of the incentives for shippers to achieve a balanced position and this has led to a socialisation of the overall costs of balancing.
- 3.2.4 Since almost all RoI gas supplies are sourced from the GB gas market, which already has a well-functioning market, most RoI shippers source their gas flexibility from the NBP. Until now there has been little requirement for RoI shippers to use the IBP to access flexible gas.
- 3.2.5 However, it is important to note that the lack of liquidity at the IBP has not been to the detriment of supply competition and the gas market in RoI is generally viewed as being competitive at the retail level with a number of competing suppliers. On 1st July 2014, the CER determined that price regulation of the domestic gas market would end.

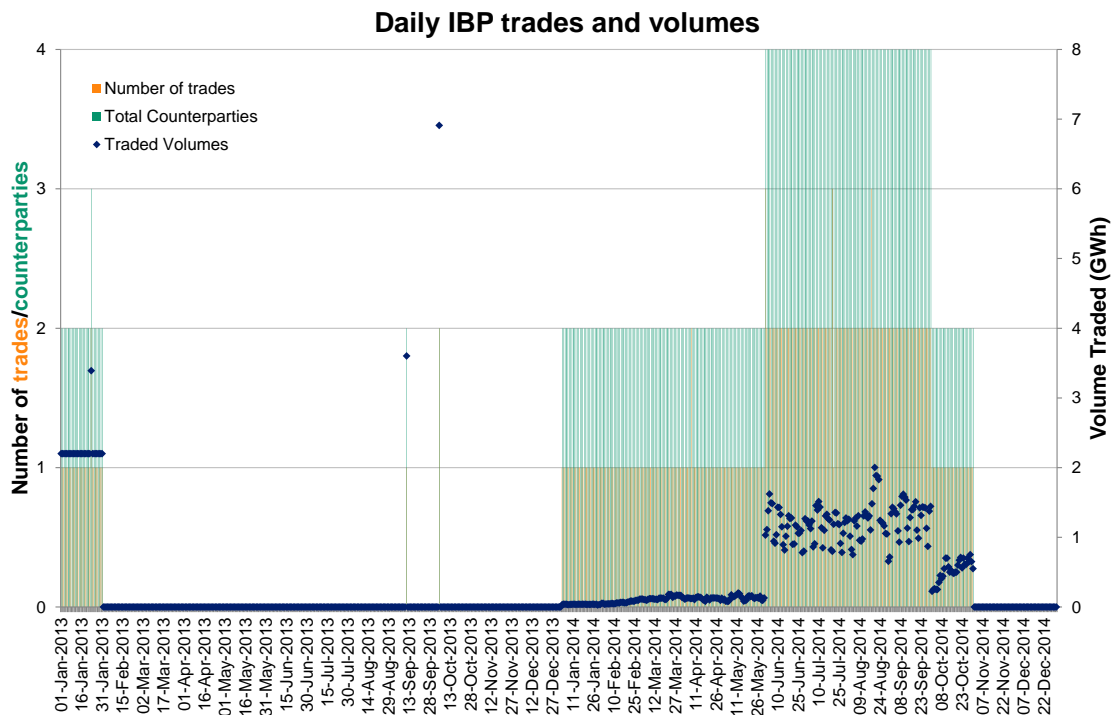
- 3.2.6 In 2015, the RoI gas market will see a significant change to its gas supplies as the Corrib field is expected to commence deliveries into the market and 'displace' gas sourced from the NBP. It is not currently known how Corrib gas flows will affect trades at the IBP, although it might be expected that the opportunities to trade will increase. In addition to this, the Balancing Code places a stringent requirement to try to develop a functioning short-term gas flexibility market within RoI to enable network users to take primary responsibility for their balancing.
- 3.2.7 There are a number of features of the current commercial regime that may influence short term market functioning:
- Shippers are provided with a Shipper Portfolio Tolerance (SPT) under the Code of Operations (CoP) and First Tier imbalances within the SPT are cashed-out at a price derived from the weighted average of all trades transacted at the NBP (SAP). Thus they are not exposed to marginal cashout assuming Second Tier imbalances are avoided and this significantly reduces the incentives for shippers to reach a balanced position on the day;
 - The requirement for shippers to nominate a Zero Imbalance Position (ZIP) ahead of the Gas Day and to maintain this position throughout the gas day reduces the ability of shippers to take advantage of any short term trading opportunities that may arise – particularly within-day.
 - The requirement for Shippers to hold entry capacity to be able to sell gas at the IBP and to hold exit capacity to buy gas at the IBP may be discouraging trades between shippers and may have deterred any non-physical 'traders' from entering the market.
 - There is no transparency on pricing at the IBP due to the lack of trades and the lack of any price discovery mechanisms. This may further strengthen the reliance on the NBP and act as a deterrent to IBP trades.
 - The facility for shippers to transact After-Day Trades (ADTs), although not widely used, could act to disincentivise trading ahead of and within-day thereby reducing any liquidity that may develop.

3.3. Liquidity at the IBP

- 3.3.1 The recorded trades at the IBP during 2013 and 2014 are shown in Figure 1 below. From this it can be seen that there are very few trades recorded at the IBP with periods of no activity at all.
- 3.3.2 All IBP trades to date have been bilateral, over-the-counter (OTC), in nature and no trading platform has developed. The maximum number of trades recorded on a single day is just two involving four counterparties.
- 3.3.3 Five shippers out of a potential 13 that held exit capacity over the period have bought gas at the IBP whilst 5 shippers out of a total of 15 that hold entry capacity over the period have sold gas at the IBP.
- 3.3.4 Eight different shippers were active at the IBP in 2013 and 2014.

- 3.3.5 This indicates that over 50% of Rol shippers have been active at the IBP, but the activity has been sporadic and thin, with long periods of no trades taking place.
- 3.3.6 The IBP trade quantities have generally been less than 2GWh, apart from 3 trades that have been in excess of 3GWh. This is a good indicator as shippers have used the IBP for relatively small trades, although the number of trades has been extremely low.

Figure 1 – Daily IBP trades and counterparties 2013-2014



- 3.3.7 The evident lack of liquidity means that, realistically, it cannot be expected that either Gaslink or shippers could rely on the IBP to source short term gas from October 2015. The quantity of gas that has been traded at the IBP to date represents a very small percentage of gas throughput and a small percentage of the balancing gas requirements of the TSO.
- 3.3.8 The aim of the Balancing Code is to encourage sufficient liquidity in the short term wholesale market both day-ahead and within day (“the balancing market”). A series of relevant metrics and relevant criteria might therefore be needed to assess the viability of transitional steps towards a properly functioning short term balancing market.

3.4. Conclusion on assessment of liquidity at the IBP

- 3.4.1 Based on the analysis that has been undertaken, our conclusion is that the wholesale gas market at the IBP is not a fully functioning liquid market. The very low number of trades and non-existent price discovery do not represent a market upon which either network users’ or the TSO could rely in October 2015.

4. Delivering the Balancing Code and the Interim Measures to be applied

4.1. Introduction

4.1.1 The RoI balancing regime will need to undergo a number of changes due to a series of contributory factors:

- implementation requirements of other European network codes e.g. the CAM Code which will progressively limit opportunities to trade at Moffat given the requirement to bundle capacity at the Interconnection Point;
- the commencement of deliveries of gas from the Corrib gas field; and
- implementation of the Balancing Code.

4.1.2 The Balancing Code has a number of consequences that will need to be addressed in the RoI context including mandatory requirements to:

- remove the Zero Imbalance Position (ZIP);
- remove capacity restrictions associated with IBP Trade Notifications;
- define Short Term Standardised Products;
- endeavour to establish a Trading Platform; and
- make other changes to nomination and allocation arrangements at the IP.

4.1.3 As part of the transition plan to a fully functioning market the features shown in Table 1 should be addressed by October 2015:

Table 1 – Market features to be addressed by October 2015

Element	Comment
ZIP Removal	Implemented and enabled for all network users
IBP Trade Notification capacity restriction removal	Implemented and enabled for all network users
Definition of Short Term Standardised Products (STSPs)	TSOs requirements to be defined for each of title, locational and temporal products. This should become the basis for Trading/Balancing Platform and/or any post October 2016 balancing services arrangements. STSPs will be defined as part of the Trading Platform Feasibility Study and could form the basis for the balancing services arrangements post October 2016.
Feasibility study for RoI Trading Platform	To consider the feasibility of developing a trading platform for the RoI balancing zone and to enable sufficient lead-time to enable a Trading Platform to be implemented - potentially from Oct 2016 (should feasibility be established).
Adjacent Trading Platform	Also to consider how to facilitate trading on an adjacent Trading Platform that will be alongside the RoI Trading Platform enabling leverage off the NBP market.
Interim Measures	In the absence of sufficient liquidity in the short term wholesale gas market suitable Interim Measures shall be implemented by the TSO and balancing actions undertaken by the TSO shall foster the liquidity of the short term wholesale market to the extent possible

4.1.4 The Interim Measures provide for alternatives to some of the full provisions of the Balancing Code and are shown in Table 2.

Table 2 – Interim Measures as alternatives in the Balancing Code

Enduring Element	Interim Measure alternative	Comment
Trading Platform	Balancing platform and/or Balancing Services	Trading Platforms accessible to both TSO and network users are expected to provide a significant and transparent source of balancing gas. A Balancing Platform (where the TSO is a party to every trade) may have a role in the transition although it is not clear whether the costs of a balancing platform would be materially lower than a trading platform. Balancing Services may also be considered where either a Trading Platform or Balancing Platform may not fulfill the requirements of the TSO to secure balancing gas.
No Tolerances (Daily cash-out out of all daily imbalances)	Tolerances	Network users should be exposed to a full cash-out of their daily imbalances to provide appropriate incentives that encourage day-ahead and within day trading. However it is recognized that a full volume exposure might not be appropriate until some pre-requisites are established including: <ul style="list-style-type: none"> • information so that network users can make a reasonable assessment of their expected imbalances; • access to short term gas flexibility sufficient to enable effective risk management tool; • Imbalance price exposures fairly reflect the value of flexible gas used to manage the system.
Application of fully market price determined cashout (Applicable Price)	Interim Imbalance Charge	Imbalance cash-out pricing should reflect prices available within the balancing market but developed in a way that provides sufficient incentive to encourage network user self-balancing rather than leaving imbalance positions to be resolved via the balancing cashout mechanism. In the absence of confidence and transparency about market prices interim imbalance prices may be set using: <ul style="list-style-type: none"> • an administered price; • proxy for market price; or • price derived from balancing platform trades.
	Other interim measures	Can be defined in addition to, or as an alternative to, those provided above provided that they promote competition and liquidity of the short term market and are consistent with the principles of the Balancing Code.

4.2. Proposed Transitional Measures

- 4.2.1 A key consideration of the implementation of Interim Measures is how they help in the transition to the full vision embodied within the Balancing Code including a Trading Platform. A transitional plan is a requirement.
- 4.2.2 The following provides an initial indication of some of the activities beyond the removal of ZIP, and capacity restrictions in relation to IBP Trade Notifications that will be necessary to implement the enduring Balancing Code. These include the use of Interim Measures. Consideration will also need to be given to how a Trading Platform may be achieved and the transitional plan therefore includes a Trading Platform feasibility study. In the transitional plan we have targeted October 2016 as the implementation date for the Trading Platform which assumes a positive outcome of the feasibility study.
- 4.2.3 The transitional plan will evolve throughout the interim period and at present can only provide an indication of the possible timeline to reach full implementation of the Balancing Code. Review of the Interim Measures, in particular the impact on liquidity at the IBP and the short term market will be required throughout the interim period. The Interim Measures will therefore need to evolve as required in order to facilitate the transition to a fully functioning short term market. It is a requirement that the Interim Measures Report is updated on an annual basis and we will use this opportunity to review the success of the Interim Measures that have been applied and to consider how they should evolve further.
- 4.2.4 In Section 5, we provide further information on the Interim Measures that are proposed.

Table 3 – Indicative transitional plan to consider Trading Platform implementation from October 2016

Element	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	
1 Trading Platform Faesibility Study	■	■																		TPFS to be carried out during Q2 and Q3 to consider Trading Platform, Balancing Platform and use of Adjacent Trading Platform.
2 Platform Implementation (if proved faesible)				■	■	■	■													This could be a Balancing Platform, Trading Platform . Either approach could be combined with use of an Adjacent Trading Platform
Decision on Approach			■																	Decision expected October 2015
Development of Platform				■	■	■														
Implementation of Platform							■													Implementation of platform October 2016
3 Balancing services contract																				
Refine current arrangements for Gas Year 15/16	■	■																		Terms to be refined to enhance competition in procurement process
Operation 15/16 Contract			■																	
Refine arrangements for April 2016			■	■																To develop processes for Delivery Point at the IBP
Operation at IBP as delivery point					■															Move delivery point to IBP
6 Evolution of TSO balancing action																				
Balancing Contract use	■	■	■	■	■	■	■													
Use of Platform								■	■	■	■	■	■	■	■	■	■	■	■	Either Trading Platform or Balancing Platform if faesibility established
Use of Adjacent Trading Platform								■	■	■	■	■	■	■	■	■	■	■	■	Use of Adjacent Trading Platform to support RoI Platform
Use of Balancing Services	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	Potential to continue using Bal Svcs (tbc) Balancing Services in some form may be continued if required
7 Imbalance cash-out revision																				
FTIP differential introduction			■																	Introduce a differential for long and short imbanaces within tolernace
STIP development			■	■																To develop STIP to include balancing gas cost element
STIP Implementation					■															
Single Dual cashout based on IBP trades											■	■	■	■	■	■	■	■	■	Marginal based cashout price to coincide with zero tolerance by Oct 2019 or before
8 Phased reduction of tolerances																				
Step 1 reduction			■																	First step to be sufficient reduction to encourage an improvement in overall network user balancing; later steps to be defined in respect of observed performance and assessment of ease of access to short term flexibility
Step 2 reduction						■														
Step 3 reduction										■										
Step 4 reduction															■					Aspiration to be at zero tolerance levels by Oct 2019 or before
9 Interim Measures Reports																				
	■					■			■				■				■			Subsequent IMRs to be published in Q3 to permit winter experience to be analysed

5. How will the Interim Measures increase liquidity

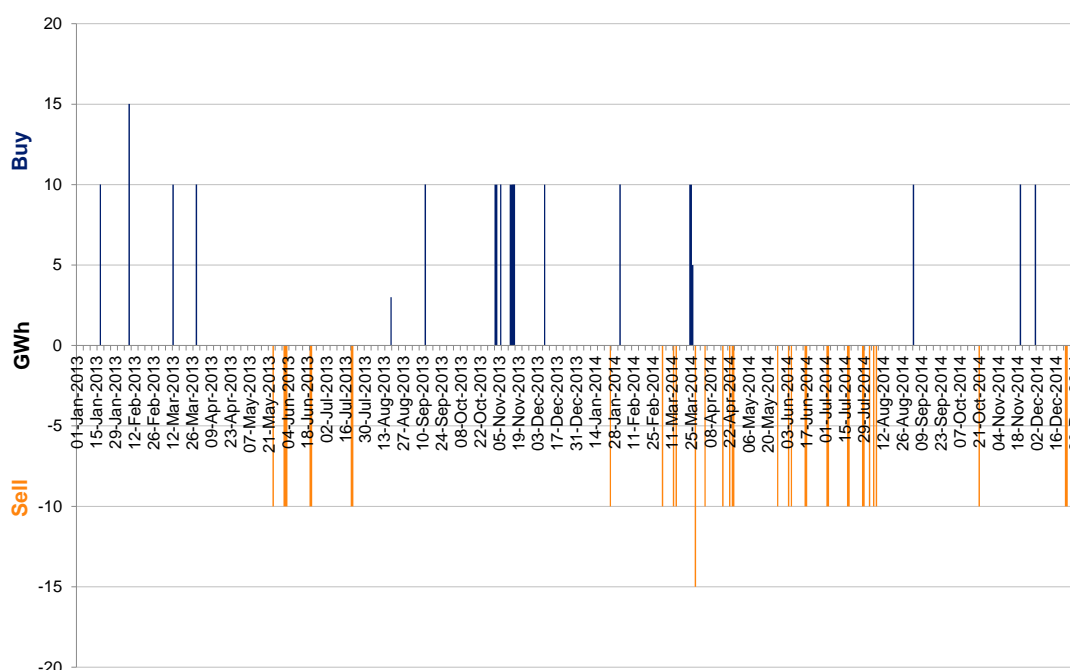
This section provides further information on why the Interim Measures are required and how their implementation and development will help to foster liquidity of the short term market during the interim period to 2019.

5.1. Balancing Services

- 5.1.1 In the absence of a short term market and a Trading Platform, a Balancing Platform³ is the preferred Interim Measure under the Balancing Code. The Balancing Code envisages that a Balancing Platform will help to ‘kick-start’ the market as the TSO would be required to use the Balancing Platform for its operational balancing requirements.
- 5.1.2 It would be necessary for the TSO to consider how the transition to a Balancing Platform could be made given the current stage of development of the market.
- 5.1.3 The Balancing Code also considers a joint Balancing Platform could be introduced to provide balancing gas for adjacent balancing zones. The adjacent balancing zones to the RoI market are the Northern Ireland and GB balancing zones. We have reviewed the market situation in Northern Ireland and have concluded that there is also insufficient short term market liquidity present within this balancing zone. Combining two illiquid markets would not necessarily create a liquid market.
- 5.1.4 We also do not consider that it would be possible to develop a joint balancing platform with the GB market as this market already has a well-established trading platform. To develop a joint balancing platform, from the perspective of the GB market would be a retrograde step and is not considered feasible.
- 5.1.5 In order that it can ensure the reliable and safe operation of the transmission system, the TSO cannot replace the existing balancing services unless there is sufficient evidence and confidence that a reasonably functioning wholesale market can be established and relied upon for operational balancing requirements.
- 5.1.6 Balancing Services are currently used as the main operational balancing tool in RoI and these enable the TSO, in its residual role, to balance the transmission system. The current Balancing Services are based on two balancing gas contracts – the Balancing Gas Buy contract and the Balancing Gas Sell contract. The use of balancing gas contracts for Calendar years 2013 and 2014 is shown in [Figure 2](#).

³ On a Balancing Platform the TSO is involved in every trade.

Figure 2 – Balancing actions 2013/2014



5.1.7 From Figure 2 we can see that the TSO took both buy and sell balancing actions over the period. There is a tendency for there to be more balancing sells during summer months and more balancing buys during winter months. In general, the balancing actions that are taken tend to be for volumes close to 10GWh.

5.1.8 In 2013 there were 8 balancing sells and this increased to 28 balancing sells in 2014. In 2013 there were 14 balancing buys and this decreased to 7 balancing buys in 2014. This is indicative of the system becoming generally 'long' in 2014, as compared to the previous year.

5.1.9 To date, the use of balancing gas contracts as the main operational balancing tool has delivered a secure system operation.

5.1.10 We propose to maintain the current structure of the balancing gas contracts for Gas Year 2015/16 in order that we are able to maintain certainty regarding the security of the system in the short term.

5.1.11 We will, however, give a commitment to explore ways in which greater flexibility in balancing gas provision may be achieved for possible implementation from April 2016. This will include consideration given to:

- Moving the delivery point of balancing gas services to the IBP;
- Supplementing the annual balancing gas contract with standardised day-ahead or within-day balancing gas contracts;
- Signalling the intention to take a balancing gas action to network users and taking the most economically advantageous bids or offers.

- 5.1.12 We will also examine how the TSO may take more frequent, smaller actions when we consider the development of STSPs. By increasing the frequency of actions and by transacting for smaller volumes we hope to achieve the following:
- Greater participation in the provision of balancing gas contracts;
 - Balancing action volumes would be compatible with the Short Term Standard Products that will be considered within the Trading Platform feasibility study;
 - Valuable experience for the TSO to transact with volumes that may be more reflective of typical trades that may be transacted in future if a balancing platform or trading platform is implemented.
- 5.1.13 The TSO will also need to consider the different balancing tools that will be required in light of the commencement of Corrib gas flows and whether this will necessitate the definition of locational and temporal balancing tools that are envisaged. The balancing tools that the TSO may require due to changing patterns of gas flow as a result of Corrib deliveries and what impact this may have on the development of short term liquidity.
- 5.1.14 Where the delivery point of balancing gas is the IBP, any balancing gas that is bought or sold would require the submission of trade notifications at the IBP. The price of the transactions would help to establish an IBP price that could feed directly into the Second Tier cash-out price. This will encourage shipper participation and send a stronger incentive to balance on days where the TSO takes a balancing action.
- 5.1.15 Where the TSO buys balancing gas at the IBP the imbalance position of the balancing gas provider is impacted (making its imbalance position shorter). The balancing gas provider would then have a commercial incentive to adjust its imbalance position either by increasing its deliveries at an entry point, by purchasing gas at the IBP or by reducing its offtakes. Conversely, the TSO could sell balancing gas at the IBP to the balancing gas provider resulting in a decrease in the balancing gas providers deliveries at an entry point, sale of gas at the IBP or an increase in offtakes at an exit point.
- 5.1.16 The cashout regime will have to provide sufficient incentives so that shippers at the individual level and, in aggregate, will balance.
- 5.1.17 The Trading Platform feasibility study, will include an examination of how title, locational and temporal Short Term Trading Products may be transacted on a Trading Platform (or a Balancing Platform) and whether Balancing Services will continue to play a role in operational balancing. The move to a Trading Platform can only be made once a certain level of liquidity has been established at the IBP and may still require Balancing Services to be maintained alongside it. Our feasibility study will therefore address all possible tools: Trading Platform, Balancing Platform, TSO leverage of adjacent trading platform (NBP) and balancing Services contracts and the possible combinations and their usage to deliver economic and efficient outcomes.

5.1.18 The Annual Interim Reports will monitor the development of liquidity at the IBP and propose further changes to the Balancing Services and the progress to a Trading Platform (or Balancing Platform).

5.2. Tolerances

5.2.1 The existence of tolerances leads to a trade-off between:

- Protection for shippers from marginal priced cashout; and
- Reduced incentives for shippers to achieve a balance position within the tolerances.

5.2.2 In the absence of a short term liquid market, tolerances reduce the exposure of shippers to a risk which they might find difficult to manage. If shippers are exposed to financial risks that cannot easily be mitigated then they may become reluctant to enter a market resulting in less competition.

5.2.3 However, tolerances also reduce the incentives for shippers to balance, especially if they receive a 'neutral' (i.e. not marginal) price for imbalances within tolerance levels. In RoI shippers receive the same First Tier Price⁴ cashout for both long and short First Tier imbalances. This cashout price may actually be a more beneficial price than could be achieved through trades at either the IBP, or the adjacent NBP market. In the GB market all cashout is based on marginal prices so it may be beneficial for a shipper to leave a within-tolerance imbalance in RoI rather than adjust its position at the NBP and transport volumes across the Interconnectors.

5.2.4 Deriving an appropriate tolerance level is thus a careful trade-off between protection for shippers and incentives to achieve balance which includes both tolerance and cash-out price considerations.

5.2.5 The Interim Measures allow for the retention of tolerances and provide guidance on the design of an appropriate tolerance level which should consider:

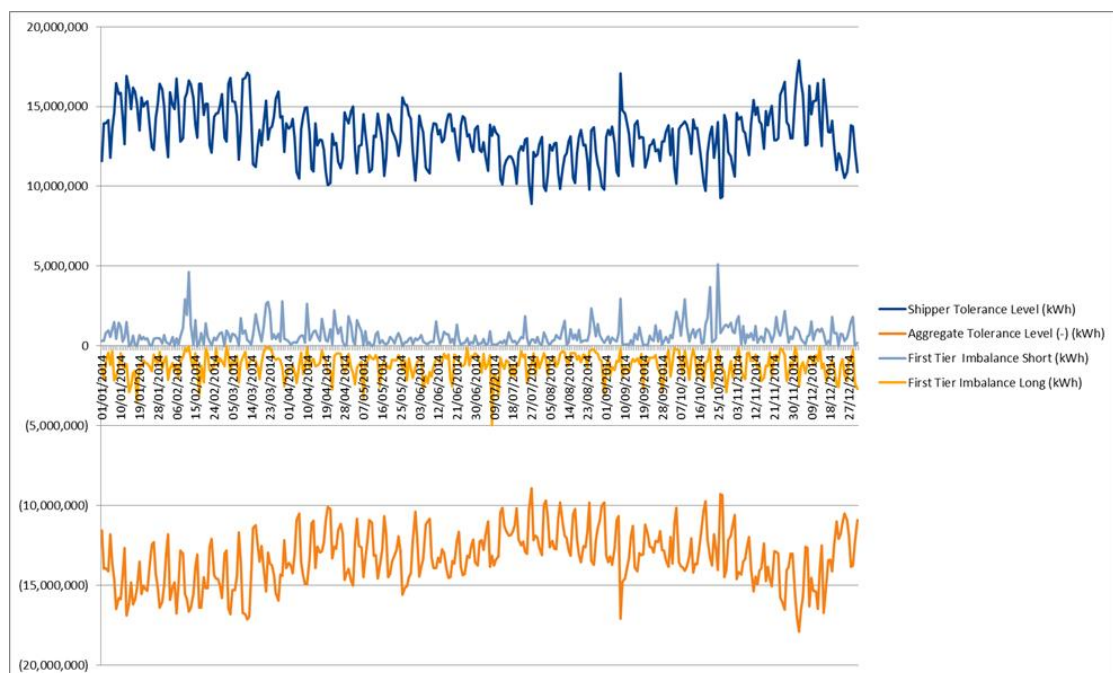
- the transmission systems flexibility and the needs of shippers;
- the level of risk of the shipper in balancing inputs and offtakes;
- the development of the short term wholesale market i.e. it should not be undermined; and
- the overall costs of balancing actions i.e. there should not be an unduly excessive increase.

5.2.6 Figure 3 shows the aggregate of RoI Shipper's long and short imbalances on each Gas Day of 2013 and the aggregate level of the Shipper Portfolio Tolerance (SPT). From this it can be seen that the level of the SPT is far in excess of the actual level of shipper imbalance indicating that the tolerances are too generous. Whilst it is true that, on an individual basis, some shippers do incur imbalances outside their SPT, the

⁴ The First Tier Price is equal to the Euro equivalent of the GB's System Average Price (SAP) which is derived from the weighted average of all trades that are transacted on the GB balancing platform, the On-the-day-commodity market (OCM). In the GB market there are no tolerances and all imbalances are cashed-out at the marginal prices that are established for each Gas Day.

Second Tier Imbalance are less frequent and much smaller in volume than the imbalances within the SPT.

Figure 3 –First Tier Imbalances and Aggregate Shipper Portfolio Tolerance



5.2.7 The wide tolerances and the ‘neutral’ priced cashout for First Tier Imbalances may be providing little incentive for shippers to trade between themselves to reduce the First Tier imbalances. A reduction of the tolerance level should therefore increase the incentives for shippers to trade amongst themselves at the IBP thereby contributing to the development of liquidity.

5.2.8 We propose therefore to reduce tolerances from October 2015. One possible approach to this is to introduce a percentage cut to each element of the Shipper Portfolio Tolerance as follows:

- A reduction in LDM1 exit tolerance from 4.5% to [3]%;
- A reduction in LDM2 exit tolerance from 12% to [9]%;
- A reduction in LDM3 exit tolerance from 25% to [19]%;
- A reduction in DM exit tolerance from 40% to [20]%;
- [No changes to either the entry point tolerance or the NDM tolerance}

We will deliver a rationale for the recommended tolerance reductions as part of the code modification development process.

5.2.9 We will review the impact of this first reduction in tolerances as part of the 2016 Interim Measures Report and will propose a further reduction, if appropriate, for October 2016. In this subsequent review we will consider the information available to shippers to enable them to balance their inputs and offtakes as well as the tools available to Shippers to manage their exposures. A similar review will be undertaken in the Interim Measures Reports each year throughout the interim period. In

determining further reduction in tolerances we will review the development of liquidity at the IBP, and first and second tier imbalance quantities and charges.

5.2.10 Tolerances reductions will be phased so that they will be removed entirely by 2019, although it may be the case that this could be achieved before this date.

5.2.11 If the market is functioning then we would expect the reduction in tolerances and the consequent improvement in shipper balancing to reduce the amount of imbalances that are cleared through the Disbursements Account.

5.3. Interim Imbalance Cashout

5.3.1 In the absence of a cashout price that is derived from trades within the balancing zone, the Balancing Code envisages an Interim Imbalance Cashout being based on one of the following:

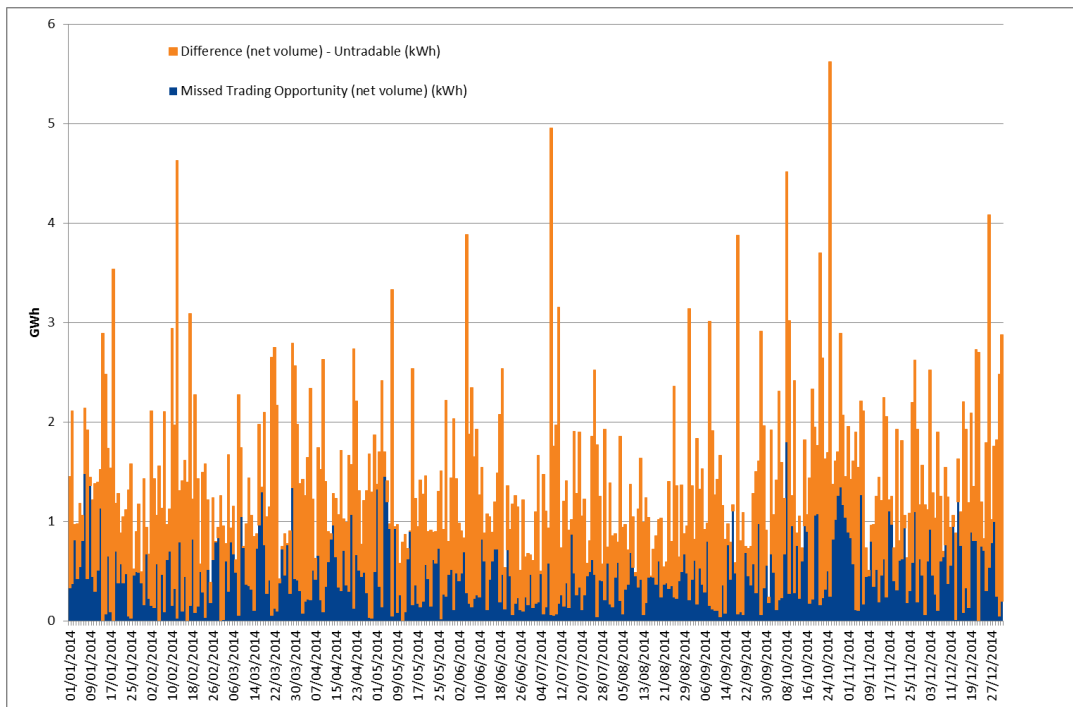
- An administered price;
- A proxy for a market price; or
- A price derived from balancing platform trades.

5.3.2 Currently the First Tier and Second Tier imbalance prices are derived from the prices of trades that are transacted at the NBP. This is equivalent to the proxy approach that is envisaged by the Balancing Code.

5.3.3 We are proposing the implementation of a differential cashout for First Tier Imbalances to introduce an incentive for shippers to trade to reduce their first tier imbalances. The current 'neutral' cashout for First Tier Imbalances may not incentivise any trade between shippers as we have identified in 5.2.3. Along with the proposed reduction in the Shipper Portfolio Tolerance this should increase the commercial incentives for shippers to trade at the IBP.

5.3.4 Figure 4 shows, for 2014, what we have termed the 'missed trading opportunities'. This shows the volume of gas that could have been traded on the Gas Day calculated as the 'match' between long and short imbalance positions. Although in reality we would not expect a perfect match, this analysis demonstrates that numerous trading opportunities could exist on each Gas Day if an appropriate incentive is placed on shippers. We would also expect the reduction in the SPT to reduce the untradeable volumes. The removal of ADTs may also increase the incentives to increase trades within-day and whilst we are not proposing the removal of ADTs for October 2015, we shall review this possibility as the regime develops. Indeed we note that ADTs may provide a partial mitigation of the risks identified by a respondent to the IMR consultation.

Figure 4 – Missed trading opportunities



5.3.5 From October 2015 we propose to introduce a differential into the First Tier Imbalance cashout price. There are several ways in which this could be done. One of these is to add and subtract a percentage to the Euro equivalent of the SAP as follows:

- For a short imbalance the First Tier Buy Price would be set equal to the Euro equivalent of the SAP plus [2]%;
- For a long imbalance, the First Tier Sell Price would be set equal to the Euro equivalent of the SAP minus [2]%.

5.3.6 An alternative mechanism could be to add a fixed differential to the Euro equivalent of the SAP as follows:

- For a short imbalance the First Tier Buy Price would be set equal to the Euro equivalent of the SAP plus a fixed differential;
- For a long imbalance, the First Tier Sell Price would be set equal to the Euro equivalent of the SAP minus a fixed differential.

5.3.7 The fixed differential could be set according to some proxy for flexibility available to the market.

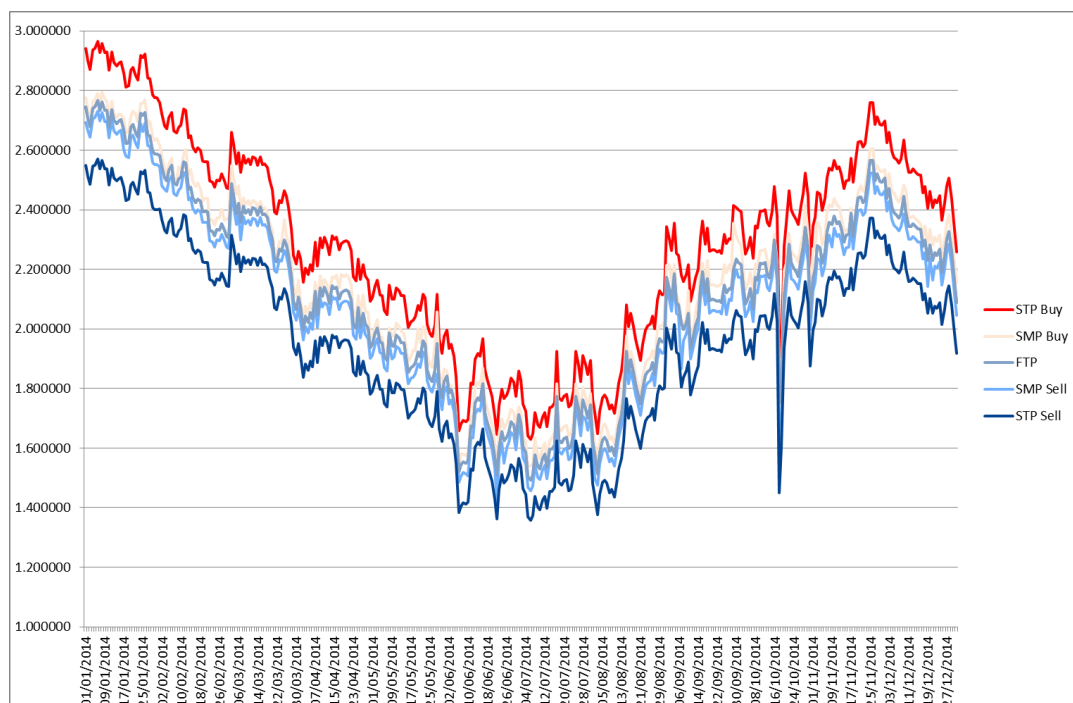
5.3.8 In either case, the differential between the first tier buy price and first tier sell price must be sufficient to incentivise shippers to reduce their imbalance positions. The precise mechanism will be consulted upon further via a Code Modification Proposal.
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5.3.9 We are not proposing a change to the derivation of the Second Tier cashout price for October 2015. However, as we consider the possibility to move the delivery point of the balancing gas contracts to the IBP – potentially from April 2016 – we will also seek to introduce an element of the cost of the gas balancing contract into the Second Tier cashout prices when balancing actions are taken.. This approach will ensure that there are no perverse incentives leading to non-performance of balancing gas buys and sells.

5.3.10 When no balancing actions are taken then the definition of the Second Tier cashout price would remain as it is at present and refer to the NBP marginal prices. The introduction of an element of the balancing gas contract will strengthen the incentives on shippers to balance when the system is long or short to the extent that a balancing action is required.

5.3.11 **Figure 5** shows the First and Second Tier cashout prices and the Euro equivalent of the GB System Marginal Prices (SMPs). It is clear that due to the definition of the Second Tier cashout price, there is a constant differential between the marginal RoI and GB prices that should incentivise shippers to maintain their imbalance to within tolerance levels. However the introduction of an element of the balancing gas contract price on days when balancing actions are taken will ensure that the Second Tier cashout price is more reflective of RoI, rather than GB market fundamentals.

Figure 5 – UK and RoI Cashout prices (€/Kwh)



5.3.12 We have observed relatively small Second Tier imbalances and whilst this may be due, in part, to the ‘generous’ SPT, it is also due to the fact that the Second Tier cashout prices give a clear incentive to shippers to minimise marginal priced cashout.

5.3.13 However, past experience is not always the best indicator of future behaviour and we propose to closely monitor shipper imbalances from October 2015. A number of changes to the market arrangements and the commencement of deliveries from Corrib may change the market dynamics and the incentives on shippers to balance. If Second Tier imbalances increase then we will consider changes to the cashout regime so that the incentives are strengthened, having regard to the guidance that is set out in the Balancing Code. It may also be necessary to consider the application of within-day obligations as envisaged by Article 24 of the Balancing Code. Whilst we will endeavour to consider future changes to the regime in the context of the Interim Measures we reserve the right to consider other changes to the regime as required in order that the transmission system can continue to be operated in a safe and efficient manner.

5.3.14 The Interim Cashout Price may also require development due to other changes in the regime and the interaction with the other elements of Interim Measures. Ultimately the cashout prices would be derived from the TSO trades on a Trading Platform but since this is not possible in the short term we will consider a number of steps that should improve the market reflectivity of the Interim Cashout Price as follows:

- Once the delivery point of the balancing gas contracts is moved to the IBP, to include an element of cashout pricing that is derived from the costs of balancing gas transactions when balancing actions are taken; and
- To move towards cashout prices that are based on trades at the IBP once there is sufficient liquidity and price discovery, depending on the evolution of the IBP and the short term market.

5.3.15 Further changes to the cashout regime will be considered in the annual Interim Measures Report that will assess the performance of the Interim Measures and the development of liquidity at the IBP.

5.4. Trading Platform Feasibility Study

5.4.1 The requirement to move towards a competitive and liquid Trading Platform is one of the main objectives of the Balancing Code. We propose to consider how to assess the feasibility and practicality of establishing a Trading Platform in RoI by conducting a feasibility study that will examine the options in detail and which will include an element of cost-benefit analysis. We will also need to consider how best to manage the transition to a Trading Platform and to determine whether the establishment of a balancing platform is a beneficial step.

5.4.2 In this consideration we will consider the practicality, costs and benefits of the following approach:

- A move to a Trading Platform that by-passes the adoption of a balancing platform;
- A move to a Balancing Platform as a first step on the way to establishment of a Trading Platform.

- How TSO use of an adjacent trading platform may be facilitated and how this may work alongside either a Rol Trading or Balancing Platform.
- 5.4.3 We expect the feasibility study to consider the various options for establishing a Trading Platform that meets the relevant criteria as set out in Article 10 the Balancing Code:
- To provide sufficient support throughout the Gas Day to allow network users to trade and allow the TSO to undertake appropriate balancing actions;
 - To provide transparent and non-discriminatory access;
 - To provide services on an equal treatment basis;
 - To ensure anonymous trading, at least until a transaction is concluded;
 - To provide a detailed overview of the current bids and offers of all trading participants; and
 - To ensure that all trades are duly notified to the TSO.
- 5.4.4 It is clear from the Balancing Code that the overall aim is to develop a Trading platform within the relevant entry/exit zone i.e. within Rol. The TSO must, therefore try to encourage liquidity within its own network and facilitate trade at the virtual trading point.
- 5.4.5 It is also possible, under Article 9 (3) of the Balancing Code for the TSO to request approval from its NRA to trade in an adjacent balancing zone.
- 5.4.6 In this regard, we will need to investigate how it may be possible to leverage the liquidity of the NBP market in some way to allow the TSO to source balancing gas. We propose to consider this option further in the Trading Platform feasibility study. In particular we will need to address the following:
- The operating model – whether to act directly at the NBP or whether to appoint an agent to transact on the TSO’s behalf;
 - Depending on the operating model, the licencing (or securing an licence exemption) of the TSO to act as a market participant within the GB market;
 - The development of appropriate expertise, processes and risk management within the TSO;
 - An appropriate level of access to the OCM;
 - Consideration of additional risks that may be encountered if the TSO acts as a shipper at the NBP including REMIT/MIFID requirements, cashout exposure, neutrality exposure and other market risks;
 - The mechanics of securing and financing capacity purchases at the Moffat IP for balancing gas purposes; and
 - How the TSO could transact balancing gas sells i.e. reducing the gas flows into Ireland in the absence of physical reverse flow capacity across the Interconnectors.
- 5.4.7 We intend to undertake the Trading Platform feasibility study in Q2 2015 and to report the findings to the CER by the end of Q3.

5.5. Annual Interim Measures Reports and criteria for future assessment

- 5.5.1 The Balancing Code requires that an Interim Measures Annual Report be published where Interim Measures are to be applied. This report is the first Interim Measures Annual report and will be followed by subsequent reports throughout the interim period.
- 5.5.2 In subsequent reports we will assess the performance of the regime and the Interim Measures. The analysis carried out will form the basis of any further changes to the Interim Measures.
- 5.5.3 In order that we are able to consider the impact of the Interim Measures we will need to establish a set of criteria with which we can determine the development of liquidity. It will be important to establish a baseline against which future assessments can be compared. We have identified a series of steps towards full implementation of the Balancing Code in this document and we propose to assess these steps against a set of criteria that are set out in Table 4. We propose that baseline data be collated for Gas Year 2014/15.

Table 4 – Criteria to assess liquidity and short term market and regime functioning

Criteria	Expected direction of movement (increase/decrease)
Number of trades at the IBP	Increase
Number of counterparties at the IBP	Increase
Volume of trades at the IBP	Increase
Average trade size	Tbc reflective of STSPs
Missed trading opportunities	Decrease
Untradeable quantities	Decrease
Aggregate First Tier imbalance	Decrease
Aggregate Second Tier imbalance	Decrease
Number and volume of ADTs	No increase
Number and volume of Balancing Buy Actions	Increase (number) Decrease (volume)
Number and volume of Balancing Sell Actions	Increase (number) Decrease (volume)
Net balancing Gas Costs	Decrease
Net Disbursements Account figure	Decrease

- 5.5.4 The transitional plan will be reviewed on an ongoing basis and the timing of the steps may be subject to change depending on the assessment of the criteria.
- 5.5.5 We also need to recognise that the assessment may be complicated by other developments including commencement of deliveries from Corrib.

6. Next Steps

6.1.1 Approval Process

6.1.2 Article 46 of the Balancing Code requires the Interim Measures Report to be submitted to the NRA following the consultation process with stakeholders.

6.1.3 Once submitted the NRA is required to consult with the NRAs of adjacent member states and take account of their opinions. Following this the NRA shall take a 'motivated decision' and communicate this to the Agency and the Commission.

6.1.4 Following the approval of the Interim Measures that are proposed in this report a Code Modification shall be raised to give effect to the specific measures that are proposed for implementation in October 2015.

Annex A – Balancing Network Code Requirements

I General Provisions

This chapter sets out the scope of the Balancing Code and provides the defined terms.

The rules relate to entry/exit systems in Europe and so are applicable in RoI. The rules relate to the balancing and settlement of the daily balancing regime. The code does not provide rules in relation to reconciliation necessary between the allocations and actual consumption subsequently derived from final customer readings or in emergency situations.

II Balancing System

This chapter defines the right for network users to be able to submit gas trades (trade notifications) to the TSO irrespective of whether they have contracted capacity or not. The code requires that the TSO shall minimize the time for processing trade notifications. This processing shall take no longer than 2 hours. Network users shall be able to submit trade notifications irrespective of any nominations at entry or exit points.

III Operational Balancing

This chapter defines how the TSO balances the system.

It requires the definition of Short Term Standardised Products (STSPs) to be used for balancing purposes. The TSO is limited to using STSPs or Balancing Services. Balancing services may be used where the STSPs will not, or are not likely, provide the response necessary to keep the system within operational limits or in the absence of liquidity of trade in short term standardised products.

Balancing services can therefore only be specified after the STSPs have been defined and should be secured via public tender and for a duration of no more than 12 months. TSOs are required to take balancing actions consistent with economic and efficient operation of the transmission network.

TSOs are required, by a merit order, to prioritise the use of title products. Recourse to non-title products (including balancing services) is subject to criteria. For example balancing services can only be used where the STSPs will not or are not likely to provide the response necessary to stay within its operational limits.

TSOs may trade within an adjacent zone as an alternative to trading title products and/or locational products, and have the gas transported to and from the balancing zone if approved by the NRA. This does not seem to relieve the TSO of its obligation to endeavour to secure a Trading Platform that meets the relevant criteria.

TSOs are obliged to publish reports of their balancing actions.

The TSO shall endeavour to establish a Trading Platform on which both network users and the TSO can transact STSPs. Information relevant to the evolution of the cash-out price shall be made available to the market. Where attempts to establish a Trading Platform are unsuccessful the TSO shall take necessary measures towards the establishment of a Balancing Platform or a joint Balancing Platform.

Incentive mechanisms can be introduced on the TSO so that it undertakes balancing actions efficiently or maximizes the undertaking of balancing actions through the trade in STSPs.

IV: Nominations

This chapter defines the nomination rules that will apply at interconnection points.

Consistent with the aspiration that network users should have the maximum opportunity to (re)nominate flows the rights associated with rejection of nominations are limited. For example, rejection is not possible on the sole ground that the network user's intended inputs are not equal to its intended off-takes. This effectively removes the requirement to nominate a Zero Imbalance Position (ZIP) in RoI.

V: Daily imbalance charges

This chapter defines the calculation of the daily network user imbalance quantity and the daily imbalance cashout prices. The daily imbalance is settled by the application of a daily process where the value associated with an imbalance is derived as the product of the imbalance quantity and the relevant imbalance price.

Imbalances are calculated as inputs minus offtakes taking account of net traded position of confirmed trade notifications and input and offtake gas flow allocations.

A marginal sell price and a marginal buy price are calculated each day based upon quantities and prices of relevant title transactions on the trading platform. A special consideration applies to the lowest price of a TSO title sale made by the TSO and the highest price of TSO title buy. Subject to NRA approval the cashout prices may include "a small adjustment" to ensure that the incentives are adequate to encourage individual network user balancing. The cash-out mechanism may also, subject to NRA approval, reflect locational product actions.

VI Within day obligations

Whilst the Balancing Code is focused on a daily balancing regime it is recognised that in some systems it might be necessary to have tighter network user responsibilities than are implied by a daily regime.

This chapter therefore provides that a TSO may be entitled to apply within day obligations where it is necessary to ensure system integrity and to minimize its need to take balancing actions.

The chapter specifies different types of within day obligations and defines the criteria that must be satisfied before within day obligations may be introduced. It is unlikely that current operations could justify introducing within day obligations in RoI although this might need to be reassessed in the context of market developments. The introduction of within day obligations would require NRA approval.

VII Neutrality arrangements

This chapter confirms that TSOs shall be financial neutral to the payment and receipt of daily imbalance charges, within day charges, balancing actions charges and other charges relating to balancing activities.

A neutrality methodology, approved by the NRA, shall define the calculation of the neutrality sums and the basis for their apportionment. Relevant data to support neutrality invoicing shall be published at least at the same frequency as the respective charges are invoiced, which shall be no less than once a month.

The TSO shall not be at credit risk for all balancing related costs where relevant contractual requirements (including financial security) are in place.

VIII Information Provision

This chapter requires the TSO to provide data to network users to manage their opportunities and risks.

The chapter introduces additional information requirements, beyond those envisaged in the transparency requirements of the regulation in respect of network users inputs and offtakes and the TSO's balancing actions.

Three information models are defined with the current RoI approach likely to satisfy the Base Case scenario. The Base Case option for example requires that NDM forecasts are provided day-ahead and updated at least twice within day. Within two years of entry into force of the Balancing Code (i.e. April 2016) TSOs shall perform a cost benefit analysis to assess whether increasing the frequency of information provision, reducing the related timelines of information provision and improving the accuracy of the information scenario might be justified.

IX Linepack Flexibility Services

This chapter defines the circumstances under which a TSO can offer a linepack flexibility service and some rules about its implementation including nomination processes and its possible interaction with neutrality.

X Interim Measures

In the absence of sufficient liquidity in the short term wholesale market suitable interim measures, including a balancing platform, an alternative to a balancing platform, interim imbalance charge and tolerances, shall be implemented where relevant.

This chapter defines the process needed to invoke interim measures. This includes the development of an Interim Measures annual report by the TSO and the NRA approval process. The report's requirements include a description of the state of liquidity of the short term wholesale market, the interim measures and their rationale as an aid towards short term wholesale market functioning and an identification of the steps that will be taken to remove the interim arrangements, including the criteria for making these steps and an assessment of the related timing.

The Interim Measures Report shall foresee the end of interim measures no later than April 2019.

XI Final and transitional arrangements

The main provisions of the Balancing Code apply from 1 October 2015. Based on a justified request the NRA may allow an extension of this until 1 October 2016, provided no interim measures are used.

Whilst the main provisions of the code shall apply from 1 October 2015 the code includes some obligations that are required earlier. For example TSOs wishing to use interim measures should publicly consult and submit an Interim Measures report to their NRA by October 2014.