Code Modification A094 and A095

Regulation EU 312/2014
‘Balancing Network Code’ – Final steps to compliance

21 June 2018

Issued for Industry Consultation

CONSULTATION DETAILS

Consultation Closes: **5pm 27th July 2018**

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1 Introduction and Background

1.1 Introduction

The purpose of this consultation is to give industry a final chance to input into the implementation of Regulation EU 312/2014 (Balancing Network Code) [the Regulation].

Having adopted the use of the EBI Trading Platform under Article 10 of the Regulation on the 1st of June 2018, GNI has raised two Code Modification Proposals, which seek to address the final two elements of the Regulation for which GNI is currently adopting interim measures, namely Tolerances (Article 50) and Applicable Price (Article 22).

- **A094:** Changes to Shipper Portfolio Tolerances
- **A095:** Revised Methodology for calculation of Daily Imbalance Charges

The substance of both modifications has been consulted upon numerous times and has been the subject of much discussion and debate in recent code modification forum meetings and what now remains is to finalise the specifics of the implementation to ensure full compliance with the Regulation.

In the sections following, GNI pose a number of questions to solicit views from industry on particular elements of the implementation.

2 A094: Changes to Shipper Portfolio Tolerances

Article 50.1 and 50.2 of the Regulation state:

1. Tolerances may only be applied in case network users do not have access:

(a) to a short term wholesale gas market that has sufficient liquidity;
(b) to gas required to meet short term fluctuations in gas demand or supply; or
(c) to sufficient information regarding their inputs and off- takes.

2. Tolerances shall be applied:

(a) with regard to network users' daily imbalance quantity;
(b) on a transparent and non-discriminatory basis;
(c) only to the extent necessary and for the minimum duration required.

The tolerances currently pertaining in the GNI Code of Operations are set out in Section 1.7 of Part E.

GNI is proposing under Code Modification A094 that tolerances for all categories of customer with the exception of NDM will reduce to zero. The methodology for calculating NDM tolerances will remain unchanged, per the existing provisions in the Code, whereby a 2.5% tolerance will apply to NDM exit allocations or in circumstances where the shipper has followed Transporter NDM nomination advices, an NDM forecast tolerance would cover the absolute difference between the Final NDM exit allocation and the final NDM nominations advice for a shipper.

Q1. What do you believe is the appropriate tolerance level for each category of customer (LDM, DM and NDM)?

Please provide reasoned justification for your response in line with the provisions of the Regulation in particular with reference to Article 50.

GNI are proposing to adopt a two-step approach to the elimination for Tolerances. The first step would be to reduce Tolerances by 50% relative to their current levels with a reduction to zero a number of months later.

Q2. What are your views as to the appropriate dates for the two-step reduction proposed?

Please provide reasoning for you answer.

3 A095: Revised Methodology for calculation of Daily Imbalance Charges

3.1 Methodology proposal

Article 22 of the Regulation sets out how the marginal sell and marginal buy prices are to be calculated.

2. A marginal sell price and a marginal buy price shall be calculated for each gas day pursuant to the following:

(a) a marginal sell price is the lower of:

(i) the lowest price of any sales of title products in which the transmission system operator is involved in respect of the gas day; or

(ii) the weighted average price of gas in respect of that gas day, minus a small adjustment.

(b) a marginal buy price is the higher of:

(i) the highest price of any purchases of title products in which the transmission system operator is involved in respect of the gas day; or

(ii) the weighted average price of gas in respect of that gas day, plus a small adjustment.

GNI has proposed that the small adjustment should be 3.5% and it has been decided previously that the adjustment should be the same for calculating the marginal sell and buy prices.

Given that tolerances are proposed to continue to apply for NDM we also propose to align the 1st Tier Cashout Prices with the Balancing Network Code.

Article 50.4 sets out that:

> *4. The tolerance level shall be the maximum quantity of gas to be bought or sold by each network user at a weighted average price. If there is a remaining quantity of gas that constitutes each network user's daily imbalance quantity which exceeds the tolerance level, it shall be sold or bought at marginal sell price or marginal buy price.*

To comply with this article, it is proposed that the current methodology of applying 2% adjustment to SAP (NBP) for 1st Tier Imbalances will be discontinued. This adjustment was introduced under Interim Measures in October 2015 and, if tolerances are to be removed / greatly reduced then such an adjustment is no longer necessary to incentivise Shippers to balance their portfolios.

Please note that this is a change to recent draft business rules published by GNI where it was proposed to maintain the +/- 2% adjustment to SAP (NBP) and SAP (IBP).

Q3. What is your view as to the magnitude of the *small adjustment* to be used in the calculation of the marginal sell price and the marginal buy price?

Please provide reasoning for your response.

3.2 Default Rule

Article 22.4 sets out that:

> *4. A default rule shall be defined in case paragraph 2(a) and (b) do not allow for the derivation of a marginal sell price and/or a marginal buy price.*

The circumstances that gives rise to this scenario are where a system average price is not published by EBI for a particular day, i.e. no trades have occurred.

In the event that the activity on the EBI platform does not allow for the publication of a system average price then the UK NBP system average price as published by National Grid shall be utilised to set the IBP system average price as per table below:

	1st Tier Buy	1st Tier Sell
Valid SAP IBP is published	SAP IBP	SAP IBP
Valid SAP IBP is not published	SAP NBP	SAP NBP
	2nd Tier Buy	**2nd Tier Sell**
Valid SAP IBP is published	The higher of: (i) SAP IBP + 5% or (ii) highest Deal price where GNI is buying gas on the TP	
Valid SAP IBP is published		The lower of: (i) SAP IBP - 5% or (ii) lowest Deal price where GNI is selling gas on the TP
Valid SAP IBP is not published	SAP NBP + 5% + Transportation Costs	SAP NBP - 5%

Transportation Costs (c/kWh) = UK NTS SO Exit Commodity Charge + UK NTS TO Exit Commodity Charge + Moffat Entry Commodity Charge[1]

= 0.0303 p/kWh * 1.139913(£/€) + 0.011436 c/kWh = 0.045975 c/kwh [prices in May 2018]

3.3 Implementation Date

GNI believes sufficient liquidity has been demonstrated on the EBI platform to enable it to be used to set the IBP SAP, SMP Buy and SMP Sell prices. The justification for this is provided below. We are aware that Shippers are increasing the number of

[1]https://www.nationalgrid.com/sites/default/files/documents/April%202018%20Transportation%20statement_0.pdf

bilateral trading arrangements and that this is being reflected in the increase in platform activity observed in Q2 2018.

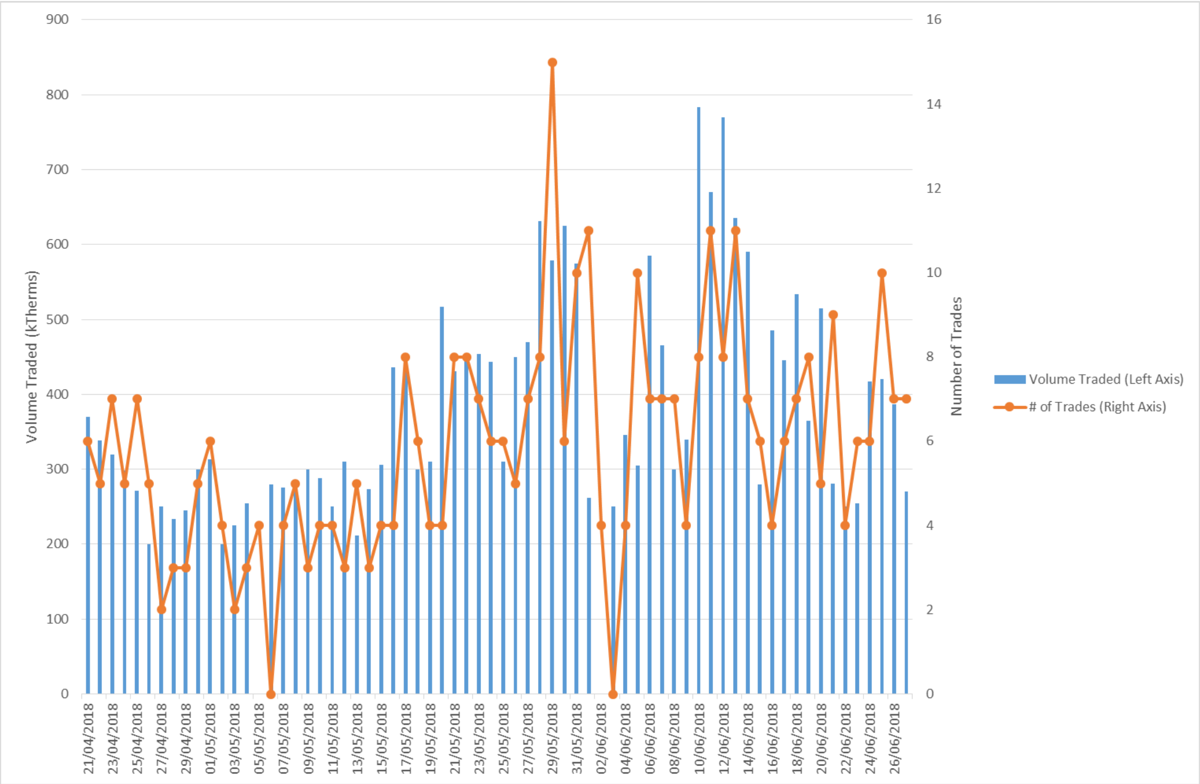
In advance of the implementation date, GNI will publish “shadow” IBP prices on a regular basis to enable Shippers to prepare for the changeover. A review of platform liquidity threshold test and prices will take place 6 months from the implementation date.

The Code Modification Forum has been presented with updates from EBI as to the activity seen on the platform to date in terms of participants, number of daily trades, trading patterns and traded volumes.

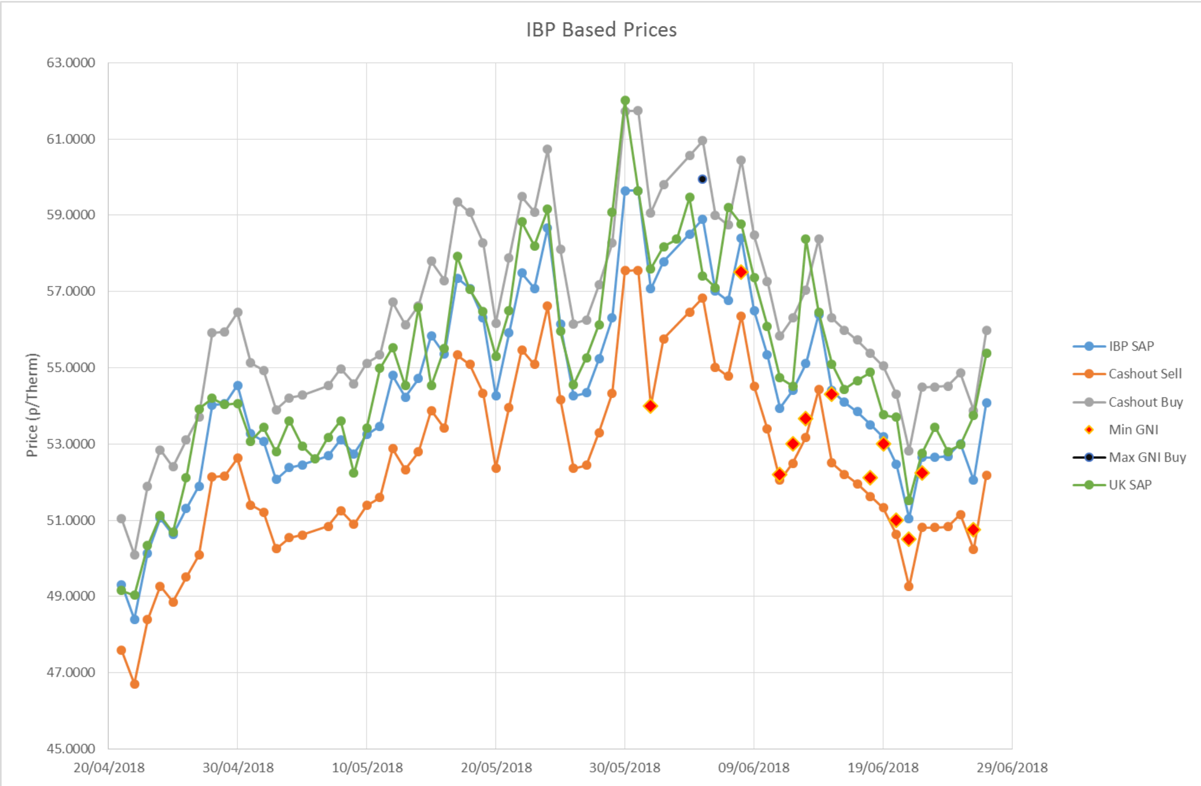
GNI is proposing that a qualitative approach to assessing liquidity be adopted with metrics as follows being required initially.

1. An average of at least 3 trades on a day
2. An average of at least 3 Shippers being party to a trade on a day
3. An average of at least 150 kTherms being traded on a day
4. Metrics 1-3 being met on at least 90% of days in the period under review.

The chart below shows the trading activity since May demonstrating that the metrics above are being consistently achieved.



The next chart shows that despite limited counterparty availability, GNI has been trading inside the proposed +/- 3.5% marginal adjustment that is being proposed since it commenced trading on June 1st.



Q4. Do you believe the liquidity threshold criteria provided above are appropriate?

Q5. What is the appropriate date for the implementation of the new methodology for calculation of the cashout prices?

4 Deadline for Responses

All responses should be sent to marketdevelopment@gasnetworks.ie by 5pm on Friday 27th of July.

5 Consultation Questions

5.1 A094: Changes to Shipper Portfolio Tolerances

Q1. What do you believe is the appropriate tolerance level for each category of customer?

While tolerance reduction has been to the foreground for some time now, BGE believe that the last steps are too close together, BGE agree that the next step should be to 50% levels but the following step to zero (except for NDM and DMs) should be circa 6 months after this. This allows shippers time to become accustomed to the new more stringent rules.

BGE agree with maintaining the NDM tolerance level at 2.5% and we propose that DM's should go to a 10% level. DM's can run at varied levels and it is not possible to accurately predict their final run rate as there is no visibility on volumes throughout the day.

Also, special dispensation should be given to powergens whose volumes have been changed by Eirgrid from 00:00 to 05:00. Volume changes at night as a result of Eirgrid are beyond the shippers control and therefore they should not be penalised for it. I appreciate that this would be a rare occurrence but nevertheless should be taken into account.

Q2. What are your views as to the appropriate dates for the two step reduction proposed?

Step 1 – October 1st 2018

Step 2 – April 1st 2019.

Reasoning as per above – to give shippers more time to become accustomed to rules.

5.2 A095: Revised Methodology for calculation of Daily Imbalance Charges

Q3. What is your view as to the magnitude of the *small adjustment* to be used in the calculation of the marginal sell price and the marginal buy price?

BGE believe the adjustment can be set at 3.5% but should be reviewed after an appropriate amount of time (say 3 and 6 months)

Q4. Do you believe the liquidity threshold criteria provided above are appropriate?

The metrics seem low and therefore there could be room for manipulation. This should be reviewed constantly reviewed and immediately acted upon if manipulation is suspected.

Q5. What is the appropriate date for the implementation of the new methodology for calculation of the cashout prices?

October 1st 2018 in line with new tolerances.