

Hi Kieran,

ESB GWM submits the following comments with regard to the IOOA Code Modification Proposal '**A069 Back-up Capacity Arrangements under new tariffing regime**'. Please note that the comments provided are on the basis of the detail provided at the Code Modifications Forum on 19<sup>th</sup> August 2015. There is significant detail still to be clarified in this proposed Modification and therefore ESB GWMs comments should not be taken as a finalised position.

Notwithstanding that the Modification requires more detail before a final position is reached, ESB GWM would have the following concerns:

- **Short Term Market Distortion**

This Modification appears to create a distortion in the short term capacity market as certain shippers will be taking a view to purchase capacity at a higher price in the knowledge that they will recoup the scalar element of the tariff. One possible outcome is that this distortion could expose other shippers to overrun charges where they need to buy capacity in the short term markets for reasons other than a production outage. For example Shipper A needs to purchase capacity as a result of an outage at an entry point. At the same time Shipper B needs to purchase additional capacity due to an unforeseen increase in their gas demand. Shipper A knows a rebate on the scalar element (c.€220 at Moffat) will be obtained and therefore is willing to bid into short term auctions at a higher price ( $\text{€X} + \text{€}220 / \text{MWh}$ ) than would have otherwise been the case. Shipper B is not aware of the outage and, assuming there is a limited amount of capacity available, it bids into the Uniform Price Auction above the price it expects it to clear. However, under this example, the lowest price that sets the clearing price is likely to be higher than what otherwise would have been the case as a result of the higher bid from shipper A. This potentially has the end result of pushing Shipper B out of merit in the auction and exposing it to overrun charges.

- **Discrimination towards certain shippers**

On the face of it this Modification is discriminatory as it gives a financial advantage to certain shippers depending on the commercial arrangements with other parties. For example, a shipper with a gas generator customer is exposed to overrun changes in the event that the generator trips due to unforeseen circumstances. Applying the principles of this Modification, and ensuring non-discrimination between shippers, would suggest that there should be some form of redress in the event of a gas generator tripping also.

- **Reduced incentive for Producers to maintain a secure reliable gas supply.**

Shippers enter contracts with Producers to purchase gas at a particular production entry point and GNI have no sight of these contracts. Therefore the financial impact on the shipper is not known in a production outage event. Some of these contracts may have a clause to allow a form of redress to the shipper in a production outage. Such arrangements would likely factor in the cost of purchasing additional capacity and hence under this arrangement would reduce the risk for producers if an production outage occurs. Consequently the incentive on the Producer to maintain a reliable gas supply under such an arrangement is eroded.

- **Potential for Gaming**

Lastly it seems that it would be difficult to define certain elements of this Modification thereby leaving it open to manipulation. For example; what is the exact definition of a reduction or an outage and how is it proven/declared? If a shipper during a outage also has an increase in demand, how is the quantity determined to which the rebate applies?

However, ESB GWM is of the opinion that to mitigate against some of the concerns raised above, consideration could be given to applying a time restriction on such a mechanism being effective. In other words, when a production outage is declared, the rebate on the scalar will be given for a specific duration (X days or weeks). This would incentivise the Producer to return to full gas production in a timely manner and minimise the impact this proposed Modification could have on other market participants while at the same time recognising that the scalar element has already been paid for by shippers in such an event.

Should you have any queries with regard to any of these points please don't hesitate to contact me.

Regards,

Warren

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