

19th February 2010

## **Proposed Modification 7 to BGE (NI) Transportation Network Code**

### **Initial Modification Report**

Please find attached details of a Proposed Modification to the BGE (NI) Transportation Network Code as required under Section 3 and 4 of the Modification Rules.

## **A Description of the nature and purpose of the modification**

### **Modification Proposal**

The purpose of this modification proposal is to modify the BGE (NI) Transportation Network Code to reduce the negative imbalance penal rate factor from 1.7 to 1.5. This would require an amendment to section 4.3.2 Balancing Charges.

### **Background**

This modification proposal to the BGE (NI) Transportation Network Code is to take account of recent proposed changes to the PTL Code.

BGE (NI) and PTL have discussed the current balancing arrangements in Northern Ireland. The issue identified by New Entrant Shippers (NES) was the current code arrangements with respect to balancing were a barrier to entry. In their view there were two areas which posed a barrier to entry. The first was that NES initially supply a small portion of DM customers and any imbalance charge caused by one DM results in charges being passed on to all customers in the NES portfolio. NES believe the existing penal rates to be excessive.

The second area is in relation to tolerance levels. The incumbent shipper supplies the majority of small Non Daily Metered (NDM) customers who have a weighted average tolerance in the range of 10-20%. NES as previously stated supply a small portfolio of large DM customers with a typical tolerance of 10%. The NES fell customers will stay with the Shipper who offers the greatest tolerance and hence less risk of system charges.

### **Imbalance Charges and Penal Rates**

NES claim that the imbalance penal rate factors are excessive. Imbalance mechanisms are in place to ensure system balance, safety and integrity. The aim is to discourage Shipper imbalances. If a Shipper controls their imbalance position this reduces the charges the Shipper faces and minimises the requirement for Transporter balancing actions. The negative imbalance penal factor is greater than the positive penal factor as a negative imbalance can have a more adverse affect on the system.

*Comparison of Other Market Arrangements Imbalance Charges:*

Benchmarking to other systems is difficult as the comparison markets are different in terms of line pack capability, market scale and liquidity so a direct comparison cannot be accurately made.

*PTL Analysis:*

PTL re-ran the billing and disbursement calculations for the last 18 months from streamlining with the negative imbalance factor reduced to 1.5 and 1.3. Also the calculations were completed separately with the positive penal rate set to 0.9. All changes were analysed separately to determine what impact there would be on Shippers imbalance cash position. As expected the analysis showed that the relaxation of penal rates meant that Shippers on average had a better imbalance cash position. The results are shown in table 1 below. To protect Shipper confidentiality the individual Shippers have been renamed A - H.

Table 1: Disbursement calculations

| Shipper | Average Monthly % Saving if 1.5 NIF | Average Monthly % Saving if 1.3 NIF |
|---------|-------------------------------------|-------------------------------------|
| A       | <b>3.9%</b>                         | <b>7.8%</b>                         |
| B       | <b>4.2%</b>                         | <b>8.4%</b>                         |
| C       | <b>1.1%</b>                         | <b>2.0%</b>                         |
| D       | <b>0.0%</b>                         | <b>0.0%</b>                         |
| E       | <b>5.9%</b>                         | <b>11.7%</b>                        |
| F       | <b>5.5%</b>                         | <b>11.0%</b>                        |
| G       | <b>2.0%</b>                         | <b>4.1%</b>                         |
| H       | <b>0.1%</b>                         | <b>0.3%</b>                         |

The table is based on behaviour for the 18 month period from April 08  
 (Streamlining) - Sept 09

Although the above indicates that Shippers in aggregate are better off by a relaxation of the penal rates it should be stressed that the analysis was completed using current shipper behaviour conditions and behaviour under relaxed penal rates could be different and the above benefits may not be achieved or in deed could actually be worse.

Tolerances:

ERGEG published Guidelines of Good Practice for Gas Balancing (GGPGB) on 6<sup>th</sup> December 2006. With regard to tolerance levels and tolerances services these guidelines stated that where provided, tolerance levels and services should be designed in a way that reflects the actual technical capabilities of the transmission system and, where appropriate adjacent transmission systems.

*PTL Analysis:*

PTL has therefore analysed adjacent transmission systems. As NI does not have comparable linepack capability or liquidity, and currently operates under a point to point regime (as opposed to entry-exit in adjacent systems), to adjacent transmission systems then a direct comparison of Shipper tolerance cannot be made.

PTL reviewed the imbalance tolerances for distribution, i.e. load categories 3 and 4. PTL reviewed all Greater Belfast Shipper imbalance accuracy and it was determined that the percentage weighting associated with load category 4 (currently 20%) could be reduced without a

negative impact on existing Shippers. Further work would be required to determine the exact level that the category 4 tolerances should be reduced to. Further work would also be required to determine an appropriate level for the category 3 tolerances. It was the view of the NES and NIAUR that such work may be part of a medium to long term solution possibly part of the ongoing CAG discussions and therefore was not progressed further at this stage.

### Imbalance Trading

The GGPGB also state that in the absence of a well functioning/liquid within day market, allowing market participants to manage their imbalance positions efficiently, the TSO should have or should allow systems to be put in place to facilitate the pooling and trading of imbalance positions.

An example of such a trading mechanism is outlined here. Shippers could trade their daily imbalance quantity with another Shipper provided the trade does not increase the daily imbalance quantity of either Shipper, or convert the daily imbalance position of either Shipper from a positive to a negative imbalance or vice versa. For example if a shipper had a positive second tier balance of 10units, then that shipper could trade the 10 units with another Shipper who had a negative second tier imbalance of 10units. The principle being that the transmission system is not out of balance in aggregate and therefore such a trade can take place without adverse transmission system impact. This approach provides flexibility to NES with a small portfolio of customers.

The adoption of such a mechanism whereby Shippers can trade imbalances would require IT amendments and would also require changes to the current allocation methodology at Greater Belfast whereby the distribution company request amendments of the pro-rate allocations at month end to reflect actual meter reads at a distribution level.

### *PTL Analysis:*

PTL also completed analysis which attempted to provide for the pooling and trading of imbalances. The principle is to allow all Shippers to avail of the entire Greater Belfast portfolio. This is achieved in practise by;

- Not applying individual Shipper penal rates if in aggregate the Greater Belfast market was not out of tolerance, i.e. imbalances would be charged at non penal rates irrespective of whether they breached a Shippers individual tolerance
- If the Greater Belfast Exit Point in aggregate was outside tolerance, then PTL would target the Shippers who breached their individual tolerance and penal rates would apply. In such a case Shippers who did not breach their individual tolerance would not be penalised.

Further work would be required to determine what an appropriate Greater Belfast tolerance level would be and the above would require IT development and cost. Such work may be part of a medium to long term solution possibly part of the ongoing CAG discussions and therefore was not progressed further at this stage.

### **Transporter's Opinion of the Code Modification**

It should be stated that imbalances are caused by NES nomination behaviour, and Shippers should endeavour to ensure their inputs equal outputs in respect of a day. Also, NES do not have

to pass on imbalance charges to customers, or spread the charges across their entire portfolio. The analysis as shown in table 1 indicates that Shippers in aggregate are better off by a relaxation of the penal rates, it should be stressed that should there be any change in Shipper behaviour under relaxed penal rates, the above benefits may not be achieved or could actually be worse.

## **B How the modification better facilitates the relevant objective**

The proposal has been discussed with PTL and the modification is intended to address the NES issues on barriers to entry on the NI Network by potentially reducing overall imbalance costs to Shippers provided Shippers behaviour remains consistent or improves. Such a benefit will reduce charges passed to customers by NES and may subsequently enhance the NES portfolio position. The change may also assist with reducing Shipper positive imbalance and may reduce the large quantity of system sells required to be made.

## **C The clauses of the Transportation Code that require amendment**

The proposed changes to the following sections of the BGE (NI) Transportation Network Code are outlined below.

### **4. BALANCING AND SCHEDULING CHARGES**

#### **4.3 Balancing Charges**

- 4.3.1 On any Day on which a Shipper has a Positive Balance a charge shall, subject to Section 6.13, be payable to it of the aggregate of the value of:
  - (a) an amount of Balancing Gas up to or equal to the Exit Point Tolerance calculated at the Daily Gas Price; and
  - (b) any amount of Balancing Gas exceeding the Exit Point Tolerance calculated at the lower of the Daily Gas Price multiplied by 0.7 and the System Marginal Sell Price on the relevant Day (as defined in the GB Unified Network Code)
- 4.3.2 On any Day on which a Shipper has a Negative Balance it shall, subject to Section 6.13, pay an amount equal to the aggregate of the value of:
  - (a) an amount of Balancing Gas up to or equal to the Exit Point Tolerance calculated at the Daily Gas Price; and
  - (b) any amount of Balancing Gas exceeding the Exit Point Tolerance calculated at the higher of the Daily Gas Price multiplied by 4.7 1.5 and the System Marginal Buy Price on the relevant Day (as defined in the GB Uniform Network Code)

- 4.3.3 This section 4.3.3. shall only apply with effect from such date (being no earlier than 1 April 2009) as the Authority may notify to The Transporter. If a Shipper has a Negative Balance and/or Positive Balance which exceeds its Exit Point Tolerance either on four (4) or more consecutive Days or on any six (6) Days in any Month, the Transporter shall reduce its Exit Point Tolerance by one half, until such time as the Shipper has avoided a Negative Balance and/or Positive Balance for five (5) consecutive Days at which point its Exit Point Tolerance shall be reinstated at the original level. This reduction of a Shipper's Exit Point Tolerance, pursuant to this section 4.3.3, will occur only once in any particular Month.

## **D The date proposed for implementation**

The Transporter proposes that the modification be implemented on 1<sup>st</sup> April 2010.

## **E Impact on other Designated Pipeline Operator's Network Codes:**

The above proposal will impact on the PTL code. BGE (NI) has corresponded on the above proposal with PTL.

### **Attachment 1: Circulation List**

| Title | First Name | Surname    | Company Name                       |
|-------|------------|------------|------------------------------------|
| Ms.   | Avian      | Egan       | Gaslink                            |
| Mr.   | Brian      | McHugh     | Utility Regulator                  |
| Mr.   | Bryan      | Hennessy   | Vayu Ltd                           |
| Mrs.  | Cheryl     | Snoddy     | Utility Regulator                  |
| Mr.   | Chris      | Wright     | Centrica Energy                    |
| Mr.   | David      | Strahan    | Phoenix Supply Ltd                 |
| Mr.   | Diarmuid   | Lynch      | ESB Fuel Supply                    |
| Mr.   | Donal      | Kissane    | Bord Gais Eireann (BGE)            |
| Mr.   | Donald     | Murray     | Premier Power Limited              |
| Mr.   | Douglas    | O'Brien    | Moffat Agent c/o Bord Gais Eireann |
| Mr.   | Emmet      | McFadden   | Premier Transmission Limited       |
| Mr.   | Graham     | Buchanan   | SGN                                |
| Mr.   | Ivan       | Purvis     | Premier Power Limited              |
| Mr.   | Ivan       | Bell       | Phoenix Distribution Ltd           |
| Mrs.  | Joanne     | Quinn      | Phoenix Distribution Ltd           |
| Mr.   | John       | Fitzgerald | ESB International Ltd              |
| Mrs.  | Karen      | McConnell  | Utility Regulator                  |
| Mr.   | Kevin      | Hannafin   | Energia                            |
| Mrs.  | Marie      | O'Dea      | BGES                               |
| Mr.   | Michael    | Parry      | Firmus Energy                      |
| Mrs.  | Michelle   | Galbraith  | Firmus Energy                      |
| Mr.   | Mike       | Scott      | Firmus Energy                      |



|       |         |            |                              |
|-------|---------|------------|------------------------------|
| Mr    | Richard | Hume       | Utility Regulator            |
| Mrs.  | Roisin  | McLaughlin | Utility Regulator            |
| Mr.   | Roy     | Foreman    | NIE                          |
| Miss. | Ruth    | Carey      | Gaslink                      |
| Mr.   | Stephen | English    | Phoenix Supply Ltd           |
| Mr.   | Stephen | Hemphill   | Premier Transmission Limited |
| Mrs.  | Sue     | Robinson   | Firmus Energy                |
| Mr.   | Tom     | Mooney     | ESBI                         |
| Mrs.  | Valerie | Griffith   | Centrica Energy              |