

CODE OF OPERATIONS MODIFICATION PROPOSAL



MODIFICATION DETAILS				
Modification Number: A094		Modification Title: Changes to Shipper Portfolio Tolerances		
Modification Proposer:	Modification Representative:	Modification Representative Contact Details (email address):	Date Submitted:	Proposed Implementation Date:
Gas Networks Ireland	Andrew Kelly	andrew.kelly@gasnetworks.ie	/2018	/2018
Proposal (including rationale):				
To remove tolerances at LDM and DM on a two- phase basis with tolerances at LDM and DM and at Bellanaboy and Inch Entry Points reduced by 50% on 1 August 2018 and removed entirely on 1 October 2018.				
Proposed Implementation Date:				
01 August 2018 and 01 October respectively				
Proposed section of the Code to be modified:				
Part E, Section 1.7				
MODIFICATION MOTIVATION				
Intended Outcome of the Proposed Modification:				
It is proposed to remove the existing Tolerances at LDM and DM and at Bellanaboy and Inch Entry Points on a two-phase basis as the EBI Trading Platform matures and the GNI Transparency Website provides Shippers with sufficient daily data				
Benefits of implementing this Modification:				
Firstly, GNI will comply with the provisions of Art.50.1 of Commission Regulation(EU)No.312/2014 establishing a Network Code on Gas Balancing of Transmission Networks (BAL NC) which prohibits the appliance of Tolerances as an interim measure where Network Users do not have access to either, (a) a short term wholesale gas market that has sufficient liquidity,(b) gas required to meet short term fluctuations in gas supply or (c) sufficient information regarding their inputs and off-takes and, secondly, the removal of tolerances will incentivize Shippers to reduce portfolio imbalances and will increase liquidity on the Trading Platform				
Consequences of not making this Modification:				
GNI will be deemed to be in breach of Art.50.1 of the BAL NC and will be not be incentivizing the reduction of Shipper portfolio imbalances or the increase of liquidity on the Trading Platform				
Illustrative Example (Please enter a scenario where the issue and solution are illustrated):				
Corrib and Inch Entry point Tolerances proposed to move to 0.75% on the 1 st of August and 0% on the 1 st of October.				

Sector/Size(Annual Quantity)	Exit Tolerance % - CURRENT	Proposed % – 01 August	Proposed % – 01 Oct
LDM >1,500,000,000 kWh (LDM 1)	3.5	1.75	0
LDM > 260,000,000 to 1,500,000,000 kWh (LDM 2)	9	4.5	0
LDM >57,500,000 to 260,000,000 kWh (LDM 3)	19	9.5	0
DM	30 of DM Exit Allocations	15	0
NDM	2.5 of NDM Exit Allocations	2.5	2.5
Inch Storage Exit Point	1.5	1.5	0
IP CSEP Non OBA Day	1.5	1.5	0
IP CSEP OBA Day	0	0	0
Sub-Sea I/C > 1,500,000,000 kWh	3.5	1.75	0
Sub-Sea I/C > 260,000,000 to 1,500,000,000 kWh	9	4.5	0
Sub-Sea I/C < 260,000,000 kWh	19	9.5	0



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CODE OF OPERATIONS

NOTICE TO SHIPPERS

PURSUANT TO THE CODE OF OPERATIONS

APPROVAL OF MODIFICATION

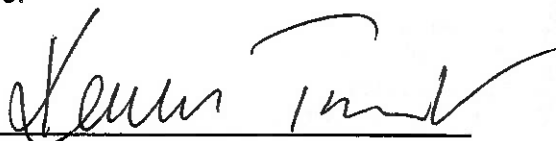
Code Modification A094 '*Changes to Shipper Portfolio Tolerances*'

COMMISSION INSTRUCTION

Pursuant to Section 13 of the Gas (Interim) (Regulation) Act, 2002, the Commission hereby approves Code Modification A094 '*Changes to Shipper Portfolio Tolerances*' as outlined below based on stakeholder feedback:

- Remove tolerances for Large Daily Metered (LDM) except for gas fired power generators who will be exempt from 2nd tier imbalance charges if their imbalance quantity results from a dispatch instruction by EirGrid between 2:00 am and the end of the gas day (05:00 am).
- Decrease of tolerance for Daily Metered (DM) to 10% of DM Exit Allocations.
- Remove tolerances for Non-Daily Metered (NDM), other than the retention of the NDM 'forecasting error' tolerance, which covers the absolute difference between the Transporters NDM Nomination Advice and a Shippers Final NDM Exit Allocation, provided the Shipper has nominated as advised.
- Remove tolerances at Entry Points and provide a tolerance for Renewable Natural Gas (RNG) Entry Points of 25%

This modification will require amendments to Part A (Definitions) and Part E (Balancing and Shrinkage) of the Code of Operations. This approved modification will come into effect on the 1 April 2019.

Signed: 

Karen Trant, Director of Energy Networks

Issue Date: 29/3/2019



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CODE OF OPERATIONS

NOTICE TO SHIPPERS

CODE MODIFICATION

Code Modification A094 ‘Changes to Shipper Portfolio Tolerances’

COMMISSION RATIONALE

Pursuant to Section 13 of the Gas (Interim) (Regulation) Act, 2002, the Commission hereby approves Code Modification A094 ‘Changes to Shipper Portfolio Tolerances’, which will:

- Remove tolerances for Large Daily Metered (LDM) except for gas fired power generators who will be exempt from 2nd tier imbalance charges if their imbalance quantity results from a dispatch instruction by EirGrid between 2:00 am and the end of the gas day (05:00 am).
- Decrease of tolerance for Daily Metered (DM) to 10% of DM Exit Allocations.
- Remove tolerances for Non-Daily Metered (NDM), other than the retention of the NDM ‘forecasting error’ tolerance, which covers the absolute difference between the Transporters NDM Nomination Advice and a Shippers Final NDM Exit Allocation, provided the Shipper has nominated as advised.
- Remove tolerances at Entry Points and provide a tolerance for Renewable Natural Gas (RNG) Entry Points of 25%

The above decision was made after fully considering stakeholder feedback and feedback from ACER. This approved modification will come into effect on 1 April 2019 and will be reviewed after a six-month period. Where tolerances are not achieving the targeted efficiencies then they will be revised or removed as appropriate.

BACKGROUND AND CONSULTATION PROCESS

Article 50 of the Balancing Network Code (BAL NC), seeks to remove tolerances unless certain criteria cannot be fulfilled i.e. network users do not have access to sufficient information regarding their inputs and off-takes. Pursuant to these BAL NC requirements,

GNI raised Code Modification A094 seeking to remove tolerances for LDM¹ and DM² demand. For NDM customers, GNI proposed no tolerances to be provided for shippers who did not follow GNI's forecast demand advice. However, where the shipper did follow the demand forecasted by GNI, the shipper would not be subject to 2nd tier imbalance charges.

The proposed changes were discussed at the Code Modification Forum. GNI also circulated a consultation paper to industry seeking written feedback on key aspects of the proposal. In total, nine responses were received which are published on the [GNI website](#). With regards to GNI's proposed removal of LDM tolerances, stakeholders strongly argued that a tolerance should be provided for gas fired power generators if they are dispatched on by EirGrid during the dead-band period. Many respondents also viewed that a tolerance should be provided for DM, albeit lower than the tolerance currently in place. In general, comments received were in favour of GNI's proposed tolerance for NDM.

The Commission taking into consideration the views of Shippers and having consulted with ACER presented a minded to position at the Code Modification Forum in November 2019. Following this, GNI circulated legal drafting to Shippers with a two-week response period for comments. A conference call was then held to address any outstanding Shipper queries in relation to the legal drafting.

DECISION AND REASONS FOR APPROVAL OF THE CODE MODIFICATION

LDM Tolerances

The Commission has decided to remove tolerances for LDM except for gas fired power generators who will be exempt from imbalance charges if they are dispatched upon by EirGrid between 2:00 am and the end of the gas day (5:00 am), for the extra volume of gas they were required to consume due to the relevant dispatch instructions.

As highlighted by stakeholders, under SEM, the electricity TSO (EirGrid) dispatches power plants. Although generators are provided with operational information as to what they are likely to be called upon to generate, this indicative information is not firm. The TSO may and does deviate from this indicative information. For example, if a plant trips, the TSO must react, and it may call on a generator to increase its production. It is generally accepted that it is not reasonable to expect a generator to be able to predict or forecast this. As the generator may be dispatched by EirGrid to generate a quantity that they had not planned for or indeed sourced gas requirements for.

¹ Currently a tolerance of 3.5% for LDM1, 9% for LDM2 and 19% for LDM3.

² Currently a tolerance of 30% for DM.

During the gas day, the shipper can adjust their balancing position in response to such a dispatch instruction (by buying or selling more gas and adjusting their nominations on Gas Transmission Management System (GTMS)). However, the gas day nomination window closes at 2:00am and does not reopen until 5:00 am. During that time, shippers are not able to buy or sell more gas and adjust their nominations on GTMS, therefore they cannot adjust their balancing position. This could drive shippers into imbalance where a dispatch instruction was received from EirGrid that they had not anticipated in advance.

It is important to note that, in the SEM, generators are required to bid in the short run marginal costs for all their technically available generation in the form of 3-part offers (start cost, no load cost, and price-quantity pairs). In these bids, generators would be expected to include any imbalance charges that they would face for changing their generation output. This provides a route in the SEM for recouping imbalance costs for any unanticipated dispatch instruction from EirGrid. However, as final gas cash out prices are not published until the following day, generators must forecast these prices and there is a risk that they will get this forecast wrong. Having said that, in making these forecasts, generators would be expected to use the best available information to ensure that they were bidding in their short run marginal costs. Shippers would be expected to adapt any pricing methodologies with any new information. So, for example, if over time their pricing methodologies were under or over recovering costs they would be expected to change these to ensure that they best reflect short run marginal costs.

Given the ability for EirGrid to dispatch generators while the gas market is closed, the CRU considers it broadly appropriate, that initially some degree of tolerance could be allowed for gas fired power generators.

However, in the longer term, the Commission considers that gas fired power generators should devise suitable methodologies to bid in appropriate costs to the SEM to cover any potential gas imbalance charges. This is with the view that the Commission may seek to move to the same balancing requirements for all LDM demand, i.e. no tolerance would be allowable for gas fired power generators at some point in the future.

The Commission considers it broadly appropriate that a balancing allowance should be granted to gas fired power generators on a trial basis. This balancing allowance would only apply to generation that was unanticipated by the generator and which was purely caused by a dispatch instruction from EirGrid issued between 2:00 am and 5:00 am. As previously detailed, the effectiveness of this measure will be kept under review and is being provided on a trial basis. ACER noted the level of this tolerance and emphasised the importance of

keeping it under review and further considering the application of the same balancing requirements on all LDM demand.

To avail of the balancing allowance, gas fired power generators will be required to provide GNI with evidence showing their entry and exit positions before the receipt of any 'Dispatch Notice' from EirGrid. They will also be required to provide the Dispatch Notice itself. This evidence will be reviewed. The review will consider whether the evidence demonstrates that the generator was required to change its generation output during 2:00 am and 5:00 am compared to what the gas fired power generator had forecasted. If it does show this, then the gas fired power generator will be exempt from any imbalance charges for the gas associated with the increase or decrease in generation output.

DM Tolerances

To drive overall efficiencies, the Commission has decided to decrease the tolerance for DM from 30% to 10% of DM Exit Allocations. In the case of DM shippers, meter reads are not available until after the gas market is closed. This requires shippers to forecast their DM demand. GNI noted at the Code Modification Forum that DM Shippers have typically had a nomination accuracy of between 7% and 12%. Data that Commission has reviewed since the start of the 2018 suggests that best shippers are averaging 6-7% imbalance though the average overall is around 14%. These imbalances have been achieved against a background of a 30% balancing tolerance being afforded to the DM sector. To drive further efficiencies and to improve the overall balancing levels, the Commission considers a 10% balancing tolerance as appropriate. ACER noted the level of this tolerance and emphasised the importance of keeping it under review.

NDM Tolerances

The Commission has decided to remove the 2.5% tolerance for NDM and retain the 'forecasting error' tolerance.

In terms of nominations, there are currently two approaches available to shippers for their NDM portfolio. A shipper can nominate based on the Transporter's NDM Nomination advice or nominate based on their own estimates. Where they nominate based on their own estimates, they currently receive a 2.5 % tolerance.

Where the Shipper has followed the Transporters NDM Nomination Advice the NDM shipper will receive the greater of:

- a 2.5% tolerance for its Final NDM Exit Allocations, and;

- a NDM ‘forecasting error’ tolerance which covers the absolute difference between the Transporters NDM Nomination Advice and a Shippers Final NDM Exit Allocation.

This means that where the imbalance is less than 2.5%, a shipper regardless of whether they have followed the transporter’s NDM nominations advice or not, will benefit from the additional allowance leftover that they can use against their remaining portfolio (DM and/or LDM). The Commission does not see a reason to maintain this as it weakens the incentives on shippers to appropriately manage their remaining portfolio to ensure that it remains in balance. In addition, the Commission considers that it also unduly favours Shippers with larger NDM portfolios.

The Commission deems it efficient for shippers to nominate as advised by the TSO given that the TSO produces detailed forecasts of NDM customers’ demand, which shippers could not be expected to replicate due to GNI’s access to information and the complexity of the modelling involved. The Commission has reviewed forecasting error data provided by GNI which highlights peaks of c.10% over the summer months. Overall, the average forecasting error from the data provided³ is c.3%. the Commission will continue to monitor the effectiveness of this measure and the balancing levels achieved.

RENEWABLE NATURAL GAS (RNG) ENTRY POINTS

Currently the Code does not include any requirements relating to RNG Entry Points. With the Cush entry point coming on stream, RNG will enter the gas system for the first time. To accommodate this, provision for RNG must be introduced into the Code. For balancing, feedback was received requesting that a soft-landing provision be put in place for RNG Entry Points. This would see greater tolerances applied to these entry points than others. The Commission considers this a reasonable approach given the infancy of the RNG industry. Time will be required to build further expertise in the operation of RNG plant and for the RNG sector to grow in size. While this is occurring, the Commission considers it appropriate that a balancing tolerance of 25% would apply. These tolerances will be subject to review as the RNG sector matures.

IMPLEMENTATION

Code modification A094 will be implemented on 1 April 2019. The Commission requests that GNI keep the tolerances under continuous review to ensure that the targeted efficiencies (as previously described) are being delivered. GNI will provide a report on the effectiveness of the tolerance based on the collected data. The Commission will review this report to consider

³ Data range is 1 January 2017 – 13 September 2018

whether any changes to the tolerances are required. The first such review will be conducted 6 months from the implementation date of this Code Modification. ACER is supportive of such a review.

The Commission is mindful of the importance of timely, correct and reliable information being provided to network users to enable them to manage their risks, particularly if tolerances are fully removed. The Commission will consider the benefit of additional remote telemetry in due course if necessary.