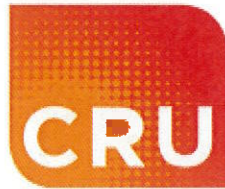


# CODE OF OPERATIONS MODIFICATION PROPOSAL



MODIFICATION DETAILS				
<b>Modification Number:</b> A095		<b>Modification Title:</b> Revised Methodology for calculation of Daily Imbalance Charges		
<b>Modification Proposer:</b>	<b>Modification Representative:</b>	<b>Modification Representative Contact Details (email address):</b>	<b>Date Submitted:</b>	<b>Proposed Implementation Date:</b>
Gas Networks Ireland	Andrew Kelly	andrew.kelly@gasnetworks.ie	14/06/2018	01/10/2018
<b>Proposal (including rationale):</b> To revise the methodology for calculation of Daily Imbalance Charges by using the IBP traded prices as the reference trading price as opposed to the current use of NBP traded prices to reflect the increasing liquidity of the EBI Trading Platform and the participation of GNI thereon				
<b>Proposed Implementation Date:</b> 01 October 2018				
<b>Proposed section of the Code to be modified:</b> Part A- Inserting new definitions and deleting one definition; Part E- Amendment of Section 1.6 and 1.10				
MODIFICATION MOTIVATION				
<b>Intended Outcome of the Proposed Modification:</b> It is proposed that Daily Imbalance Charges will be calculated on the basis of IBP traded prices rather than on the basis of NBP traded prices				
<b>Benefits of implementing this Modification:</b> Daily Imbalance Charges will be based on the Irish (IBP) market traded prices.				
<b>Consequences of not making this Modification:</b> Daily Imbalance Charges will continue to be based on alternative market trading prices.				
<b>Illustrative Example (Please enter a scenario where the issue and solution are illustrated):</b>				



An Coimisiún  
um Rialáil Fóntas  
**Commission for  
Regulation of Utilities**

**CODE OF OPERATIONS**

**NOTICE TO SHIPPERS**

**PURSUANT TO THE CODE OF OPERATIONS**

**APPROVAL OF MODIFICATION**

**Code Modification A095 '*Revised Methodology for Calculation of Daily Imbalance  
Charges*'**

**COMMISSION INSTRUCTION**

Pursuant to Section 13 of the Gas (Interim) (Regulation) Act, 2002, the Commission hereby approves Code Modification A095 '*Revised Methodology for Calculation of Daily Imbalance Charges*'.

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



## **CODE OF OPERATIONS**

### **NOTICE TO SHIPPERS**

## **CODE MODIFICATION**

# **CODE MODIFICATION A095 REVISED METHODOLOGY FOR CALCULATION OF DAILY IMBALANCE CHARGES**

## **COMMISSION RATIONALE**

Pursuant to Section 13 of the Gas (Interim) (Regulation) Act, 2002, the Commission approves Code Modification A095 '*Revised Methodology for Calculation of Daily Imbalance Charges*'. The Code Modification revises the methodology for calculation of the Daily Imbalance Charges by using the Irish Balancing Point (IBP) traded prices as the reference trading price as opposed to the current use of National Balancing Point (NBP) traded prices. This is to reflect the increasing liquidity of the Energy Broking Ireland (EBI) trading platform and the participation of Gas Networks Ireland (GNI) thereon. This Code Modification proposes 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.

## **BACKGROUND**

Article 22 of the Balancing Network Code<sup>1</sup> sets the determinants for the applicable price and small adjustment which are used in the calculation of the daily imbalance charge.

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,

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<sup>1</sup> [Commission Regulation \(EU\) No 312/2014 establishing a Network Code on Gas Balancing of Transmission Networks](#)

nine responses were received which are published on the [GNI website](#). In general, shippers were in favour of the 'small adjustment' of 3.5% which they note as being in keeping with other European markets. Most shippers favoured using the IBP traded prices as the reference trading price as opposed to the current use of NBP traded prices for the calculation of the daily imbalance charges. However, concern was raised by some parties as to whether the EBI trading platform demonstrated sufficient liquidity for the calculation of these prices.

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.

## **REASONS FOR APPROVAL OF THE CODE MODIFICATION**

The Commission is of the view that sufficient liquidity has been demonstrated on the EBI trading platform to enable the IBP to be used to set the IBP system average price (SAP), system marginal price (SMP) Buy and SMP Sell prices. Shippers are increasing the number of bilateral trading arrangements and this is being reflected in the increase in platform activity observed over 2018. The Code Modification Forum has been presented with updates regarding the activity that has been seen on the trading platform to date. This has demonstrated an increase in the number of participants, number of daily trades, trading patterns and traded volumes. The IBP is also closely aligned to the NBP price, indicating that the IBP tracks the NBP, which is a liquid price.<sup>2</sup> GNI has also been readily able to acquire and dispose its system balancing and stock gas requirements via the EBI trading platform since GNI commenced trading on 1 June 2018. Given these trends, the Commission is of the view that the IBP is sufficiently liquid for the purposes of calculating the SAP, SMP Buy and Sell prices.

In the event, that the activity on the EBI trading platform does not allow for the publication of a system average price then the UK NBP SAP as published by National Grid shall be utilised to set the SAP as outlined in the GNI consultation. The liquidity of the IBP and its use for daily imbalance charges will be kept under review and reported upon at the Code Modification Forum.

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<sup>2</sup> With a slight premium due to transportation charges.

## DAILY IMBALANCE CHARGES SMALL ADJUSTMENT

There are two tiers of imbalance quantities under which imbalance charges apply. It was proposed that these would be retained. The below shows how these would be applied with our decision above on using the IBP for daily imbalance charges.

**First Tier Imbalance Quantity:** This is when a shipper's final daily imbalance quantity is less than or equal to the shipper portfolio tolerance for that day. In this instance, the shipper is charged or receives the IBP SAP for their gas (dependent on whether they are long or short). This is the volume weighted average price of trades on the IBP platform for that day, provided gas has been traded as noted above.

**Second Tier Imbalance Quantity:** This is when a shipper's final daily imbalance quantity is greater than the shipper's portfolio tolerance for that day. A shipper may be 'long' (too much gas) or a shipper may be 'short' (too little gas). If a shipper is 'long', the shipper must sell its gas. The price a shipper receives for this gas is based on the SAP or SMP. They receive the lowest of:

- the IBP SAP reduced by 3.5% (the 'small adjustment'), or;
- the IBP SMP for gas purchases. The IBP SMP for gas purchases is the lowest price paid by the Transporter for a market balancing transaction in a given day.

If the Shipper is 'short' gas, the Shipper must purchase more gas. For this additional gas, the shipper is charged the highest of:

- the IBP SAP increased by 3.5% (the 'small adjustment'), or;
- the IBP SMP for gas sales. The IBP SMP for gas sales is the highest price paid by the Transporter for a market balancing transaction in a given day.

The 'small adjustment' is used to incentivise Shippers to keep their balancing accounts close to zero. The Commission is of the view that GNI's proposal of a 'small adjustment' of 3.5% of the daily IBP SAP, as discussed by Shippers at the Code Modification Forum, is a good benchmark. The Commission notes that this is lower than the 10% small adjustment referenced in the Balancing Network Code. However, we note across the board that other EU Member States

Germany (2%), Great Britain (c.3.3%<sup>3</sup>) and Italy (0.6%), Denmark (0.5% and 3%) have a lower 'small adjustment'. Since GNI commenced trading on 1 June 2018, it has traded its system imbalances within a 3.5% range of SAP. Overall, Shippers were in favour of a 3.5% 'small adjustment'<sup>4</sup>. The Commission is of the view that a small adjustment of 3.5% is appropriate, driving effective balancing behaviour. The Commission will keep this decision under review.

## **IMPLEMENTATION**

Code Modification A095 will be implemented on 1 April 2019. This will introduce a revised calculation for imbalance charges. The Commission requests that GNI monitor these adjustments to ensure that they provide an adequate incentive for Shippers to balance their portfolios. GNI will provide a report on the effectiveness of these amendments based on the collected data. The Commission will review this report to consider whether any changes to the imbalance charge calculation is required. The first such review will be conducted 6 months from the implementation date of this Code Modification. ACER has stated their support for such a review.

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<sup>3</sup> It is derived each year via an updated methodology. In the most recent ACER Balancing Report (2017) is was set at 1.1 p/term, just below 3% of prices observed on the balancing market.

<sup>4</sup>

[https://www.acer.europa.eu/Official\\_documents/Acts\\_of\\_the\\_Agency/Publication/ACER%20Report%20on%20the%20implementation%20of%20the%20Balancing%20Network%20Code%20\(Second%20edition\)%20Volume%20II.pdf](https://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Report%20on%20the%20implementation%20of%20the%20Balancing%20Network%20Code%20(Second%20edition)%20Volume%20II.pdf)