Final Modification Report No.11

Changes to the Small Adjustment

and

Phase 2 Reduction of Imbalance Tolerances

11th March 2021

The Transporter has prepared this Final Modification Report No.11 in accordance with section A8 of the Code Modification Rules.

A Description of the nature and purpose of the modification

This proposal is being made to implement a change to the balancing regime and correct an administrative error.

In 2019, the Transporter carried out a Tolerance Review as part of its Interim Measures programme of compliance with the Balancing Regulation EU 312/2014. The Balancing Regulation has been transposed into UK law as a result of Brexit. The relevant legislation is now Schedule 2 of the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations 2019.

The Tolerance Review identified, amongst other things, the need to review the multipliers (known as the 'small adjustment') which are applied to the Daily Gas Price when calculating marginal prices. This review of the small adjustment has now been completed and the Transporter is proposing a reduction in the multipliers which would have the effect of making them less penal than they are currently.

The Tolerance Review also identified the need for a reduction in Shippers' Imbalance Tolerances and a phased approach to this reduction was commenced in April 2020 through the implementation of Modification No.8 *(Phased Reduction of Imbalance Tolerances, Alignment of Tolerance Load Bands with DM/NDM Categories & Update to Exit Reallocations Rules).* Phase 2 is due to commence in April 2021 and will reduce tolerance levels further, strengthening the incentive on Shippers to balance their daily inputs and outputs to the NI Network.

The proposed phase 2 reductions were previously consulted on as part of Proposed Modification No.8. Due to an administrative error the incorrect phase 2 tolerance percentages were included in the final approved text of the Transition Section. Therefore, this modification is to make the changes as originally intended and to delete the Transition Section.

Whilst making the small adjustment less penal could in theory weaken the incentive on Shippers to balance, the Transporter considers that making this change at the same time as implementing the phase 2 tolerance reductions will mitigate this risk, since the tightening tolerances will mean Shippers have to continue to focus on maintaining/improving their balancing performance, as they have been doing successfully to date under phase 1.

B How the modification better facilitates the relevant objective

The Relevant Objective, (condition 2.4 of the Transporter Licences) will be better facilitated by the NI Network Gas Transmission Code as a result of the proposed changes. They will support compliance with Balancing Regulation EU 312/2014 (as transposed) and by continuing to incentivise Shippers to balance their portfolios, they should improve the reliable and efficient operation of the NI Gas Transmission Network.

C Third Party Representations and the views of the Transporter

One representation was received which:

- acknowledged that the change was required to align with EU Network Codes;
- considers that the proposed small adjustment level remains excessive, especially compared to other markets;
- notes concern that any review by the Transporter may only be taken with the intention to reverse the direction of the current change so as to restore stronger balancing incentives. The respondent believes the goal of any further review should be to continue to reduce the small adjustment level;
- notes that power sector imbalances are often beyond the control of the generator due to poor alignment of the daily timelines between gas and power sectors;
- acknowledges the work of the Transporter in coordinating and leading discussion to increase recognition of the gas/power interactions, and
- notes the opportunities for improvements in information sharing, market participant interaction, rule changes and other measures across both gas and power markets, and that these should be considered before reintroduction of a more penal balancing regime.

The Transporter welcomes all the views of the respondent, and in particular the acknowledgement of the compliance aspect of this proposed modification, and the efforts of the Transporter to progress improvements in coordination between gas and power markets.

The Transporter considers that:

- the level of the proposed change is appropriate in the overall context of the changes which have been phased in over a 2 year period;
- while there are still tolerances available in the Northern Ireland market, it is still appropriate for the small adjustment to be relatively penal. Other markets with less penal regimes tend not to allow any tolerances;
- there are indeed significant challenges in coordination between gas and power markets, but power generators do generally have reasonable control over their imbalance positions.

The Transporter also notes that there is no presumption of a specific review date, nor of any further change in any particular direction. Since this change is towards relaxation of the balancing regime, the Transporter believes it is appropriate to highlight that it may review and possibly amend the regime, if required, to address the possibility of a deterioration in balancing behaviour. However, the objective of all of the Transporter's work in ongoing monitoring of the balancing regime is simply to ensure that any need for action, on any aspect of the regime, is identified and addressed promptly and appropriately.

D The clauses of the NI Network Gas Transmission Code that require amendment

This Modification will amend text in sections 8.2 and 8.3 and remove the Transition Section.

E Impact on the networks of the Designated Pipeline Operators, Adjacent Transporters and/or relevant agreements in respect of the NI Network:

The Transporter has considered the impacts the modification may have and concluded as follows:

Operation of the networks of the Designated Pipeline Operators (DPOs)

There has been a reduction in residual balancing actions and the quantities of balancing gas needed under phase 1 of the tolerance reductions. Reduced residual balancing is generally helpful, although the operational materiality of the improvements seen to date has been small.

It is not possible to say whether implementing the reduction in multipliers at the same time as the phase 2 tolerance reductions will yield further reductions in the requirement for residual balancing, but the Transporter considers that any further changes are likely to be further improvements in balancing performance and so would be generally positive for the operation of the networks.

Adjacent Transporters & Relevant NI Agreements

There has not been a material impact under phase 1 of the tolerance reductions on the Adjacent Transporters or on any relevant NI Agreements, and similarly, the Transporters would expect any impact of the proposed changes to be broadly positive in these respects.

Nonetheless, the Transporter intends to closely monitor the impact of the proposed amendments to the small adjustment charges on all relevant Agreements and on the operation of the networks.

F The date proposed for implementation

The Transporter proposes that this Modification should take effect from 1st April 2021.

G Changes from the Initial Modification Report

No changes have been made to the legal text following the consultation on the Initial Modification Report.

H Final Legal Text

With effect from the Implementation Date of this Proposed Modification:

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Modify section 8.2.1 to read as follows:

Imbalance Tolerance Percentage

8.2.1 Within 10 Business Days of providing a Downstream Load Statement in respect of an Exit Point in accordance with section 22.8, a Shipper shall be informed by the Transporter of its weighted average tolerance, expressed as a percentage, using the information contained in the Downstream Load Statement as set out below (a Shipper's "**Imbalance Tolerance Percentage**" or **"ITP"**):

$$ITP\ (as\ \%) = \frac{100}{TC_{vm}} \times (a + b + c + d)$$

where:

a = $\sum C_{vm} \times C_f$ for Un1

b = $\sum C_{vm} \times C_f$ for Un2;

c = $\sum C_{vm} \times C_f$ for Un3;

d = $\sum C_{vm} \times C_f$ for Un4;

$\sum C_{vm}$ = the maximum quantity in kWh/d which may reasonably be required to supply all of the Shippers' demand in the relevant downstream load category listed in column (2) in the table below (a **"Downstream Load Category"**) at all Exit Points on a Gas Flow Day D as set out in the relevant Downstream Load Statement;

TC_{vm} = aggregate of each $\sum C_{vm}$ of each Downstream Load Category;

Un = the number identifying the Downstream Load Category listed in column (1) of the table below; and

C_f = Downstream Load Category weighting factor listed in column (3) of the table below.

Imbalance Tolerance Table

(1)	(2)	(3)
Number identifying Downstream Load Category (Un)	Downstream Load Category	Downstream Load Category weighting (C_f)

1	Power generation consumers	~~3~~2%
2	Downstream consumers whose loads are greater than or equal to 1,465,416,000 kWh/annum and are not power generation consumers	~~3~~2%
3	Downstream consumers whose loads are greater than or equal to 2,196,000 kWh/annum but less than 1,465,416,000 kWh/annum (generally classified in a DNO's distribution network code as daily metered consumers)	~~5~~3%
4	Downstream consumers whose loads are less than 2,196,000 kWh/annum (generally classified in a DNO's distribution network code as non-daily metered consumers)	~~10~~5%

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Modify Section 8.3 to read as follows:

8.3 Imbalance Charges

8.3.1 Imbalance Charges shall be calculated, subject to section 8.1.1, in accordance with this section 8.3.

8.3.2 On any Gas Flow Day D on which a Shipper has a Positive Imbalance, an Imbalance Charge shall be payable to it equal to the sum of:

(a) QWT x Daily Gas Price; plus

(b) MIQ x $P_{smps,}$

where P_{smps} is the lower of:

(i) the Daily Gas Price multiplied by ~~0.7~~ 0.9; or

(ii) the System Marginal Sell Price on the relevant Gas Flow Day D (as defined in the GB Uniform Network Code).

8.3.3 On any Gas Flow Day D on which a Shipper has a Negative Imbalance, it shall pay an Imbalance Charge equal to the sum of:

(a) QWT x Daily Gas Price; plus

(b) MIQ x P_{smpb}

where P_{smpb} is the higher of:

(i) the Daily Gas Price multiplied by ~~1.5~~ 1.1; or

(ii) the System Marginal Buy Price on the relevant Gas Flow Day D (as defined in the GB Uniform Network Code).

8.3.4 If a Shipper has a Negative Imbalance and/or Positive Imbalance which exceeds its ITQ either, on 4 or more consecutive Days, or on any 6 Days in any Month, its ITP shall be reduced by one half, until such time as the Shipper has avoided a Negative Imbalance and/or Positive Imbalance for 5 consecutive Days when its ITP shall be reinstated at the original level.

8.3.5 Where a Shipper is eligible to pay a Modified Imbalance Charge in accordance with section 6.10.2(b), the Modified Imbalance Charge shall be determined in accordance with the formula set out in section 8.2.1 save that the C_f value shall be equal to 100% for the purposes of determining the Modified Imbalance Charge.

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Remove the Transition section as shown below:

T. TRANSITION ARRANGEMENTS FOR THE SECOND PHASE REDUCTION OF THE IMBALANCE TOLERANCE PERCENTAGE

T1 Introduction

T1.1 This section T provides for the implementation of the second phase reduction in the Imbalance Tolerance Percentage.

T2 Definitions

T2.1 In this section T1, **"Transition Date"** means 1st April 2021.

T3 Second Phase Reduction in Imbalance Tolerance Percentage

T3.1 With effect from the Transition Date, the imbalance tolerance table in section 8.2.1 shall be modified as shown below:

Imbalance Tolerance Table

(1) Number identifying Downstream Load Category (Un)	(2) Downstream Load Category	(3) Downstream Load Category weighting (C_t)
1	Power generation consumers	2%
2	Downstream consumers whose loads are greater than or equal to 1,465,416,000 kWh/annum and are not power generation consumers	2%
3	Downstream consumers whose loads are greater than or equal to 2,196,000 kWh/annum but less than 1,465,416,000 kWh/annum (generally classified in a DNO's distribution network code as daily metered consumers)	5%
4	Downstream consumers whose loads are less than 2,196,000 kWh/annum (generally classified in a DNO's distribution network code as non-daily metered consumers)	10%

~~T3.2 For the avoidance of doubt, with effect from the Transition Date and thereafter on an enduring basis, a Shipper's ITP shall be determined using the imbalance tolerance table in section 8.2.1 as modified by section T3.1 of this Transition Section.~~