



Energy for
generations

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**Initial Modification Report No.11 Changes to the Small Adjustment and
Phase 2 Reduction of Imbalance Tolerances**

Dear Stephen

ESB Generation & Trading (ESB GT) welcomes the opportunity to respond to initial Modification Report No. 11.

We reference our responses to the tolerance review of August 2019 and Modification No. 8 in January 2020, where we stated our concerns that the goal of regulatory compliance with the EU Balancing Regulation was being prioritised over the best outcomes for the Northern Irish gas user. We are pleased that GMO has undertaken analysis to review the small adjustment level and that a reduction is proposed. Reducing the small adjustment when lowering tolerances is in line with ACER guidance; as the small adjustment was unchanged under Phase 1 tolerance reductions, it is necessary under Phase 2.

As outlined in the Initial Modification Report, the aim of the high small adjustment (0.7 / 1.5) was to “*strongly disincentivise*” Second Tier imbalance positions. ESB GT believes that the proposed small adjustment, set at the maximum possible level under BAL NC (0.9 / 1.1), remains excessive. We welcome GMO’s stated intention to monitor the impacts of the change, however, we are concerned that the Report text suggests that review will only result in further strengthening of incentives, implying an upward revision of the small adjustment and reversal of the current proposal. Downward revision of the small adjustment should in fact be the goal of continued review, with the aim to achieve levels seen in other markets.

We previously highlighted that power sector imbalances are often beyond the control of the generator due to the nature of ISEM and poor alignment between the daily timelines of the gas and power sectors. There is limited access to information, to flexibility of flows and to short-term gas. Where incentives cannot be heeded, or penalties avoided, the additional cost is only to the disbenefit of the end-user.

ESB GT has welcomed the growing recognition of the importance of gas/power interaction and engagement in discussion fora coordinated by GMO. The growing understanding of the challenges market players face and how they can impact on one another has led to

constructive outcomes. Improvements in information sharing, market participant interaction, rule changes and other measures – in both gas and power markets – should be explored with the aim of positive change for all parties concerned in market operations as a whole, and certainly prior to reintroduction of a more penal balancing regime.

Should you wish to discuss any of the points raised above in further detail, please do not hesitate to get in touch.

Yours sincerely

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ESB