

# **Determination - designation of a forecasting party within the Northern Ireland gas balancing regime**

17 September 2015



# About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

## Our Mission

Value and sustainability in energy and water.

## Our Vision

We will make a difference for consumers by listening, innovating and leading.

## Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference

Act with integrity.

## Abstract

This paper sets out our determination as to the designation of a forecasting party within the Northern Ireland gas balancing regime. We are required to designate a forecasting party by European Regulation (EU) No 312/2014 establishing a Network Code on Gas Balancing of Transmission Networks.

## Audience

This document is likely to be of interest to regulated companies in the energy industry, government and other statutory bodies and consumer groups with an interest in the gas industry.

## Consumer impact

The changes are necessary to ensure compliance with the European Gas Regulation and in particular the network codes required by the Regulation.

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# 1. Introduction

## *Purpose of this paper*

- 1.1. The European Union (EU) adopted the third legislative package in July 2009 to further the development of a Single European Gas Market. A key element of the third legislative package for gas is Regulation (EC) 715/2009 (the Gas Regulation) which mandates the development of European network codes covering areas such as capacity allocation, balancing, and tariff setting of gas transmission networks.
- 1.2. The implementation of the Gas Regulation and the European network codes will trigger changes to the Northern Ireland regulatory regime. In particular Commission Regulation (EU) No 312/2014 (hereafter the balancing code) requires network users to have a financial incentive to balance their inputs to and offtakes from the transmission system.
- 1.3. Many of the provisions of the balancing code are being implemented through the established code modification process. However the Utility Regulator is required to make a number of additional non network code determinations.
- 1.4. Amongst these is the designation of the 'forecasting party' as required by Article 39(5) of the balancing code. The 'forecasting party' will be responsible for providing the Transmission System Operator (TSO) with estimates of each network users offtake at Non

Daily Metered (NDM) supply points. The TSO will add these to offtake values for Daily Metered (DM) supply points to create a single offtake estimate for each network user.

1.5. In addition the Utility Regulator must determine which of three information models set out in the balancing code should be implemented by the 'forecasting party'.

1.6. We published a [consultation](#) paper on 29 June 2015. This consultation closed on 21 August and generated three responses from interested parties. This paper provides a summary of the responses received, addresses the issues raised by respondents and sets out our final determination.

### *Next Steps*

1.7. The balancing code requires that the 'forecasting party' is designated prior to 1 October 2015 and this decision fulfills that requirement. The parties involved should now move to implement this decision as swiftly as possible. The UR will consult on the necessary licence conditions in quarter 4 2015.

1.8. In the interim we note that the existing arrangements in Northern Ireland already provide network users with NDM offtake forecasts that meet the requirements of the 'information model base case'.

## 2. Summary of Responses

### *Information Model*

**Question 1 – do respondents agree that the existing forecasting arrangements are consistent with the ‘base case’ information model as set out in Article 2 (19) of the Balancing Code?**

**Question 2 – Are respondents content with the proposal to adopt the base case information model as set out in the Balancing code?**

### *Summary of Responses*

2.1. All three respondents agreed that the current forecasting methodologies applied at Distribution System Operator (DSO) level in Northern Ireland were consistent with the ‘base case’ information model. Consequently they agreed that this model should be adopted by the ‘forecasting party’.

2.2. One respondent commented that any changes that might be required to existing processes to comply with the balancing code should be minimised.

### *Utility Regulator’s Response*

2.3. We welcome the support expressed by respondents for our proposal that the information model used to forecast NDM offtake should be the base case as set out in Article 2 (19) of the balancing code.

2.4. It is our expectation that the base case information model can be adopted without any disruption to existing arrangements.

### *Forecasting Party*

**Question 3 – Are respondents content that all the available options that have been identified?**

**Question 4 - Are respondents content that the appropriate criteria have been used to assess the options?**

**Question 5 – Are respondents content with the assessment of each option against the criteria?**

#### *Summary of Responses*

2.5. The two respondents that commented on this aspect of the consultation were in broad agreement with the options identified, the assessment criteria and the application of these criteria. One of these respondents however felt that an additional option, aggregation by one of the DSOs, should have been considered. They were also of the view that implementation timescale and impact on other projects such as the forthcoming exit review should have been an additional criterion. This respondent also considered that a more in depth assessment of costs would have been a useful addition to the analysis.

2.6. The third respondent simply noted that the three Northern Ireland DSO's had been involved in the process of developing the options.

#### *Utility Regulator's Response*



2.7. We welcome the broad support for our approach. On the specific points raised by one of the respondents we would make the following observations.

2.8. The option of aggregation by one of the DSOs was considered as one of our long list options. But it was not included in the consultation as it was believed the assessment against the criteria would have been very similar to other options explored in the paper. We have re – examined this in light of the consultation response but remain of the same view.

2.9. With regard to the need for additional assessment criteria, we consider that the additional criterion identified by the respondent is adequately encompassed by both the cost and competition criteria used in the analysis. We have considered the potential impact of the exit review on our decision but have concluded that it will not impact on our assessment. The outcome of the review will not be known until after the point at which the ‘forecasting party’ is to be designated. Irrespective of the outcome the detailed meter point data need to make offtake forecasts will continue to be held by the DSOs.

2.10. We recognize that our cost assessment was high level. However we are satisfied that this assessment was sufficient to provide an accurate estimate of the relative magnitude of costs associated with the various options. From this assessment one option was clearly lower cost than the others in terms of both set up and ongoing expenditure. We note that none of the respondents queried our cost estimates or provided any

additional cost information. We therefore do not believe that a more detailed cost estimate is necessary in order for us to make a final determination.

**Question 6 – We would welcome the views of respondents on our preferred option 3.**

*Summary of Responses*

- 2.11. All three respondents agreed that the preferred option provided the least cost and least disruptive mechanism for delivering compliance. In addition each raised a number of specific points.
- 2.12. Two respondents stated that compliance with European Regulations should not be considered as a business as usual activity for a DSO and that therefore the costs incurred were outside the funding envelope provided by existing price control allowances.
- 2.13. One respondent was concerned with the suggestion that the ‘forecasting party’ would certify the forecasting methodology of the DSOs. This would give it undue influence. It was suggested that to avoid this danger the power of the ‘forecasting party’ should be in some way limited by the proposed licence conditions.
- 2.14. Another respondent was of the view that the contractual arrangements that were required might be more complex than assumed in the consultation. They were also of the view that the licence conditions should

only be put in place once the contractual arrangements between the parties were settled. This would ensure that the licence accurately reflected the contractual arrangements. This respondent also noted that irrespective of the contractual arrangements the 'forecasting party' would retain responsibility for the offtake forecasts. They commented that in certain circumstances this responsibility might require them to seek changes to a DSO's processes, which might be at odds with the objective of causing as little disruption to existing processes as possible. They also commented that a TSO that has no forecasting experience might not be best placed to certify whether or not a DSO forecasting methodology met the requirements of the balancing code.

#### *Utility Regulator's Response*

- 2.15. We welcome the support expressed for our preferred option.
- 2.16. Any request by the DSOs for additional allowances as a result of introducing a 'forecasting party' are subject to the 'materiality mechanism' set out in our GD14 determination, and are not a matter for this consultation.
- 2.17. We recognise that parties have some concerns with regard to the contractual relationships that will be required to implement this option. This is why we propose to put in place reciprocal licence conditions in each relevant licence holders conveyance licence. These will require them to assist the other parties in discharging their obligations. Such an arrangement has been successful in managing the contractual

relationships between parties in the electricity industry in Northern Ireland to deliver system operation which is a much more complex and dynamic task.

2.18. It is not our intention that the licence conditions should reflect the contractual relationships between the parties. There is therefore no need to delay licence modification. The role of any licence condition is to place an obligation on the licence holder and to allow for regulatory oversight. It is not to detail how the licence holder will discharge that obligation.

2.19. The contractual arrangements licence holders choose to enter into to meet their licence obligations are a matter for them. They are best placed to judge what is in the best interests of their business. We therefore do not intend to be prescriptive as to how licence holders discharge their obligations. Issues regarding for example certification are a matter for the relevant licence holders during the contractual negotiations.

**Question 7 – Assuming we go forward with option 3, are respondents content with the proposal to designate PTL as the forecasting party?**

*Summary of Responses*

2.20. All three respondents were content with the designation of PTL as the ‘forecasting party’. However two respondents (including PTL) stated that this support was subject to either, the detailed arrangements to be put in place, or their concerns having been addressed.

## *Utility Regulator's Response*

2.21. We welcome this support for our proposal to designate PTL as the forecasting party. We recognise that respondents will have a few outstanding questions with regard to implementation. None of these however are of sufficient magnitude to prevent us from designating PTL as the 'forecasting party'.

### ***Implementation Timetable***

#### **Question 8 – What are respondent's views on the proposed implementation timetable?**

##### *Summary of Responses*

2.22. One respondent felt that the proposal to have the 'forecasting party' function fully operational by October 2016 was ambitious given the amount of work that was necessary to deliver a single system operator for Northern Ireland. They suggested that as Interim Measures were in place, which provide a five year window for implementation of the balancing code, the target date could be extended. This would provide time for an effective interface between the DSOs and 'forecasting party' to be developed. As well as allowing DSOs to fully assess any potential impacts on internal business processes. This respondent also stated that PTL should be appointed as the project manager to lead the implementation programme.

2.23. Another respondent stated that before they could agree to any implementation date the project required to be fully scoped in relation to contractual arrangements, licence changes, IT and internal business processes. On the basis that this scoping exercise had not taken place they could not agree to the proposed October 2016 implementation date.

#### *Utility Regulator's Response*

2.24. Full implementation of the 'forecasting party' provisions of the balancing code is not dependant on the creation of a single system operator for Northern Ireland. We also remain to be convinced that the scope of this project is of sufficient scale that it could not be completed by October 2016. The parties involved should now move to implement this decision as swiftly as possible. The final implementation date will be considered as part of the licence modification process.

## **3. UR Decision**

### *Information Model*

3.1. The UR's final decision is that the information model used to forecast NDM offtake should be the base case as set out in Article 2 (19) of the balancing code.

### *Designation of the Forecasting Party*

3.2. The UR's final decision is that PTL will be designated as the forecasting

party. It will not be required to apply the forecasting algorithm itself but may aggregate NDM offtake forecasts supplied to it by individual DSOs.