

## Responses to Consultation on Draft Code on Balancing

Please complete the fields below and send via email using the subject, Response to Consultation on the Draft Code on Balancing, to [info@entsog.eu](mailto:info@entsog.eu) by 17:00CET on June 12<sup>th</sup>.

Please note that respondents are not required to respond to all questions below.

In sending your response submission by email, you are confirming that ENTSG can disregard any standard e-mail text about not disclosing email contents and attachments.

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**ENTSO-G seeks to publish response once the consultation has ended. Please indicate here whether your response is confidential (in whole or part)**

☐ In whole, meaning nothing to be published

☐ In part, meaning a version with your marked confidential sections excised by ENTSOG could be published

## **CHAPTER II. BALANCING SYSTEM**

**Question 1** – Do you concur that the implementation of a Virtual Trading Point via the inclusion of the Trade Notification and Allocation scheme in the Balancing Network Code will contribute to the delivery of a properly functioning market? If not, please propose an alternative and provide justification.

Response:

Yes, a virtual trading point is *the* characteristic feature of an entry-exit system and, as such, is essential for the development of a functioning wholesale market.

**Question 2** – in the context of the proposed Trade Notification and Allocation scheme, does the Draft Code provide sufficient harmonisation within? If not, what would be the preferred basis for any additional harmonisation?

Response:

The draft does not provide sufficient harmonisation as it:

- lacks the obligation to establish a single Virtual Trading Point per Balancing Zone; and
- lacks the obligation for each TSO to grant access to the VTP as soon as a network user has, either, acquired system entry capacity (IP, storage, field, LNG), or, has the right to deliver gas to a customer within the balancing zone, regardless of whether this customer is connected directly to the transmission system or to a distribution system downstream the transmission system.

For the development of a functioning wholesale market it would have been beneficial if the draft would have made clear, that a balancing zone must comprise both the transmission system(s) and the distribution systems connected to it.

## **CHAPTER III. CROSS-BORDER COOPERATION**

**Question 3** - Do you agree that ENTSOG should issue the review of the progress of harmonisation of balancing rules report at the latest two year after the implementation of the network code and then biannually thereafter? If not, please propose an alternative and provide justification to support your proposal (and /or counter Draft Code's approach).

Response:

Yes. This timescale is consistent with the timescale for ENTSOG developing its Ten Year Network

Development Plan, which may also be a relevant factor in identifying opportunities to further integrate European gas markets.

**Question 4 – Do you agree with the proposed review process (including the issuing of a report (in the public domain)? If not, please propose an alternative and provide justification to support your proposal (and /or to counter Draft Code's approach).**

Response:

We agree with the content and timing of the proposed review process.

#### **CHAPTER IV. OPERATIONAL BALANCING**

**Question 5 – Do you agree that TSOs should, under specific circumstances, be allowed to trade in adjacent markets? If so, please explain under what circumstances.**

Response:

We don't agree with the concept of TSO cross border balancing. A TSO trading in adjacent markets will inevitably use transport capacity in its own, and in the adjacent, transmission system. As such it is not complying with Regulation 715/2009, which obliges TSOs to maximise the transport capacity available to network users, and is violating the concept of the TSO acting only as residual balancer. The argument that TSOs may only use transport capacity on interruptible basis and only if network users do not use the respective capacity themselves (i.e. interruptible capacity which would be interrupted first) does not convince. It fails to take into account the information asymmetry between network users and TSOs in relation to balancing actions. 'Information asymmetry' in this context means that, in order to minimise a balancing risk in the adjacent transmission system, a TSO will use transport capacities for balancing actions only to the extent he can assess the risk of interruption as being zero (for example because he can assess the risk of renominations from firm capacity holders at a specific IP). If network users were able to assess the risk of interruption to the same extent they would be able, and incentivised, to use the same interruptible capacity to offer the TSO a short term balancing product themselves.

Cross border balancing, whether TSO or shipper led, should only ever be undertaken as part of a pre-defined plan to merge entry and exit zones or create cross-border Balancing Zones, wherever and to the extent it is technically feasible and economically reasonable.

**Question 6** – Do you agree that the use of the expression ‘economic and efficient’ is a suitable criterion assessing TSO Balancing Actions? If not, please provide an alternative and an associated rationale.

Response:

‘Economic and efficient’ is sufficient in our view. The term “economic” implies that the costs and extent of TSOs’ balancing actions should be minimised whereas the term “efficient” implies that such costs are not the only consideration and TSOs’ balancing actions should also be effective in the overall context of the market in which they are undertaken.

**Question 7** – Do you agree with the choices in the Draft Code: (1) to limit standardised products for trading flexible gas to short-term products; and (2) to have only a small number of short-term standardised products? If not, please explain why.

Response:

Yes. The use of a small set of short term standardised balancing products will first facilitate the development of a market for those products, i.e. a shipper to TSO market, and subsequently the development of a functioning spot market.

**Question 8** – Do you agree that the Balancing Network Code should not prescribe exchange-based trading for the TSO and to leave this to the discretion of the TSO and the TPO? Should the network code provide criteria and factors to consider for the TSO to use an exchange based trading?

Response:

Yes. Although exchange based trading should be the measure of choice in developed markets it might not be and option, or be less efficient than trading on a balancing platform, in less developed markets.

**Question 9** – Do you agree with the current level of services to be provided by a Trading Platform specified in the Draft Code? For example, the STSPs make no reference to a block size, meaning that this will be agreed on a local basis. If not, please explain where and why additional specification is needed.

Response:

Yes. Further details should be defined in the light of specific market circumstances. With regards to block sizes for example, the existence of small and medium sized trading counterparties who can possibly trade only smaller block sizes is crucial for the definition of a standard minimum block size.

**Question 10** – Do you agree with the current level of specification in the Draft Code on contractual structure and arrangements between the different parties? What changes (if any) would you advocate?

Response:

Yes.

**Question 11** – Do you agree with the choices in the Draft Code to put the obligation to (re)nominate on the Originating Party? If not, what would your preferred alternative be and what benefits would this alternative have over the mechanism proposed in the Draft Code?

Response:

In a locational trade where the accepting Trading Participant is a network user – a scenario the draft allows for – the accepting participant would have to (re)nominate as well.

**Question 12** – Do you concur with the sequence of the tools in the merit order and the level of guidance it gives the TSO in choosing the most appropriate tool? If not, which changes, if any, would you advocate and why?

Response:

No, the draft wording is not sufficiently clear. It is crucial to amend the draft with a clear priority rule: TSOs should use title market products where available and to the extent appropriate (recognising that in some instances they may be more costly) for the intended purpose before they use any other STSP. They should use STSPs where available and to the extent appropriate before using balancing services. And they should prioritize the use within-day STSPs where likely to be available and to the extent over day ahead STSPs.

**Question 13** – What is your view on: (1) the criteria to be considered by the TSO when procuring Balancing Services; and (2) the gradual reduction of the use of Balancing Services as the liquidity of the wholesale market increases? Please provide a reasoned response.

Response:

It is not clear whether the criteria referred to in Article 16.1 are ones which the TSO should consider when deciding to procure Balancing Services, or when deciding to undertake a Balancing Action using a previously procured Balancing Service, or both. We think the criteria should only apply in relation to a TSO's consideration of when to procure Balancing Services. Articles 12 and 13 should be sufficient to address the TSO's use of Balancing Services.

**Question 14** – Do you agree with the proposal that the TSO shall be enabled to submit an incentive mechanism to the NRA for approval? If not, please explain why.

Response:

As the TSO has a clear interest in the incentive regime it would probably more appropriate to

mandate an objective third party (e.g. a consultant) to propose an incentive mechanism, which should be subsequently consulted on with stakeholders. We propose to amend the draft with the words 'upon request by the relevant NRA'. This would leave it to the discretion of the NRA to either consult the TSO or to commission an independent proposal.

**Question 15** – Do you consider that the procedures set out in the Draft Code (excluding timing, which is covered below) for the submission of nominations and re-nominations, and the criteria for their rejection, are reasonable? If no, please present and justify your preferred alternative.

Response:

It is clearly inappropriate to allow TSOs to reject nominations (respectively renominations) that are within a network user's booked capacity rights if the TSO cannot deliver on its contractual obligation. This would undermine the value of firm capacity and discourage TSOs from using Locational and/or Temporal products to resolve constraints. The only exception to this could be where this is as a result of an emergency situation, or a pre-notified instance of force majeure.

## **CHAPTER V. NOMINATIONS**

**Question 16** – Do you agree with the schedule for initial day-ahead nominations set out in the Draft Code? If not, please give a reasoned alternative schedule.

Response:

Yes.

**Question 17** – Do you agree with the schedule for re-nominations set out in the Draft Code? If not, please give a reasoned alternative schedule.

Response:

The lead time of 2 hours is as the maximum lead time sufficient to enable flexible responses to most operations today. With gas fired power stations increasingly providing back up for intermittent renewable energy sources shorter lead times will be necessary to support the objectives of the EU Energy Roadmap 2050.

**Question 18** – What are your initial views on these specific features on nominations (respectively re-nominations) for transition, system integrity and daily-hourly regimes of the network code? Please provide a reasoned response.

Response:

With regards to the provision on transitional measures, three renomination cycles are indispensable

for smaller portfolios that depend on IP flexibility to manage their balancing risk. Secondly, as physical flexibility is paramount for the development of functioning spot wholesale markets, there should be a limitation of the transitional period to 2 years, or in any case one that is shorter than the general limit for transitional measures of 5 years.

## **CHAPTER VI. DAILY IMBALANCE CHARGES**

**Question 19** - Do you support the Daily Imbalance Quantity determination proposed in the Draft Code? If not, please indicate your preferred approach and supply further rationale and evidence of the benefits of Daily Imbalance Quantities being derived on information based during the Gas Day?

Response:  
Yes.

**Question 20** – Do you have alternative views as to whether Locational and/or Temporal Market Products should feed into the derivation of the Weighted Average Price? If so what is your rationale for a different approach and what do you see as the benefits?

Response:  
No.

**Question 21** – Do you agree that day-ahead trades should feed into the determination of the Weighted Average Price, Marginal Buy Price and Marginal Sell Price? If so, then under what circumstances should they be used? Is there merit in allowing local discretion as to whether day-ahead trades influence the setting of the prices?

Response:  
The marginal price shall incentivise network users to balance their inputs and offtakes. As network users' balancing actions can by definition only be undertaken within-day, only prices derived within-day should contribute to the Marginal Price.

**Question 22** – Do you agree that the source of trades should be left to local discretion? What criteria should apply? Should there be an aspiration that the source of trades should be a single platform and if so why and how should the platform be determined? Please provide a rationale for your preferences.

Response:  
Yes. TSOs should be obliged to use a single trading platform and/or balancing platform (where necessary) for balancing actions in order to ensure anonymity, equal access for market participants, transparency, financial security and reliable and auditable cash out prices. Trading on multiple platforms splits liquidity and makes it harder to provide full transparency over the TSOs' balancing actions and to provide continuous derivation of imbalance prices throughout the day. Also, TSOs

should not trade OTC.

**Question 23 – What should the effect of the small adjustment be: to encourage trading or to be sufficiently large to reflect a value for physical flexibility?**

Response:

The effect of the adjustment should clearly encourage trading. It should be set high enough to encourage trading (recognising the degree of liquidity in the market) but not so high that it generates imbalance prices which are consistently greater/less than the price of TSOs buy/sell actions. For this reason it is important for there to be stakeholder consultation on the level of the small adjustment, and of the imbalance charge methodology as a whole, and for it to adapt to changing market circumstances.

**Question 24 – Do you agree with the addition of cross border trade as a criterion to the derivation of the Small Adjustment? Are the criteria sufficient? If not, what else should be added? Please justify any proposals.**

Response:

We agree to the additional cross border criterion and believe these are sufficient.

## **CHAPTER VII. WITHIN-DAY OBLIGATIONS**

**Question 25 – In your view, are the elaborations of the criteria in the Draft Code sufficient? If not, please indicate which ones and how.**

Response:

Clearly not. Despite a clear mandate from ACER, the text of the ENTSG draft does not go beyond the relevant provisions of the Framework Guidelines on Gas Balancing. Network Users will only be able to comply with a within-day obligation to balance their inputs and offtakes if provided with the relevant information before the charge is imposed. Any within-day obligation needs to provide shippers with a sufficiently early warning that their current individual balancing positions will - if not changed - lead to penalties, due to a within-day obligation at a specified time (hour x).

A specific TSO balancing regime additionally will need to provide shippers with a sufficiently short lead time for renominations/trade notifications, in order to change their positions before the penalty kicks in. For example: an hourly matching obligation requires information to be provided about an individual shipper's balancing position at hour x-45minutes, with a 30 min lead time for renominations.

**Question 26 – Do you believe that additional criteria for assessing WDOs are warranted? If yes, please specify which and why.**

Response:

No. However, NRAs will not necessarily be able to consider the extent to which Within Day Charges



constitute a small proportion in relation to Daily Imbalance Charges over a gas year if the within day obligations being assessed is not currently in operation. As such, the drafting should recognise that NRAs may need to consider this criterion based on reasonable projections provided by the TSO.

**Question 27** – Do you find the respective roles of a TSO and relevant NRA(s) appropriate in the approval of any WDOs? If not, please explain why and how you would re-define the roles.

Response:

It would be more appropriate to oblige the relevant NRA in Article 34 (2) to issue a (any) decision on a proposed within-day obligation within six months. The purpose of the provision should be to ensure that the NRA takes the appropriate responsibility for any approval or rejection.

**Question 28** – Do you agree that a six-month period is appropriate for a TSO to make a proposal for approval of an existing WDO, including a recommendation document? If not, please propose an alternative and provide justification.

Response:

Yes.

**Question 29** – Do you agree that a six-month period is appropriate for the NRA to conduct its assessment and approval process? If not, please propose an alternative and provide justification.

Response:

Yes, given that this should include a stakeholder consultation.

## **CHAPTER VIII. NEUTRALITY ARRANGEMENTS**

**Question 30** – In your view, is the scope of the currently proposed neutrality section of the Draft Code appropriate? If not, please explain why.

Response:

It is certainly one objective to reduce potential cross subsidies between network users. But just as legitimate is it to oblige the TSO to facilitate market development. Both objectives might conflict with each other (for example an hourly matching of inputs and offtakes might best target costs to those who cause them but will inevitably create huge barriers for market entry). The TSO's methodology for Balancing Neutrality Charges should take into account these two broad principles: the reduction of cross subsidies and facilitating the development of liquid wholesale markets.

Furthermore, the draft code could foresee that the TSO passes on to Network Users any costs or revenues arising from the Balancing Activities undertaken by TSOs, *except* to the extent that incentive schemes (as foreseen in Article 17) provide for costs or revenues partly to be borne or kept by the TSO. For example, the incentive scheme could provide the TSO with a daily financial incentive to buy and sell gas close to the average market price. The TSO would receive up to a pre-defined

daily amount if it minimises the spread between its marginal buy and sell price. However, the TSO would also be exposed to a pre-defined daily penalty if the differential between both prices exceeds a certain level. The incentive scheme could either be included within neutrality or elsewhere in the TSOs price control.

**Question 31 – Do you find appropriate the proposed scope of the transparency elements of neutrality? If not, please explain your reasons why.**

Response:

Yes.

**Question 32 – Please indicate the level of granularity you would expect in the context of the breakdown of net Balancing Neutrality Charges cash-flows from both a temporal (e.g. daily, monthly, annual) and cost/revenue element split.**

Response:

Monthly reporting of all elements that make up each day's aggregate imbalance costs and revenues (e.g. Daily Imbalance charges, Balancing Action and Within Day Charges (if any) are necessary, along with sufficient information regarding shippers' individual Balancing Neutrality Charge to enable them to reconcile neutrality invoices.

**Question 33 – Do you agree that there would be potential benefits of attributing Balancing Neutrality Charges to different pots and of recovering them over different classes of network users? If yes, please explain why.**

Response:

There could be benefits as such targeted attribution might reduce cross subsidies and better incentivise network users to balance their inputs and offtakes. However, as a general principle, we prefer that neutrality should be kept as simple as possible. Introducing separate neutrality pots creates complexity and may force TSOs to introduce within day obligations, or some form of within day attribution of system imbalances, simply to be able to attribute costs to the appropriate neutrality pot. To the extent that separate neutrality pots are considered necessary, they should not undermine the balancing regime as a whole or diminish the efficiency and liquidity of the within day balancing market.

**Question 34 – If you support multiple neutrality pots, how would these be defined? How could such different attribution processes be applied in practice?**

Response:

We do not have a strong view on this and see neutrality pots as being a national issue. However, as suggested at the recent Network Code Consultation Workshop, a balancing pot relating to the use of information provision variant 2 could be considered in Balancing Zones where this applies, particularly if the neutrality costs arising from this are material.

**Question 35** – Is the level of specification in the Draft Code for cash-flow management appropriate? If not, how do you propose it be amended?

Response:

Yes. Further details should be determined at national level.

**Question 36** – An alternative to creating additional costs for invoicing systems and processes is to address neutrality sums via adjustment to transmission charges. Do you agree with such an alternative? If not, please explain why.

Response:

It depends on the level of neutrality sums involved and the extent to which these are perceived to be causing an undue cross subsidy between network users. We would not be against this being considered as a potential alternative, but ultimately this will be for national determination.

## **CHAPTER IX. INFORMATION PROVISION OBLIGATIONS**

**Question 37** – Do you agree with the information provision models for offtakes proposed in the Draft Code fulfil the requirements of the FGs? If not, please explain.

Response:

Yes. The code should clarify however, that these models apply only to daily balancing regimes without additional within-day obligations. In case within-day obligations are applied, additional and more frequent information on offtakes (and inputs) must be provided to network users. We suggest that the Network Code should clarify that the standard information foreseen in the NC – basically only two daily updates on individual network user's imbalance position – is designed to fit only a daily balancing regime without additional within-day obligations. Additional information needed to comply with a within-day obligation must be provided regardless of any cost-benefit analysis. Otherwise the within-day obligation must not be put in place (see Article 44, which seems to suggest a different interpretation of the Framework Guidelines). Furthermore, with regards to the reference in Article 40 (2) to 'replacement values', the TSO may only provide forecast data on a so called advisory basis. For all other purposes the TSO must assume responsibility for proxies used by him.

**Question 38 – Do you agree that prospective implementations of Variant 2 should be approved only after a consultation process? If not, please explain.**

Response:

Yes. And we think that the same consultation process should apply where variant 2 is applied upon the date of entry into force of the Network Code. It is not coherent to apply different standards to existing within-day obligations, which represent deviations to the balancing target model, and the existing use of variant 2, which represents a deviation from the principle of network users self-balancing which underpins this target model.

**Question 39 – Do you support the additional proposal that the cost-benefit analysis (CBA) should also examine the time taken to provide information to Network Users? Are there any other features that would strengthen the CBA process and why? If so, please explain why.**

Response:

The CBA process should refrain from referring to within-day obligations. This seeks to clarify that the standard information foreseen in the NC – basically only two daily updates on individual network user's imbalance position – is designed to fit a daily balancing regime without additional within-day obligations. Additional information needed to be able to comply with a within-day obligation *must* be provided regardless of any cost-benefit ratio. Otherwise the within-day obligation must not apply, even with a tolerance added to it.

For example: If network users are obliged to match their inputs and offtakes on an hourly basis, and if the customers of network user A have taken off 100, conceptually it does not make a difference if A is penalised for not having put in 100 or 95 (where a tolerance of 5% applies). A can only avoid the penalty/charge if he knows he is aware of his inputs and offtakes before the charge is imposed on him and in if he is able to adjust either his inputs or his offtakes before.

**Question 40 – Do you agree that the Balancing Network Code has to provide guidance on timing of information flows? If yes, do you agree with the proposals set out? If you do not agree with the Draft Code proposals what could the alternatives be and what would be the justification?**

Response:

Yes.

The code should generally request updates to be provided within two (2) hours from the end of the latest hour of the gas flows covered. It is hard to understand why Intraday metered offtake data might need twice as long to be provided than daily metered offtake data. The later in the day updates are provided the better, as this should improve accuracy, but this has to be balanced against providing shippers with sufficient time to react to the revised information. In any case, with regards to timing, the latest update on household offtakes should take into account the time those offtake quantities peak (see Article 40 (3) 1). For Network Users this information is crucial to accurately forecasting their total end of day quantities.

**Question 41 – Do you consider that Transparency Guidelines requirements are sufficient to deal with system information? If not what should be included and what is the justification?**

Response:

Were the Transparency Guidelines being consistently and comprehensively applied by TSOs across the EU then probably yes. However, system status or line pack information within day is not provided by the majority of ENTSOG members despite it being almost unanimously perceived as crucial for robust within-day price formation. The importance of this is clearly recognised in the Framework Guidelines as they specifically highlight that “Point 3.4(5) of Annex 1 to the Gas Regulation shall apply”. Furthermore, real time flows at relevant points are rarely published despite being essential for network users to determine not only the risk of interruption but also the most efficient way to balance a system.

**Question 42 – Do you agree that the proposal is in line with input information requirements set out in the FGs?**

Response:

Yes, but as stated in our response to Question 37, the code should clarify that these models apply only to daily balancing regimes without additional within-day obligations. Also, nothing in this section of the Balancing Code relating to how network users are provided with information about system inputs obviates the need for TSOs to fully implement the Transparency Guidelines. Nor should it be used as an excuse by TSOs for why information required to be published under the Transparency Guidelines is no longer necessary, or relevant.

## **CHAPTER X. LINEPACK FLEXIBILITY SERVICE**

**Question 43 – Do the proposed additional criteria that a Linepack Flexibility Service has to meet complement those in the FGs to make a sufficient set of criteria? Or are additional criteria required? Please provide a reasoned response.**

Response:

Yes. Linepack should be used by the TSO for the collective benefit of all shippers. It is a key factor in ensuring shippers can carry out their primary balancing responsibilities efficiently and in encouraging within day liquidity (which should be recognised as an additional criterion). As such, it should not be used by TSOs to sell ex-ante linepack flexibility services to shippers individually and it is appropriate to establish robust criteria against which any TSO offering should be measured.

A Linepack Flexibility Service, as defined in Annex I, is one which allows network users to balance their inputs and offtakes over a period greater than a gas day. This undermines the principle of end of day settlement of imbalances and effectively amounts to a “carry-over tolerance”. But ENTSOG have taken a policy option to rule out “carry-over tolerances” in favour of a “price tolerances” for this very same reason, so it is hard to understand why these should be allowed instead under the guise of a Linepack Flexibility Service.

## **CHAPTER XI. IMPLEMENTATION, INTERIM MEASURES AND ENTRY INTO FORCE**

**Question 44** – How should the short-term balancing market be defined? What account of temporal and physical flow considerations needs to be made? What measures should be used to assess liquidity in the short-term balancing markets?

Response:

We think this should be left to national determination.

**Question 45** – What other measures might be contemplated to enable wider access to short term gas flexibility? Are any of these approaches appropriate for inclusion in the Balancing Network Code?

Response:

Fair access to available storage capacity for all classes of network user, ideally by way of auctions, is essential for market development and the reduction of strategic storage would release additional flexibility in most EU member states. Gas release programs should be taken into account where appropriate from a competition law perspective. Market making schemes and commitments from key network users to post bids/offers on trading platforms are also useful ways to encourage liquidity. That said, we do not think any of these measures are appropriate for inclusion within the Network Code, although clearly NRAs should use them where necessary as part of wider plans to promote competitive and efficient wholesale gas markets within their respective Member States.

**Question 46** – In your view, what would justify including LNG in the Balancing Zone in “small markets” and in short term transitional arrangements? Do you see any conflict with these reasons and the BTM to be established by the eventual Balancing Network Code?

Response:

We are not sure what this question is asking. LNG is obviously a source of flexibility. It should always be taken into consideration, particularly with regards to locational balancing, and not only in small markets (which might be defined according to the definition of the Gas Target Model). However, as LNG is a global commodity and its price is determined by global fundamentals, the scope for efficient contractual arrangements might be limited.

**Question 47** – Do you agree that the tolerance used should be a price based tolerance? If not please explain your rationale and provide your preferred approach.

Response:

Tolerances should only be used in order to offset the inability of network users to manage their imbalance risk due to insufficient, untimely or inaccurate information. As long as this principle is observed, tolerances used should be price based, i.e. the average market price should be used to cash out imbalances within the relevant tolerance band.

**Question 48** – In your view, should the reduced exposure involve the application of an average price? If not, please explain your rationale and provide your preferred approach.

Response:

See our response to Q47

**Question 49** – Do you support the Draft Code including provisions for the accuracy of forecast information provision to ensure timely phase-out of tolerances? If yes, explain how this can be best established.

Response:

Yes. It can be best established if the provision of tolerances linked to the accuracy of demand forecasts is made mandatory, *not* subject to national rules.

**Question 50** – Does the Draft Code provide an appropriate mitigation of risk involved in servicing NDM demand? If not, please indicate an alternative approach and its rationale.

Response:

We agree that the option of including a Non Daily Metered Off-take category is appropriate, but think that the level of NDM forecast inaccuracy which triggers whether this should be applied should be left to national determination.

**Question 51** – Do you agree that the Draft Code provides an adequate basis to support the release of surplus TSO flexibility as a stimulus to the market? If not, please explain why.

Response:

Yes.

**Question 52** – Do you agree that there is merit in including a reference to Balancing Platform trades in the interim imbalance cash-out price determination part, as suggested in the Draft Code? If yes, how should the approach be formulated and what merits would it have?

Response:

Yes. Provided that trades at the balancing platform are governed by sufficiently strict transparency and non-discrimination obligations, and provided that predominantly STSPs are traded there, the interim imbalance cash-out price should be referenced to trades on such platform. Prices for balancing gas would then better reflect the costs incurred by the TSO to keep the system in balance on the gas day.

**Question 53** – Are there any other interim steps that should be considered beyond those envisaged in the table above?

Response:

No.

**Question 54** – Are there any specific ENTSOG monitoring and reporting activities that should be explicitly captured in the Balancing Network Code. If so, please identify them and their rationale.

Response:

No.

## GENERAL ISSUES

**Question 55** – Do you consider that the level of detail in the Draft Code, as it has been tailored according to the topics treated, is appropriate for EU legislation? If not, please explain why with reference to specific topic chapters (articles, paragraphs, etc.).

See our suggested changes to the legal text for specific points relating to the chapters below.

CHAPTER I. GENERAL PROVISIONS

CHAPTER II. BALANCING SYSTEM

CHAPTER III. CROSS-BORDER  
COOPERATION

CHAPTER IV. OPERATIONAL BALANCING

CHAPTER V. NOMINATIONS

CHAPTER VI. DAILY IMBALANCE CHARGES

CHAPTER VII. WITHIN-DAY OBLIGATIONS

CHAPTER VIII. NEUTRALITY  
ARRANGEMENTS

CHAPTER IX. INFORMATION PROVISION  
OBLIGATIONS

CHAPTER X. LINEPACK FLEXIBILITY SERVICE

CHAPTER XI. IMPLEMENTATION, INTERIM  
MEASURES AND ENTRY INTO FORCE

**Question 56** – After reviewing and/or replying to Chapter 5 which follow, do you find that there are other material issues that ENTSOG should consider as it develops the Balancing Network Code?

Response:

Another material issue not covered by the questions is that of the timing of initial allocation data (Article 31 (1) a). The TSO should provide the relevant Network Users with an initial Daily Imbalance Quantity, accompanied by sufficient supporting information, on the day following Gas Day D. Only where this is technically and operationally not feasible may the TSO provide an initial Daily Imbalance Quantity no later than three (3) Business Days after Gas Day D. However, this should be subject to the approval of the relevant NRA after stakeholder consultation and be only for a maximum period of two (2) years after this Network Code has come into force.



**Question 57** – Do you find that this supporting document for the public consultation was ‘respondent-friendly’ in terms of its readability, style, etc.? Please explain how we can improve future consultations.

Response:

The supporting document was extremely helpful to understand ENTSG’s motivation.

## **EFET proposal for textual changes to the ENTOG Draft Code on Gas Balancing in Transmission Systems**

~  
12 June 2012

### **Guide to EFET comments:**

Original ENTSOG text in *Italic*.

Suggested EFET text in **bold**.

EFET remarks underlined.

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### ***Article 9. General provisions***

*The TSOs shall cooperate in order to integrate European gas markets by merging entry and exit zones or create cross-border Balancing Zones wherever and to the extent it is technically feasible and economically reasonable, ~~or through other means such as market coupling.~~*

Remove strike through section, as Market Coupling for Gas is not a defined term. In addition to that, the discussion on the use and effects of market coupling are not yet properly assessed and are doubtful. If it is meant as is currently used in electricity, it would be a day-ahead mechanism, which is not relevant for end of day (or within day) balancing. In any case, the mention of this term should be avoided in a Code.

### ***Article 10. Consultation process on proposals to integrate European gas market***

~~8. The submitted proposals could include shipper led cross border portfolio balancing, which would allow Network Users to net their imbalances between adjacent Balancing Zones, cross-border TSO balancing, which would allow TSOs to act as intermediaries to facilitate access to flexible gas in adjacent markets and a joint balancing platform for TSOs in adjacent Balancing Zones, which would allow TSOs to buy and sell balancing gas, where sufficient interconnection exists.~~

Remove strike through section, as it merely proposes a suggestion (“could include”), which does not suit a Code. In addition, the content does not use clearly defined terms (shipper-led cross-border portfolio balancing). Finally, we believe the use of cross-border TSO trading fails to address the fundamental issue of low liquidity and/or other cross-border issues but simply hides them. In case of the example mentioned in the ENTSOG documentation, regarding the L-gas market of NCG, the actions of the TSO on the neighbouring market TTF may have saved the TSO (and more precise, the active shippers in the TSOs market) money in that specific balancing situation. However, it has hidden the fact that there is an illiquid L-gas market in the NCG area. For example, when the TSO is short, by disallowing the TSO to trade outside its own market, it should create a

demand in that market. When this demand is priced slightly higher than the neighbouring market, it should attract gas from other markets. If the gas does not get to the market, this signals that there are one or more barriers that prevent the gas to be shipped there. We strongly believe that it is much more beneficial, and indeed necessary to achieve an internal market by 2014, to assess and solve these barriers, rather than hide the problem by allowing TSOs to enter a neighbouring market.

#### **Article 12. General Provisions**

1. *The TSO shall undertake Balancing Actions in order to:*

- a) *maintain the Transmission System within its **pre-defined** operational limits;*
- b) *achieve a **pre-defined target** end of day Linepack position in the Transmission System. ~~different from the one anticipated on the basis of expected Inputs and Off-takes for that Gas Day being consistent with the objectives of the daily balancing regime~~*

**The process of determining the operational limits and target end of day linepack position shall be approved by the relevant NRA after stakeholder consultation.**

Network users must know what the operational limits or target end of day linepack TSOs are working to in advance as they will then know and be able to anticipate when TSOs are likely to take balancing actions and the consequences this will have on imbalance prices. For example, if shippers can see that the system is about to go outside its operational limits and knows what quantity of gas the TSO needs to buy to stay within these, it can look at the offers on the trading platform and anticipate what the Marginal Buy Price will be. Network users will therefore be able to calculate and predict their own commercial imbalance exposures throughout the day and are strongly incentivised to effectively self-balance their portfolios accordingly. If network users are not able to anticipate when the TSO will take balancing actions their imbalance risks increase and the efficiency of their self-balancing is greatly diminished.

#### **Article 13. Merit order**

*Subject to the principles set forth in Item 4 Article 12, while deciding on the appropriate Balancing Actions to undertake, the TSO shall ~~at least consider the following criteria:~~*

1. **Use Title Market Products where available and to the extent appropriate over any other available Short Term Standardised Products.**
2. **Use Locational Market Products only when gas flow changes are needed at specific Entry and/or Exit Points, in order to keep the Transmission System within its operational limits.**
3. **Use Temporal Title Market Products or Temporal Locational Market Products only when gas flow changes are needed within a specific period of time within the Gas Day, in order to keep the Transmission System within its operational limits and when it would be more efficient and economic than buying and selling a combination of Title Market Products or Locational Market Products.**
4. **Use Short Term Balancing Products where available and to the extent appropriate over Balancing Services.**

5. **Prioritize the use of within-day Short Term Balancing Products, where likely to be available and to the extent appropriate, over day-ahead Short Term Balancing Products.**

We have proposed revised text and a new bullet point, to firm up the merit order (remove all “at least consider and shall seek to...” references and replace them with “TSO shall use”). We have not included the original text, to keep the document shorter.

#### **CHAPTER IV. OPERATIONAL BALANCING**

##### **Article 12. General provisions**

3. *The TSO shall undertake Balancing Actions through:*

- a) *buying or selling of Short Term Standardised Products (Title Market Products, Locational Market Products, Temporal **Title** Market Products and Temporal Locational Market Products) on a Trading Platform;*

We have added the word Title to the Temporal Market Product. We believe this is necessary, as there are two types of products; title market and locational. This clarification decreases the chance of mistakes and confusion.

##### **Article 16. Balancing Services**

~~1. For the purpose of undertaking Balancing Actions through the use of Balancing Services, when procuring these Balancing Services the TSO shall consider at least the following:~~

**1. When procuring Balancing Services, the TSO shall consider at least the following:**

- a) .....
- b) .....
- c) .....
- d) ...
- e) ...
- f) ....

We have removed the unclear wording at the start of this article to clarify that the article should only apply to the procurement and not the use of balancing services. Bullet points a) to e) remain as originally drafted.

##### **Article 17. Incentives**

3. *The incentive mechanisms shall:*

- e) *be subject to stakeholder consultation, before approval.*

Stakeholder consultation is important as the mechanism may have consequences which are unforeseen by the TSO/NRA.

##### **Article 18. General provisions**

- 6. Provisions of this chapter referring to lead times shall be deemed to be maximum lead times. TSOs shall seek to minimise them to the extent possible.**

We suggest adding this new bullet point to this Article to make it clear that the lead times are maximum lead times and should be improved where possible.

- 7. The TSO shall determine at which non-Interconnection Points nominations (respectively re-nominations) are required.**

We suggest adding this new bullet point to this Article. The proposed change should aim at setting minimum standards for IP and non-IP likewise. Specific provisions for IP / non-IP may then be added later.

***Article 22. Specific provisions at Interconnection Points***

- 1. Where daily and hourly nominations (respectively re-nominations) co-exist at an Interconnection Point, the relevant TSOs or national regulatory authorities (as the case may be) **shall** consult with the relevant stakeholders for the purpose of identifying whether harmonised nominations (respectively re-nominations) should be submitted at both sides of this Interconnection Point.*

Consultation is crucial, as harmonisation may have consequences, which are unforeseen by the TSO/NRA, for instance because of cross-border/European effects.

***Article 23. Rejection of nominations (re-nominations) or partial rejection at Interconnection Points***

- 1. The TSO may reject or partially accept:*
- i. a nomination (respectively re-nomination) as soon reasonably possible and no later than 2 (two) hours after nomination (respectively re-nomination) cycle starts in the following cases:*
  - a) is not valid for not complying with the requirements as to its content; and/or*
  - b) is submitted by an entity other than a Network User or a party not entitled to act as or on behalf of a Network User; and/or*
  - c) exceeds the Network Users' allocated capacity for the remaining hours at the Interconnection Point except where a re-nomination is made within the Gas Day and no capacity was offered in the firm capacity auction starting on the hour bar and preceding receipt of the re-nomination and interruptible capacity is available.*
  - d) ~~The TSO shall take into account physical constraint, if any.~~*

If the TSO has the right to reject renominations within the booked capacities of network users simply because he cannot deliver on its contractual obligation, the concept of firmness would be seriously damaged. This is not acceptable and should be removed. We understand that the TSO should be able to take actions in very specific emergency cases, such as force majeure. However, if these should even be described here (instead of in the

interoperability NC), they should be described to clearly limit the application to a limited and well defined set of emergency situations only.

***Article 25. Transitional measures for and nominations (re-nominations)***

1. TSOs may propose transitional measures for nominations (respectively re-nominations) at Interconnection Points subject to approval by the relevant national regulatory authority.
2. These measures shall at least provide the Network Users with the right to submit nominations (respectively re-nominations) for Gas Day D on Gas Day D-1 and to submit **at least 3** re-nominations for Gas Day D on Gas Day D.
3. **These measures shall terminate no later than 2 years after the Network Code has come into force.**

Renomination cycles are indispensable for portfolios that depend on IP flexibility to manage the balancing risk. As physical flexibility is paramount for the development of spot wholesale markets, there should be a limitation of the transitional period that is shorter than the general limit of 5 years (see Art 50 paragraph 4).

***Article 31. Imbalance settlement procedure***

1. Where information is provided pursuant to Article 41 to the Network Users under Base Case and Variant 2 as defined in Item 5 a) and c) Article 40:
  - a) the TSO shall provide the relevant Network Users with an initial Daily Imbalance Quantity accompanied by sufficient supporting information on the day following Gas Day D, ~~✖~~ **Where technically and operationally not feasible the TSO may, subject to the approval of the relevant NRA, after consultation with stakeholders and for a maximum period of two (2) years after this Network Code comes into effect, provide an Initial Daily Imbalance Quantity no later than three (3) Business Days after Gas Day D;**

It is important for network users to receive details of their Initial Daily Imbalance Quantity on D+1 as this feeds into the TSOs credit management arrangements relating to balancing and reduces the risk of uncovered defaults in relation to balancing exposure. Not providing it within this timescale and instead providing it 3 Business Days later (in the worst case this equates to D+7) should not be allowed to be an enduring solution simply because it is not currently “technically or operationally” feasible.

***Article 33. TSO's procedure***

3. Any Within Day Obligation proposed by the TSO shall meet the following criteria:
  - a) A Within Day Obligation and related Within Day Charge, if any, shall not pose any undue barriers on cross-border trade and new Network Users' entering the **respective** gas market;
  - b) A Within Day Obligation shall only be applied where the Network Users are provided with **adequate and** sufficiently accurate information regarding their Inputs and/or Off-takes to comply with the Within Day Obligation. **TSOs shall provide this**



**information before a potential Within Day charge is imposed and in a timely manner allowing Network Users to adjust their Inputs and/or Offtakes, to avoid a within-day charge being incurred;**

- c) *the main costs to be incurred by the Network Users in relation to their balancing obligations shall relate to their position at the end of the Gas Day;*
- d) *to the extent possible, Within Day Charges shall be reflective of the costs of the TSO for the undertaking of any associated Balancing Actions during the Gas Day;*
- e) *the Within Day Obligation will not result in Network Users' being financially settled to a position of zero **during the Gas Day.***

Despite a clear mandate from ACER, the text of the ENTSOG draft does not go beyond the relevant provisions of the Framework Guidelines on Gas Balancing. Network Users will only be able to comply with a within day obligation to balance their inputs and offtakes if provided with the relevant information before (!) the charge is imposed and if allowed sufficient time to take actions upon the received information (e.g. time to trade or (re)nominate and time for these actions to take effect). Any within-day obligation needs to provide shippers with sufficiently early warnings that his current individual balancing position will - if not changed - lead to penalties due to a within-day obligation at a specified time (hour x).

Additionally, specific TSO balancing regime will need to provide shippers with a sufficiently short lead time for renominations/ trade notifications in order to change their positions before the penalty kicks in.

#### ***Article 34. National regulatory authority decision making***

- 4. *While assessing whether the proposed Within Day Obligation meets the criteria as provided in Item 1 Article 33 the relevant national regulatory authority shall:*
  - g) *consider whether Network Users have **adequate and** sufficiently accurate information in a timely manner to comply with the Within Day Obligation.*

We have amended the wording slightly to be consistent with our proposed changes to Article 33.

#### ***Article 37. Balancing Neutrality Charges***

- 3. *Where relevant the TSO's methodology for Balancing Neutrality Charges may provide rules for the division of the Balancing Neutrality Charge components and the subsequent apportionment of such sums amongst the Network Users in order to reduce cross subsidies **to the extent this does not unduly hinder the development of a liquid wholesale market.***

It is certainly one objective to reduce potential cross subsidies between network users. But it is as legitimate to oblige the TSO to facilitate market development. Both objectives may conflict with each other (for example an hourly matching of inputs and offtakes might best target costs to those who cause them, but will inevitably create huge barriers for market entry) and must be balanced.

## **CHAPTER IX.**

### **INFORMATION PROVISION**

#### **Article 39. Information provided by TSOs to Network Users**

2. *The information flows provided under the Network Code aim to support the daily balancing regime. **Where within-day obligations are applied, adequate and sufficiently accurate information must be provided in accordance with Article 33.1.b.***

This amendment seeks to clarify that the standard information foreseen in the NC – basically only two daily updates on individual network user’s imbalance position – is designed to fit a daily balancing regime, without additional within-day obligations. Additional information needed to comply with a within-day obligation must be provided regardless of any cost-benefit ratio. Otherwise the within-day obligation must not be put in place.

#### **Article 40. General provisions**

5.....

.....

*For those Balancing Zones where Variant 2 is applied, upon the date of entry into force of this Network Code, **a market consultation shall be conducted regarding its continued use, after which it may continue to be applied thereafter.** For other Balancing Zones where Variant 2 is sought to be applied, a prior market consultation shall be conducted and the relevant national regulatory authority approval shall be obtained by the TSO.*

It is not coherent to apply different standards to existing within-day obligations, which represent deviations to the balancing target model, and the existing use of variant 2, which represents a deviation from the principle of network users self-balancing which underpins this target model.

#### **Article 44. Cost benefit analysis**

~~4. Until such assessment is completed and any changes implemented, Network Users may be entitled to a tolerance regarding Within Day Obligations if any, subject to the approval of the relevant national regulatory authority. Any transitional arrangement agreed shall be sent to ACER by the TSO for information upon agreement.~~

This deletion seeks to clarify that the standard information foreseen in the NC – basically only two daily updates on individual network user’s imbalance position – is designed to fit a daily balancing regime, without additional within-day obligations. Additional information needed to comply with a within-day obligation must be provided regardless of any cost-benefit ratio. Otherwise the within-day obligation must not be put in, not even with a certain tolerance added to it.



**Article 45. Information from DSOs and Forecasting Party**

*(2) Information obligations of the DSOs towards the TSO*

1. With regard to Intraday and Daily Metered Inputs and Off-takes the requirements for information provision by DSOs shall be as follows:

b) The DSO shall provide the TSO with Intraday Metered and Daily Metered aggregate Off-takes and Inputs for the Network Users' measured flows per Gas Day D on Gas Day D+1. **Where this is technically and operationally not feasible, the DSO shall, subject to approval by the relevant national regulatory authority, provide the TSO with the information as soon as possible but no later than three (3) Business Days after the Gas Day.**

*(4) Information obligations of the Forecasting Party*

1. With regard to Non Daily Metered Off-takes on Distribution System the requirements for information provision by Forecasting Party shall be as follows:

c) Following Gas Day D, the Forecasting Party shall provide the TSO with each Network Users Non Daily Metered Off-takes per Gas Day D on Gas Day D+1. **Where this is technically and operationally not feasible, the DSO shall, subject to approval by the relevant national regulatory authority, provide the TSO with the information as soon as possible but no later than three (3) Business Days after the Gas Day.**

These changes have been made to be consistent with our suggested changes to Article 31.

**Article 47. Conditions for provision of Linepack Flexibility Service**

1. Linepack Flexibility Service shall be allowed to be provided once all the following criteria are met:

b. The revenues generated by the TSO from the provision of a Linepack Flexibility Service shall ~~at least~~ be equal to the costs **efficiently** incurred ~~or to be incurred~~ in providing this service;

f. Provision of a Linepack Flexibility Service shall not have a detrimental impact on cross-border trade **or wholesale market liquidity within-day**

We suggest amending the criterion that any revenues generated from the provision of a Linepack Flexibility Service should be equal to the efficient costs of providing this service. Also, we suggest adding an extra criterion that provision of this service should not adversely impact wholesale market liquidity, as collective use of linepack by TSOs allows shippers to run long and short positions within day and trade their way out of these by the end of the day.

**Article 51. Specific provisions under interim regimes**

*(5) Tolerances*

1. Tolerances may be applied in case Network Users do not have access to:

a) A Liquid Short Term Wholesale Gas Market or short term flexible gas;

b) **Adequate and sufficiently accurate** information regarding their Inputs and Off-takes **in a timely manner.**

2. Tolerances shall be applied:

a) with regard to Network Users' **Daily Imbalance Quantity** ~~position~~;

The changes to (5)1.b reflect our revised wording in Article 33 and the defined term Daily Imbalance Quantity has been used to replace 'Imbalance position' (which is not a defined term) in (5)2.a.

#### ANNEX I. DEFINITIONS

(53) '*Pre-Nomination Cycle*' means **the process described in Article 20.4, 12:00 UTC** ~~or, when daylight saving time is applied, 11:00 UTC on Gas Day D-1.~~

We have suggested these changes for simplification purposes

(55) '*Processed Quantities Deadline*' means **12:30 UTC** ~~or, when daylight saving time is applied, 11:30 UTC on Gas Day D-1.~~

We have deleted this definition, as it is not used in the Code.

(61) '*Temporal Locational Market Product*' means a **Locational** Market Product where the gas is transferred from one Trading Participant to another during a specific period of time within a Gas Day and with a corresponding specific Entry and/or Exit point(s) as detailed in Chapter IV.

We have suggested this change to add clarity

(62) '*Temporal **Title** Market Product*' means a Title Market Product where the gas is transferred from one Trading Participant to another during a specific period of time within a Gas Day as detailed in Chapter IV.

We have suggested this change to add clarity and to clearly distinguish it from a Temporal Locational Market Product.