

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 by 17:00CET on June 12th.

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, we believe this is a vital feature of an entry / exit system to support a title market and liquidity of that 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: Yes this is sufficient, but there could be merit in harmonising the arrangements where Notification Quantities are not equal.

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: Two years seems quite a long interval when we would hope to see a steady progression towards full implementation of the code. In the first few years after implementation annual reporting would be preferred. After the transitional period two years seems like an appropriate reporting interval.

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: Yes, and we support publication of the report

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 are not convinced this should be explicitly considered in the Code. It would require TSOs to secure capacity rights between markets which may then reduce the capacity available to market participants to undertake trades to encourage gas to flow from a lower priced market to a higher priced market. Relying on TSO's to undertake such activities would seem to undermine the principle of shippers being incentivised to self balance, with any short term cost benefits potentially compromising this key principle.

Whilst we acknowledge that even well functioning markets will not always trade to reduce every arbitrage opportunity, persistent failure to effect appropriate trades should be investigated to determine the root cause, which may be due to lack of sufficient information about system imbalances or market prices.

Allowing TSOs to trade in adjacent markets is only one option as a step toward integrating markets and should only be permitted following approval of an integration plan by the relevant NRAs and only then as an interim rather than enduring measure.

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: Yes, this should enable TSOs to take account of other factors, rather than just the cheapest price. These could include encouraging participation on balancing or trading platforms to promote competition in balancing services, liquidity in wholesale markets and self balancing. As such taking slightly higher priced gas on these platforms rather than relying on pre-contracted balancing services could be justified as it would be consistent with these important longer term objectives. However it will be important to provide for transparency in such actions by the TSO publishing guidelines on how it will interpret 'economic and efficient'.

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, limiting products to a few standardised products is more likely to promote liquidity in these products, ensuring availability of flexible gas when required by the TSO.

Article 15.1 *Weekend and bank holiday shall be considered as one single day for that purpose.* We believe the drafting is imprecise here and that the Framework Guidelines clearly state the balancing period should be daily. We believe that daily balancing should be just that **daily** balancing for both TSOs and market participants. The current drafting seems to suggest that balancing should take place across a whole weekend or even longer when there are bank holidays adjacent to a weekend. Given that there are many diverse bank holidays across the EU this would seem to add significant complexity to the arrangements and not be consistent with harmonising balancing arrangements. It is likely that there would be additional system costs too.

Article 15.4 c seems to suggest that even title trades require an hourly Notification Quantity, yet title trades are based on 'end of day' quantities so we are not convinced this is necessary for title products where there are no within day obligations that relate to a within day balance position. The Nomination arrangements should be kept as simple as possible whilst ensuring TSOs have sufficient information to manage the physical system flows and linepack within the system. We believe avoiding undue complexity would be consistent with promoting liquidity in markets. Hourly notifications should only be needed for temporal or locational products.

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: Whilst recognising the advantages of exchange based trading we agree it would not be appropriate to prescribe this in the Code, nor to provide criteria for the TSO to consider with regard to exchange based trading. We believe this would go beyond scope of the framework guidelines and is best considered locally.

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. Issues like block size should be set locally

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, but further clarity would be welcome to ensure that locational and temporal products can be offered at all types of entry / exit point.

Article 14.6 b is clear in its intent but the drafting could be made more precise

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: Yes, it is envisaged that the originating party would be the market participant rather than the TSO.

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: We support the merit order, but think requirement to use title products first should be made stronger by removing 'seek to' in Article 13.1. We believe this would be consistent with the widespread use of 'shall' in paragraph 3 of the Framework Guidelines and lead to the use of these products ahead of balancing services. There should also be a specific reference to within day trades as this will foster liquidity in that market, which in turn will promote self balancing by shippers. Other products should only be used where the price signals set by title products do not promote sufficient self balancing response or where there are specific constraints on the system that require location specific or time specific response.

There should be routine reporting of compliance with the merit order and explanations of deviations from it; eg why Balancing Services were used when bids and offer were available on the trading platform.

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:

The criteria seem reasonable assuming they relate to the initial procurement of the Balancing Service rather than each individual use.

An annual review of the use of Balancing services is to be welcomed, this should be published

alongside procurement costs set in the context of the total balancing costs. This should demonstrate to market participants the gradual reduction in Balancing services procured and used over time.

We cannot see where in the draft code that there is reference to balancing services reducing over time.

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: Yes, TSOs should be allowed to propose incentives, subject to NRA approval. The potential for upside for TSOs should provide focus on residual balancing activities.

Query if Article 17.3 a) should refer to price targets rather than cost targets

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: Broadly yes, but do not think TSOs should reject nominations because of physical constraints, unless there is force majeure. To do so would undermine firm capacity rights, constraints should be dealt with through the capacity arrangements.

Also consider now that the CMP text is final cross reference should be made to the renomination restrictions it contains or that drafting should be included within the balancing code so that all nomination rules are available in the same document.

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: We agree that the schedule needs to recognise interactions with the CAM code timings for day ahead capacity but consider two hours is a long time for a confirmation and matching process and that a deemed acceptance unless notified otherwise within 60 minutes should be an aspiration particularly when capacity at interconnection points is bundled, nominations will effectively become hub to hub.

It appears that IP nominations will be required before domestic NDM demand forecasts are known.

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: As above we consider two hours is a long time for the confirmation and matching process and this may limit the efficient trade and price arbitrage between neighbouring markets. When considered in the context of the within day capacity arrangements effectively two hours of capacity would be sterilised, this limits market efficiency and in extreme could impact security of supply. A solution needs to be found.

Deemed acceptance unless notified of rejection or partial acceptance within 60 minutes could be a viable alternative.

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: Given the time available to incorporate nominations in the balancing code, these measures seem reasonable. However all transitional measures should be subject to regular NRA review and oversight and a timetable set towards harmonisation of rules.

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: We believe that Locational and Temporal trades should not feed into the weighted average price as these trades are generally taken to address constraints or within day issues and so are not reflective of the costs of end of day balancing. However there could be scope for some flexibility in this if the code stated that such trades are typically excluded. There could be circumstances where there are unforeseen consequences of excluding such trades, in this situation the issues could be justified by the TSO in its Daily Imbalance Charge Calculation Methodology,

which is subject to NRA approval and should also allow for stakeholder consultation so that the NRA can make a fully informed decision.

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: Yes, but we do not support local discretion here. We believe there is further discussion to be had over whether all trades are included or only those to which the TSO is counterparty.

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, but it should be clearly defined in the Daily Imbalance Charge Calculation Methodology. Ideally trades should be limited to those made on a single wholesale trading platform to ensure timely transparency of price formation and opportunity for trading parties to participate ensuring non-discrimination in TSO trading. However there could be circumstances where enduring arrangements provide for trading across more than one platform. In this scenario auditable processes must be established to calculate and publish imbalance prices regularly throughout the day, and all participants must be able to participate on both platforms.

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: Any small adjustment should be to encourage trading for self balancing, by creating a price differential on days when the TSO takes no actions. Participants may have a number of sources of flexibility within their portfolio so price spreads are likely to implicitly reflect the value of flexibility. From experience in GB attempts to value physical flexibility explicitly are likely to be contentious.

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: Yes. However in practical terms there could be a proliferation of small adjustments across the EU which risks creating perverse effects. There could be merits in providing for some degree of harmonisation here.

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: Yes we believe the criteria are sufficient but including a specific reference to not undermining the principle of a daily balancing regime would be helpful and consistent with the Framework Guidelines. Any WDO's requiring approval by the NRA should not be limited to those which have charges associated with them rather any WDO or restrictions in flow rate changes at entry or exit points.

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

Response: No, but some ENTSGO guidance on interpretation of the criteria would be helpful and should assist TSOs and NRAs to take a consistent approach across the EU.

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: Yes

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

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: Yes, it is not overly prescriptive and will allow for specific local circumstances to be considered. The methodology for Balancing Neutrality Charge calculation and apportionment should be subject to consultation to enable the NRA to take a fully informed view.

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

Response: Yes in so far as data is published to explain the charges at the same frequency with which they are invoiced. It needs to be made clear that relevant data is not simply the total charge but details the cost components that make up this charge.

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: We would expect to see costs / revenue information presented by cost type over a time period consistent with which it is invoiced. So if neutrality is invoiced monthly but is a daily charge then supporting information should be published for each day.

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: We are not convinced that creating different neutrality pots would bring additional benefits, whilst it would certainly increase complexity and add to implementation and administrative costs and increased reporting requirements. However if there were undue cross –subsidies then this could be consulted up as part of the methodology for balancing neutrality charge calculation and apportionment.

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 support multiple neutrality pots

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: No, the Code should require TSOs to take appropriate and reasonable measures for cash flow / credit management to mitigate the effect on shipper of default in payment by other shippers.

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: No, we think it is better to have clear separation between regulated revenues recovered through transmission charges and balancing and neutrality charges.

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, in so far as there reflect the differences that currently exist across the EU. Clearly the more information system users have about the state of the system and their own balance positions the more they will be incentivised to self balance.

Clearly additional information will be required to support the continuation or imposition of WDOs as detailed in Article 33.

CHAPTER IX. INFORMATION PROVISION OBLIGATIONS

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 that the Code should require there to be a consultation where variant 2 currently applies to inform whether it should continue. Clearly there are significant balancing costs associated with variant 2 for the TSO and depending on how these are apportioned could be creating a cross – subsidy.

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: Yes, timely provision of information to network users will be important in promoting self balancing. Also where a CBA considers a base case for information provision as required by the Code, it should also look at the incremental costs for additional information provision, since these may be small but the benefits could be more significant. For example the minimum case of 2 updates per day for intraday metered offtakes, increasing this to updates each hour or two hours could come at very little incremental cost but more significant benefits in terms of self balancing performance.

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 to both. However we believe that all major offtakes from and entry points to the transmission system will be telemetered which will provide the TSO with realtime flow data such that it should be able to provide this to system users rapidly perhaps within the hour. This would provide for a greater level of compliance with the requirement to publish near realtime flow information at relevant points as provided for in the transparency guideline 3.3(1)e. Such data for non-relevant points should only be published in aggregate but individual site values should be provided to the relevant network user for each offtake, in that way the user could then review which sites are offtaking gas in variance to expectations and seek updates from them. More information about offtakes within day will promote self balancing, but lengthy delays in the provision of this information or providing it in aggregate will limit its usefulness.

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: Yes we would like to see full implementation of the Transparency Guidelines requirements, but it may not be quite sufficient. The guidelines clearly state that the projected linepack should be updated hourly or alternatively aggregate imbalance positions should be published but perhaps only once a day. We believe that in order to provide sufficient information to system users to promote self balancing that both projected closing linepack and users aggregate imbalance positions need to be published hourly, so that users have a better understanding of the status of the system and likelihood for the TSO taking balancing actions which could impact on cashout prices and their individual incentives to balance. Otherwise users will be operating blind and will be unable to take informed decisions.

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

Response: The FGs require the provision of information to network users to enable them to self balance, so this should be disaggregated information as explained above (Qn40).

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, the additional criteria seem appropriate, complement the FGs and are consistent with other elements of the draft code. A linepack service should only be considered where excess linepack exists otherwise it should be used by the TSO to manage the system for the collective benefit of network users. If a finite quantity of linepack is sold it is likely that artificial scarcity will be created. This arises as individual estimates of requirements may exceed the total available, but this fails to take account of diversity in usage, such that it is best managed in aggregate by the TSO.

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: The short term balancing market will need to be defined taking due consideration of the specific local market conditions. Because of this we consider it very difficult to set specific widely applicable liquidity measures in the code. We agree that temporal and locational products are likely to show much lower levels of liquidity. Such metrics should be assessed and their evolution reviewed in the annual report where interim steps are implemented.

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: Whilst it is helpful to share mechanisms for access to flexible gas across Members States we are not convinced they should be included in the balancing code, rather they should be considered nationally.

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 entirely clear what including LNG in the balancing zone means? In particular why this is something different from 'allowing the TSO to contract directly with a provider of flexible gas' as a Balancing Service.

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: Yes this is preferable to a carry – over mechanism which seems counter to daily balancing principles.

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: Yes this seems reasonable and simple to understand as a transitional measure.

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

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: Yes

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: Broadly yes, but it's not clear how the volume of surplus gas will be determined and what incentives TSO's would have to release this to the market rather than to simply retain it for its own use.

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, if this proves to be expensive relative to sources of gas that network users could source themselves then self balancing would be promoted and transition to full implementation of the code facilitated.

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.).

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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: No

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: Yes, it is lengthy but necessarily so to provide adequate background to set the Code in the context of the FGs and explain the provisions of the draft code.