

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.

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. A definition of “trade notification” could be included in the Annex 1 of the Network Code.

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. However, EDF considers that this review shall always be submitted to public consultation.

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. See answer to question 3.

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:

EDF does not really see circumstances under which a TSO will be in a better position to trade in adjacent markets rather than shippers. Indeed, EDF believes that if there are opportunities to benefit from cheaper resources on adjacent markets these should have to be exploited by shippers. Also, allowing TSOs to trade in adjacent markets would mean that they will use the cross-border capacity and thus prevent network users to do so, which is unacceptable.

However, if at national level, it is demonstrated that there is a rationale to do so, it could be envisaged as a transitory measure in particular in small systems or when the wholesale market is not yet well-developed (lack of liquidity for example). Nevertheless, as stated before is important that TSOs do not withhold permanently or for longer periods of time cross-border capacity to support this possibility.

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 but “economic and efficient” should be defined precisely, in consultation with network users as this could potentially create a high degree of discretion for TSOs. The definition should include short term as well as long term criteria to be taken in to account to assess whether balancing actions are economic and efficient. At least decisions taken under this criterion should fall under regulatory oversight.

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, EDF supports the choices to limit standardised products and to have only a small number of STSP. Moreover, it is indeed very important that title products remain the basic tool for TSOs when making balancing actions. The other products can then only be used when it is more efficient (for system integrity) and economic (*i.e.* cheaper) to do so. Moreover, EDF underlines that the network code should specify that the list of STSP is only indicative and that the only mandatory products are title products. For example, temporal products can only exist when there are hourly nominations.

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:

EDF considers that exchange-based trading should be the target for TSOs buying and selling flexible gas as it provides standardised products, services and above all transparency.

Then, if the use of an exchange is made at national level, NRAs, in relation with TSO and, TPOs and after consultation of market participants, should make that decision.

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.

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:

Yes, if it is a TSO-system user trade, then the system user (the originating party) has to bear the obligation to (re)nominate.

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:

Yes, EDF supports the sequence. It is indeed very important that title products remain the basic tool for TSOs when making balancing actions. The other products can then only be used when it is more efficient (for system integrity) and economic (*i.e.* cheaper) to do so. Moreover, EDF underlines that the network code should specify that the list of STSP is only indicative and that the only mandatory products are title products. For example, temporal products can only exist when there are hourly nominations.

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:

EDF considers that the balancing services should only be used as an interim step and as a tool of last resort. Therefore, EDF welcomes the gradual reduction of the use of Balancing Services foreseen in the code but considers that it is not prescriptive enough. In particular, it is not clear enough in the code that the use of balancing services should decrease when the liquidity of the market increases.

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:

This kind of incentive mechanism could be interesting but only in markets without enough liquidity. However, the NRA, and not the TSO, should design it. An interesting example of incentive mechanism could be to reward the TSO if it is able to keep the price for its balancing actions within the band (and thus lower in the case of short position) between the average price plus small adjustment.

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:

In our view the rejection criteria stated in article 23-1-i-d (*"The TSO shall take into account physical constraint"*) does not seem precise enough to allow TSOs to reject or partially accept a nomination.

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:

EDF agrees with the schedule for initial day-ahead nominations (13:00 UTC). However, as a matter of clarity, EDF suggests that this definition should also be developed in the body of the code (in article 20 for example). This should also apply for the definition of the “confirmation deadline”. Besides, ENTSOG could envisage to include an annex with the different nomination/renomination deadlines for each time zone (UTC, CET, GMT...).

Moreover, it could be useful to extend the nomination/renominations schemes of the network code to other connection points such as interconnection points with non EU countries.

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:

Yes.

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:

Nominations and renominations are a key balancing tool for shippers to fine tune their positions. We would expect the facility to relate to existing gas positions for the shipper in terms of compatibility with products they have access.

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 EDF agrees with the definition of the daily imbalance quantity.

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, EDF supports the proposal to exclude location and/or temporal products from the calculation of the weighted average price.

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:

In principle, EDF does not see any rationale behind using day-ahead prices for the determination of the Weighted Average Price, Marginal Buy Price and Marginal Sell Price. Indeed, when a TSO is making balancing actions on a day-ahead basis, it never knows accurately the system position for the following day. Thus, since day-ahead prices do not reflect balancing needs of the system, EDF would not recommend using them; in the balancing target model. As a target, only within-day trades should be taken into account but in less matured markets, this could be considered as a transitory measure.

We agree however that the question arises for weekends since exchange markets are not open. But an alternative solution to the use of week-end trades would be to suggest that exchange markets be open on weekends, and so to also use intra-day prices for daily imbalance charges calculation during weekends.

Regarding the applicable price for the calculation of daily imbalance charges and as stated before, EDF considers that it should be the value of gas such as reflected by the within-day trades on the exchange-based balancing platform. From an economic point of view, the daily imbalance price must reflect the gas price of the gas day (in order to give shippers a relevant signal for balancing) and not only the marginal price of any trade in which the TSO is involved for balancing purposes. Then, any difference for the TSO between daily imbalance charges (charged to shippers) and balancing actions (supported by the TSO) must be offset through the neutrality mechanism. Moreover, EDF underlines that the marginal price is not really cost-reflective since it doesn't take into account all TSO's balancing trades. In any case, a neutrality mechanism is needed.

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:

EDF considers that a single platform per market area is a necessity as a matter of transparency. In this respect, bilateral OTC trades should be avoided and prices can only be based on trades on wholesale platforms (and as a target on exchanges).

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:

EDF considers that it should be carefully assessed if a small adjustment is needed. Then, when needed, the small adjustment should have both effects mentioned above, keeping in mind that its aim is to incentivise shippers to be balanced in order to decrease the role of the TSO. A small adjustment on the other hand should never result in unintended revenues for the TSO. For example, this adjustment should not be proportional to the gas price since this may result in very large unintended revenues for the TSO when the gas price is very high and cannot be considered as an 'appropriate' incentive any more.

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.

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:

In general, EDF agrees with the criteria set in the Draft Code. However, EDF would like to highlight that article 32.1 requires clarification. Indeed taking Balancing actions to manage the system's position within the gas day is something TSO's do every day. Thus it gives too wide possibilities to impose WDOs on network users. Moreover, WDOs should be imposed by the NRA and not the TSO. An alternate wording could be the following: "Where the TSO needs to take Balancing Actions to manage the Transmission System's position at a certain time of the Gas Day, the competent national regulatory authority may impose Within Day Obligations on Network Users".

Moreover, EDF would suggest in article 33.1.d to remove "to the extent possible" insofar as cost

reflectivity of within-day charges should be strictly applied.

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

Response:

No.

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:

In general yes. However, the code should specify that the NRAs are the ones allowed to impose such within-day obligations and not TSOs (see question 25).

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. Moreover, enough time to implement the necessary changes should be given to market participants after the decision of the NRA.

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. As stated in question 28, enough time to implement the necessary changes should be given to market participants after the decision of the NRA.

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.

EDF would like more clarity on the criterion used to apportion Balancing Neutrality Charges to Network Users (flows? Capacity bookings? other?)..

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:

To enhance transparency and to allow complementary studies, EDF suggests daily granularity and detailed element split. EDF suggests that the National Regulatory Authority :

- ensures neutrality is achieved,
- provides Annual Reviews.

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:

EDF agrees that specific revenues linked to specific constraints (e.g. Within day obligations...) shall be redistributed to the very users submitted to those specific constraints. It is, nevertheless, very important to carefully design the apportionment of costs between the different pots, under NRA scrutiny and approval.

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

Response:

For each specific constraint (hourly nominations, renomination limit, ...), the related charges should be put apart in a specific pot and then redistributed to the potential contributors of that very pot.

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:

Indeed, it does not seem necessary for the Code to be prescriptive on that issue which will be better managed on a national basis.

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:

If this question relates to the possibility of issuing a single invoice for transmission charges and neutrality sums (but with the same level of transparency, meaning that shippers should always understand how much is related, on the one hand, to transmission charges and , on the other hand, to neutrality sums), in order to save some operational costs, then EDF can support the proposal. However, if this leads to pour neutrality sums and transmission charges into the same pot, then EDF

disagrees with the proposal as transparency and distinction between transmission charges and balancing costs are required.

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:

EDF agrees with the proposed models but considers that Variant 1 should be approved after a consultation process too. Moreover, when WDOs are applied, it is important to adapt these models so that additional and more frequent information is provided in a timely manner to enable network users to adjust their imbalances before any within day charge is imposed.

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. As specified in question 37, it should be the same for Variant 1.

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, EDF supports the proposal but does not see any other features to strengthen the CBA. Moreover, it is important that information on IDM sites connected to the transmission network is provided on a site by site basis and not only as an aggregate.

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:

EDF agrees with both the guidance on timing and the proposed timing. It is important to EDF that this timing is harmonized across Europe.

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 those requirements are enough provided they are applied effectively, which is not yet the case throughout Europe.

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

Response:

Yes. However, it is important limiting the cases of IPs where there are uncertainties on the input volumes. This may be done by imposing Operational Balancing Agreements between involved TSOs to define clear criteria for allocation.

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:

EDF would suggest another criterion. There is no logic to impose within-day obligations to network users if there is linepack flexibility available. Indeed, linepack flexibility should primarily be used by TSOs to balance the system. Only where and when excess linepack flexibility exists and the criteria stated in the code are met, can linepack flexibility services be offered (for example as an interruptible 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:

EDF agrees that the Framework Guidelines propose as interesting definition of liquidity. Moreover, the CEER European Gas Target Model conclusions paper indicates a series of indicators that can be considered. Therefore, EDF is of the opinion that stakeholders should be invited to contribute to discussions on this precise topic, whether at national or European level.

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:

EDF considers that these measures should be specified on a national/local scale rather than included in the Balancing Network Code.

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:

This is a very specific problem that again should be considered on a national level.

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.

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.

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.

To ensure timely phase-out of tolerances, precise criteria should be introduced. These should be derived from the accuracy of the End of Day NDM forecast given Day Ahead by the TSO. These criteria should be submitted to a consultation process.

Also, tolerances shall not decrease while accuracy remains low. Again, precise criteria should be introduced. Imbalance charges paid by shippers should be monitored too.

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:

In general, EDF considers that the draft code provides an appropriate mitigation of risk involved in servicing NDM demand. However, EDF wonders why in Figure 20 of the supporting document (p. 88) the scenario 3, where the network user is long, does not provide for tolerance. Indeed, the tolerance should be applied the same way, the network user being short or long.

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, but TSO should have as little flexibility as possible in its own portfolio, so that if it regularly has surplus flexibility, it should reduce its balancing services subscription.

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. A possible solution can be of defining interim imbalance prices where different components (prices of other more liquid markets and trades on the Balancing Platform) are weighted according to the degree of liquidity. For example, the weight of trades on the Balancing Platform may progressively increase together with the improvement of the liquidity on the Platform.

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

Response:

The roadmap should not be imposed by NC as it may differ from one country to another.

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:

EDF considers that ENTSOG could provide indicators on quality of information (particularly on NDM and system integrity) given by TSO to network users, market liquidity, cash-out price volatility, TSO's balancing services subscription evolution.

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.).

In general, EDF considers that the level of detail in the Draft Code is appropriate, taking into account the different comments made on this issue in different responses in this document.

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, the supporting document was a very useful tool to help answering the consultation.