

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, a virtual trading point is *the* characteristic feature of an entry-exit system and as such 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 definition of the concept of Trade Notifications,
- the obligation to establish a single Virtual Trading Point per Balancing Zone and
- 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 immensely 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:

We support the regular review of the progress of harmonisation of balancing rules by ENTSOG.

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 result in this TSO using transport capacity in its own and the adjacent transmission system. It is as such not complying with Regulation 715/2009 obliging TSOs to maximise the transport capacity available to network users and violates the concept of the role of the TSO as residual balancer. The argument that TSO may only use transport capacity on interruptible basis and only if network users do not use the respective transport capacities themselves (i.e. interruptible capacity which would be interrupted first) cannot convince as it does not take into account the information asymmetry between network users and TSOs in the event of 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 would be able to assess the risk of interruption to the same extent the use of the same interruptible capacity to offer the TSO a short term balancing product would be attractive as well.

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:

'Efficient' means that the costs used for the intended task or purpose are minimised. It is as such a comprehensive criterion, even without the term 'economic'.

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 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 to the extent available and suitable for the intended purpose before they use any other STSP. They shall use STSP to the extent available and suitable before using balancing services. And they should use within-day STSPs to the extent (probably) available before they use 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:

We agree that some specific balancing services might be required depending on the grid characteristics e.g. access to flexible supply sources and sinks for within hour/day balancing needs. On a market in transition the amount of standardized products offered might not be sufficient to address the balancing needs. Hence, additional balancing service substituting standardized products, e.g. flow assurances might be required. Nevertheless, the process adopted by the TSO to quantify its needs for specific balancing services should be transparent and the outcome of the analysis should be published. Where specific balancing services are needed they should be purchased by the TSO on a market basis.

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 (a consultant) to propose an incentive mechanism that should subsequently be consulted 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 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 enable the rejection of renominations within the booked capacities

of a network user only because the TSO cannot deliver on its contractual obligation. The concept of firmness would be destroyed.

Furthermore, chapter V. 'Nominations' should set minimum standards for IP *and* non-IP likewise. Renominations at non-IPs (i.e. where no time consuming inter TSO communication is required) should generally not exceed 30 minutes.

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 a maximum lead time sufficiently short 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. The timeframe should also be shorter for connection the gas and electricity market. Shorter lead times will also be necessary in the case of within-day obligations in order to change positions before penalty kicks in.

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 3 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 to the transitional period of 2 years and 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 user 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. TSO should be obliged to use either an exchange or a balancing platform for balancing actions. 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 would be sufficient to reflect the transaction costs attached to a trade at the trading platform.

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:
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 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).
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. Example: hourly matching obligation requires information on individual balancing position at h+15 and 30 min lead time for renoms.

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:
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. 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 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) and must be brought into balance. The TSO's methodology for Balancing Neutrality Charges should take into account two broader principles: the reduction of cross subsidies whilst facilitating the development of liquid wholesale markets.

Furthermore, the draft should foresee that the TSO should pass to Network Users any costs or revenues arising from the Balancing Activities undertaken by TSOs, *except* where 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 could receive up to [5000] € if it minimises the spread between its marginal buy and sell price. The TSO could then be exposed with a penalty of [30000] € if the differential between both prices is two times the average market price or more.

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:

Quarterly reports on end-of-day versus within-day sources of costs and revenues are sufficient.

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:

No. We do not see any benefit of attributing Balancing Neutrality Charges to different pots and of recovering them over different classes of network users. In the experience with the

German Market it is difficult to find the right definition for the classes of network users and to treat them nondiscriminatory.

The main objective should be to avoid any charges and additional costs for the network user and allocate the remaining costs in a nondiscriminatory manner.

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

Response:

n.a.

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:

Yes.

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 frequently information on offtakes (and inputs) must be provided to network users. 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 (see Article 44, which seems to suggest a different interpretation of the Framework Guidelines).

Furthermore, with regards to Article 40 (2) 'replacement values' the TSO may only provide forecast data on a so called advisory basis only. 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 do think that the same 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 within-day obligations (where *every* within-day obligation has to be consulted upon and subsequently agreed, see Art 35) and information provision variants.

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 be put in, not even with a tolerance added to it.

Example: If network users are obliged to match their inputs and offtakes in 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 (in case a tolerance of 5% would be applied). 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 case he was 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.

Further to the currently provided guidance 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 hardly understandable 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 – rules on information provision should not intend to create a level playing field for those network users who choose to go home early (see Article 41 (1) 2.). 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 forecast 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:

No. For example, system status or line pack information is not provided by the majority of ENTSG members despite it being almost unanimously perceived as crucial for a robust within-day price formation. Furthermore, real time flows keep being only rarely published although 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. 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 frequently information on offtakes (and inputs) must be provided to network users. 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 (see Article 44, which seems to suggest a different interpretation of the Framework Guidelines).

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:

n.a.

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:

n.a.

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:

n.a.

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:

LNG is obviously a source of flexibility. It should 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 set of the inability of network users to manage their imbalance risk due to insufficient or inaccurate information. As long as this principle is observed, tolerances used should be price based, i.e. use the average market price 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 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 (see also response to Q50).

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:

A Non Daily Metered Off-take category *shall* be provided for if the difference between the latest Non Daily Metered Derived Forecast and Non Daily Metered Exit Allocation exceeds 2%. This amendment would ensure that network users don't suffer from the inability of the TSO/DSO to obtain accurate offtake data.

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 because prices for balancing gas would 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.).

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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:

Another material issue not covered by the questions is that of the timing of initial allocation data (Article 31 (1) a). a) The TSO should provide the relevant Network Users with an initial Daily Imbalance Quantity accompanied by sufficient supporting information *within the first six (6) hours of the day following Gas Day D*. And only where this is technically and operationally not feasible the TSO might, *subject to the approval of the relevant NRA*, and after stakeholder consultation *and for a maximum of two (2) years after this Network Code has come into force*, provide an initial Daily Imbalance Quantity no later than three (3) Business Days after Gas Day D;

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.