

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

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12 June 2012

Guide to EFET comments:

Original ENTSOG text in *Italic*.

Suggested EFET text in **bold**.

EFET remarks underlined.

Article 9. General provisions

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

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

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

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

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

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

Article 12. General Provisions

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

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

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

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

Article 13. Merit order

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

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

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

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

CHAPTER IV. OPERATIONAL BALANCING

Article 12. General provisions

3. *The TSO shall undertake Balancing Actions through:*
 - a) *buying or selling of Short Term Standardised Products (Title Market Products, Locational Market Products, Temporal **Title** Market Products and Temporal Locational Market Products) on a Trading Platform;*

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

Article 16. Balancing Services

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

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

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

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

Article 17. Incentives

3. *The incentive mechanisms shall:*
 - e) be subject to stakeholder consultation, before approval.

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

Article 18. General provisions

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

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

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

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

Article 22. Specific provisions at Interconnection Points

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

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

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

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

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

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

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

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

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

Article 31. Imbalance settlement procedure

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

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

Article 33. TSO's procedure

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

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

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

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

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

Article 34. National regulatory authority decision making

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

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

Article 37. Balancing Neutrality Charges

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

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

CHAPTER IX.

INFORMATION PROVISION

Article 39. Information provided by TSOs to Network Users

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

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

Article 40. General provisions

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

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

Article 44. Cost benefit analysis

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

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

Article 45. Information from DSOs and Forecasting Party

(2) Information obligations of the DSOs towards the TSO

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

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

(4) Information obligations of the Forecasting Party

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

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

[These changes have been made to be consistent with our suggested changes to Article 31.](#)

Article 47. Conditions for provision of Linepack Flexibility Service

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

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

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

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

Article 51. Specific provisions under interim regimes

(5) Tolerances

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

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

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

2. Tolerances shall be applied:



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

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

ANNEX I. DEFINITIONS

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

We have suggested these changes for simplification purposes

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

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

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

We have suggested this change to add clarity

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

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