

AGENDA

No.	Description	Presenter	Time
	Registration and pre-workshop coffee		from 9:30
1.	Welcome and opening	Nigel Sisman	10:00 – 10:05
2.	Process update <ul style="list-style-type: none">• Business rules-to-consultation timeline• Document availability via website• SJWS feedback from stakeholders	Tori Gerus	10:05 – 10:20
3.	Content Business rules completion updates <ul style="list-style-type: none">• Imbalance, Linepack, Nominations, Info. prov, Cross-border• Further feedback from participants	Noel Regan	10:20 – 10:40
4.	Incentives	Noel Regan	10:40 – 11:10
	Coffee break		11:10 – 11:25
5.	Stakeholder feedback <ul style="list-style-type: none">• Eurogas – System Users Committee (STUC) presentation• IFIEC• Other stakeholder feedback from floor / Discussion	Helen Stack Dirk Jan Meuzelaar	11:25 – 12:45
6.	Release of surplus flexibility	Laurent de Wolf	12:45 – 13:15
	Lunch		13:15 – 14:00
7.	WDOs <ul style="list-style-type: none">• ENTSOG interpretation of FGs' guidance criteria• Possible additional criteria• Feedback & next steps	Ruud van der Meer	14:00 – 15:00
8.	Neutrality	Markus Sammut	15:00 – 15:30
	Coffee break		15:30 – 15:45
9.	Transition topics/interim measures <ul style="list-style-type: none">• Tolerances – dealing with NDM Advisory Forecast Errors• Price Proxies / interim cash-outs• Use of balancing platform and products	Nigel Sisman	15:45 – 16:30
10.	Next steps	Nigel Sisman	16:30 – 17:00



39 Members and 1 Associated Partner
in 23 EU countries

3 Observers from EU affiliate countries
 - Gassco AS (Norway)
 - Plinacro Ltd (Croatia)
 - Swissgas AS (Switzerland)



Balancing network code (BAL NC) – SJWS4

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Process update

23 February 2012 – Diamant Centre, Brussels

Session agenda

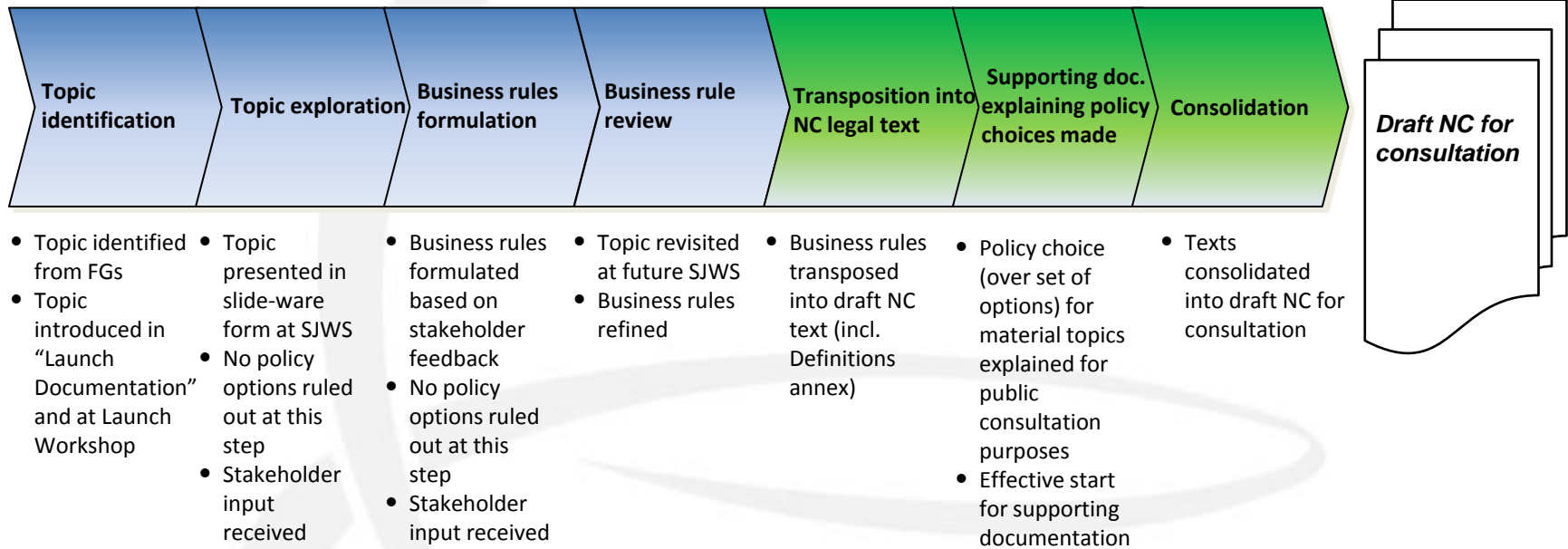
Business rules-to-consultation project plan

Document availability via website

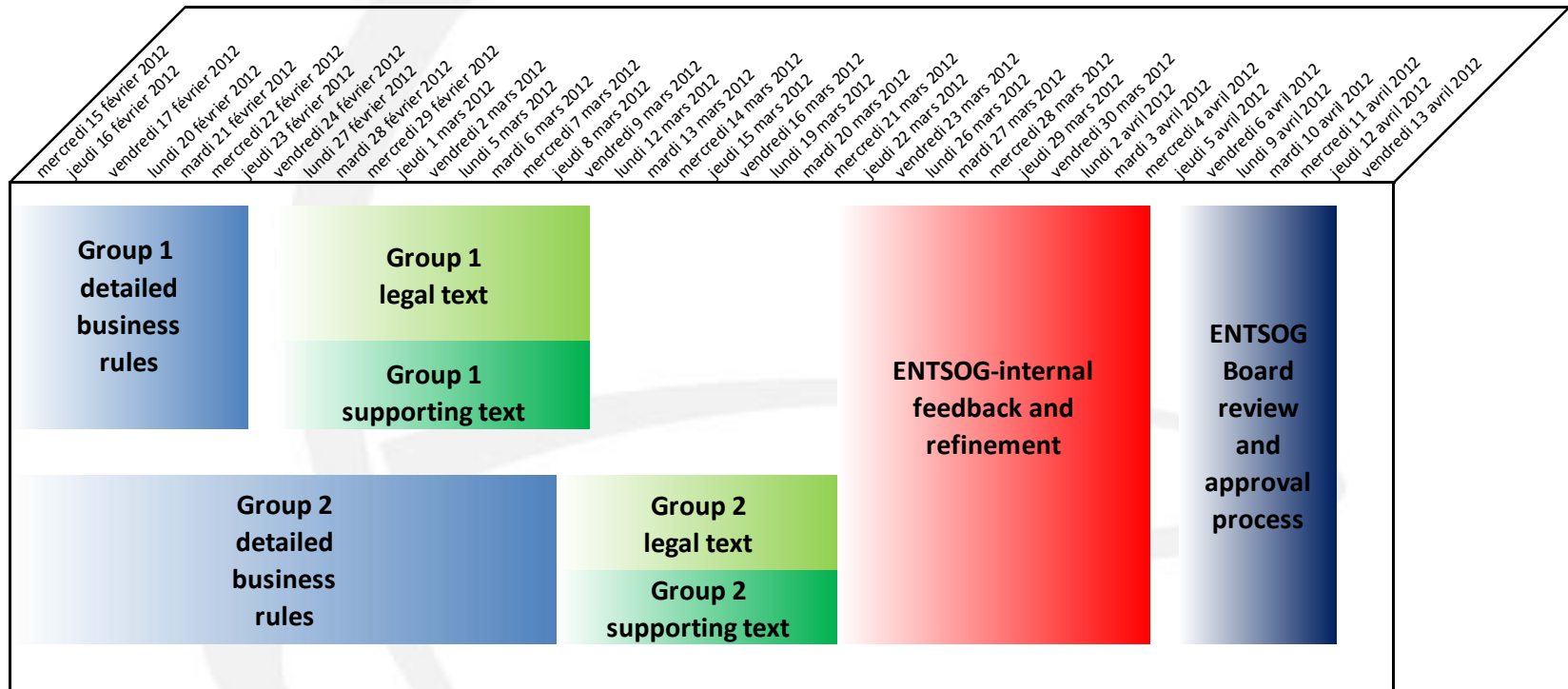
SJWS feedback from stakeholders

Next steps

Code development



Delivering draft NC: thru to formal consultation



BAL NC topics – business rule groupings

HIGH LEVEL

“Group 1”

- Linepack flexibility service
- Daily imbalance charge
- Neutrality
- Transitional tolerances
- Info. provision: block 1 (e.g. offtakes)

“Group 2”

- Entry/exit system
 - VTP
- Operational balancing
 - Balancing services
 - Standardised products
 - Merit order
 - Platforms: balancing, trading
- Nominations
- WDOs
- Info. provision (block 2 (e.g. inputs))
- Imbalance price proxy
- Transition from interim measures
- Cross-border cooperation

DBRs on BAL publications webpage

<http://www.entsog.eu/publications/balancing.html>

Publications



Photo courtesy of GRTgaz

ENTSOG > Balancing

[2008](#) [2009](#) [2010](#) [2011](#) [2012](#)

ENTSOG will be actively working on balancing. A pilot project to test the Third Package framework guideline/network code process will start during 2009.

ENTSOG will actively participate in the framework guideline develop process and will lead the network code development.

This section of the ENTSOG website will be used to keep stakeholders of plans, news and developments as we progress towards a balancing network code.

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To be populated
(27 Feb; 12 Mar)

Business Rules

▶ Glossary for BAL NC
(BAL200-12)



27 Jan 2012



0,45 Mb

Code development

▶ ENTSOG BAL NC SJWS3 - Meeting Notes
(BAL0217-12)



14 Feb 2012



0,39 Mb



SJWS consultation: stakeholder feedback

Development of draft network code in cooperation with stakeholders



50+ explicit questions posed to stakeholders for inter-SJWS feedback

7 written submissions;
Several bilateral meeting,
with others pending

Next steps / key dates

- 27 Feb: Group 1 DBRs completed and posted
- 28 Feb.: Prime mover workshop
- 7-8 March: SJWS5
- 12 March: Group 2 DBRs completed and posted
- Draft legal text from DBRs (ENTSOG internal)
- Draft consultation/supporting doc. (ENTSOG internal)
- 13 April: launch of public consultation



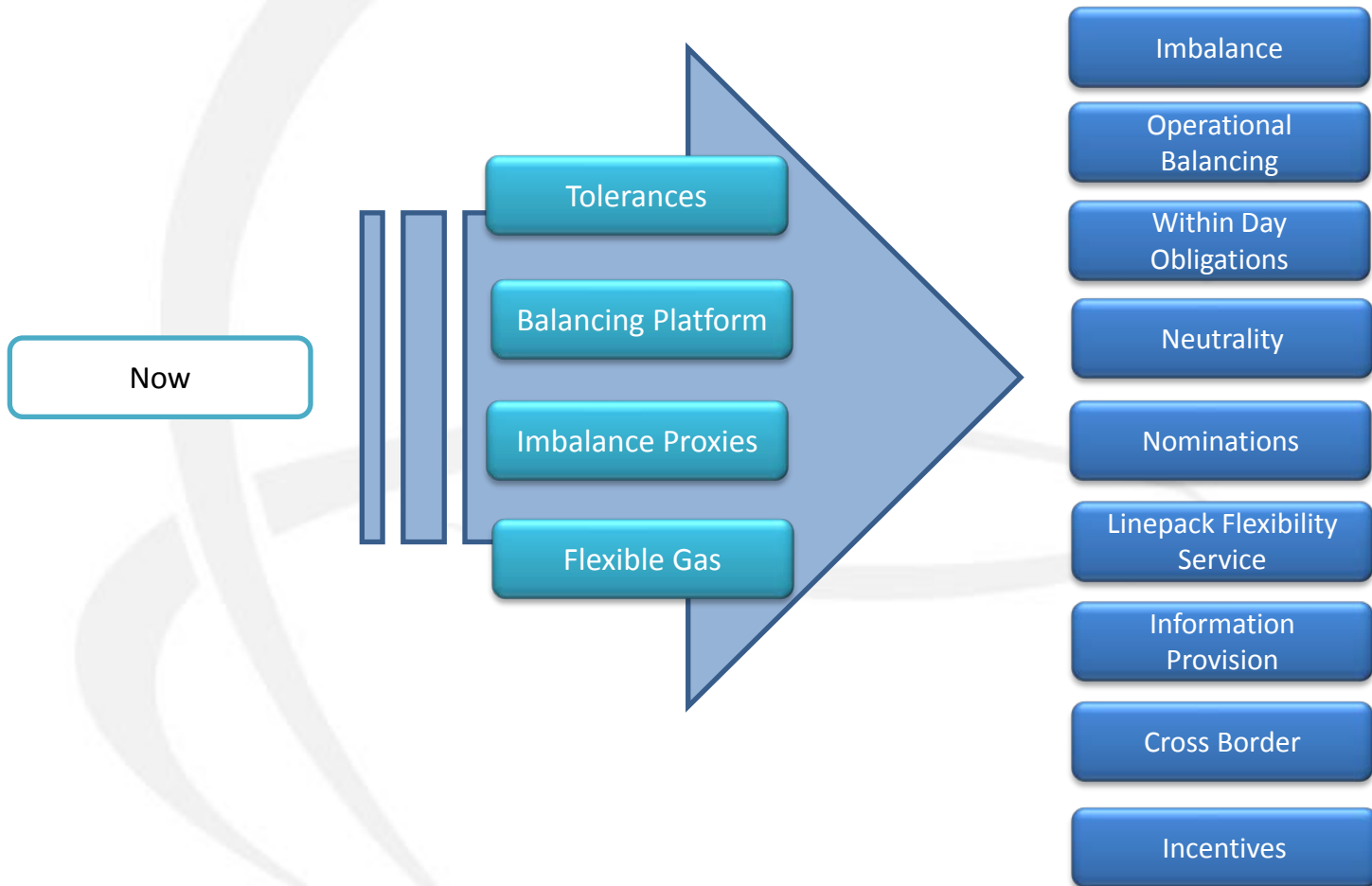
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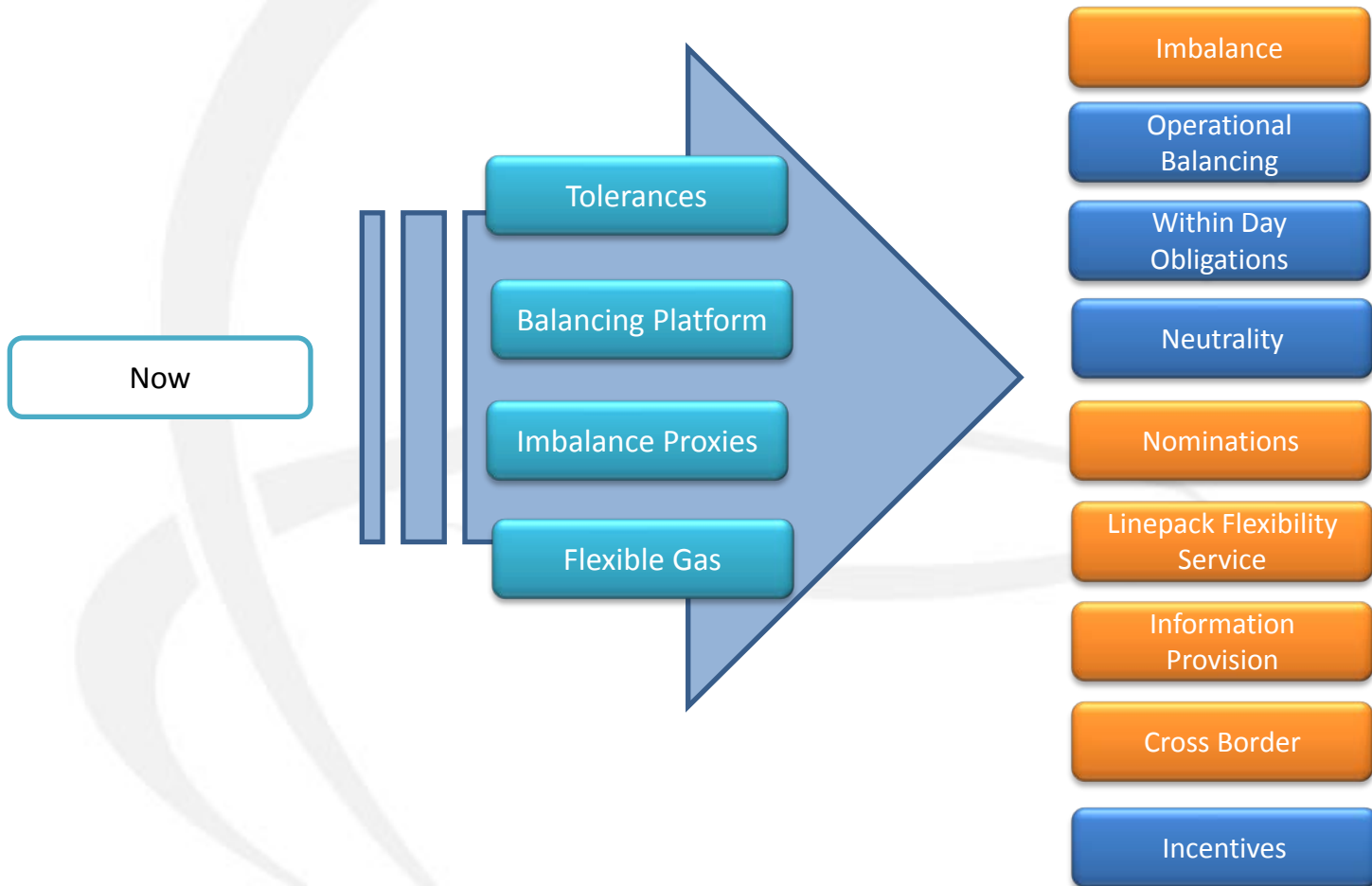
Content Update

ENTSOG Working Area

The Topics



The Topics



Daily Imbalance Charge

Stakeholder sessions have focused on two key areas:

1. The Small Adjustment

- Framework guidelines are criteria based approach
- ENTSOG have proposed
 - Existing criteria
 - New criteria of “impact on cross border trade”
 - Stakeholder support
- Stakeholders have expressed concern seeking “*further assurance*”
- In the last SJWS we discussed:
 - Different rationale for proposing adjustments
 - Different application – percentage or value
 - Different frequencies of change
 - Different applications – cap, guidance, minimum, etc

Daily Imbalance Charge

The Way Forward

- Network Code for consultation as per draft business rules
- Consultation document will examine these potential extra features complementing the above in some detail
 - Considering SJWS feedback
 - Considering strengths and weaknesses for each option
- Consider carefully the responses
- Any further options / rationale would be helpful

Daily Imbalance Charge

2. Cash-out Price Formation

- Detailed discussions in SJWS3 on which trade feed into price formation
- Current thinking as follows:

Pricing contributes to:		Day D-1	Day D
Marginal component (TSO trades only)	Temporal (Short term)	Prohibited by framework guidelines (costs covered by neutrality mechanism)	
	Locational (Short term)		
	Title (short term)	Yes	Yes
Weighted average price (market trades)	Temporal (Short term)	No	No
	Locational (Short term)	No	No
	Title (short term)	Yes	Yes

- Arguments for and against including Day Ahead trades in Weighted average price
- Will include arguments in consultation document and seek views, other arguments, etc

Linepack Flexibility Service

Linepack Flexibility Service

- Subject of “topic exploration” at SJWS2
- Business Rules review at SJWS3
- Feedback supportive, with some minor changes
- Do not propose to visit in detail at remaining SJWS

Nominations

- Presented as Topic Exploration at SJWS3
- Much further than “criteria at IPs” as set out in framework guidelines
 - Deliver suite of business rules essential to the functioning of the Balancing Regime
 - Harmonised timings and deadlines at IPs
- ACER Interoperability Problem Identification Meeting 16 February
 - Conclusions complemented balancing work
- Intense work in ENTSOG currently to deliver proposals for Stakeholder consideration on the 8th of March
 - Interoperability Colleagues key role in delivering this

Information Provision

- Reviewed in both SJWS1&3
- Received considerable feedback to date – thanks
- Will require further review at SJWS5
- Progressing
 - Provision of Input information
 - Working with DSOs on delivery of Base model and 2 Variants
 - Timing of information provisions
 - Responsibilities
 - Accuracy incentives, transparency, etc.
 - Have made some good progress - anticipate sharing with you next time
 - WDOs seeking some feedback this afternoon
- As discussed informal comments in writing helps!

Cross-Border Cooperation

- Feedback from SJWS3:
 - Focus on processes that leads to proposals
- Two main processes mentioned in the FG's
 - Review process on harmonisation of rules and identification of new opportunities
 - Consultation process on proposals
- Business rules
 - Identifies actors and procedures to reach outlined objectives
 - Delivery of detailed business rules at SJWS5



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Incentives

SJWS4

Incentive Mechanisms

The framework guidelines contain two specific incentives

- TSO to maximise use of short term trading products
- TSO to minimise cost of balancing

ENTSOG are also examining the introduction of a third incentive following stakeholder feedback

- NDM Derived Forecast accuracy

The framework guidelines arguably leave little room for development of this topic..... “NRAs may incentivise”

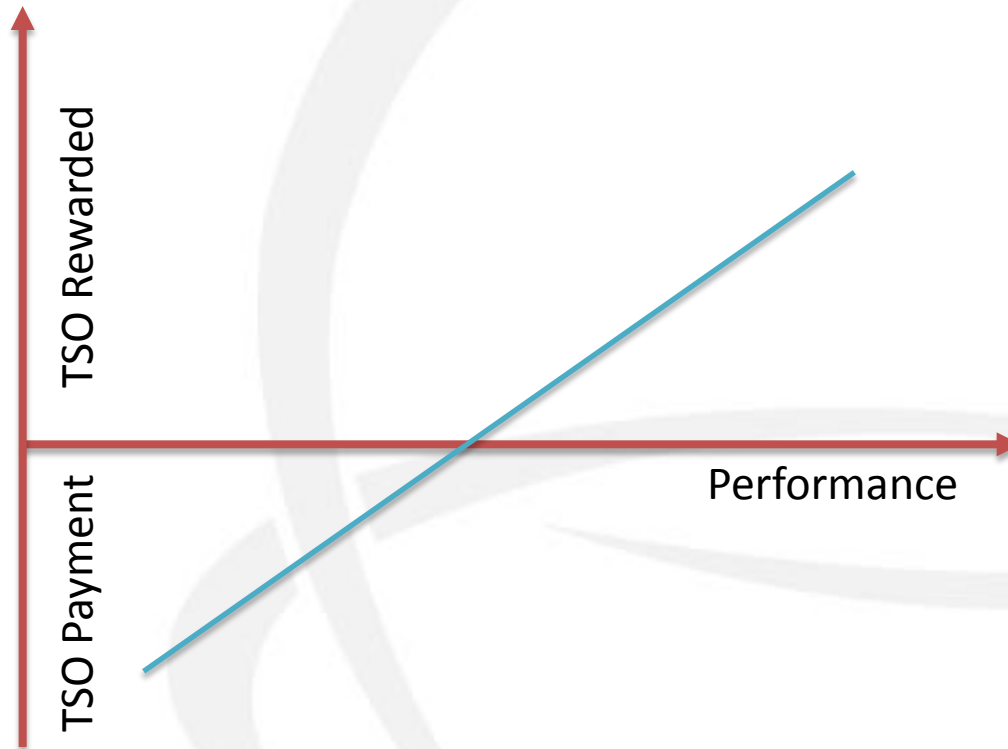
Nevertheless ENTSOG would like to explore the topic with stakeholders

Incentive Mechanism

○ Transparency

- Transparency on balancing actions which is provided for in the draft information flows business rules will provide a natural incentive for TSO behavior

Incentive Mechanisms

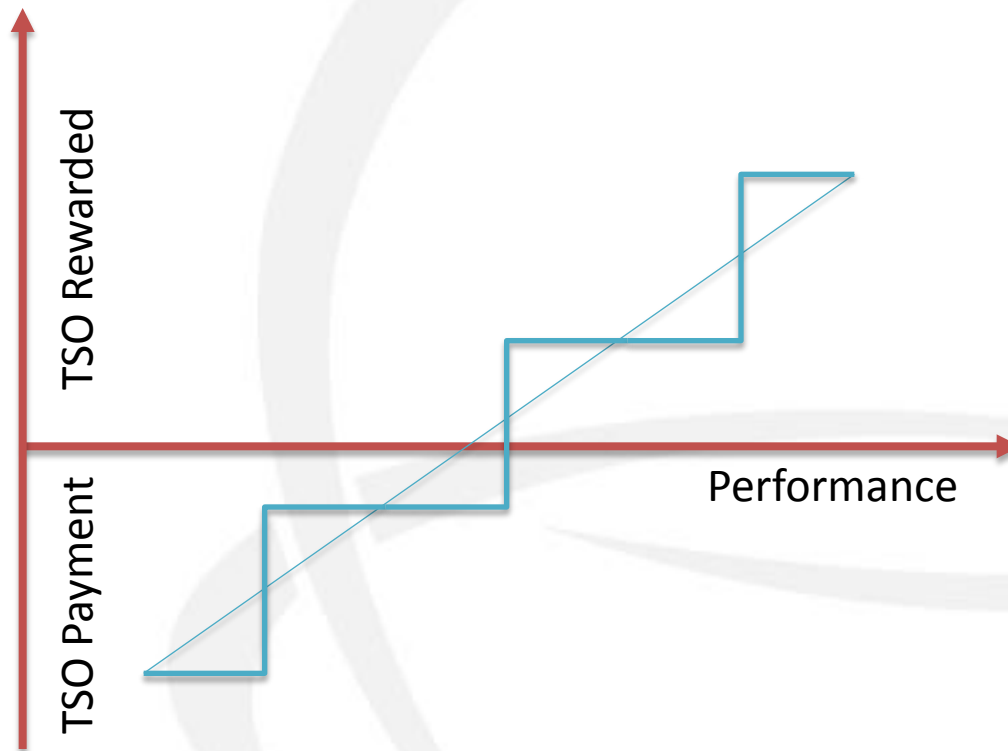


Incentive

- Sliding scale incentive can be useful
- An upside and downside - “Carrot and Stick” approach

Sliding Scale Incentive

Incentive Mechanisms

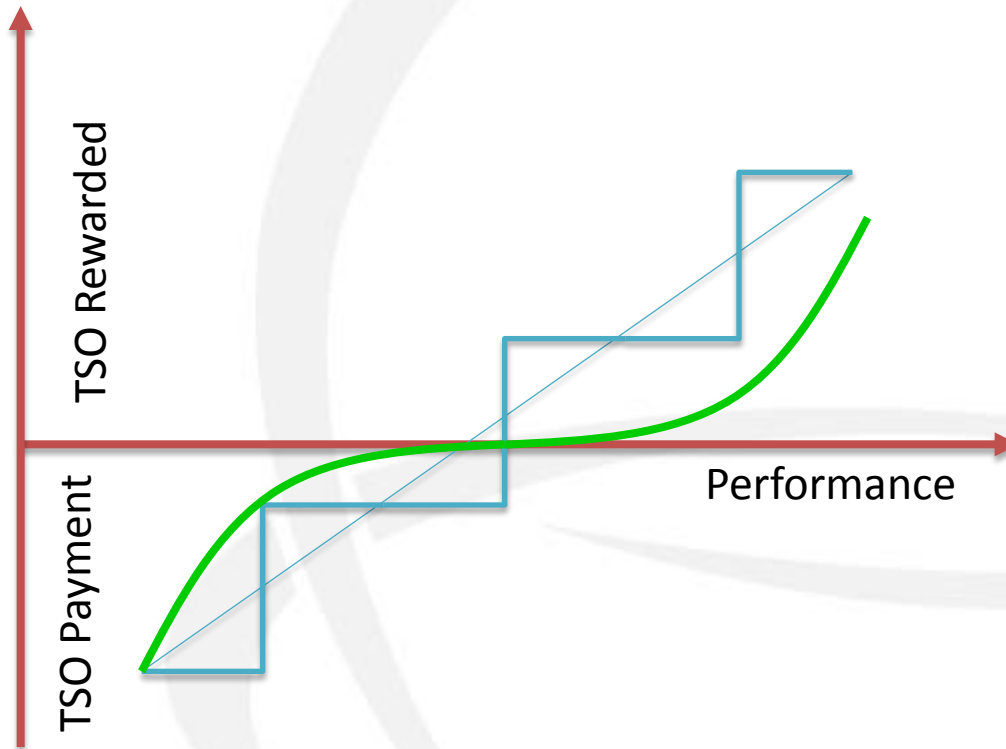


Incentive

- Need not be a straight-line performance measure

Sliding Scale Incentive

Incentive Mechanisms

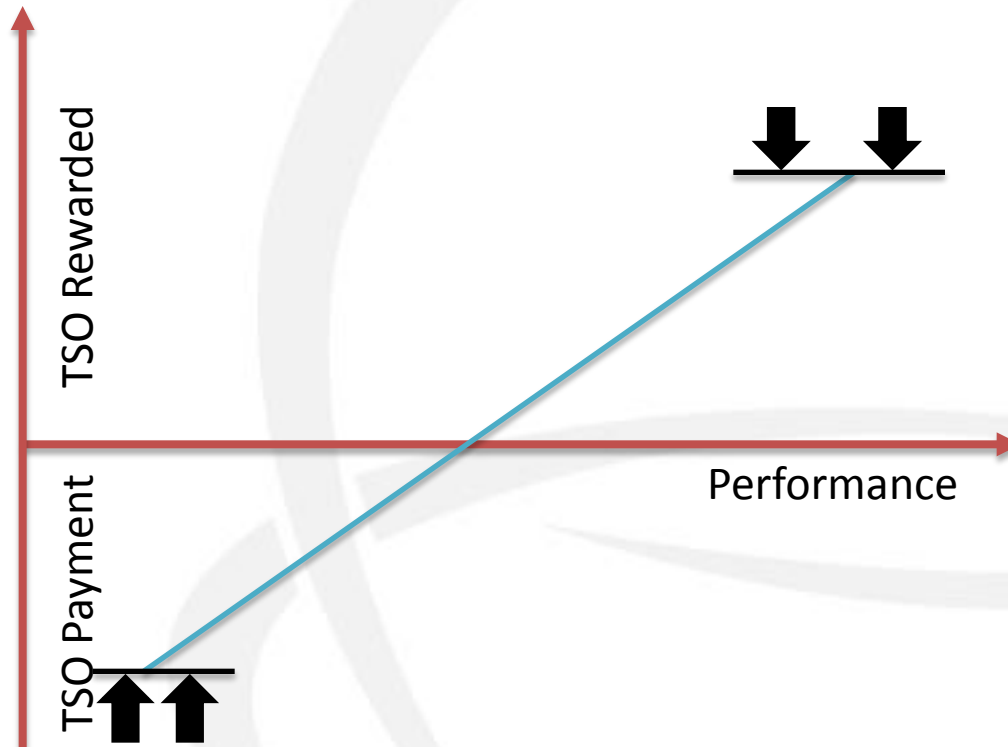


Incentive

- Need not be a straight-line performance measure

Sliding Scale Incentive

Incentive Mechanisms

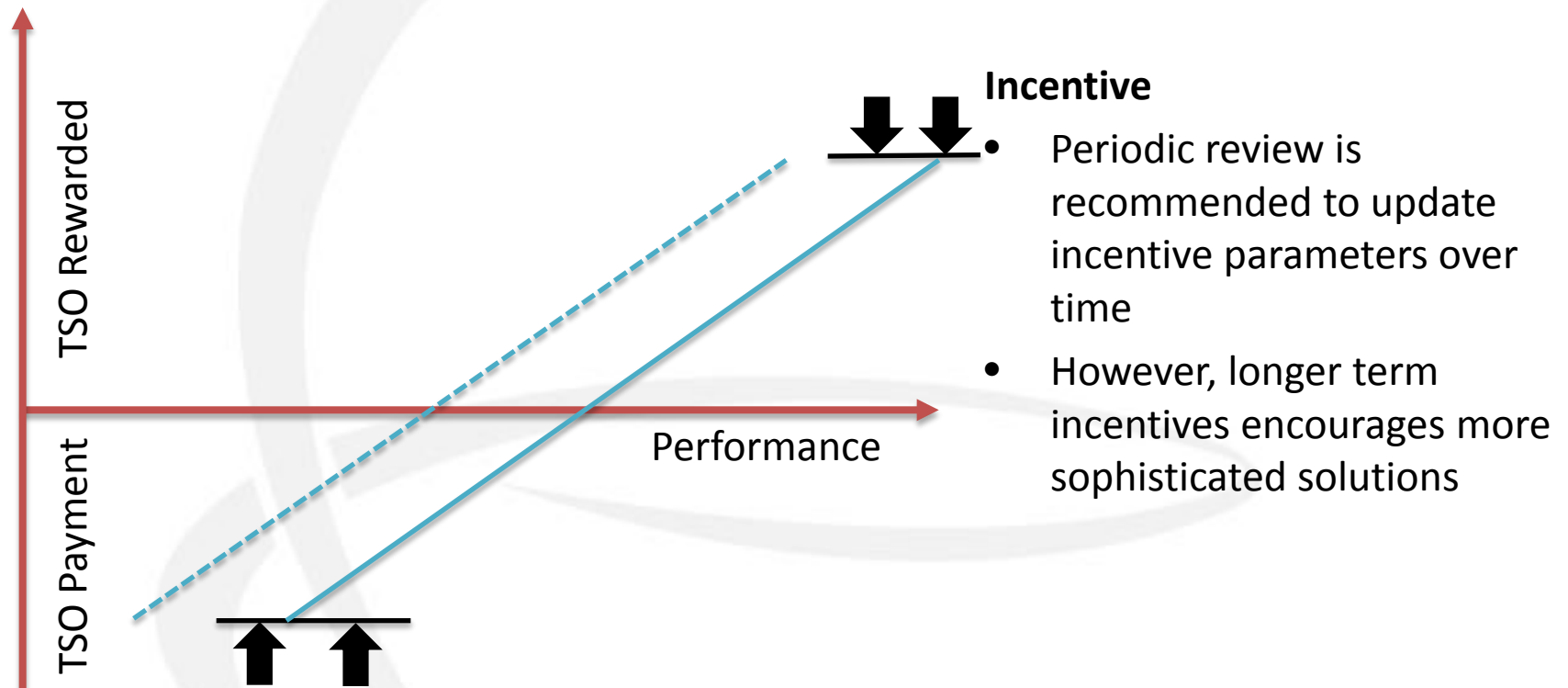


Incentive

- A floor and ceiling and collar can be applied to avoid risk / reward being too high

Floor and Ceiling

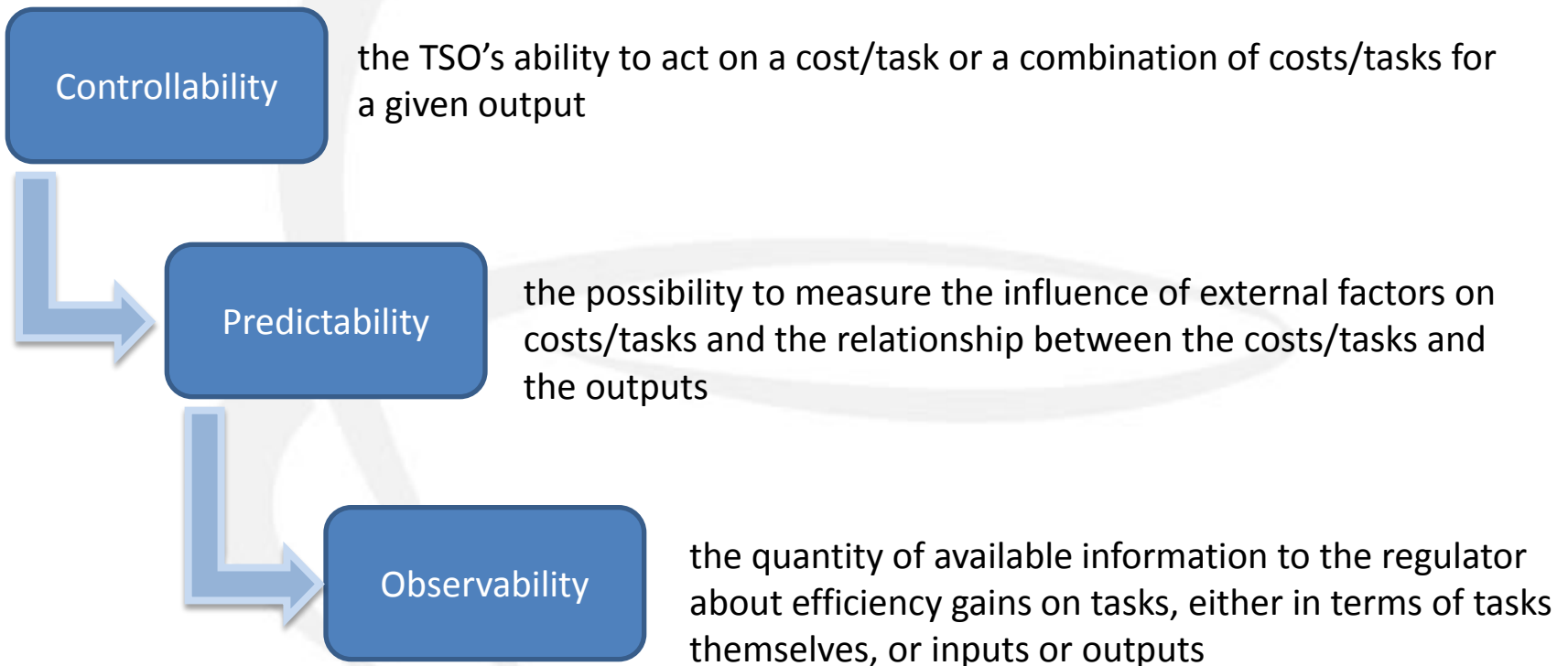
Incentive Mechanisms



Periodic Review

Incentive Mechanisms

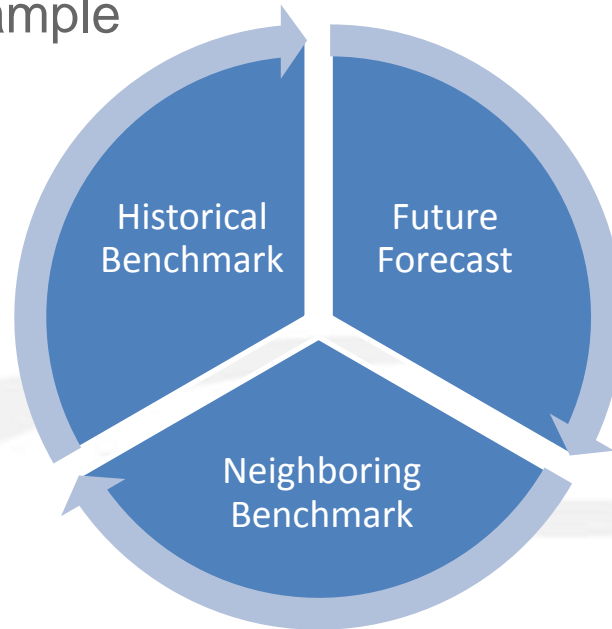
In order to propose such an incentive, certain conditions may need to be met:



Source: Florence School of Regulation, Incentive Regulation with bounded Regulators, January 2012

Incentive Mechanisms

- The performance scale must be based on available analysis and evidence, for example



- Picking the right one will depend on stage of market development, local conditions and the type of incentive

Incentive Mechanisms

Some examples from our members:

○ Linepack Measure

- incentivises the TSO to ensure that the gas in the system (the linepack) at the end of each trading day is similar to that at the start of the day.
- helps to ensure that the costs of resolving imbalances are accurately targeted on those Network Users who caused them by encouraging the TSO to resolve any imbalances on the same day.

○ Price Performance

- Incentivises the TSO to take its balancing actions as close as possible to the weighted average market price on the day
- Minimises balancing costs and impact on market prices
- Liquid wholesale market essential

Incentive Mechanisms

Some examples from our members:

o Demand Forecasting Accuracy

- The total system demand forecasting incentive scheme is based on a daily measure of the performance against a benchmark which is based on the deviation of the Day-Ahead (D-1) demand forecast from the final allocation figure.

Different Incentive schemes are appropriate at different steps of evolving towards the Balancing Target Model

Incentive Mechanisms

Based on the above ENTSOG believe there is merit in further developing the framework guidelines “*NRA’s may incentivise*” by adding some sound principles that the incentives could be based upon:

Propose Business Rules are prepared on the following principles:

- TSO ability to propose incentives
- Financial Incentive
- Sliding Scale Mechanism (3 examples provided)
- Should provide an appropriate risk and reward mechanism – Floor and Ceiling, etc.
- Periodic reviews should enable appropriate changes to be made in consultation with other stakeholders
- Needs controllability, predictability and observability
- Incentive structures should reflect the liquidity of the individual TSOs gas market and their genuine system needs

Stakeholder Views

Seeking stakeholder views on:

- Proposed incentive principles and whether any additional principles are appropriate



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ENTSOG 4th Balancing Network Code Stakeholder Joint Working Session

Eurogas views on discussions to date

*Presentation by Helen Stack
Member of the System Users' Committee*

euro  **gas**
THE EUROPEAN UNION OF THE NATURAL GAS INDUSTRY

General Approach

- Eurogas supports the development of a level of harmonisation that supports competitive gas markets and benefits consumers
- Key principles should be harmonised to the extent possible in support of a competitive gas market
- Daily balancing with EOD cash out should be the preferred standard structure, with permitted flexibilities as appropriate
- Interim steps are a practical solution reflecting different competitive and physical characteristics of existing systems
- Imbalance charges to be based on marginal prices for TSO balancing actions efficiently incurred in the local wholesale market
- Incentives can be used to drive efficient operations by both shippers and TSOs/DSOs
- Recognise WDOs may be needed but on a case-by-case basis, but welcome strict tests for implementation with shipper consultation

Information Provision

- Shippers need online access sufficient to allow them to manage their balance positions efficiently
 - Detailed aggregated system information near real time
 - Real time information on volumes and prices traded by TSO in balancing market
 - Timely and reliable data on forecast demand & allocation for individual shippers NDM customers
 - Data provision synchronised with nomination windows as necessary
 - DSO co-operation to provide TSOs with the needed information
- Additional data needed depending on local system e.g.
 - 2x day insufficient in some systems e.g. where WDOs require shipper adjustments

Imbalance Calculation & NDM Demand

- Eurogas has a preference for imbalances to be calculated based on an ex-post forecast that should be close to actual demand.
- TSOs and DSOs should be strongly incentivised to minimise the difference between NDM forecasts and data used for allocation.
- A D-1 forecast NDM figure could be used as an interim step in some regimes where it is currently cost-prohibitive compiling more accurate information on NDM within-day.

Use of Within Day Obligations

- Accept WDOs may be needed in some systems to allow daily balancing, but should be minimised.
- FG set prerequisites for WDOs – Code could expand on these to incentivise harmonisation where possible.
- Use of WDOs should be dependent on
 - network users being provided with the necessary information
 - the relevant tools available to network users
- Existing WDOs, should be tested against Network Code requirements to confirm if they are still needed.

Balancing Products and Imbalance Price

- TSO should procure mostly from the within-day wholesale market. This should be reflected in the imbalance price.
- Locational/temporal products should be allowed where needed for efficient system operation but excluded from the average price.
- The TSO should follow a merit order so that costs are incurred on the most efficient basis to meet its obligations
- Eurogas supports the use of a small adjustment to incentivise balancing. Current thoughts favour an absolute predefined value over a %.

Other Items

Linepack

- Eurogas believes this should be primarily used for balancing the system and minimising the need for WDOs.

Tolerances

- Could be used as an interim step, but should be phased out in the target model.

Nominations

- Different views on inclusion - Balancing v Interoperability
- Eurogas will support ENTSOG in work in designing a nomination system that captures the complex link between Balancing, CAM & CMP.

Final Thoughts

- ✓ Eurogas commends ENTSOG for its high level of stakeholder engagement before and during SJWSs
- ✓ High quality web casting allows greater involvement of stakeholders
- ✓ Welcome presence of European Commission, ACER and NRAs in SJWSs.

Thank you for your attention!



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Balancing Network Code - SJWS4

IFIEC-CEFIC position on balancing

Dirk Jan Meuzelaar

23 February 2012 - Diamant Centre, Brussels

IFIEC represents the industrial CUSTOMER

Our guiding principles for balancing are market based

- At the end of the day we pay the bill
- We are used to be exposed on markets and accept the risks on the condition that the commodity market including its balancing system and its products are:
 - Cost efficient
 - Simple and transparent
 - Create a liquid market with standard product(s) for flexible gas
 - Are able to safeguard a level playing field for all network users
 - Avoiding free riders behavior
 - Compliant with 'polluter pays' principle

A Balancing system must safeguard free entrance to all commodity markets at the lowest cost with limited risks

- Reliable and appropriate rules and regulations supporting free and fair trades
 - Network users need trust and confidence in (balancing) markets
 - Network code on balancing plays a key role
- Decreasing role of the TSO
- Net work users are primarily responsible for imbalances
- Network users who are able and willing to contribute to balancing the system must be rewarded
- Sufficient and reliable information is crucial
 - Near real time information should be available
- Balancing costs must only be allocated to those who caused them
 - Cross-subsidization is not allowed
 - Socialization of unbalancing costs must be avoided
- Appropriate Within Day Instruments (WDI) are required to stimulate within day balancing. Instruments should be transparent and non-discriminatory

To create and safeguard an efficient, integrated and fair gas market we need clear, simple and harmonised rules and strong and independent regulators

Buying and selling of flexible gas and
Balancing services by TSO's can only be
market based with:

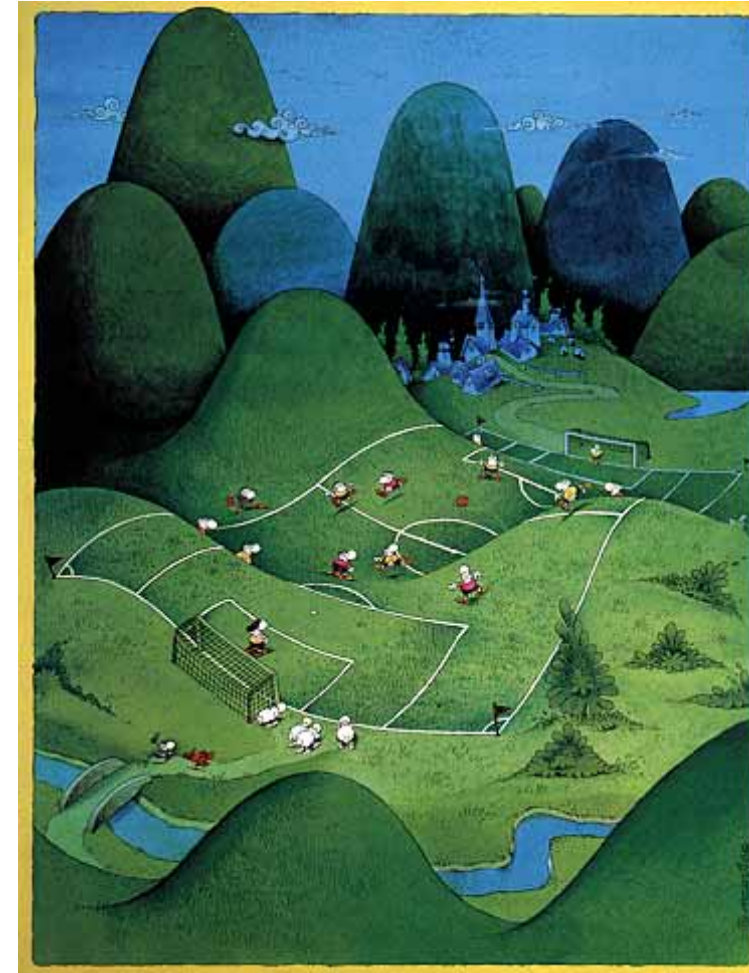


- Strong and independent monitoring NRA's to enforce efficiency
- Special approval of NRA's in case of long term service contract by the TSO
- Balancing platform only in case of a lacking adequate liquid (intra day) wholesale market

Harmonization does not necessarily lead to one uniform system

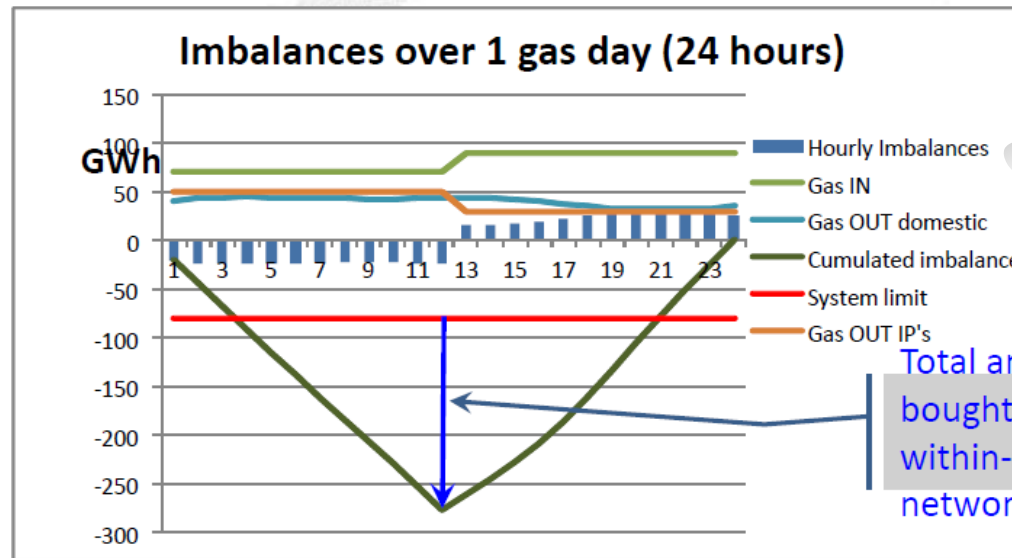
As long there is no level playing field

- Creation of one overall balancing regime is neither realistic nor necessary
- Incentive to reduce the number of balancing zones as much as possible
 - Exception based on justified reasons to be judged by ACER
- Harmonization as much as possible
 - Balancing rules, including WDI
- Uniformity only if this is essential like:
 - Gas day
 - Nomination and re-nomination procedures,
 - Standardization of energy (MWh)

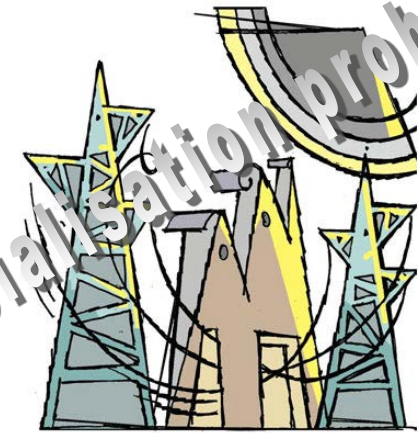


No Within Day Obligations will increase costs and risks

- The lack of Within Day Obligations will:
 - Remove incentives for network users to balance their position during the day
 - increase the role of the TSO
 - smear Intraday costs among all network users...
 -lead to socialization and cross subsidization
 - increase risks and imbalance costs



Total amount of gas bought by TSO to manage within-day position of the network



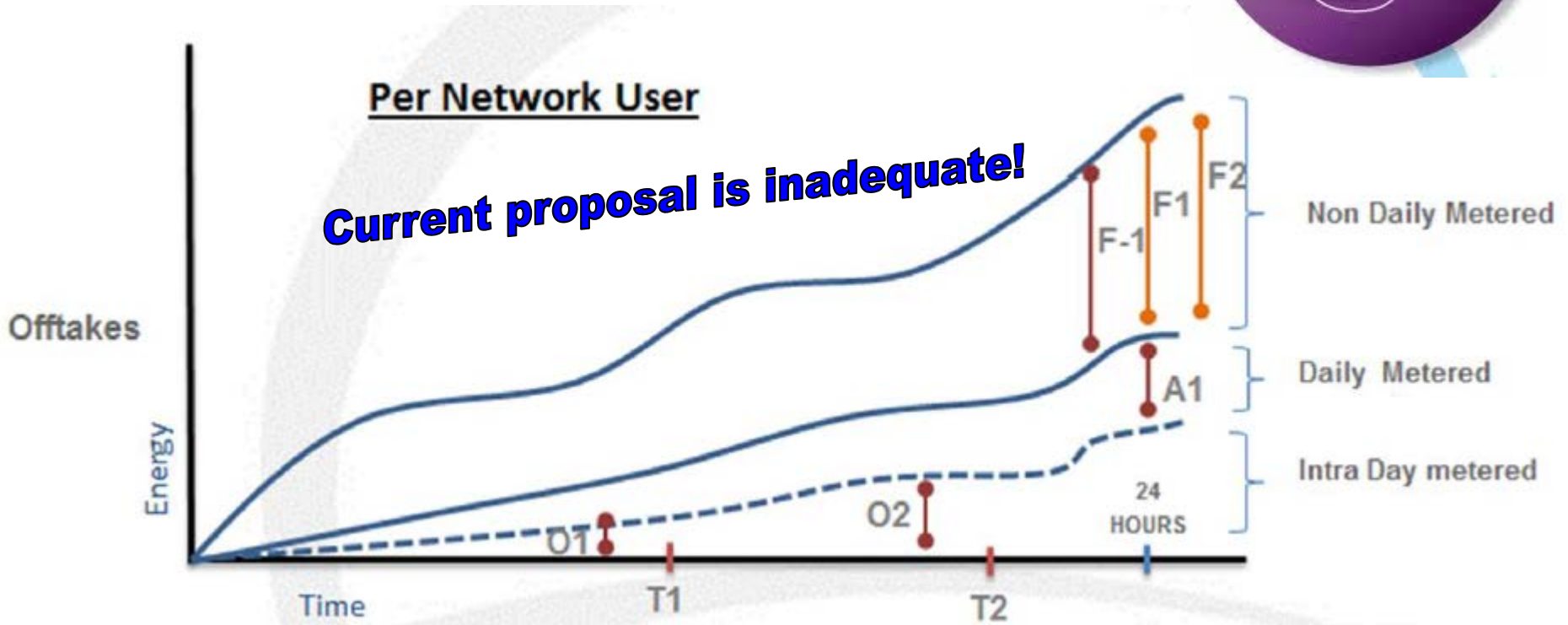
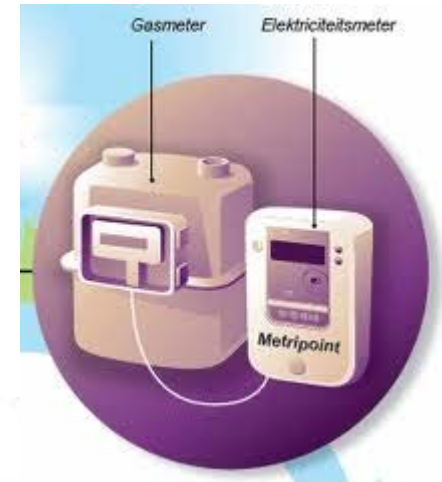
We are in favour of Within Day Instruments or Within Day Actions based on penalties and rewards

- CEFIC-IFIEC are strongly in favour of Within Day Instruments
 - Based on a hybrid system in which network users who are able and willing to contribute balancing the system are rewarded.
 - WDI's may provide not only sticks (penalties) but also carrots (rewards)
- For network users who are voluntary choosing for setting during the day, the end of day settlement costs should be no more than a small portion of the Within-Day costs



To be able to manage imbalance risks, appropriate information is crucial

IDM and DM information should be available at the highest possible frequency. For IDM this is near real time, for DM on an hourly basis.



Products traded on the imbalance- or flex market should stimulate liquidity and trade

- Lowest number of balancing products
- Products should be standard
- Cross border tradable
- Stimulate or even enforce TSOs to source the same products on the same markets
- Minimum lot size for the standard products not too high to give industrial customers the possibility to participate in the market and balance its position
- Instead of current short term products...
 - Title market transactions
 - Intra-day market transactions
 - Locational market transactions
 - Intra-day locational transactions

...a single Balance of Day product should be investigated in more detail

Balance of Day product(s) already put forward in CAM NC

- Define a standard product
 - CAM NC has *Balance-of-Day* as smallest standard product
 - Similar approach for balancing could be *BoD-gas*
 - Hourly product, or daily profiled product have less potential
- Facilitate use of standard product
 - Harmonise timing of procedures around CAM, trading, (re)nominations and balancing
 - Use of standard product for TSO balancing actions
 - To reduce system imbalance, and to provide incentives

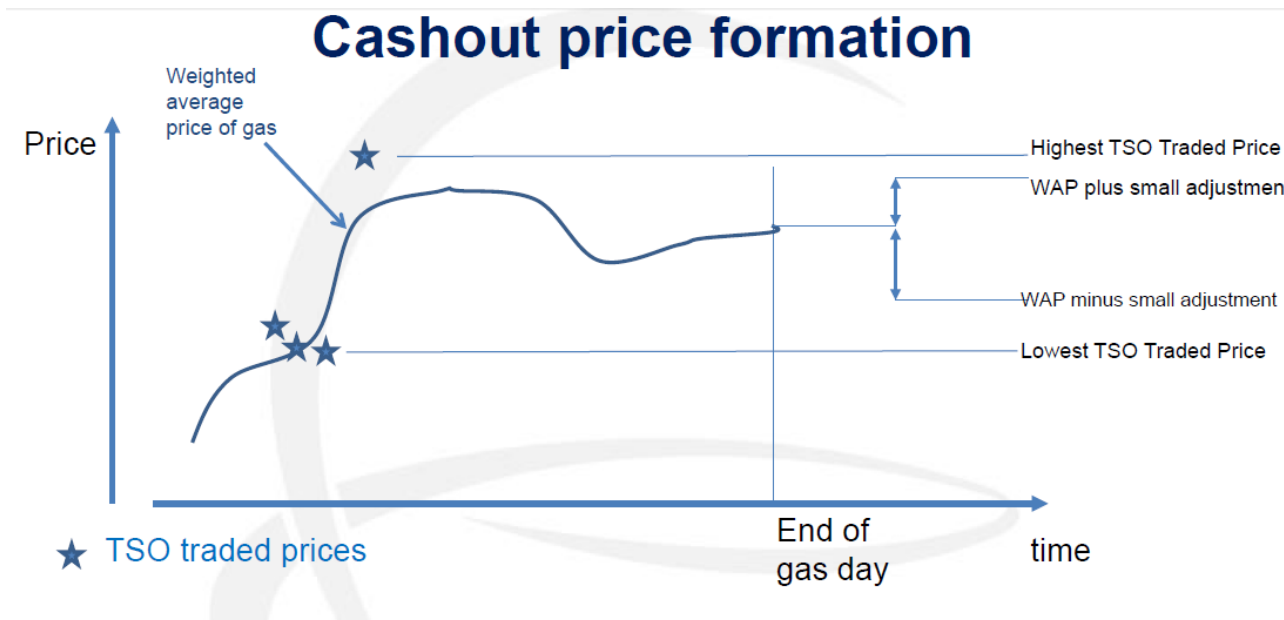
This product is promising and could be developed into a liquid and transparent balancing instrument for industrial end-users.

Product needs to be investigated in more detail



Imbalance charges should be as low as possible

- No arbitrary or unjustified penalties
- Marginal buy and sell prices *should* be the average price (instead of can be)
- Small adjustments should be very limited and only if necessary to stimulate intraday balancing of network users





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Release of surplus flexibility

DRAFT rev-0

The framework guidelines

- Where long term contracts for the procurement of flexible gas
 - are already in place and
 - provide TSOs with an option to take specific volumes of flexible gas
- the network code on gas balancing shall
 - provide for the volumes of flexible gas covered by the option to be reduced
 - include arrangements for TSOs or the undertaking holding the flexible gas
 - to release back to the market any surplus gas which is not required for balancing purposes in any given balancing period
 - in order that network users have access to greater volumes of flexible gas.
- ENTSOG shall consult on the rules of procedure for the release of flexible gas
- The relevant NRA(s) may set targets regarding the proportion by which these long term contracts should be reduced in order to increase liquidity in short term gas markets.

PROCEDURES FOR RELEASE OF SURPLUS FLEXIBILITY

Three mechanisms to reduce the size of the options in existing LT contracts

1.If contractually possible : Reduce the amount in the contract

2.If not contractually possible

- TSO keeps contract for the remaining contractual period.
- Flexibility from these contracts can be used as a “balancing service” when needed.
- For excess flexibility from these contracts there are 2 options:
 1. TSO sell excess flexibility as a service to network users
 2. Offer excess flexibility in the short term market
- These options subject to
 - Contractual obligations in the long term contract
 - TSOs need for the flexibility

TSO sells excess flexibility as a service

- Sell as a monthly, quarterly or annual product
- Specifying ‘injection’ and ‘withdrawal’ capacities and working volume
- Agree on starting amount of gas in store
- Agree on settlement of difference between starting and end amount of gas in store
- How much to offer: difference between available flexibility and required flexibility as “balancing service”
- Price: back-to-back, assuming it can be portioned in that way
- Similar conditions as in contract between TSO and provider

Offering flex into short term market

- Offer flexible gas on trading platform
- Only use where excess flex could not be sold as flex service
- TSO will be buying/selling gas
- Possibly useful in less mature markets
- Could help create higher liquidity
- Amount that TSO does not need for balancing purposes
- Prices?
 - not distort market
 - where necessary take guidance from neighbouring market
 - Cost neutral, avoid selling low on one day and buying high on another

Costs and revenues

- Revenues from selling flexibility that is not needed by TSO
 - Partly kept by TSO (as an incentive to release as much as possible)
 - Rest through neutrality/transmission tariffs back to market
- Costs incurred by TSO in selling this flexibility
 - Assess costs for TSO against benefits for the market
 - Possible impact on IT- should be recovered
 - This is likely to concern TSOs in smaller markets

Application

- Subject to consultation
 - Mechanisms to use
 - Selling as flexibility service
 - Offering flex into short term wholesale market
 - Combination of both options
 - Financial aspects
- Two phase consultation
 - Rules of procedure consulted by ENTSOG
 - Finish consultation after adoption, before entry into force of nc
 - TSOs consult on
 - Choice of mechanism(s) to use
 - Financial parameters



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Within-day obligations analysis of criteria

DRAFT rev0-a

Requirements on wdo

- The nc shall require the TSO to impose within-day obligations
 - Where it is necessary to manage within-day position of the network
 - and where
 - in order to
 - To ensure system integrity and
 - Minimise the need for the TSO to take balancing actions
 - it is necessary to incentivise network users to take appropriate balancing actions during the gas day
- The network code shall put requirements on
 - Properties of within-day obligation
 - Process to implement within-day obligations

Analysis of criteria mentioned in fg

- The framework guidelines gives criteria on within-day obligation
- ENTSOG is providing analysis on how to assess the criteria
 - defining the function of WDOs in general terms
 - Analysis of the criteria
 - short overview of the procedure for WDO approval

Functions of WDO

- Within-day obligations
 - aim to
 - ensure system integrity and
 - minimise the need for the TSO to take balancing actions
 - by incentivising network users to manage its flows within the gas day
- As such within-day obligations serve two functions
 1. Provide a (simple) model of flow scenarios that will reduce the need for TSOs to take balancing actions through
 - a) specific requirements at specific entry and/or exit points within a balancing zone (like flow patterns or on info provision)
 - b) how entry flows should be matched to exit flows within a balancing zone
 2. They provide drivers for attributing cost of TSO's balancing actions taken to manage within-day positions of the network.

Ensure system integrity

- Ensuring system integrity:
requiring the system to stay within an acceptable operational envelope.
- Operational envelope:
 - defined by linepack levels
 - locally
 - within a sub-system
 - system wide
 - mainly determined by maximum and minimum pressure levels
- Pressure levels are managed by
 1. redistributing gas through the network, subject to
 - requirements on gas composition
 - technical capabilities of the network
 - maximum/minimum flow rates at entry, exit or internal points of the system
 2. where necessary managing flows coming onto or going out of the system

Minimise the balancing actions of the TSO

The framework guidelines state that

- * through their portfolio balancing activities, the network user shall take primary responsibility for matching their inputs against their customers' off-takes from the balancing zone during the relevant balancing period
- * "The principle is to provide, as much as possible, for network users to balance their individual portfolio's which is likely to minimise the need for TSOs' balancing actions."

Within-day balancing actions can play a role in keeping the system within acceptable operational envelop and reduce the need for TSO to take balancing actions.

Overview of addition criteria

The framework guidelines gives additional criteria for within-day obligations:

- **Information provision:** network users are provided with sufficient information to enable them to comply with the obligation;
- **Proportionality rule:** the main costs to be incurred by network users in relation to their balancing obligations shall relate to their position at the end of the day (and the charges relating to the within-day obligation shall only be a small proportion of any imbalance charges);
- **charge for not meeting the obligation:** to the extent possible, cost reflective and does not pose any undue barriers on new entry into the European markets or to cross-border trade;
- **Within-day cash-out:** it does not result in network users being financially settled to a position of zero during the gas day;
- **Assess impact:** it has been subject to the analysis of the likely financial impact on network users, the effect this may have on market entry, cross-border trade, hub liquidity and has been shown to not be discriminatory

Information provision

- Network user needs relevant information on:
 - i. its within-day positions and relevant flows
 - ii. the costs incurred by the TSO for managing within-day positions of the network
 - iii. the portion of these costs attributed to the network user
- This information should be available
 - Timely, frequent enough and with an accuracy
 - To allow network user to actively manage its exposure to wdo
- Transparency Guidelines already provides for some relevant information to be published

“Proportionality rule”

- The network code shall require that “the main costs to be incurred by network users in relation to their balancing obligations shall relate to their position at the end of the day”
- Cost incurred by network users include
 - Imbalance charges
 - Charges relating to within-day obligations
 - Costs resulting from neutrality mechanisms
- These cost effects have to be assessed
 - over the entirety of network users
 - Over a longer period of time
- This criterion is very difficult to assess ex ante

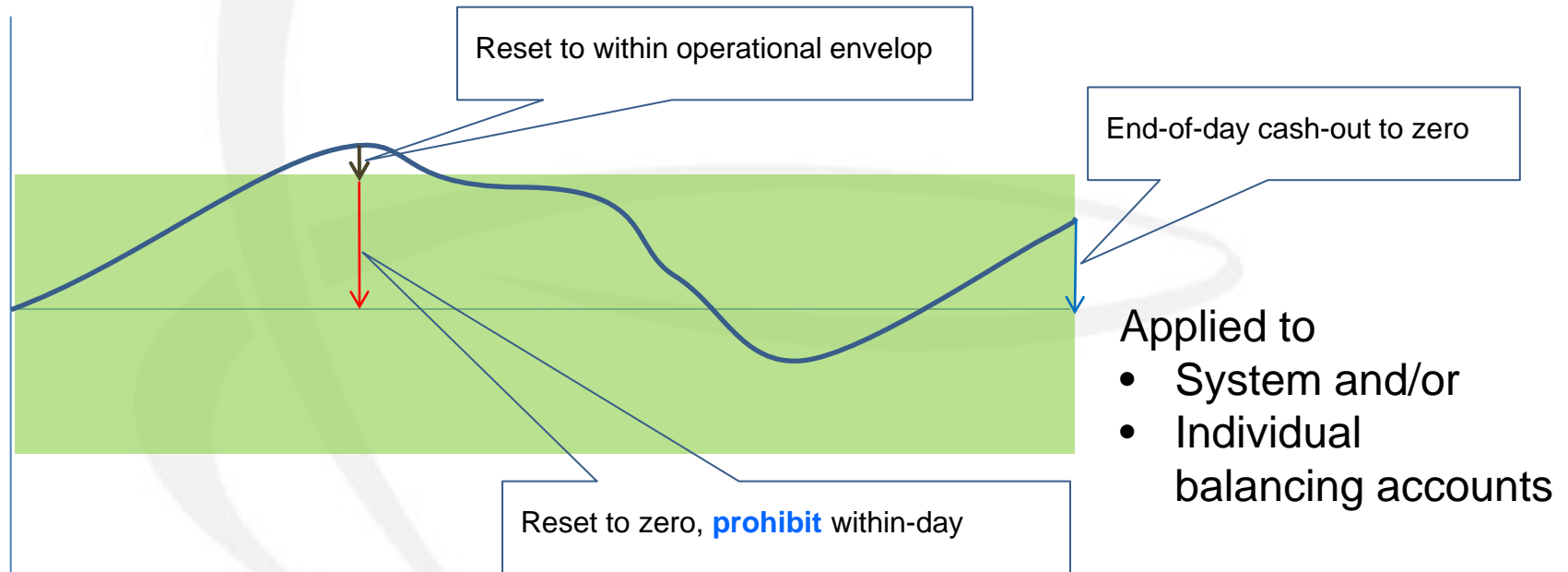
Requirements on charges on wdo

- Charges relating to wdo shall to the extent possible be
 - Cost reflective
 - Charge must cover the actual cost incurred by TSO triggered by non-compliance with wdo
 - Well targeted to those that trigger the cost
- This will avoid undue barriers to
 - New entry into EU-market
 - Cross-border trade

Within-day cash-out

The network code

“shall prohibit the imposition of obligations according to which network users are financially settled to a position of zero during the gas day”



Proposals on within-day obligations

- TSO has to consult on specific within-day obligations it proposes to impose, including
 - Justification why it thinks all requirements are met
 - Analysis of likely effects on
 - financial impact on network users
 - Market entry
 - Cross-border trade
 - Hub liquidity
- This applies for new within-day obligations
- Clear feedback from SJWS on existing within-day obligations
 - Impact assessment also for existing wdo
 - Specifically to ensure that assessments properly consider cross-border issues

Approval process

- TSOs consult, including TSOs and NRAs in adjacent MS
- NRAs approve
- NRAs to seek ACER opinion where concerned about cross-border impact
- Timelines for the introduction of within-day obligations
 - TSO consultation
 - Approval by NRA, including ACER opinion
- Timelines for impact assessment of existing within-day obligations

***What level of detail in network code?
Looking for better understanding of impact on cross-border trade***



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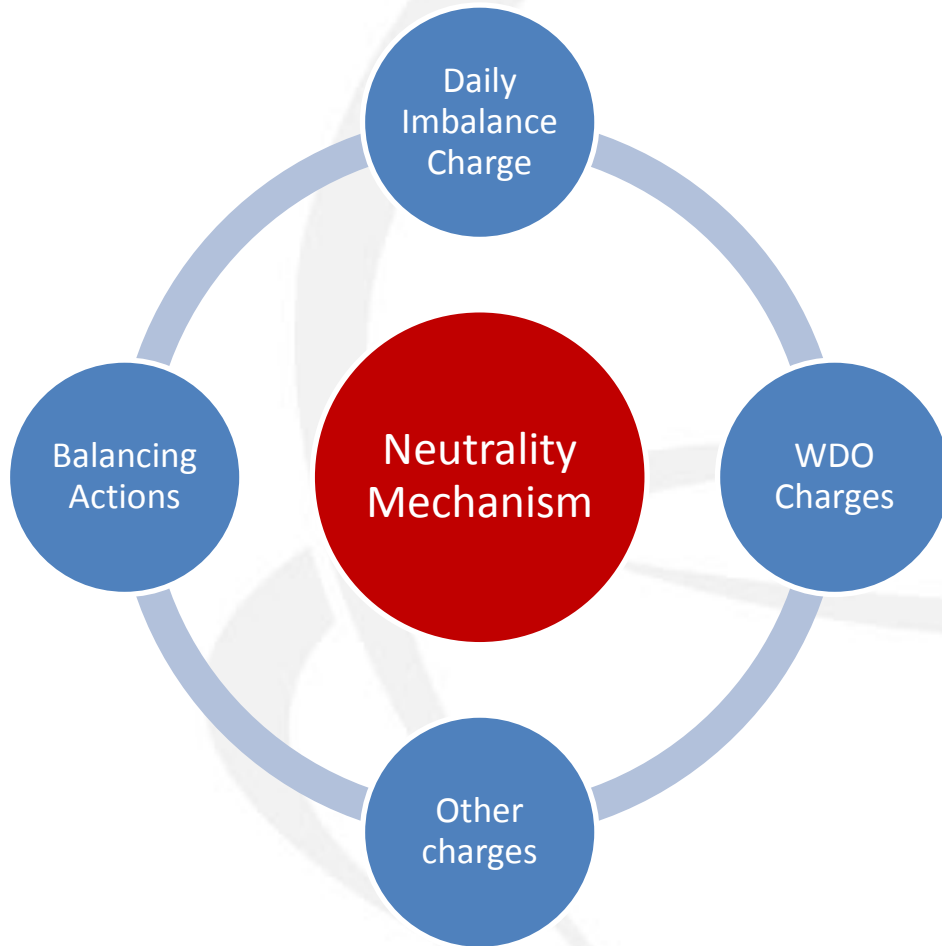
Settlement / Neutrality

Markus Sammut
Commercial Framework Kernel Group

Recap

- Specification of Neutrality Mechanism not covered in framework guidelines
- ENTSOG presented some considerations at SJWS2 and received feedback from stakeholders
- Draft business rules have been crafted based on this feedback

Neutrality Mechanism



- There are three main features of a neutrality mechanism:
 1. The financial flows that feed into the mechanism
 2. The construction of the mechanism
 3. The means of distributing the pot amongst network users

Neutrality Mechanism

“high degree of transparency required so that network users can understand the composition of all cash-flows into the neutrality regime”

....SJWS2

Proposed Business Rules:

- The balancing neutrality charges shall be kept separate from other transmission charges.
- The neutrality methodology should be published so that Network Users can understand the composition of the neutrality charges.
- Both volume and financial flows associated with each element of the neutrality pot should be published so that Network Users can assess the overall the functioning of the balancing regime.

Neutrality Mechanism

“Whether the merit order may have a role in distinguishing within-day and end-of-day actions”....SJWS2

Proposed Business Rules:

- More than one Neutrality Mechanism can be used per balancing zone where this can achieve better apportionment of costs, albeit that precise cost targeting may be unachievable.

Neutrality Mechanism

“If primary incentive (cash-out) is appropriate then neutrality of main gas transactions (imbalance cash-out and balancing transactions) should give financial effect close to zero – views were sought as to whether this should be an aspiration for balancing regimes”SJWS2

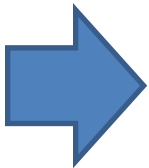
Proposed Business Rules:

- No rule necessary

It should clearly be the aim of any balancing regime.

This rule, however, should not be incorporated into the neutrality mechanism should rather be taken into account when designing other parts of the regime.

The amount of money, paying attention to both gross and net cashflows, that will then go through neutrality would be a good test of the design of the balancing regime.



Neutrality Mechanism

“Reasonable credit arrangements - TSO bears the risk of shipper default and this will impact neutrality arrangements and so, at least the principle of credit arrangements needs to be recognised in the network code”SJWS2

Proposed Business Rules:

- Appropriate credit arrangements are put in place to ensure security is provided to cover the Network Users balancing imbalance and neutrality charges and, if a Network User fails to make payment of any charge when due, all other Network Users may become liable for (in aggregate) an equivalent amount (together with an amount in respect of the cost of financing such non-payment).

Neutrality Mechanism

“A high degree of transparency should be used to define which costs should be part of the neutrality pot. In particular, TSO should clear what are the costs associated to the item named “Other charges”, to avoid that this cover costs that are already recovered by OPEX into the regulated tariff.”

– **Proposed Business Rule**

– Balancing Activities: The charges that arise due to balancing activities are:

- Daily Imbalance Charges;
- TSO balancing actions;
- Within Day Obligation Charges;
- Other balancing charges, including for example daily administration costs and financing costs and other costs directly related to the TSO balancing activities, not covered under transmission charges.

Neutrality Mechanism

Other Key Business Rules

- The apportionment of charges and revenues to all Network Users will be based on each Network User's usage of the system.

Feedback

The rules provide for greater definition of Neutrality Mechanism than framework guidelines.

Stakeholder Views



fair partner to all



Transition

- Delivering the framework guidelines

Nigel Sisman

Business Area Manager, Markets

Delivery of effective functioning transition

Cash-out prices

**Tolerance
application**

**Procurement &
Platforms**

Framework guidelines envisages that these three elements will be covered in the network code

Tolerance relief reduction

Successive steps – towards eradication of tolerances



Tolerance application

Unwarranted exposures to reduce based on

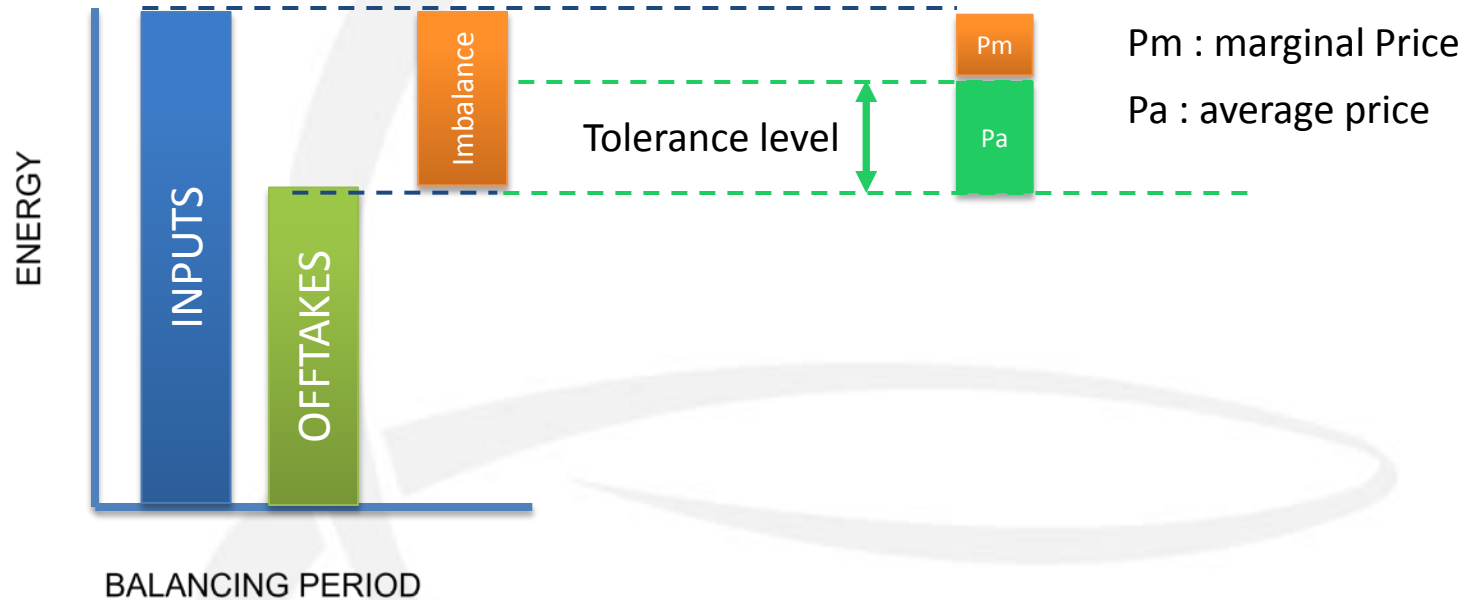
- Better quality information
- Network User forecasting ability
- More robust cash-out price formation

No tolerances

To avoid unwarranted price exposure in the early days of new regime operation

Early “larger” tolerances provide a “softer landing” for network users ...

Tolerance Concepts from SJWS 2/3



Tolerances to provide price relief and perhaps comprising:
Fixed component
% of component parts of the portfolio
NDM Advisory Forecast Deviation adjustment

Tolerance application approach

Objectives (include):

1. To grant some price exposure relief where network users can't accurately manage their imbalance quantities
2. To avoid undue cross-subsidies and redistributions ("fairness")

Fixed quantity tolerance

Everyone gets the same?

and/or

Component based tolerances

Proportional multiplier for each class of entry/exit allocation

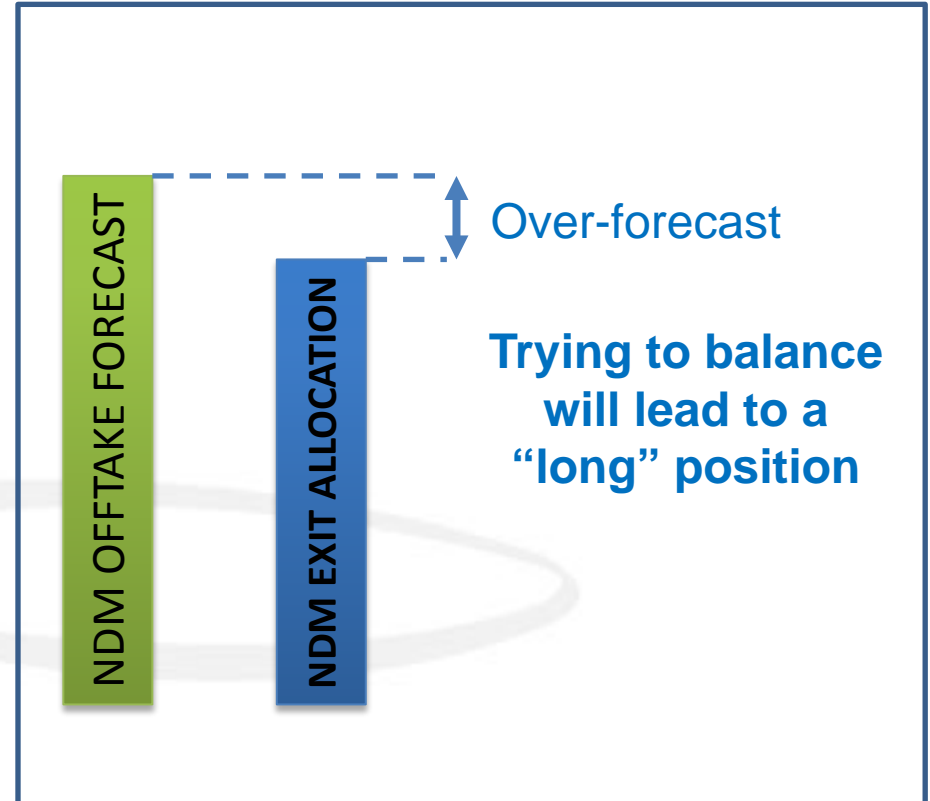
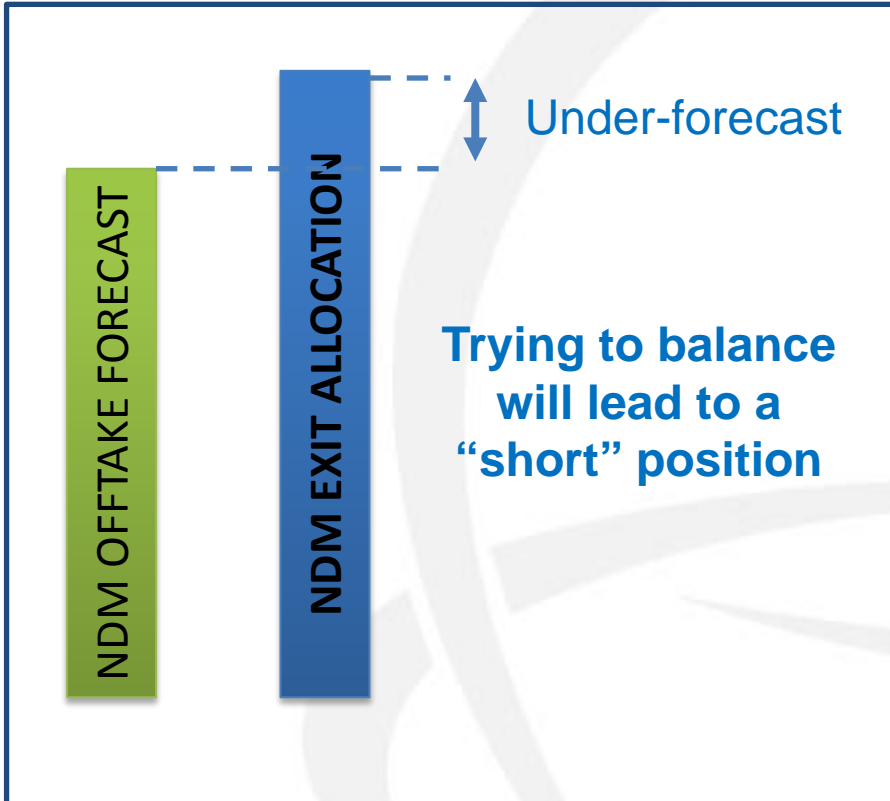
and/or

NDM forecast deviation based tolerance

Allowance for forecast deviation (on a direction based basis)

The NDM Advisory Forecast Deviation Adjustment

NDM forecasts will be either under-forecast (low) or over-forecast (high)



Relief applicable where network user's are short and NDM under-forecast

Relief applicable where network user's are long and NDM over-forecast

Tolerance composition

Fixed component

Common energy quantity applicable for all network users

Proportional component for relevant entry/exit

Could be based upon proportions of different component classes at entry/exit capacities or flows

NDM Forecast Deviation Adjustment

To be based upon a particular NDM Forecast at a preferred point in time

Tolerance – issues for resolution

Fixed component

- Basis for a particular common tolerance?

Proportional component for relevant entry/exit

- Which classes of entry/exit points should attract tolerances?
- How big should tolerances be?

NDM Forecast Deviation Adjustment

- Which NDM forecast should be used?

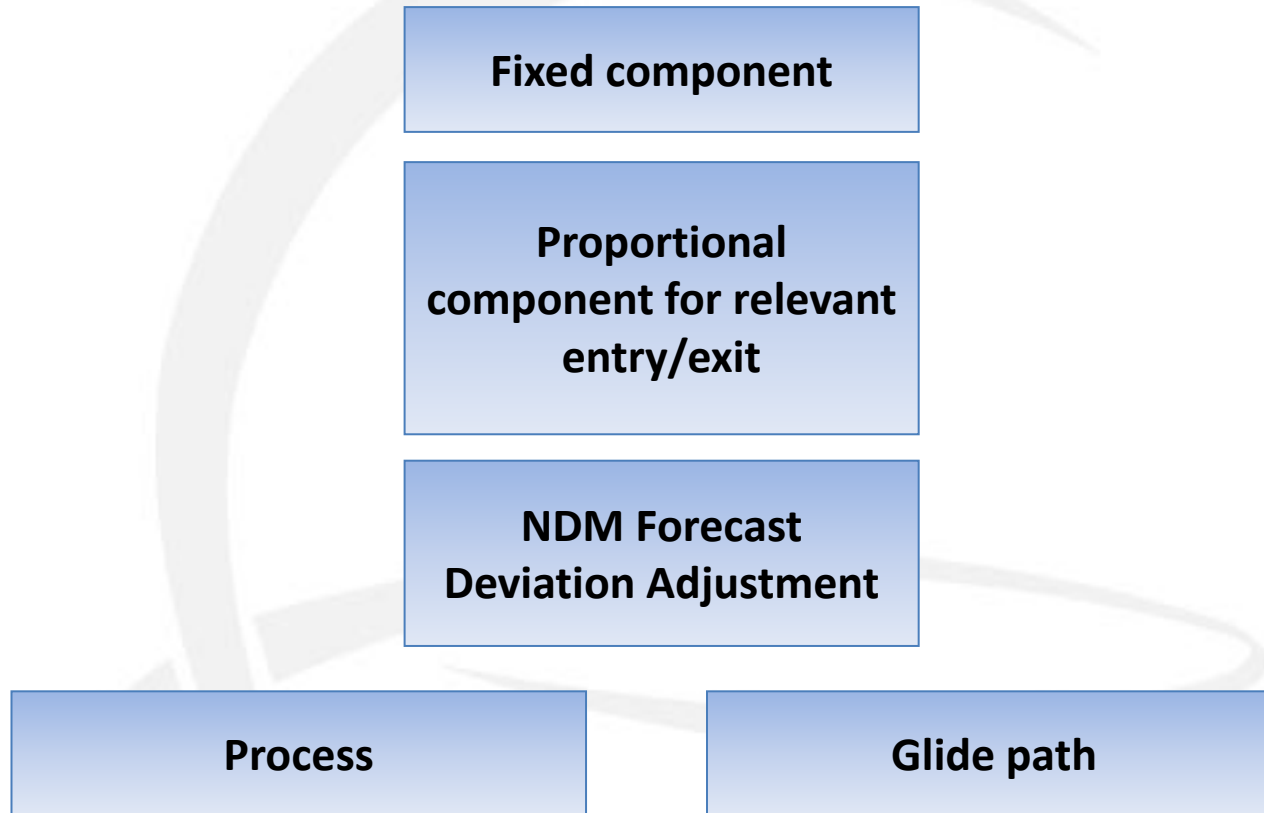
- How might steps to reduce be structured and assessed?

Glide path

What criteria will inform progressive reduction of tolerances?

What scale of tolerances and levels of cross-subsidy might be acceptable?

Tolerance – transitional business rules



- How should the process be conducted and with what aims?
- How might steps to reduce be structured and assessed?

Tolerance – individual Network User determination

Fixed component

Each Network User shall have a Fixed Tolerance Element defined as x kWh

Proportional component for relevant entry/exit

For each relevant class of entry/exit points an applicable percentage tolerance will be defined.

For each class an aggregated usage measure will be defined.

A Network User's relevant class tolerance will be the applicable class percentage tolerance of the Network User's usage.

NDM Forecast Deviation Adjustment

NDM Forecast Deviation is the amount by which the NDM Advisory Forecast:

- (i) If the Daily Imbalance Quantity is positive, exceeds the NDM Exit Allocation
- (ii) (ii) if the Daily Imbalance Quantity is negative, is less than the NDM Exit Allocation.

Total Tolerance

A Network User's tolerance is the sum of:

- (i) Fixed Tolerance Element
- (ii) The sum of the Network User's Relevant Class Tolerances
- (iii) The magnitude of the NDM Forecast Deviation (if any).

Tolerance – managing the transition

Process

TSOs shall be able to implement tolerances as defined in these rules subject to explaining why the conditions for this interim measure is met..

TSOs shall produce a report that proposes a roadmap, including a plan for moving away from the use of tolerances at the latest within five years of entry into force of the network code.

TSOs shall publicly consult on this report before it is submitted to the NRA and, for information, to ACER.

ACER will monitor these reports and the competent NRA, taking full account of ACER's opinion, shall approve the roadmap or may require the TSO to modify it.

ACER may request the concerned NRA to amend its approval decision.

Glidepath

[Should the network code include anything else about glidepath and criteria for reduction of tolerances?]



Pause for feedback

Transitional cash-out pricing


Successive steps – towards full market based pricing



Cash-out prices



Framework guidelines allows proxy for a market price



Full wholesale based pricing

Cash-out pricing evolution is part of the transitional package to define increasing balancing responsibility to network users

Possible transitional cashout arrangements

Proxy from adjacent markets

- Best to be linked to within-day price for gas
- Some uncertainty essential (differentials not too big!)
- Many mathematical formulations possible (launch doc)

Administered prices

- Pre-determined prices but may force too high differentials

Use TSO prices from trading/balancing platform

- Affords opportunity to create virtual circle
 - Some exposure to TSO balancing action prices
 - May want to include locational elements in early days

Tolerances provide the primary transitional “protections”

Scope for “virtual circle” to accelerate progress to functioning balancing markets

Use of platforms –

“Procurement is the stimulus for a short term balancing market”

Successive steps – towards full market based procurement



Procurement

Establishment of platforms for access to:

- “physical flexibility”
- “commercial” title product

Proving ground for short term balancing markets

Encourage flexibility providers to transact

Full wholesale
based
procurement¹

... first step to create visibility of short term access to flexibility

... balancing platform or can we go straight to a wholesale market platform?

¹Where wholesale market cannot meet requirements balancing services may be used

TSO use of platforms

Essential elements for TSO use of platforms

Availability of sufficient products on platform

Sufficient posting of physical flexibility

Availability of pricing info to TSO / network users

Early transitional arrangements to promote use / liquidity on platform

Transitional Conclusions (1)

- Tolerances
 - NDM Advisory Forecast deviation
 - % factors for other classes of other entry exit points
 - Glide path to no tolerances in target model
- Platforms
 - Establish functionality for standardised products
 - Regulatory support to encourage players to participate
 - Encourage use of platforms as stimulus to market
- Cash-out Transitional package
 - A matter for national determination?
 - To be informed by guidance from the network code?
 - What specificities should be included in code

Transitional Conclusions (2)

- Release of surplus flexibility
 - Service and short term offers/bids can assist stimulate the short term market?
- Nominations
 - No obligation to balance but matched renomination concept?
- Neutrality
 - Some acceptance of costs via neutrality necessary to kick-start market
 - Longer term benefits for shorter term cost redistributions

Transitional implementation a matter for national determination?

What guidance should be in network code?

