

## 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](mailto:info@entsog.eu) by 17:00CET on June 12<sup>th</sup>.

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.

### Name

First and Last Names: Valentina Giust

### Organisation

Company/Organisation Name: Sorgenia SpA

Job title: Regulation Analyst

### Contact details

Email: [valentina.giust@sorgenia.it](mailto:valentina.giust@sorgenia.it)

Tel: 0039 02 67 194 395

Mobile:

### Address

Street: Via Vincenzo Viviani 12

Postal code: 20124

City: Milan

Country: Italy

**ENTSO-G seeks to publish response once the consultation has ended. Please indicate here whether your response is confidential (in whole or part)**

☐ In whole, meaning nothing to be published

☐ In part, meaning a version with your marked confidential sections excised by ENTSOG could be published

## **CHAPTER II. BALANCING SYSTEM**

**Question 1** – Do you concur that the implementation of a Virtual Trading Point via the inclusion of the Trade Notification and Allocation scheme in the Balancing Network Code will contribute to the delivery of a properly functioning market? If not, please propose an alternative and provide justification.

Response: Yes.

**Question 2** – in the context of the proposed Trade Notification and Allocation scheme, does the Draft Code provide sufficient harmonisation within? If not, what would be the preferred basis for any additional harmonisation?

Response: NA

## **CHAPTER III. CROSS-BORDER COOPERATION**

**Question 3** - Do you agree that ENTSOG should issue the review of the progress of harmonisation of balancing rules report at the latest two year after the implementation of the network code and then biannually thereafter? If not, please propose an alternative and provide justification to support your proposal (and /or counter Draft Code's approach).

Response: Yes, we believe that two years are enough in order to evaluate how efficiently the network code has been implemented and to analyze the critical issues eventually arisen. We would like also to underline the importance of stakeholders involvement during the review process.

**Question 4** – Do you agree with the proposed review process (including the issuing of a report (in the public domain)? If not, please propose an alternative and provide justification to support your proposal (and /or to counter Draft Code's approach).

Response: Yes.

## **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: No. Every national market should provide sufficient incentives for shippers to trade and import gas from adjacent markets.

Furthermore, given the presence of information asymmetry between network users and TSOs in relation to both balancing actions and overall conditions of the grid, TSO trading in adjacent markets requires a maximum level of transparency on TSO's actions, focussing the attention on the objectives pursued by the TSO. It has to be granted that the main objective must be the efficient use of flexibility resources, avoiding the pursuit of objectives with a different nature (TSO must operate in a fair way).

We suggest to explore this type of cooperation/procurement in further stages of the implementation of the network code and only if adjacent wholesale markets are sufficiently integrated.

**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: Sorgenia believes that, the term "efficient" should even imply that, in case of wholesale markets characterized by a scarce liquidity level, the TSO should also pursue the aim of increasing market's liquidity.

**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. We believe that the use of a small set of short term standardised balancing products could facilitate 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. We believe that an exchange based trading could have some advantages only if implemented in developed markets, while in less developed ones it would generate additional costs for the system which might not correspond to an actual added value to offer cleared services.

**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. We believe that a possible implementation of these type of solution could only be investigated afterwards a deep analysis on how the network code has been implemented and on the markets integration level that has been reached.

**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. We believe that some specifications must be needed. In particular we strongly agree that the TPO should at least offer clearing services and submit the nominations on behalf of trading participant (title market products only).

**Question 11 –** Do you agree with the choices in the Draft Code to put the obligation to (re)nominate on the Originating Party? If not, what would your preferred alternative be and what benefits would this alternative have over the mechanism proposed in the Draft Code?

Response: Yes, with particular reference to locational products, in order to give the possibility to large end consumers (industrial and power generators) to offer flexibility to the TSO for balancing the system.

**Question 12 –** Do you concur with the sequence of the tools in the merit order and the level of guidance it gives the TSO in choosing the most appropriate tool? If not, which changes, if any, would you advocate and why?

Response: We believe that some locational products (and in particular those products connected with storage plants and large final customers) can be used jointly with title market products. In our opinion the NRA should decide whether a locational product should be considered in the same merit order as title market products, depending on a "economic and efficient" valuation.

**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 believe that priority should be given to the lack of liquidity of the wholesale market. In general, it could be opportune to define transparent and well-known for all the network users, procedures and rules pursued by the TSO to manage balancing actions. We believe that the balancing Network Code should aim to reduce the amount of option for flexible gas held by the TSO through long-term balancing services (like storage contracts), giving priority to

flexibility tools owned by network users, even in terms of demand modulation.

Moreover, in our opinion, the Network Code's provisions shall in general avoid any kind of discrimination among network users with particular reference to the availability and the utilization of different flexibility resources (for example flexibility provided by renominations in entry points).

**Question 14 – Do you agree with the proposal that the TSO shall be enabled to submit an incentive mechanism to the NRA for approval? If not, please explain why.**

Response: Yes.

We highlight the necessity of a public consultation process for these proposal.

Moreover, given that the TSO has an obvious interest in the incentive regime it would probably more appropriate to leave to the NRA the discretion to propose an incentive mechanism, to be submitted to consultation with stakeholders. This would leave it to the discretion of the NRA to either consult the TSO or to commission 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: Yes. We would like to draw attention to the fact that the NC provisions on nominations harmonization would apply only to IPs connecting Member States. As in particular regard the Italian case, unlike other Member States in central Europe, this implies that nominations harmonization would apply only to one IP (the entry point of Tarvisio), thus generating a competitive disadvantage in terms of availability of flexibility resources. Even though the network code does not provide for full harmonization, we believe that in order to create a level playing field for all shippers across Europe, the network code shall push NRAs to implement harmonized procedures as much as possible (not only to cross-border interconnection entry points, but even to storage and LNG interconnection points), in order to prevent cross-subsidies and discriminatory effects among Member States.

Furthermore, we consider inappropriate to allow TSOs to reject nominations (and renominations) that are within a network user's booked capacity rights if the TSO cannot deliver on its contractual obligation. This would undermine the value of firm capacity, discouraging TSOs from using Locational and/or Temporal products to resolve constraints or congestions. Only in case of an emergency situation, or a pre-notified instance of force majeure, rejecting nominations could be appropriate (giving appropriate and preventive information to those network users interested).

## **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: Yes. With reference to renomination schedules, we also recommend the necessity of exploiting the synergies existing between power and gas markets and the flexibility resources present on both markets.

**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: We agree with allowing the TSO to intervene and change nomination (respectively re-nominations) where system integrity is at risk, only if interested network users are provided with timely information on TSO's intervention.

We agree even with the implementation of an "enabler clause" in order to carry out a consultation to evaluate the opportunity of defining harmonized nominations.

## **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: As regards daily imbalance charges, in general, Sorigenia believes that in a market based balancing regime, price decoupling should not be adopted because, in our opinion, market functioning generates itself a price differentiation and the consequent incentives for shippers to balance their positions.

Price decoupling could foster non reflective costs for the network users, which could generate inefficiency and price distortions. We believe that the decision to introduce price decoupling should be taken by the NRA after a costs and benefits analysis. Price decoupling should not be introduced if network users don't have sufficient information in order to forecast their daily imbalances, in particular for NDM offtakes.

**Question 20 – Do you have alternative views as to whether Locational and/or Temporal Market Products should feed into the derivation of the Weighted Average Price? If so what is your rationale for a different approach and what do you see as the benefits?**

Response: We consider this kind of evaluation too specific. NRA should decide taking into account national Market's characteristics and the possibility that feeding Locational and Temporal Market Products should into the derivation of the Weighted Average Price could generate distortive effects,

as they represent products' typology with specific characteristics (i.e. products referred to a specific entry/exit point or to a specified period of time within the gas day) and their valorisation could be influenced by the potential presence of congestions.

**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: Given the different maturity stages of wholesale markets and different availability of flexibility resources among Member States, we believe that the implementation of this kind of provision should be left to NRAs' approval, following a public consultation with market participants.

**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: We consider this kind of evaluation too specific. NRA should decide taking into account national Market's characteristics, avoiding in general TSO's trading 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: We consider this kind of evaluation too specific. NRA should decide taking into account national Market's characteristics.

**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: We consider this kind of evaluation too specific. NRA should decide taking into account national Market's characteristics.

## **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: We do not support the imposition of within-day constraints on network users, relating to their inputs and off-takes during the gas-day. We believe in fact that the introduction of within-day constraints on certain categories of customers would imply a discrimination among both shippers serving different segments of final customers and new entrants, generating a possible barrier to entry. In addition, we believe that the imposition of administered charges in case of failing to meet



within-day obligations, is not a cost-reflective measure and could be excessively burdensome for network users operating in less mature markets, thus generating potential market distortions. We believe in fact that implementing a market-based balancing system, through mechanisms for balancing resources retrieval, represents itself an incentive for network users to both balance their portfolios and to take appropriate balancing actions during the day in order to help the system balancing.

In case within-day obligations are applied, it is extremely important to provide shippers with a sufficiently early warning that their current individual balancing positions will - if not changed - lead to penalties, due to a within-day obligation. 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 application of a penalty.

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

Response: See response to question 25.

**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: See response to question 25.

**Question 28** – Do you agree that a six-month period is appropriate for a TSO to make a proposal for approval of an existing WDO, including a recommendation document? If not, please propose an alternative and provide justification.

Response: NA

**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: NA

## **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: We believe that the specific formulation of the detail if the neutrality mechanism shall be a matter of determination for each balancing regime, aiming basically at the reduction of cross subsidies and facilitating the development of liquid wholesale markets.

The draft code should even prevent the TSO from passing on to Network Users those costs or revenues connected to incentive mechanisms and that are partly to be borne by the TSO.

Moreover, arises the problem concerning how these charges should be appropriately transferred to



end customers: only if they are defined as a clear and explicit component they could be well transferred to the final price for end customers.

**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: NA.

**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, because this kind of mechanism would imply a discrimination among both shippers serving different segments of final customers and new entrants, generating a possible barrier to entry, and could even generate cross-subsidies. At any rate, to the extent that separate neutrality pots are considered necessary, they should not undermine the balancing regime as a whole or diminish the efficiency and liquidity of the within day balancing market.

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

Response: We consider neutrality pots as being a national issue.

**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: NA

**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: We believe that this matters requires a deep analysis, in order to better evaluate the level of neutrality sums involved and whether these could cause an undue cross subsidy between network users, together with a proper evaluation of the recognition of balancing costs for network users.

## **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: Considering the context of the very different balancing regimes currently operable in Europe together with the different fragmentation existing in the distribution segment, we believe that the information provision models proposed are not sufficiently exhaustive. It could be better defining within the Network Code only general rules to be achieved regarding first of all availability of information on DM and IDM offtakes and forecasted data for NDM points, leaving to NRA the definition in detail of the information provision model.

As in particular regards information on IDM, we strongly ask for the availability for network users of not only aggregate input and off-take information, but even timely information differentiated for each point being metered during the balancing period, belonging to each network user.

Furthermore, in case within-day obligations are applied, additional and more frequent information on offtakes (and inputs) must be provided to network users.

**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.

**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: NA

**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: We agree with the proposals set out in the NC. In general we believe that the later in the day updates are provided the better, as this should improve accuracy, but this has to be counterbalanced against providing shippers with sufficient time to react to the updated information. We even ask for a coordination of timing of information flows with the timing of electricity markets, in order to allow generation plants to efficiently balance their position and participate in a market-based balancing system.

**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: NA

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

Response: Yes, but the network code should clarify that these models apply only to daily balancing regimes without any additional within-day obligation.

## **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: As regards the allocation of TSO's linepack to network users, we believe that the Network Code, pursuing the objective of system costs minimization, shall define a transparent mechanism for linepack allocation in order to prevent any kind of incentive for TSOs to use linepack in an arbitrary and speculative way. This will require, in our opinion, a constant monitoring by NRAs on TSOs activities.

## **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: We believe that NRA should decide taking into account national Market's characteristics.

**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: The Italian experience has shown that imposing a direct access to the market to the TSO in order to sell/buy Daily Network Imbalances brought itself liquidity to the market. The obligation to submit bids has not been so crucial in generating liquidity, because it can be in fact avoided by setting not competitive offer prices.

We believe that it is essential for a market-based balancing mechanism to work efficiently, in order to develop competition in the gas market, the provision of a fair access to the essential balancing resources, with particular reference to storage capacity. As in particular regards storage capacity, we suggest the introduction of a well functioning secondary market for storage capacity together with a provision for freeing up storage capacity not utilized by shippers, at least on interruptible basis, in order to allow an optimization in the use of balancing resources by network users.

**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: NA

**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: We consider this kind of evaluation too specific. NRA should decide taking into account national Market's characteristics.

As regards the provision of defining tolerance levels, in general, Sorgenia believes tolerance levels shall be set equitably across all classes of final customers, and not only on NDM points, in order to avoid any market distortion, but they even shall be sized in order to avoid excessive penalties on small operators.

**Question 48 – In your view, should the reduced exposure involve the application of an average price? If not, please explain your rationale and provide your preferred approach.**

Response: Yes.

**Question 49 – Do you support the Draft Code including provisions for the accuracy of forecast information provision to ensure timely phase-out of tolerances? If yes, explain how this can be best established.**

Response: We would like to underline the importance for network users of having information about NDM offtakes regardless of implementation of tolerance levels. In particular, we ask for the implementation of forecast methodology which should be simple, clearly defined and usable for all network users. Moreover, forecast methodology should conveniently give responsibility of forecast information, appropriately distinguishing between shippers, TSOs and DSOs.

**Question 50 – Does the Draft Code provide an appropriate mitigation of risk involved in serviceing NDM demand? If not, please indicate an alternative approach and its rationale.**

Response: We do not agree with a possible implementation of a complex mechanism, like the one proposed in the NC. We believe that would be more appropriate leaving the definition of this kind of issue to NRAs.

**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. We think that the interim imbalance cash-out price should be referred to balancing platform trades, because in this way balancing prices would better reflect the costs incurred by the TSO to keep the system in balance on the gas day. To this end, the Italian PB-gas functioning could be taken in consideration for the determination of cash-out prices.

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

Response: NA.

**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.).

CHAPTER I. GENERAL PROVISIONS	
CHAPTER II. BALANCING SYSTEM	
CHAPTER III. CROSS-BORDER COOPERATION	
CHAPTER IV. OPERATIONAL BALANCING	
CHAPTER V. NOMINATIONS	
CHAPTER VI. DAILY IMBALANCE CHARGES	
CHAPTER VII. WITHIN-DAY OBLIGATIONS	
CHAPTER VIII. NEUTRALITY ARRANGEMENTS	
CHAPTER IX. INFORMATION PROVISION OBLIGATIONS	
CHAPTER X. LINEPACK FLEXIBILITY SERVICE	
CHAPTER XI. IMPLEMENTATION, INTERIM MEASURES AND ENTRY INTO FORCE	

**Question 56** – After reviewing and/or replying to Chapter 5 which follow, do you find that there are other material issues that ENTSOG should consider as it develops the Balancing Network Code?

Response: No.

**Question 57** – Do you find that this supporting document for the public consultation was 'respondent-friendly' in terms of its readability, style, etc.? Please explain how we can improve future consultations.

Response: Yes.

Furthermore we would like to suggest to ENTSOG to define different level of consultation process for the evaluation of the NC proposal (e.g. one general level and another more detailed), in order to allow as many operators as possible to participate.