

Responses to Consultation on Draft Code on Balancing

Please complete the fields below and send via email using the subject, Response to Consultation on the Draft Code on Balancing, to info@entsog.eu by 17:00CET on June 12th.

Please note that respondents are not required to respond to all questions below.

In sending your response submission by email, you are confirming that ENTSG can disregard any standard e-mail text about not disclosing email contents and attachments.

Name

First and Last Names: **Dr. Olaf Däuper, Christian Thole**

Organisation

Company/Organisation Name: **Initiative Gashandel / GABi Gas**

The Initiative Gashandel/GABi Gas ("Initiative on Gas Trading and Gas Balancing"), established in 2008, currently represents 15 gas trading companies in Germany, Austria and Switzerland that are active participants in the German gas balancing market.

As new players of the operating energy market within the German market areas Netconnect Germany and Gaspool, the members of the Initiative Gashandel/GABi Gas have limited their statement to few but very important aspects of the shaping of the future European balancing system.

The Initiative Gashandel/GABi Gas is a forum for market participants designed to allow an exchange of opinions and experiences with the purpose to improve their participation in the balancing and wholesale gas markets, and above all to enhance and optimise market conditions. For that purpose, the Initiative stays in close contact with German market participants such as the TSOs, the EEX and the Federal Network Agency (*Bundesnetzagentur*).

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ENTSOG 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:

The Initiative Gashandel/GABi Gas agrees with that point.

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

Response:

Yes, in the Initiative's view, the Draft Code provides for sufficient harmonisation.

However, the Initiative would recommend a specification of the term „Trade Notification” in Appendix 1, which refers to the nomination at the virtual trading point.

CHAPTER III. CROSS-BORDER COOPERATION

General Comment:

The Initiative welcomes the TSO's basic obligation to co-operate with the aim of putting together the entry/exit zones and enabling cross-border balancing as well as the proposed consultation process in which the stakeholders are involved.

The pan-European gas trading has already become reality. But the different national systems hinder the trade between the European trading points considerably. Therefore, the Network Code on Gas Balancing should not only contain the schedule and the procedure of the European gas trading, or the consolidation of the entry/exit points for the future, but also provide for specific, directly applicable provisions on the harmonisation and the improvement of the status quo. The current concept under the Articles 10 and 11 of the NC Gas Balancing only provide for an improvement starting at the earliest in 2015 or even 2016.

Question 3 - Do you agree that ENTSG 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: See above.

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: See above.

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:

Gas trading, i.e. the purchase and sale of gas, should be carried out first and foremost by shippers or gas traders. TSOs should only engage in such market activities (as second-tier players), if and where this becomes necessary for grid control. Procuring control energy in adjacent markets might be helpful in this respect. Besides, the significance of a participation of TSOs in trading for the evolution

of a Europe-wide, liquid gas market should not be underestimated.

Question 6 – Do you agree that the use of the expression ‘economic and efficient’ is a suitable criterion assessing TSO Balancing Actions? If not, please provide an alternative and an associated rationale.

Response:

Yes, we agree.

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:

Apart from standardised short-term products, there should be sufficient room left for products individually designed by TSOs, if the technical specificities of the market area should require so. These include, for example, medium-term and long-term products (quarter or year) and local products. Apart from that, there should be a certain flexibility for the formation of prices. Often medium-term and long-term products may only be offered via a (at least proportionate) demand charge.

The Initiative also has a critical view of the fixed ranking of the consideration of products by TSOs as outlined in Articles 12 and 13. The TSO should be allowed to consider products in the market that, from his point of view, are required to ensure an optimal control of the grid. Please see also the response to question 12.

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:

From the Initiative’s view, it would be helpful to establish general rules in this respect. These should take into consideration the objective that TSOs are required to procure control energy in the most cost-effective way.

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:

The Initiative Gashandel / GABi Gas would like to emphasise the importance of a diversified structure of numerous providers active in the TSO balancing market, in order to ensure the competitiveness of TSO balancing energy and wholesale gas markets. The size of the products shall reflect this concern and it shall not introduce any market entry barriers. Therefore, the size of the products shall enable also smaller portfolio traders to trade on the Platform in a way which is not discriminatory and disadvantageous for them. In that respect, the Initiative supports an explicit provision concerning the minimum size of the products. It should not exceed 30 MW. As a condition for the introduction of that minimum size, the Network Code on Gas Balancing should explicitly allow a pooling of several ("smaller") portfolio traders in order to offer the balancing energy product.

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:

So far the Draft Code only contains a couple of very rudimentary requirements for the drafting of contracts between market parties (e.g. balancing group agreement).

So far experience with gas trading and the offer of control energy in the German market areas of GASPOOL and NCG has shown that harmonising contractual standards and a clarification of general market roles and contractual relationships has proven to be extremely useful.

Therefore, the Initiative endorses the inclusion of a provision that clarifies at least the general contractual obligations of the Parties.

Apart from that, a provision in favour of a harmonisation of the pre-qualification rules and conditions is missing in the Network Code. Ideally, a successful pre-qualification with one TSO should be recognised by the other TSOs and entitle to offer control energy across Europe.

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:

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:

The Initiative supports a transparent merit order list serving cost-efficiency. We welcome the introduction of short term standardised products.

According to our interpretation, the provision in Article 13 gives the TSO a certain competence to make a first decision as to which products might serve best the procurement of control energy. The Initiative Gas Trading/ GABi Gas would, however, welcome if the wording of these prerequisites would be made clearer and more precise. One criterion could be at least the inappropriateness or non-availability or not sufficient availability of a higher-ranking product to cover the demand of control energy. All in all, the provision should make clear that the selection of products should be, first and foremost, based on economic criteria.

From our view, a certain priority of the products listed in Article 13 should be established, unless local and/or regional products are more economically advantageous and cost-efficient and better serve to ensure an optimal control of the grids. This should be taken into consideration and clarified in the merit order list. Please also see our response to question 7.

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:

Generally, the Initiative welcomes the demand of balancing services by the TSOs, which, in general, could be an economically more efficient and more appropriate grid supplement in comparison with short-term trading market products. As already explained in our response to question 7, TSOs should be allowed to consider those products in the market that, from their point of view, are required to ensure an optimal control of the grid.

However, the products and the tendering modalities for balancing services have to be clarified in more detail. Especially in this respect, a special harmonisation of the product design and tendering modalities is necessary, since otherwise this could lead to the evolution of a non-transparent, less liquid parallel market that is prone to discrimination.

Besides, the definition of balancing services (No. 8, Annex 1) is not precise and meaningful enough.

From the Initiative's view, there will always be a certain demand of balancing services. Because these should be used by the TSOs if – due to certain physical necessities and specificities – control energy cannot be procured or if the procurement is not economical. Apart from insufficient or uncertain liquidity of the spot market, this is, for example, also the case if local structuring, or if direct use without lead-time is required, in case of regular structuring or virtual conversion.

For such cases, balancing services should be kept as adequate product also if the spot market becomes more liquid.

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:

Basically, it should go without saying that TSOs guarantee an economically efficient grid control. Therefore, the Initiative rather disapproves of a special incentive mechanism.

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:

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:

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:

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:

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:

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:

The inclusion of the Locational and Temporal Products in the formation of the Weighted Average Price would allow to compensate the TSO's for balancing costs actually incurred. But the lowest and highest prices for the Locational and Temporal Market Products should not be used for the definition of the Marginal Sell or the Buy Price, since these prices can fluctuate considerably (these fluctuating prices, in turn, could entail accidental and unpredictable, extremely high prices for balancing energy – and should, therefore, be factored out).

Question 21 – Do you agree that day-ahead trades should feed into the determination of the Weighted Average Price, Marginal Buy Price and Marginal Sell Price? If so, then under what circumstances should they be used? Is there merit in allowing local discretion as to whether day-ahead trades influence the setting of the prices?

Response:

In our view, the Weighted Average Price should include all costs of the TSOs made for the balancing purposes. Since balancing of the Transmission System is primary responsibility of the Network User and the Network User can undertake the balancing actions only within a day, the Weighted Average Price should be based on within-day prices.

At the same time, however, it is necessary to ensure that particularly smaller portfolio traders will not be disadvantaged. Therefore, the Initiative supports as an interim solution, provided the market is not sufficiently liquid (at the moment, that is the most probable case), that the Weighted Average Price be defined on the basis of average monthly prices for the procurement of TSO balancing energy.

Additionally, a cost allocation for balancing costs that are not individually attributable to a shipper should be envisaged.

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:

The TSOs should basically purchase the balancing energy on the spot market. The Initiative would like to emphasize again, though, that for technical and cost-efficiency reasons, the TSOs should also be able to use the local and/or regional products. The local/regional products should be traded on the trading platform in a non-discriminatory and transparent manner.

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:

In the Initiative's opinion the effect of small adjustments should be to encourage trading. However, the term „Small“ needs to be clarified. The amount should be appropriate for the purpose and promote it, but it should not provide additional income for the TSOs.

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:

It should be specified what is meant by „detrimental impact on cross-border trade“ under Art. 29 para. 3 lit. c .

CHAPTER VII. WITHIN DAY OBLIGATIONS

General Remarks:

The Within Day Obligation should be designed in a way that it does not come to a trade-off between the daily balancing and the Within Day Obligation for the shippers. Currently, it is unappealing, e.g. in the German system, to carry out an adjustment of a portfolio imbalance during the day, as the structuring charges arising for the rest of the day would probably even overcompensate the positive effect of closing out the daily balance.

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:

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

Response:

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:

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:

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:

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:

In principle, we consider these rules to be appropriate. However, we think that some specifications will be needed in Chapter VIII. It must be ensured that the balancing energy costs are minimized. Furthermore, the costs must be completely transparent.

Question 31 – Do you find appropriate the proposed scope of the transparency elements of neutrality? If not, please explain your reasons why.

Response:

The German rules in the „GABiGas System“ could serve as a good example in this respect: setting fixed costs for control energy in advance and their adjustment every 6 months.

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:

In this regard, we would support reports on a quarterly basis.

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:

Basically, the balancing neutrality charges should be attributed to all balancing groups uniformly and no distinction should be made between different classes of network users as this is not justified and leads to an increase of the management and processing expenses.

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

Response:

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:

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:

The Initiative does not agree with such an alternative. The system of separate invoicing practice shall be maintained. Balancing neutrality costs and transmission charges are of different origins and natures. Therefore, the neutrality sums shall be linked only to the actual gas flows and imbalances of the shippers. They have no link to transportation capacities and shall, therefore, not be linked to them.

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:

CHAPTER IX. INFORMATION PROVISION OBLIGATIONS

General comment:

The Initiative welcomes the obligation to data transmission and considers it to be basically sufficient. However, the Initiative would like to point out that Chapter IX is very complicated and long-winded, which makes it very difficult to understand the rule and could lead to disputes in the future. A clear and unequivocal drafting of the information obligation is, therefore, of great significance, as, apparently a distinction is made between different systems and models, which puts a considerable barrier to the pan-European gas trading.

Question 38 – Do you agree that prospective implementations of Variant 2 should be approved only after a consultation process? If not, please explain.

Response:

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:

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:

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:

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

Response:

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:

The Linepack should only be made available to the TSOs and not brought to the market separately. Otherwise the demand for control energy would increase notably. Linepack is a key instrument for TSOs to efficiently control the networks. Should it come to a separate marketing, then it must be ensured that the linepack can be offered on the market also in the regional and local networks.

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:

Temporal and physical flow considerations should be integrated into the control energy market. It must, however, be clarified what the conditions will be like on which these will be put out to tender, and what their relation will be to the demand of control energy. Apart from that, it must be clarified if these are covered by the balancing neutrality charge, or if they are charged via network access charges.

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:

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:

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:

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:

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:

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

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:

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, the Initiative agrees.

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

Response:

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:

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

Response:

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: