

Responses to Consultation on Draft Code on Balancing

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

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

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

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

☐ In whole, meaning nothing to be published

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

CHAPTER II. BALANCING SYSTEM

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

Response: **Yes.**

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, the proposed Trade Notification and Allocation rules should contribute to the establishment of a Virtual Trading Point, on a harmonized basis.**

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, but stakeholder involvement is essential and therefore the qualifying words in Article 11.2 "where and to the extent necessary" should be deleted.**

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, subject to the answer to Question 3.**

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: **This is a difficult question. It might be argued that this should be allowed on an exceptional basis, in situations where there is too little liquidity in the local market, and purchasing gas on adjacent markets costs less than alternatives. However, there are strong arguments against. Shippers should manage gas flows from the lower to the higher price markets. TSOs should not be allowed to engage in cross-border trading. This might involve them in acquiring capacity on a discriminatory basis and negatively impact on competition and liquidity. The overall results are likely to negate any short-term cost-benefits. Therefore, Eurogas would prefer to see Article 10.8 deleted.**

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: **The expression “economic and efficient” in Article 12.4b is appropriate, but it has to be clear which criteria are used to determine economic and efficient qualities. Further discussion involving stakeholders on what the term means in relation to market development is necessary when implementation starts, to avoid discretion in each TSO’s way to implement it. This criterion should always apply when the TSO applies the merit order of Balancing Actions.**

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 and yes.**

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, provided the primary focus is given to using the wholesale market. However, the use of exchange-based trading would ensure transparency and standardization, and should be the final goal.**

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.**

Question 10 – Do you agree with the current level of specification in the Draft Code on contractual structure and arrangements between the different parties? What changes (if any) would you advocate?

Response: **Yes.**

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

Response: **Yes.**

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: **Priority should be given to title market products, and the wording may need clarification and strengthening to avoid leaving too much discretion to TSOs.**

Eurogas endorses the approach that the merit order applies only to the “use” of balancing services. TSOs should have a transparent merit order on the basis of which balancing products are used in line with principles of cost efficiency.

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: **As mentioned in the answer to Question 12, cost-efficiency is a main criterion, and the preference for using the wholesale market should be clear.**

With regard to the gradual reduction of balancing service as market liquidity increases, this should be the goal, to be referred in the Code, which is not clear enough on this point. In some systems, gas quality issues may be relevant in making the decision.

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: **Eurogas supports an incentive mechanism, but any mechanism should be subject to consultation with shippers, to ensure incentives are correct and be submitted to the NRA for approval. The incentive mechanism put in place should not unduly increase the cost of balancing.**

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 in principle, but the general reference to physical constraints/danger to the system should be clarified, as now it leaves too much discretion to TSOs to reject nominations.**

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. For sake of clarity, reference to the “common nomination deadline” and to the “common confirmation deadline” should be part of the main body of the Code and not only reported by the Definitions in Annex I. Further harmonization of nomination and renomination schedules to include also other connection points (storages, LNG, interconnection with Third countries) has to be assessed at national level, to ensure that all sources can be managed by network users with enough flexibility.**

TSOs could work on the reduction of the time taken for nominations and matching processes.

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.**

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: **Article 25 is an acceptable basis for transition. However, the Code should specify how long the transitional periods will be.**

CHAPTER VI. DAILY IMBALANCE CHARGES

Question 19 - Do you support the Daily Imbalance Quantity determination proposed in the Draft Code? If not, please indicate your preferred approach and supply further rationale and evidence of the benefits of Daily Imbalance Quantities being derived on information based during the Gas Day?

Response: **Yes, in principle, subject to points developed in following answers. Quality information should underpin the determination of Daily Imbalance Quantities, as shippers should not be charged for imbalances over which they have no control.**

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 weighted average price should exclude locational and temporal products as the costs arising from the use of these products is not directly attributable to the shippers' imbalance position at the end of the day. In particular locational products are typically needed to overcome internal congestions, and therefore they should be socialized by means of the settlement neutrality mechanism.**

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 principle no, but there should be local discretion if there is insufficient liquidity in the intra-day.**

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: **Shippers want only one trading platform per market area. The platform should be market driven. The advantages are that it offers the most straightforward and transparent approach, and should be cost-efficient.**

Question 23 – What should the effect of the small adjustment be: to encourage trading or to be sufficiently large to reflect a value for physical flexibility?

Response: **The effect should be to encourage trading among network users. It should not be determined by problems in physical flexibility.**

Question 24 – Do you agree with the addition of cross border trade as a criterion to the derivation of the Small Adjustment? Are the criteria sufficient? If not, what else should be added? Please justify any proposals.

Response: **Yes, and therefore Eurogas is concerned that the proposal seems to imply that this will be applied to all imbalances. In order to design the small adjustment to the weighted average price so that it does not create a barrier to entry or cross-border trade, the UK model could represent a good option. Applying a predefined €/c fee instead of a % of the price could help smooth the effects of price volatility. In any case, the fee should be approved by the NRA after consultation with stakeholders. The predefined fee could be reduced as liquidity increases.**

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: **They seem compatible with the objective of progress towards a Balancing Target Model. Information provided to shippers needs to be compatible with any WDO obligations, and shippers should have sufficient opportunities to renominate.**

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

Response: **Eurogas does not have an issue with the proposed criteria.**

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: **Yes, Eurogas supports the outlined roles.**

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

Response: **Yes, but it has to allow for a clear and adequate timetabling of stakeholder consultation.**

Question 29 – Do you agree that a six-month period is appropriate for the NRA to conduct its assessment and approval process? If not, please propose an alternative and provide justification.

Response: **Yes, the assessment and approval process should take into account views of stakeholders.**

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: **With regard to transparency, it should be specified that the information required to be published should be made available, with a high level of granularity.**

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

Response: **Clarity on cost-breakdown is essential, especially to avoid double counting.**

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: **A high degree of transparency is necessary, enough for stakeholders to understand and identify different cost elements that contribute to neutrality charges and other market issues. A robust framework is necessary to deliver this granularity.**

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: **There are different views within Eurogas on this point but in general members are not in favour of attributing Balancing Neutrality Charges to different pots or think it should be left to local discretion. The determination of neutrality charges should be kept as simple as possible. A system involving multiple pots could become over complex, lead to discriminatory treatment of shippers and hinder the development also of market competition.**

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

Response: **See answer to 33.**

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: **Eurogas agrees the level of specification should not be over-prescriptive, but perhaps some clearer reference is needed.**

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: **This could lead to volatile and unpredictable transmission tariffs and so a risk of cross-subsidies. Therefore Eurogas does not agree. There will also be a lack of transparency. Neutrality charges reflect, in a certain way, the accuracy of the information provision and so should be monitored during the interim period.**

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: **Information quality has to be the essential underpinning of a system that allows shippers to manage their balance positions efficiently. The models proposed seem to be in line with the FG. However, particularly if a WDO is in place, the information provisions have to be tailored to help the shipper meet the obligations/incentives.**

CHAPTER IX. INFORMATION PROVISION OBLIGATIONS

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 a consultation is essential before possible implementation, and should also take place where Variant 2 is already in force when the Code is implemented.**

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: **Yes.**

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: **There is also more need for granularity on information flows e.g. in circumstances when information on IDM off-takes are available on a site basis, these should be provided in this format to network users concerned, thus facilitating their balancing activity. The Code should provide guidance on minimum timing intervals. Eurogas would be concerned if the bar is set too low. Guidance on timing of information flow will ensure it is coherent with the needs of network users and moreover, this harmonization will favour cross-border trade.**

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: The Transparency Guidelines, when fully implemented throughout Europe, will bring benefits, but TSOs should seek to build on these, moving eventually to a single platform.

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

Response: Yes, the proposal seems to be in line with the FG. With regard to forecasting and allocating NDM off-takes, there should be a consultation on load-profile methodology.

This consultation should also propose a timetable for the implementation of the adopted methodology by each DSO or forecasting party. This harmonization will benefit all the network users and DSOs/forecasting parties: greater confidence in a shared methodology, economy of scale...

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: Eurogas believes that Linepack should primarily be used for balancing the system and minimizing the need for WDOs.

If more Linepack is available than is needed for balancing the system, it could be made available on a non-discriminatory basis to the market, to the extent this does not lead to:

- **higher balancing costs for the shippers,**
- **the introduction of within-day obligations, or**
- **a lower level of security of the transmission system.**

One other criterion to be added is that it is necessary to avoid reducing the level of system security.

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: Eurogas agrees with the mentioned indicators on p. 79 of the supporting document, but stakeholders should be invited to contribute to discussions on a local basis to assess these points.

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: **Access to short-term gas flexibility is an important issue, but the Balancing Network Code is not designed to manage this.**

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: **It is not clear what is meant by this question. An LNG terminal is already a source for flexible gas used in balancing.**

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: **It is not clear what the question means, but in the view of Eurogas in general, shippers should be charged on a weighted average daily price for the imbalance within the tolerances and on the marginal price for imbalance above the tolerance levels.**

Tolerances granted to network users should reflect

- the quality of available information
- the degree of availability of sources of flexible gas
- and could possibly also reflect the composition of the user’s portfolio

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

Response: **See answer to Q. 47**

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

Response: **Yes, better information provisions would be useful, as this should support flexibility and improved liquidity will be instrumental in reducing the need for tolerances.**

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

Response: **The draft Code addresses the risks in servicing NDM demand in a pragmatic way, given the different circumstances, but this issue has to be followed.**

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: **The basis looks reasonable.**

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: Eurogas has reservations, particularly if the prices transacted on the Balancing Platform are for locational gas or temporal gas, as the cost arising from the use of these products is not directly attributable to the shippers' imbalance position at the end of the day. In particular, local products are typically needed to overcome internal congestions and therefore they should be socialized by means of the settlement neutrals system. It may be, however, that some Balancing Platforms will offer reliable reference points. Perhaps, therefore this decision should ultimately be left to national level decision, with stakeholder involvement, taking into account the expected progressive increase of liquidity of each Platform.

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

Response: **The table in the Supporting Document is comprehensive.**

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: **Eurogas has no further proposals on this point.**

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	
Response: In general the level of detail is adequate, but Eurogas has suggested points that could be handled in more detail.	

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

Response: **No, other than the continuing issues concerning WDOs.**

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

Response: **The supporting document was helpful.**