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Via Internet consultation: info@entsog.eu

Date : 12 June 2012
Subject : VOEG Response to Consultation on the Draft Code on Balancing

Dear Sirs/ Madams,

We appreciate the opportunity to react on the draft network code for gas balancing. VOEG has two main concerns in the current version of the network code. These items are the current formulation and setting of Within Day Obligations (WDO) and the cost recovery of the TSO in relation to the allocation of operational within day costs to the actual causers in the system.

As a principle VOEG strongly believes that a true daily balancing regime is the best solution in creating a liquid and competitive internal market for natural gas in the EU. We acknowledge that a pure daily regime in which the TSO undertakes both intraday and end of day balancing actions by buying and selling to keep the system within its operational limits will lead to a regime which can be harmonized applied by all European TSO's. We are very confident that the benefits of such a system outweigh any detriments it might cause.

Before explaining our view in more detail, we would like to make one general point. ENTSOG added the supporting document to the consultation for information purposes only. The supporting document has no status, and the final network code will not be accompanied by explanatory notes, as a part of the network code. VOEG urges ENTSOG to reconsider this approach. As is common in developing new legislation, explanatory documents are essential and part of the regulatory framework. This because those documents contain vital information about how to interpret the clauses in the code. Declaring supporting documents as being just informal, might result in different interpretations and thus harm harmonisation.

Within Day Obligations (WDO)

In the current version of the draft network code the WDO are mentioned as a tool for the TSO, but details on the WDO are missing and are left to the individual TSO's and member states. In order to harmonise the balancing regimes in the EU, guidance from the network code is an essential requirement to align the WDO in the various markets. In order to align functionalities of the various balancing regimes now and in the future, ENSTOG should define a limited number of WDO per balancing Variant. This secures the directions of the developments of the various balancing regimes and their development toward a uniform EU balancing regime. In our view, it is better to introduce a suitable network code at a later stage than implementing it an insufficient version in at an early stage, missing out on the actual alignment and harmonisation of the balancing regimes in Europe. This would create delays in the introduction and development of gas markets within the individual member states. Furthermore, a set of WDO defined as basic WDO per system variant, creates regulatory stability in the market and increase the speed of development of the systems.

In our view, ENTSOG should standardise a limited number of WDO for all markets and an even more limited number of WDO per balancing Variant. A limited standardisation allows for a choice of WDO as basis settings for the regimes. This provides ENTSOG with a tool to promote changes in the system towards the standard or even beyond the standard when it comes to availability of actual metering data, near real time system imbalance positions and portfolio positions during the day.

In a truly daily balancing regime, the entry in the system is smeared almost equally over the day; a more or less base load entry of the daily volume, and a profiled exit as a result of the consumption. The TSO is managing the intraday variations by keeping the system within its operational limits during the day. For this, the TSO can use the tools as mentioned in the draft network code. The fact that a daily balancing regime in the gas market is characterised by a daily base load entry is not envisaged in the network code, but is left to the TSO. A WDO in each balancing regime should have rules to create a flat entry in to the system as a basic rule. Since the TSO is well known with the within day demand pattern in their system, they can anticipate on their required actions during the day to operate the systems within the required operational limits.

Cost allocation

In the network code, the financial settlement of the Daily Imbalance is at the end of the day, as it should be the case in a daily balancing regime. This is in line with the guidelines for balancing of ACER. However, we see the potentially large gap between the cost/revenue of the TSO on intraday measures and the cost revenue of the TSO at the end of the Daily Imbalance settlement. The volumes and actions of the TSO during the day are not based on the same volumes as the settlement of the Daily Imbalance at the end of the day. Theoretically all network users can be in balance at the end of the day while the TSO actively bought and sold gas within day to keep the system within its operational limits.

Mitigation of WDO and cost allocation via neutrality

More direction could be given in the network code by giving directions for the implementation of the neutrality clause to allow for the allocation of the costs on a causer based principle. VOEG has a methodology for a causer based cost allocation for markets with detailed metering information and limited line pack, such as the Netherlands and Belgium. We have worked out the highlights of this idea in this paragraph. The methodology as explained only works as a whole and not on one of the measure mentioned.

To allow a fair allocation of costs requires detailed metering information. Only transport systems in which high quality near real time metering information is available for both the entry and the exit of the system are suitable for the allocation of actual cost to the causers via neutrality. Since the Framework Guidelines state the system should not undermine the principle of daily balancing and the imbalance period is defined as one Day, intraday settlement of imbalance positions or cost allocations on intraday imbalance positions are not an option.

To allocate the cost of TSO actions to keep the system within its operational limits, a new parameter needs to be introduced. The variation of the flow in a portfolio during the gas day can be used as an allocation mechanism. By introducing an intraday swing factor on the entry and exit, a factor is created that determines the variation of an entry or exit portfolio over the day. Thus it is a measure for the TSO activity during the day and can be used to allocate the within day costs of the TSO to keep the system

within its operational limits. We propose to define the intraday entry swing factor as the maximum hourly entry divided by the average hourly entry and the intraday exit swing factor as the maximum hourly exit divided by the average hourly exit. The intraday swing factor is calculated separately on exit and on entry at the end of each gas day. The intraday swing factors are used to charge the within Day costs made by the TSO for intraday measures to that system users who causes the intraday swing. Based on the intraday buying and selling actions of the TSO related to keep the system within its operational limits, a price is created for the intraday swing. By pro rata allocation of these intraday swing costs to the causers of the intraday swing the neutrality principle is realised. In this system, shippers with intraday supplies to/from the TSO are excluded from the swing calculations, otherwise these flexibility providers will be charged for the support of the system. This would create a hurdle to participate in the market.

Using this intraday swing principle, the actual momentary costs are not allocated to a momentary action, but is does allocate flexibility costs in a fair manner. Key requirement is the obligation for base load entry into the system.

In our view, the required changes to the network code to optimise the allocation of costs and the harmonisation of the system are:

- I. Base load entry: The base load entry of the daily volume is a requirement to allow the TSO to manage the intraday swing in the system. This means the main variation in the flow is on the exit of the system. The WDO obligation should limit the possibility to enter the gas into the system with large variations. (Unless these variations are at the request of the TSO for balancing or within day flex purposes,). This limitation could be:
 - a. An hourly flow restriction, resulting from a fixed calculation of the daily volume. For instance: daily nominated volume divided by 20 allows a maximum hourly entry rate of 120% of the base load flow rate (24/20). Network users need to stay within these limits to match their daily volume, preventing imbalances and cash out at the end of the gas day.
 - b. Calculation of an hourly swing during the day. This calculation will be made at the end of each day, based on the actual daily volume and the actual maximum hourly flow per portfolio.
- II. Cost allocation based on cost causing principle: can be introduced in the code if the TSO is managing the system limitation on an intraday basis by buying and selling on the market, the exit is hourly metered and the entry is obliged to be base load over the day. By determining the swing of the exit in a portfolio, the more flexible demand is contributing to the costs more than a non-flexible, base load demand.

The above combination of WDO and the introduction of the intraday swing factor allow the intraday shaping costs to be allocated to the parties using the intraday shaping. System users with flexibility can offer their flexibility to the intraday market, where the TSO will use the optimal flexibility sources to keep the system within its operational limits.

If all the system users are in balance at the end of the day, the net volume the TSO has bought and/or sold is zero. The TSO will only have a volume position at the end of the day in case system users have an imbalance at the end of the day. These end of Day volumes are financially settled as proposed in the draft code.

The main remaining cost for the TSO is the intraday costs of maintaining the system within its operational limits. These costs are the sum of the intraday buy and sell costs. These costs are limited

to the buy and sell spread during the day, since the TSO has no volume position on intraday shaping. In case these costs are very high (large spread) the market liquidity can be doubted and the TSO should be able to resort to other volume neutral measures. These costs are costs that are incurred by the TSO and cannot be recovered by the end of day financial settlement. The neutrality principle allows for the allocation of these costs to the causers via the proposed swing calculation. Within our organisation we concluded that the WDO principles can act as barriers to market entry. A system as described above in which the intraday swing costs of the TSO are market based and costs neutral for the TSO can work without WDO!

Other methodologies

The methodology presented above allows the allocation of costs and the creation of an ideal daily balancing system in systems with advanced metering facilities like in the Netherlands, possibly Belgium. In other systems, the daily base load entry criterion is even more important, since these TSO's lack the high quality metering information required for such system. If the entry in the system is subject to change from a pure base load, the TSO needs to interfere more, without the allocation possibility. Thus all network users will pay the costs equally, also the once that do not or hardly contribute to the costs. Therefore we see a need to set minimum criteria in all the systems.

Stimulation of change

In our view, a systems with detailed metering information is preferred. This should be the preferred system in the network code, which is currently is not. This system allows for the participation of all market players on the balancing market, since the information is available of the detailed consumption and supply. The end user participation is increasing in all markets, and operational systems are more and more anticipating on market prices and market price movements. Leaving the decision to change production as a result of short term market price movements at the customer.

If the Variants mentioned can only be applied in the whole balancing zone, not allowing to coexistence of various variants in the same system, changes are not encouraged since they result in large system changes, affecting the whole zone. We are in favour of the possibility of coexistence of the variants in the same balancing zone and leaving the choice of the variant to the actual end user, regardless of size. End users with possibilities and advantaged to participate in the short term markets (intraday) can then apply for more details metering information and the application of another balancing variant. This can be a large driver for change in the EU markets, driven by the end users instead of driven by the TSO's or regulators.

If you have any questions on our response, please do not hesitate to contact us directly via Patrick Postema, the chairman of our gas working group via gasgroep@voeg.nl or via phone number +316231 47465.

Yours truly,
Harald Swinkels



Chairman VOEG