Response to ENTSOG Public Consultation

On

Draft Code on Balancing

8 June 2012

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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 ENTSOG can disregard any standard e-mail text about not disclosing email contents and attachments.

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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

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Not confidential

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.

The introduction of Virtual Trading Points on which the Network Users and the TSOs are able to buy and sell entry-paid gas is crucial to the development of a properly functioning market. It allows pooling the market liquidity on virtual hubs to which all registered shippers will equally access, allowing them to source or sell gas and to take balancing actions without necessarily having to book and/or nominate capacity. This lowers the entry barrier to supply consumers and fosters competition. It is also consistent with the Gas Target Model endorsed by the Madrid Forum.

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:

By now, the Network Code provides a certain level of harmonisation. However, EUROPEX believes that more clarification in terms of "lead time" is needed.

The Article 8 of the Network Code says nothing about the duration between the trade notification to the TSO and the allocation of the Notification Quantities by the TSO to the Portfolio of the Network Users. This trade notification "lead time" should be as short as possible and aligned on current best practices.

As opposed to re-nominations on physical (cross border) entry and exit points, trade notifications do not result per se in a change of the physical flow of gas into or out of the TSO's control zone because transactions on a virtual trading point (VTP) regard a change of ownership on the title of entry-paid gas. Therefore there is no fundamental reason to link the deadlines of trade notifications and re-nominations.

One may suggest that short term flexible gas which is offered on the virtual trading point will in most cases be sourced from neighbouring countries. As the deadline for re-nominations on cross-border points are H+2 some draw the conclusion that it is impossible to offer gas for trading at the VTP after this deadline passed. Simply stated, it has no use to allow trading at the VTP if the gas for these contracts cannot be sourced cross border. Europex does not agree with this argument for the following reasons:

- The link made when establishing the trade notification deadline between the physical flow of gas and the change of ownership on the title of gas at the VTP ignores the fact that short term flexibility can also be offered at the VTP by two network users agreeing to enter into two transactions; one at the VTP and another on an adjacent hub (locational swap) which do not result in a cross border flow. Taking into account the fact that trading on the other hub may close later, a decision to close the VTP market earlier reduces the time available to traders to optimize their trading portfolio (crucial for balancing).
- Secondly it has to be noted that traders prefer to be able to trade as close as possible to the start of delivery as this allows them more time to successfully arbitrate differences in commodity prices between the VTP and adjacent hubs.
- Thirdly, in a daily balancing regime with within day actions paid by the causers it is essential to allow the network users to trade imbalances off as close as possible to real time. By allowing a shorter trade notification deadline the chance increases that network users having access to the most reactive sources of flexibility would make them available to the market.

It should be noted that the use of the capitalised terms "Lead Time" in Article 8 (2) seems not consistent with the definition of these terms.

Finally, it is crucial for the exchanges that the trades they notify are firm. Therefore, Europex suggests that single-side nominations by the exchanges or corresponding clearing facility should be explicitly supported by the Network Code.

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:

Europex supports the review process detailed in article 11 as it should foster European integration. However, as European integration is one of the main goals of the target model, Europex would prefer ENTSOG to lead this review even more often than written in the code, for instance on a yearly basis. This would avoid thwarting positive developments with a longer interval for reviewing.

Europex does not agree with the Consultation process detailed in article 10 and explained in the support document. Europex fears that too heavy an involvement of ENTSOG could delay bilateral projects initiated by TSOs and NRAs (together with stakeholders). Those projects can already be long and difficult to implement. ENTSOG should be informed of cross-border cooperation projects but it should be explicit that its intervention in the process could not delay it.

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.

The proposed review process including the issuing of a public report is fostering a transparent process and should be maintained. The mentioned report is also documenting the on-going process and can serve to identify required adjustments / modifications to the process

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:

Yes, Europex agrees that the TSOs should be allowed to trade in adjacent markets.

The FGs on Balancing foresee that TSOs should keep the system balanced by trading Short Term Standardised Products. At the same time, the Network Code on Capacity Allocation Mechanisms allows that cross-border capacity is allocated, in the short term, through implicit mechanism. The Target Model even foresees the adoption of implicit mechanisms for cross-border short-term capacity allocation. Therefore, when the Target Model will be implemented according to the above-mentioned principles, TSOs, by procuring balancing services in their local wholesale markets, will automatically access and trade in those adjacent markets if the markets are linked through an implicit mechanism.

Pending the implementation of the Target Model, TSOs could be allowed to trade in adjacent markets, under specific circumstances. In particular, TSOs should always first try to develop liquidity in their own market by intervening on the title products of their market. This is coherent with the merit order described in the network code.

In case TSOs cannot solve their balancing needs through standard title products to be delivered within their own balancing zone, the solution of trading title products in adjacent markets could be investigated. Europex identifies two possible cases when the use of adjacent market could be allowed:

- When TSOs consider the use of locational products at the IP. Instead of creating a locational market at this particular point that would never be liquid, TSOs could benefit from the existing liquidity of the title adjacent market. This would be cheaper for the TSO and would not be contrary to the role the TSO has in developing liquidity in its own market.
- In the particular case of gas quality issues, when there exists no organized market on a

specific gas quality in the proper market of the concerned TSO.

Yet, in any case, in order not to impede network users to have access to cross-border capacity, TSOs should only have access to interruptible capacities. It should be noted that such capacity would be interrupted only in the case of a (re)nomination of corresponding firm capacity, which would result into the same physical flows and effect on the network as if the capacity was used by the TSO.

Europex is convinced that, if the above criteria are met, TSOs should be allowed to intervene on adjacent markets also before the full implementation of the Target Model.

Hence, trading in adjacent markets should be included in the merit order. That is why Europex suggests including the possibility of using this option as an alternative of using locational products. Europex suggests the following amendment in the merit order (see question 12):

2. The TSO shall consider the use of Locational Market Products **or Title Market Products available on adjacent virtual trading points** when, in order to keep the Transmission System within its operational limits, gas flow changes are needed at (specific) Entry and/or Exit Points and/or to start from a specific period of time within the Gas Day and to the extent trading of Title Market Products available on its local virtual trading point is not expected resulting in the needed physical flows.

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, but also the criteria "market based" is needed, so that as many customers as possible can use the balancing market in the same simple way and with the same infrastructure like TSOs.

The TSO certainly has to aim at taking economic and efficient actions. However, fostering the liquidity on the wholesale market should be its first concern while assessing the options available for taking its residual balancing actions, especially if the market liquidity is not fully satisfactory.

Even though this might lead to some extra-costs as long as the liquidity on the market has not fully developed the TSO should have to strictly comply with the merit order, in which the Balancing Services should always be regarded as a last resort option.

Therefore, Europex suggests to amend the Article 12.4 of the draft Network Code as follows:

> 4. While undertaking Balancing Actions the TSO shall take into account the following principles**, the first one prevailing on the others**:
>
> **a) the Balancing actions shall be prioritised in accordance with the merit order defined in article 13;**
>
> b) the Balancing Actions shall be undertaken on a non-discriminatory basis;
>
> c) the Balancing Actions shall have regard to any obligation upon TSOs to operate an economic and efficient Transmission System.

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:

(1) Yes

The standardised products referred to in this code are defined in the context of gas balancing. Balancing actions being taken on short notice to adjust Network Users' Portfolios in close to real time these standardised products should be short term products available on the wholesale spot market.

(2) Yes

Having a limited number of standardised spot products used for residual balancing purposes helps to develop liquidity on these products and makes it easier for network users to satisfy the TSO's needs when a residual balancing action is required.

It should be noted that the current draft of the Network Code does not automatically result in a small number of standardised spot products as many different temporal products might be defined. However, the application of a merit order contributes to concentrate the liquidity on the end-of-day title product though, which is supported by Europex.

For the avoidance of doubt, the Network Code should not be prescriptive on the products offered by the Trading Platform Operators for purposes other than the residual balancing actions of the TSO. The TPO should indeed be entirely free to define any product that in its view will best satisfy the market's needs.

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:

Europex first wants to insist that the question is about the advantages (or drawbacks) for network users of having the TSO trading on a cleared and anonymous TP (an exchange) for its residual balancing actions. It has to be kept in mind that network users will keep the opportunity to trade OTC anyway and will obviously still do so including to balance their position.

To perform effective and fair balancing activities, Europex is convinced that TSOs should use a trading platform that guarantees at least the following:

- Non-discrimination between market participants (anonymity, equal access to information and to all orders, etc.)
- Transparency
- Prevention of market manipulation through market surveillance
- Financial security (every trade covered by collateral so no risk of counterparty default)
- Reliable, auditable price reference to be used for cash-out

- Secured notification system (with single-sided notifications, there is no risk of mismatch between two counterparts)

OTC trading does not offer those guarantees, only exchanges do. The TSOs trading OTC would have to make sure all those parameters are fulfilled by itself, which could be sometimes impossible (for instance, non-discrimination would be impossible to ensure OTC). Those guarantees are of upmost importance and especially for new entrants and/or small network users. New entrants do not suffer from market power distortion on an exchange thanks to anonymity and same access to information.

In general, having an exchange available is a major advantage for new market entrants. We expect that the fact the TSOs would bring additional liquidity on exchanges and guarantee that the network users will be cashed-out using the transparent price signal of exchanges would be important for such network users.

Moreover, trading on an Exchange instead of trading OTC is much easier for a TSO (which main function is obviously not to be a trader). The TSO would not need to have credit lines or bilateral arrangements with all counterparts separately, which is a process that takes time especially for a company not used to it.

Finally, the principle of single-sided nomination through the associated clearing facility simplifies balancing trading for TSOs and network users and minimizes transaction costs. Costs of bilateral arrangements for trading (like credit lines) should not be underestimated. Other bilateral arrangements than clearing are costly as well as the time and resources dedicated to conclude contracts with all counterparts and especially for smaller companies. At a time of crisis when even some big utilities are downgraded, counterparty risk should be even more taken into account.

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 Network Code dictates in a couple of places rules on how the Trading Platforms should be run and puts obligations on Trading Platform Operators (e.g. to disclose trading data). This is not acceptable.

The Network Code should only describe the minimal conditions to be fulfilled by a Trading Platform if it wants to be used by the TSO for residual balancing. These minimal conditions could vary from one TSO to another depending on the network characteristics (e.g. all standardised products might not be necessary on all markets). Some technicalities such as the lot size, the way the order volume is entered into the Trading Platform systems, etc. are not relevant as a different definition thereof should not prevent the TSO from using the Trading Platform for residual balancing. The Trading Platform Operator should in this respect be entirely free to design its service offering in a manner that in its view will best satisfy the market's needs and cope with its own constraints.

As an example and without prejudice to other corrections to be made in the draft Network Code, the specification in Article 15.1 according to which weekends and bank holidays will be considered as one single day is overly prescriptive (and has, as far as we know, no market support). Europex would therefore suggest to amend Article 15.1 as follows:

> 1. **Without prejudice to the possibility for the TSO to trade over weekends and/or public holidays,** the Short Term Standardised Products shall be traded for delivery on a within-day or day-ahead basis. ~~Weekend and bank holiday shall be considered as one single day for that purpose.~~

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:

As mentioned above, the Network Code dictates in a couple of instances rules on how the Trading Platforms should be run and puts obligations on Trading Platform Operators (e.g. to disclose trading data), which is not acceptable.

The Network Code should interfere in the contractual arrangements between the Trading Platform Operator and the Network Users only to the extent the TSO is directly impacted by such arrangements, e.g. when defining how the TPO will notify to the TSO a trade on its Trading Platform.

Any other arrangements between the TSO and the TPO should be agreed on a bilateral basis. Cooperation agreements between TSOs and TPOs e.g. for the provision of market data or for the development of products and services specifically needed by the TSO are in this respect supported by Europex. In accordance with the Framework Guidelines, the TSO acting on the Trading Platform should otherwise be treated on an equal footing with any other participant on the Trading Platform.

Additionally, the Network Code should keep the roles of each party as clear as possible. Without prejudice to local arrangements between the TPO and Network Users or to local regulations, Europex is not in favour of imposing the TPO responsible for nominations on behalf of a Network User that has entered into a locational trade, unless this is foreseen by local regulation. In the large majority of cases, the TSO and the Network User are the sole parties having the information about the capacities that can be used for such nomination. The TPO cannot bear the risk of seeing a trade on its Trading Platform cancelled because a nomination is rejected. In such case, the firmness of the trade notification by the TPO should be guaranteed (or the TPO should be held harmless from any imbalance charge resulting from the Network User’s failure to nominate), while the Network User whose nomination has been rejected might be penalised by the TSO.

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:

Europex does not agree with the current wording used in the network code to describe the trading of locational products as it is too prescriptive and too detailed.

Europex fully agrees that TSOs have to be ensured that buying or selling locational products will have a physical impact on the network; i.e. that the counterparts with whom TSOs trade have the obligation to (re)nominate.

Yet, as the Network Code is a binding document that will not be easy to adapt in the future, Europex is convinced that it should not be too detailed in specific operational actions. Particular operational procedures should be figured out by the TPO and the TSO together upon NRA approval. In this case, the procedure described in the Network Code might be a well-functioning one; yet, TSOs should not only be able to accept a bid or an ask but should also be allowed to originate one if needed. This is all the more important in small new markets. One possibility could be to oblige all network users to nominate even if they are not originators. Another possibility could be a system of messages from the trading operator to the network user that he has to physically nominate.

Europex does not suggest including any of these options in the Network Code as they would also enter in too much details. Europex recommends the word "originating participant" to be replaced by the expression "network user trading against the TSO". This would let the possibility for TSOs have flexibility in the way they intervene in the wholesale market.

Article 15 - §5: "Where a Locational Market Product is traded the following conditions shall be met:
a) The TSO shall have determined the relevant Entry and Exit points (or groups thereof) that can be used;
b) all the conditions specified for Title Market Product in Item 4 above are fulfilled;
c) the "network user trading against the TSO" modifies the quantity of gas to be injected and/or off-taken to/from the Transmission System by an amount equal to the Notification Quantity and provides evidence in the form of Confirmed Quantity (-ies) for the specified Entry and/or Exit Point(s);
d) The "network user trading against the TSO" shall submit nomination(s) or re-nomination(s) in accordance with the requirements established in Chapter V.
e) the "network user trading against the TSO" that makes or accepts a disposing or acquiring Trade Notification shall submit:

- nomination(s) for the Entry or Exit Point(s) (as relevant) with regard to which the network user has not submitted any nomination(s) before; and/or
- re-nomination(s) that modifies(y) the Network User's nomination(s) for the Entry Point(s) by increasing or reducing (as relevant) the gas quantity specified in nomination(s); and/or
- re-nomination that modifies(y) the Network User's nomination(s) for the Exit Point(s) by reducing or increasing (as relevant) the gas quantity specified in nomination(s)."

The TSOs should be ensured that locational trades are followed by nominations from network users. In this case, network users could have penalties but trades concluded on the locational market could not be cancelled. It is of upmost importance that those transactions remain firm.

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 merit order should be more prescriptive and state clearly the obligation for the TSOs to always act in accordance with the following decreasing order of priority: seek to trade Title Market Products, or seek to trade Locational or Temporal Market Products in case trading of Title Market Products is not expected resulting in the right physical flows, or use Balancing Services in the case that the previous actions are not expected resulting in the right physical flows.

As indicated in response to question 5, Europex considers that under some circumstances the TSO should be allowed to trade on adjacent virtual trading points. In this case, such trading action should be considered on equal footing in the merit order with locational/temporal trading actions.

Therefore, Europex proposes the following changes in Article 13:

1. The TSO **shall privilege** the use Title Market Products available on its local virtual trading point where and to the extent appropriate over any other available Short Term Standardised Products or Balancing Services.
2. The TSO shall consider the use of Locational Market Products or **Title Market Products available on adjacent virtual trading points** when, in order to keep the Transmission System within its operational limits, gas flow changes are needed at (specific) Entry and/or Exit Points and/or to start from a specific period of time within the Gas Day and to the extent trading of Title Market Products available on its local virtual trading point is not expected resulting in the needed physical flows.
3. (…)
4. **If the short term products (described in 1., 2., 3.) are not sufficient for the TSO to balance its network and** subject to Article 16, the TSO shall consider the use of Balancing Services.

In the proposal above for point 2 of the Article 13 the term "specific" is put between brackets. The draft Network Code seems indeed to consider that the use of Locational Market Products will always be triggered by an issue on a specific location of the network. In Europex's view situations may occur where the TSO needs to secure gas flows into or out of the system for pressure management reasons without the issue being related to any location in particular. This type of situation can be coped with by using Locational Market Product without constraining the Entry or Exit Points on which the (re)nomination should be performed.

The definition of Locational Market Product should also be amended to reflect this. A reference into the definition to the obligation to (re)nominate pursuant to a trade might also be added. A possible reformulation could then be:

> (40) 'Locational Market Product' means a Title Market Product with **(a)** corresponding ~~specific~~ Entry and/or Exit point(s) **at which a (re)nomination should be performed** as detailed in Chapter IV.

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:

(1) Europex understands that TSOs potentially need balancing services on top of short term products in order to insure the system integrity. However, Europex is convinced that the resort to balancing services can deprive the market from some flexibility and that it is more beneficial for the community that TSOs directly use the wholesale market at least in a long term perspective.

TSOs should use balancing services only in case the use of short term products is not sufficient to balance their network. The procurement or Balancing Services should therefore be limited:

- Europex thinks that liquidity should not be the first criterion to be considered when procuring balancing services. It should be noted that the intervention of the TSO on the wholesale market participates in the development of the liquidity and that the resort to balancing services has on the contrary a negative impact on liquidity. By procuring Balancing Services the TSO reserves some flexible gas (it buys an option to use it) and such flexible gas cannot be made available to the market even when the TSO does not use it which is less efficient than making this flexibility available to both the TSO and the network users.
- The need for short response time could be taken into account but only to the extent long response times are not resulting from constraints imposed by the TSO on (re)-nomination lead times.
- The need for the TSO to be active on the market every day should not be a reason to prefer Balancing Services to Short Term Standardised Products as it would attract liquidity on the market and would guarantee that all flexibility means would be competing on the market on a regular basis, helping to provide price signals disclosing the value of such flexibility. Use of locational products should be preferred to the use of balancing services.
- As already mentioned in response to question 5 Europex also considers that trading on adjacent virtual trading points would be more beneficial for the market (under conditions described in question 5). Gas quality issues could also preferably be solved by trading on adjacent market. If such is not the case, use of market-based balancing services could then be investigated.
- In new markets where liquidity is very low, TSO’s actions on the market will help developing the liquidity. This could be more costly first but could be beneficial to the market in the long run. In those cases, a cost benefit analysis could be carried out spanning over several years to check whether the costs are decreasing over time.

In any case, it is of upmost importance that the TSO would be transparent on its use of balancing services, e.g. by publishing the balancing services contracted and notifying any use of such contracted service within maximum one day.

(2) For the resons mentioned above, Europex does not consider liquidity as the most relevant criterion to decide not to use the wholesale market for taking residual balancing actions.

Europex therefore proposes to amend the Article 16 as follows:

1. **The TSO shall demonstrate to its NRA the need to procure and use Balancing Services instead of acting on the wholesale market taking at least the following into account**:(…)

3. The TSO shall review the use of its Balancing Services each year in order to assess whether ~~available Short Term Standardised Products would better meet the TSO's operational requirements for the next year~~ Balancing Services are still needed**, which assessment should then be endorsed by its NRA.**

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:

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:

Europex appreciates that technical constraints may justify lead times for (re)nominations on Entry and Exit Points. It considers however that those lead times should be as short as possible in order to offer the opportunity to the network users to use all flexibility means available on local and neighbouring markets to balance their portfolio.

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:

Please refer to answer to question 16 above.

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: Europex welcomes the paragraph on the impact of nomination harmonised rules on “daily-hourly” regimes. Stakeholders should be consulted regarding the need for harmonisation.

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: Europex is in favour of an explicit use of Linepack Flexibility Services, if any. It therefore considers that the reference to Linepack Flexibility Services in Article 28.2 is not relevant and should be deleted (see response to question 43 hereunder).

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: No. Europex see no reason why the price of Locational and/or Temporal Market Products would be taken into account in the Weighted Average Price if it isare not taken into account in the Marginal Price.

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: Europex thinks that TSOs should preferably use the within-day market for their balancing actions. In this case, it is not worth taking into account Day-Ahead prices. Yet, if TSOs intervenes on the Day-Ahead market, the marginal price should also take into account Day-ahead actions. In this case only, the possibility to take into account Day-Ahead market in the Weighted Average Price could be considered also.

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:

Imbalance charges should be calculated through a transparent and auditable method and should reflect prices of real trades (electronically registered) concluded in a fair, transparent and non-discriminatory way. Only exchanges fulfil these conditions, which is why Europex is convinced of the benefits of using a price calculated by an Exchange.

When calculating the marginal prices, all the transactions in which the TSO was involved should be taken into account, irrespective of which Trading Platform(s) have been used by the TSO. It should be noted that in case of low liquidity, concentrating the actions of the TSO on one single Trading Platform may help to launch the market.

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:

Adjustment should be applied to incentivize shippers to use the market for balancing their portfolio rather than waiting to be cashed-out by the TSO at the end of the day.

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:

Small adjustments should be harmonised to the extent possible from one country to the other in order to avoid market distortions. It should be taken into account however that the size of the adjustment that is efficient to trigger balancing actions by the network users may vary from one market to another.

Europex considers that the adjustments should be monitored closely by the TSO and the NRA, possibly in cooperation with the Trading Platform Operator(s).

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:

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:

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

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:

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:

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:

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:

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:

Europex is concerned that the Linepack Flexibility Service may have a detrimental effect on the market liquidity as it may (partially) shield Network Users from their daily balancing obligations. The impact of such service on market liquidity should be assessed before the service is offered. In case a detrimental effect on liquidity is expected, Linepack Flexibility Services should not be allowed.

Linepack Flexibility Services should be offered at market price and its use should be explicit only so that it competes on a level playing field with the other sources of flexibility. Any offering below market value or exemption from standard nomination rules would create distortions in the market for flexible gas which are not desirable.

Europex therefore proposes the following amendments to the Article 46 of the Network Code:

> 1. TSOs may offer the provision of a Linepack Flexibility Service to Network Users subject to prior approval of the relevant national regulatory authority and in a manner that guarantees a level playing field with the offer of flexibility by storage operators.
>
> (…)
>
> 3. Where relevant, Any requirement as to the notification by a Network User of the use of a Linepack Flexibility Service shall be consistent with the National Rules for nominations.
>
> 4. The terms and conditions applicable to a Linepack Flexibility Service shall be consistent with the main responsibility of a Network User to balance its Inputs and Off-takes over the Gas Day.

Europex also proposes the following amendments to the Article 47 of the Network Code:

1. Linepack Flexibility Service shall be allowed to be provided once all the following criteria are met:

a. The TSOs shall neither need to enter into any new contracts nor to maintain existing contracts with any other infrastructure provider, such as storage facilities or supply terminal, for the purpose of provision of a Linepack Flexibility Service;

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:

The liquidity should not be the main factor in deciding to implement or not a balancing platform. Indeed, a new market that is very illiquid will not be more liquid on a balancing platform than directly in the wholesale market. There is a risk to split the already very small liquidity.

When assessing the liquidity of a market, it should in any case be taken into account the (expected) impact on such liquidity of the action on this market of the TSO in its role of residual balancer. Criteria that can be used are those assessing the ability to quickly buy or sell reasonable volumes of gas without causing a significant change in price and without incurring significant transaction costs. This can be measured by the following criteria, none of which to be considered separately:

- The volumes of transactions concluded at the hub (either on one specific platform or taking into account all the transactions on the market)
- The number of transactions
- The Bid/Ask spreads and the volumes of bids and offers (which can vary a lot during the day depending on the time (peak of liquidity etc.))
- The market resilience
- The number of participants having access to the market
- The number of participants having been active on the market on a given period of time (both sides).

As explained previously, the criteria indicated in the support document cannot be taken into account *per se* as they have to be taken into account globally to have a good idea of liquidity. Moreover, the figures indicated are sometimes too restrictive and may not be reached all over the day even in the most liquid markets in Europe:

- Bid/offer spreads: figures for bid/offer spreads can vary a lot during the day depending on the period of the day (early morning, late in the day, etc.) or the tightness of the market (in period of cold snap for instance).
- Expected depth of at least 5 bids/offers: this can also vary a lot during the day. Moreover, it has to be kept in mind that market participants do not necessarily show their interests on the screen, this being part of a negotiation technique. It is hence frequent not to have 5 bids/offers even if a lot more counterparts are watching the screen. That is why this figure is particularly not adapted.

- Number of participants: the same remark than for the previous criteria can apply. Additionally, as the TSO should be treated equally compared to other trading participants, it should not have access to the number of active counterparts for its interventions. It has to be kept in mind that anyway, TSO's interventions on an Exchange would be closely monitored by the market surveillance of Exchanges and NRAs to avoid any market manipulation.

Churn rates should not be taken into account when it comes to assess the liquidity of a spot market. Other measurements like HHI, total gas demand in the balancing zone, gas available from various sources or RSI do not *per se* assess liquidity; they assess the competition or the size of the consumption market but not the liquidity.

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:

To enable wider access to short term gas flexibility, Europex sees different possible measures:

- Better access to short-term capacity through more short notice booking of capacity at IPs (already in the CAM network code)
- Flexibility means given to the market participants by the TSO through a decrease in the use of balancing services.

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.
Response:

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:

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	Too detailed for locational market on the way TSO should intervene.
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:

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.