

## *Meeting notes*

### **Balancing Network Code (BAL NC) SJWS4 23 Feb. 2012, 10:00-17:00**

#### **Diamant Centre, Brussels, Belgium**

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#### **Participants:**

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1	ENTSOG (Chairman)	Sisman	Nigel
2	ENTSOG	Kiss	Alexandra
3	ENTSOG	Gerus	Victoria
4	ENTSOG	Panagioti	Panousos
5	ENTSOG	Regan	Noel
6	ENTSOG	Thure	Frederik
7	ENTSOG	van der Meer	Ruud
8	ACER	Rakhou	Erik
9	Alliander	De Wit	Paul
10	APX-ENDEX	Pierreux	Nicolas
11	BGL	Saile	Dirk
12	BP Gas Marketing	Pearce	Andrew
13	CEDEC (Enexis)	Luijten	Rene
14	Cefic	Kronimus	Alexander
15	Croatian Energy Regulatory Agency (HERA)	Briecic	Hrvoje
16	CRE	Leveille	François
17	CREG	Van Isterdael	Ivo
18	EconGas	Sidak	Christian
19	E-Control	MacDonald	Ross
20	EDF	Mezlef	Nabil
21	EDF	Eyke	S.
22	Edison	Immovilli	Monica
23	Enagas	Garcia	Ana Belen
24	Enagas	Vega Aguado	José

25	Energie Control Austria	MacDonald	Ross
26	eni spa	Garruto	Valentina
27	E.ON Energy Trading SE	Steck	Gunnar
28	E.ON Ruhrgas	von Burchard	Friedrich
29	eurogas	Loudon	Margot
30	eurogas (Centrica)	Stack	Helen
31	Europex (HUPX Ltd.)	Lajtai	Roland
32	Europex (Powernext)	Filippi	Aude
33	EuRoPol Gaz	Podworski	Piotr
34	European Commission	Held	Tanya
35	Eustream	Stevko	Marian
36	ExxonMobile	Bouwens	Kees
37	Fluxys	De Wolf	Laurent
38	FIIR	Parmigiani	Laura
39	GAS CONNECT AUSTRIA	Matzenauer	Alexander
40	Gaslink	Duggan	Alan
41	GasTerra B.V.	Tielen	Teun
42	Gazprom Marketing & Trading	Schmidt	Jan
43	GAZ-SYSTEM S.A.	Brzeczowski	Stanislaw
44	GAZ-SYSTEM S.A.	Drzymala	Renata
45	GDF SUEZ Infrastructure Branch	Coupaye	Noël
46	GIE	Palada	Philipp
47	GN DISTRIBUCION SDG S. A.	Tomas	Zoa
48	GTS	Egberts	Sandrie
49	Iberdrola, S.A.	Nieto	Isabel
50	IFIEC	Meuzelaar	Dirk Jan
51	IFRI	Parmigiani	Laura
52	National Grid	Hamilton	Colin
53	National Grid	Viney	Beverley
54	Naturgas Energia Distribucion	Fernandez Lejarreta	Iker
55	NetConnect Germany	Alaerds	Stephan
56	NetConnect Germany	Sammut	Markus
57	Ofgem/ ACER	Keyserlingk	Konrad
58	PL Ministry of Economy	Iwicki	Kamil
59	RWE Supply & Trading GmbH	Presse	Ralf
60	RWE Supply & Trading GmbH	Rose	Stephen
61	RWE/Essent	Stolk	Rainier
62	SNAM	Nicolosi	Lorenzo
63	Thyssengas GmbH	Wachholz	Stefan

64	TIGF	Martin	Alexandre
65	VCI	Krominus	Alexander
66	VIK Germany / IFIEC EUROPE	Hoehn	Valentin
67	WIEN ENERGIE Gasnetz GmbH	Jakwerth	Peter

## Introduction

The below notes should be read in conjunction with the presentations and supporting materials (e.g., draft basic and refined business rules) for the workshop, posted on the ENTSOG website.

Please note that the European Commission and ACER have indicated that any comments made during a SJWS should not be considered a formal position from those organisations.

### 1. Process update

ENTSOG gave a process update which included the following:

- Business rules-to-consultation project plan
- Detailed business rule (DBR) availability via ENTSOG website
- SJWS direct feedback from stakeholders received to date.

### 2. Content Business rules completion updates

ENTSOG gave a brief update on the topics which were not on the agenda of this workshop but were being developed 'behind' the scenes (informed wherever possible by stakeholder feedback when available). The topics/issues to be resolve for each were identified and an open call for further direct feedback from workshop participants was made:

- Imbalance charges
  - Small adjustment and prices determining marginal price – views sought now and through formal consultation
- Linepack flex service – proceeding to drafting
- Nominations
  - Intense activity on-going – co-operation with ENTSOG Interoperability (I/O) working group and project team based expectations from EC/ACER
  - Aiming to deliver proposed standardised timings at IPs for SJWS5
- Information provision
  - More work scheduled (including with DSOs)
  - New ideas related to incentives
- Cross-border
  - Review and consultation processes to be defined from a procedural perspective

The above will be further explored either during SJWS5 or via material released earlier.

Direct stakeholder feedback (with evidence-based substantiation, whenever possible) to be provided to Tori Gerus [victoria.gerus@entsog.eu] by 29 February 2012.

### **3. Incentives**

- Incentive options were being developed, e.g., NDM Derived Forecast accuracy, under the assumption that these would be of interest/value to stakeholders and ACER approval.
- A proposed transition mechanism for such incentives is sliding scales with periodic re-setting during both the implementation transition/roadmap and in the enduring regime; duration critical to incentive properties
- Stakeholders suggested that illustrations of incentive mechanisms currently in use in Europe were requested in presentation format for participant consideration.
- It was noted that the FGs envisage only a limited set of incentives. However, the information provision work may suggest that NDM forecasting incentives could be introduced. While this is critical for the network user the processes of deriving the forecasts, the accuracy of the forecasts may be based on other actors performance and so incentive mechanisms may have a role.
- ACER indicated this was a matter that they might need to consider, but highlighted that the FGs contained the term “may.” They noted favourably, though, ENTSOG’s pro-active exploration and development of such proposals.
- ENTSOG suggested that incentives may broaden perspectives and encourage new and favourable behaviours. It may be possible that TSOs have an input to incentive design. ACER and the Commission maintained that incentives are matters for NRAs.
- Incentives should generally be small in relation to TSOs overall revenues, recognising that the FGs aspiration is that the major incentive within the regime is to be an individual user’s incentive to achieve a daily balance.
- ACER raised the issue of whether some incentives might have adverse, perhaps unexpected, implications for cross-border trade; ENTSOG indicated that this is one of many regime design features that need to be considered in the context of the overall regime functioning. This could be considered within ENTSOG’s review of the level of harmonisation of the balancing regimes.
- ENTSOG proposed that the BAL NC could at a minimum include “sound principles” for NRAs to follow.

### **4. Stakeholder feedback**

#### **eurogas - System Users Committee (STUC) presentation**

Key points included:

- Harmonisation with some flexibility/exemptions for unique national circumstances
- “Daily balancing with end-of-day (EOC) cash out should be the preferred standard structure, with permitted flexibilities as appropriate”
- “Incentives can be used to drive efficient operations by both shippers and TSOs/DSOs”
- WDOs may be needed but to be determined on a case-by-case basis; strict tests for implementation are welcome, including for pre-existing WDOs, with shipper consultation
- Network code could expand on these to incentivise harmonisation where possible
- Shippers need online access to sufficient information to allow them to manage their balance positions efficiently

- “Imbalances to be calculated based on an ex-post forecast that should be close to actual demand,” with TSOs and DSOs strongly incentivised to minimise the difference between NDM forecasts and data used for allocation.

### **IFIEC-CEFIC presentation**

Key points included:

- Industrial end users will pay substantial, unwarranted cross-subsidies where WDOs do not exist in balancing systems
- “Balancing system must safeguard free entrance to all commodity markets at the lowest cost with limited risks”
- “Balancing costs must only be allocated to those who caused them
  - Cross-subsidization is not allowed
  - Socialization of unbalancing costs must be avoided”
- IFIEC-CEFIC is “in favour of Within Day Instruments or Within Day Actions based on penalties and rewards”
- “For network users who are voluntary choosing for setting during the day, the end of day settlement costs should be no more than a small portion of the Within-Day costs” [one
- Industrial end users are responsive/change behaviour with incentives
- However, sufficient and reliable information is required.
- Larger balancing zones may promote liquidity of WDIs and hence incentives to reduce the number of balancing zones need to be considered
- Socialisation/mutualisation/smearing should be “prohibited”; ‘polluter pays’ principle should be norm
- Cross-border tradability: should drive standardised products, possibly leading to a single balancing product – the balance of day product in CAM NC provides a model and a balance of day title commodity transaction may be the only product necessary to support the balancing regime
- “Imbalance charges should be as low as possible.”

### **Q&A session**

Stakeholders questions whether IFIEC was suggesting that WDO/Is be implemented everywhere or only where justified. IFIEC suggested that costs will be substantially reduced where WDIs exist, allowing for intra-day management of spread (e.g., single pricing used in NL regime). However others pointed out that the single price might cause a loss of revenue to neutrality thereby increasing unattributed or smeared costs.

Stakeholders questioned whether IFIEC members were prepared to pay for the increased metering costs. IFIEC maintains that cost would be minimal. IFIEC indicated that technological advances would make information provision much easier. Furthermore IFIEC suggest that the cost of new meters would be of far less than benefit of hourly or real-time information and that if these allowed industrial users to avoid paying large cross-subsidies then industrial users might be prepared to accept some additional metering costs. An appeal to stakeholders for any available cost studies was made.

There were differing views as to whether WDOs should be the exception or the rule; different views about the acceptability of socialisation and cross-subsidy and the extent to which incentive mechanisms need to cost target. However, it was indicated that there will be few absolutes in the regime designs;

General aspiration that smeared costs should be low although this needs to be carefully considered in the context of other regime parameters and the objectives of delivering daily balancing and effective trading.

## **5. Release of surplus flexibility**

- View, confirmed by ACER, that this is a transitional issue to encourage release of flexibility to encourage short-term market rather than as a means of having increased TSO trading in a mature environment.
- ENTSOG suggested that objectives are unclear for some aspects of FGs' options in this area (e.g., TSO trading flexible gas freely and not on a platform or VTP). ACER informed the meeting that this interim provision on the release of flexibility from existing TSO long-term contracts was included because of the concerns expressed in response to consultation on the FGs from stakeholders who usually aren't represented in ENTSOG's SJWSs. ACER gave no further clarification on what these concerns were and in which parts of Europe they might be relevant, leaving ENTSOG and stakeholders to question.
- TSOs are expected to reduce their dependence on longer term products while increasing their use of shorter term products.
- Where long-term contracts are 'in the money' (i.e., could be sold to the market at a profit), then relinquishing them should be straightforward. Where 'out of the money,' then cost recovery issues need attention. However, any sales should make a contribution towards costs and there may be scope for incentives.
- Stakeholder view that the aspiration should be to progressively reduce long-term contracts and balancing services
- BAL NC should contain a basis for determining the surplus available for release.

## **6. WDOs**

As suggested at previous SJWSs and in liaison with ACER, ENTSOG presented its hypotheses of how NRAs might interpret and apply the criteria in the FGs for assessing the compliance of WDOs with the daily balancing regime.

ACER maintained that WDOs should be limited, and that the criteria combined with the NRA-approval would do that.

A stakeholder suggested that under ENTSOG's interpretation, all WDOs would be approved. It was not clear to ENTSOG, however, that this would be the case.

After a long exchange of assertions (not substantiated with evidence), it was concluded that there were "no absolutes," or perfect, WDOs in terms of meeting all criteria and objectives of the FG and the regulation (e.g., cost reflectivity, enabling network users to trade gas efficiently, harmonisation of balancing regimes).

## **7. Neutrality**

While the specification of neutrality mechanism is not included in the FGs, ENTSOG, based on feedback from earlier SJWSs, proposed principles/guidance for NRAs when implementing such mechanisms.

Stakeholders and ACER indicated limited ‘appetite’ for any further elements within the BAL NC, agreeing that neutrality redistributions should not create significant cross-subsidies and the financial effects of any redistribution should be small.

## **8. Transition topics/interim measures**

While the roadmap for the use of interim measures is not specified in the FGs, ENTSOG, based on feedback from earlier SJWSs, proposed principles/guidance for NRAs when approving such TSO roadmaps.

### Tolerances

- Not regarded as a major issue for stakeholders present.
- Support for idea that tolerances should be defined so that the proportion of the tolerance compared to portfolio size should reduce with increasing size of portfolio; alternative methodologies to that presented by ENTSOG, such as the one within the current Fluxys/Belgian balancing regime, were suggested for allocating the quantity of tolerances to network users.
- Support for idea that tolerances should be decreased progressively during the transitional and the network code should provide an expectation for reduction rates.

### Cash-out

- While the FGs define only the use of proxy pricing (based on adjacent markets) or administered prices, it was suggested that some use of TSO prices derived from TSO trading or balancing platforms in the early days of market development might be worthy of consideration. There was no reaction from stakeholders

### TSO use of platforms

- Stakeholders expressed a preference to proceed straight to a wholesale market rather than contemplating a balancing platform as an intermediate step.
- ENTSOG reaffirmed that TSO use of a trading platform would be contingent upon
  - Availability of appropriate products
  - Sufficient posting of bids and offers
  - Availability of adequate pricing information to TSO/network users
- ENTSOG pointed out that it may be difficult to achieve high liquidity in products that are only relevant to the TSOs responsibilities as residual balancing particularly where locational and temporal products might be required.

## 9. Next steps

Stakeholder feedback (with evidence-based substantiation, whenever possible) on matters explored previously and/or in SJWS4 should be directed to Tori Gerus

[\[victoria.gerus@entsog.eu\]](mailto:victoria.gerus@entsog.eu) by **29 February 2012**.

Process

*Next steps*

27 Feb: Aspiration for Group 1 DBRs to be completed for timely publication

28 Feb.: Prime mover workshop

7-8 March: SJWS5, ENTSO conference area, Av. de Cortenbergh 100, B-1000 Brussels

9 March: Aspiration for Group 2 DBRs to be completed for timely publication

H2 March/early-April: Draft legal text from DBRs (ENTSOG internal)

H2 March/early-April: Draft consultation/supporting doc. (ENTSOG internal)

13 April: launch of public consultation