

## 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](mailto:info@entsog.eu) by 17:00CET on June 12<sup>th</sup>.

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:

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 liquid wholesale market.

**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

## **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. However, stakeholders should be involved in the assessment, thus the wording "where and to the extent necessary" in Article 11(2) 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 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:

TSOs should be allowed to trade in adjacent markets only if this is manifestly necessary in order to keep the system in a safe position. Otherwise, it should be up to market players to bring flexibility when there are incentives to do so.

**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:

TSOs’ decisions on balancing actions should consider a number of aims as to ensure system integrity, to encourage and facilitate gas trading and to keep cost of balancing at a reasonable level (e.g. the cost criterion should prevail when short term products would be much more expensive than balancing services). As such the expression ‘economic and efficient’ is a suitable expression as it includes all the relevant criteria.

**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

**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, we agree that the Balancing Network Code should not be prescriptive on this point. However, the Code should provide for a high level of transparency to be assured.

**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. The Code could include some reference to the way for the TSO to show the need for changes to gas flows at specific entry or exit points.

**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:

Yes, but see also on this point answer to Question 13.

**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:

The Code should specify that Balancing Services could be used when they are needed to (i) ensure system integrity and/or (ii) keep cost of balancing at a reasonable level (as short term standardised products are not able to satisfy these needs in a reasonable way).

The Criteria listed in Article 16 should be presented as a non-exhaustive list of elements to be taken into consideration to assess the need for resorting to Balancing Service for (i) and/or (ii).

We support the reduction of the use of Balancing Services as far as they are not needed anymore.

**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:

Yes. As the merit order is not mandatory, an incentive mechanism, subject to its appropriateness being endorsed by the NRA, should be put in place to facilitate the consistency of the TSO's decisions with the principles of the balancing model. The incentive mechanism should not unduly increase the cost of balancing by indirectly removing the cost criteria from the merit order.

## **CHAPTER V. NOMINATIONS**

**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:

Article 23(2) should be removed as this kind of event can be considered as a rejection of nominations/re-nominations because of physical constraints, as provided for in Article 23(1). Article 23(1) should instead be clarified in order to better define which physical constraints can justify the partial or total rejection of nominations/re-nominations and how the rejection process should be managed by the TSO.

**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. We agree with the proposed schedule, given the constraint arising from the day-ahead capacity auction timing.

**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:

We agree with the maximum lead time of 2 hours between the starting of the re-nomination cycle and the starting of the re-nominated gas flow. However the Code should specify that the TSO should make its best effort to reduce the matching and confirmation time in order to offer a shorter lead time to network users. This is particularly relevant where WDOs are introduced as – in that case – shippers should be able to adjust their within-day position in a shorter timeframe, depending on the specific WDO.

**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:

We agree that a transitional period for changes to the nomination regime may be necessary, as some balancing zones may have difficulties in implementing the new rules right after the adoption of the Code. However, the Code should define a maximum duration of the transitional period in order to achieve harmonization within a reasonable timeframe. On co-existence of daily-hourly regimes at one interconnection point, as the harmonization of nomination regimes would be beneficial, the Code should provide for harmonization to be implemented unless the consultation to be organised by the NRAs reveals extremely

negative impacts for shippers and/or TSOs.  
On system integrity, see answer to Question 15.

## **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:

The Code provisions should reflect the principle that network users should not be directly exposed to imbalances they were not able to manage because of lack/low quality of information provided within-day, when they were able to settle their position.

Therefore we propose the following changes to the current proposal:

- the Daily Imbalance Quantity provided to network users on the day D+1 (or, in any case, no later than day D+3) should be the final allocation to be considered in the imbalance settlement procedure as this quantity is based on the same information that was provided to the shippers within-day. Any additional imbalance determined after the day D+1 (D+3) should be settled during the reconciliation process, at the average gas price
- under the Base Case, the allocation for NDM off-takes should be equal to the last end-of-day forecast provided within day. Any additional imbalance calculated on the basis of data available later (including the ex-post forecast provided D+1 and the reconciliation data) should be settled at the average gas price.

**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. The calculation of the weighted average price should exclude locational and temporal products as the cost arising from the use of these products is not directly attributable to shippers not balanced end of day.

**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 general terms, the determination of the Weighted Average Price and Marginal Price



should be based on within day trades. A possible and transitional exception could be recognised at national level where the within-day market is not highly developed yet.

**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:

Only trades on wholesales platforms (e.g. Exchanges, Trading platforms and Balancing Platforms) should be considered as bilateral OTC trades would not provide for enough transparency.

**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 small adjustment should be designed with the aim of encouraging shippers to balance their position. The floor for the small adjustment should slightly exceed the transaction cost for using the Platform, while the criteria for the definition of a cap should be defined by the Code.

**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

## **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:

We agree that in some systems WDOs may be needed, so TSO should be allowed to introduce WDOs provided that the criteria defined in the Code are strictly met. The “information criteria” should be better qualified as network users being provided with information to be “sufficient, sufficiently accurate and provided in a timely manner”.

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

Response:

The Code should specify that if - in a system where WDOs apply - the TSO has not actually taken within-day balancing actions in a specific day, in that day shippers should not pay any charge related to WDOs.

Moreover, the Code should provide for a shortening of the maximum re-nomination lead time that should be defined according to the response-time needed by shippers depending on the design of the WDOs introduced.

**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

**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 provided that within this six-month period at least two months are dedicated to stakeholders' 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

## **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:

The Code should specify that costs socialised through the neutrality mechanism should be approved by the NRA.

Further details of the neutrality mechanism should be defined at national level, taking into consideration the specific features of the balancing area.

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

Response:



As for the aggregate data, they should be published as soon as possible and more frequently than monthly. Revenues and costs should be specified in respect of each gas day. Also information provided to each individual shipper should be better qualified. A report with detailed information about costs and revenues socialized through the neutrality mechanism (on a daily basis) should be provided monthly, together with the neutrality charge invoice, on an aggregate and individual basis.

**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:

See answer to Question 31.

**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:

The implementation of multiple neutrality pots should be considered to the extent that balancing costs/revenues can be clearly allocated to different classes of network users. This should be decided at national level, only after a comprehensive stakeholders' consultation, and it should be endorsed by the relevant NRA. This assessment should be done carefully as multiple neutrality pots - if not well designed - could increase cross-subsidisation instead of reducing it.

**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 Question 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:

More specification would be welcome.

**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:

No, for transparency and practical reasons (e.g. players active on the VTP may not use transportation services and therefore they may not pay transmission charges; criteria for

allocation of transmission costs - capacity vs commodity - may be different from criteria for allocation of neutrality cost/revenue).

However there could be room for some synergy among neutrality/balancing/transmission invoicing systems.

## **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:

Yes. However, the Code should clarify that - where WDOs are imposed - the minimum information requirements associated to each of these models don't apply and that, in those cases, a new set of minimum information requirements would have to be defined depending on the specific WDOs introduced.

**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. Variant 2 is not completely in line with the general principle according to which the primary responsibility for balancing should be attributed to network users. Therefore, the consultation process is justified, and it should also be introduced where Variant 2 is already applied at the moment of entry into force of the Network Code.

**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. The timing of information provision should also be examined.

If changes to the minimum information requirements are not implemented, WDOs should not be introduced. The provisions on the cost-benefit analysis should be emended to reflect this principle.

**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:

Yes, the Balancing Network Code has to provide guidance on timing of information flows.

We propose the following changes to the current proposal:

- the day-ahead NDM Forecast should be provided no later than 11:00 UTC (vs 12:00 UTC currently proposed) in order to provide shippers with sufficient time to adapt to information before the Nomination Deadline (13:00 UTC)
- the initial (that we deem should be final, see answer to Question 19) daily imbalance quantity should be provided as soon as possible in the Gas Day D+1 and possibly before 12:00 UTC. This would help shippers to (i) better forecast off-takes for Gas Day D+2 before the Nomination Deadline (13:00 UTC) and (ii) better forecast off-takes for Gas Day D+1 early in the morning, in order to still have a big part of the gas day to realize balancing actions
- delayed provision of the initial (that we deem should be final, see answer to Question 19) daily imbalance quantity (no later than Gas Day D+3) for technical and operational reasons should be possible only under NRA approval.

**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:

Yes, if fully implemented by TSOs.

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

Response:

Yes. However, the Code should clarify that - where WDOs are imposed - the defined minimum information requirements don't apply and that, in these cases, a new set of minimum information must be defined depending on the specific WDOs introduced.

## **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:

Article 46(2) specifies that the neutrality mechanism shall not apply to the Linepack Flexibility Service.

However, we believe that, while keeping in place the incentive for the TSO to offer this service (provided that the listed criteria are strictly met), part of the net revenues generated should be distributed to network users. This is also to compensate the higher operational costs arising from the offering of this service that will be recovered by transmission charges, unless they are excluded from the allowed revenues calculation.

The split of net revenues between TSO and network users' should be defined by the relevant NRA.

## **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:

No response

**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:

Measure defined by the Code are sufficient.

**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:

No 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:

Yes

**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:

Yes

**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:

We believe shippers should not be exposed to the risk of not accurate forecasts also in the Balancing Target Model (see answer to Question 19). However, we support measures aimed at increasing the quality of forecast information as this would reduce costs' socialization.

**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:

See answer to Questions 19 and 49.

**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:

Yes. However, the NRA should assure that opportunistic behaviours related to the recover of cost associated with reducing flexible gas through the neutrality mechanism are not put in place.

**Question 52** – Do you agree that there is merit in including a reference to Balancing Platform trades in the interim imbalance cash-out price determination part, as suggested in the Draft Code? If yes, how should the approach be formulated and what merits would it have?

Response:

Yes, as the price formed on the balancing platform (locational and temporal trades excluded) would probably be a better proxy of the cost of balancing in the specific zone than prices of adjacent wholesale markets. Therefore, the Code should leave this option open and the decision should be taken at national level.

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

Response:

No 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:

No

## **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	Appropriate
CHAPTER II. BALANCING SYSTEM	Appropriate
CHAPTER III. CROSS-BORDER COOPERATION	Appropriate
CHAPTER IV. OPERATIONAL BALANCING	Appropriate
CHAPTER V. NOMINATIONS	Appropriate
CHAPTER VI. DAILY IMBALANCE CHARGES	The principle that in the reconciliation process the imbalance price should be a neutral price should be included
CHAPTER VII. WITHIN-DAY OBLIGATIONS	Appropriate
CHAPTER VIII. NEUTRALITY ARRANGEMENTS	Appropriate
CHAPTER IX. INFORMATION PROVISION OBLIGATIONS	Appropriate
CHAPTER X. LINEPACK FLEXIBILITY SERVICE	Appropriate
CHAPTER XI. IMPLEMENTATION, INTERIM MEASURES AND ENTRY INTO FORCE	Appropriate

**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:

No 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:

We have appreciated the supporting document and, in general, the valuable work of the ENTSOG Balancing Team.