

Responses to Consultation on Draft Code on Balancing

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

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

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

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

☐ In whole, meaning nothing to be published

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

CHAPTER II. BALANCING SYSTEM

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

Response:

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:

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:

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:

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:

Vattenfall believes the TSO could be allowed to trade in adjacent markets, if this provides a clear cost minimisation. However, it is crucial that the NC does not allow the TSO to act on insider information, i.e. having the same information disclosure obligations as other market parties, relating f.i. to the physical situation at a border which may affect the market price.

In principle however, market development and harmonisation should result in a situation where the TSO has no need to trade in adjacent markets, as costs will not differ greatly between neighbouring markets. If this is not the case, as mentioned in the example in the ENTSOG text with NCG in the L-gas market, it is crucial to focus on finding out why the market doesn't respond to the TSOs demand in that particular market.

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:

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:

We support the use of a limited number of short term products for balancing actions by the TSO. This ensures a more liquid and transparent mechanism. The nature of the balancing actions required by the TSO justifies the use of short term products also.

However, we do not necessarily support the use of the temporal product, as this fragments the – already illiquid – within day market. Forcing the use of remainder of the day products will increase liquidity. This in turn is likely to increase the possibilities of TSOs to purchase and –after one or more hours – sell these products (or the reverse) to 'shape' the balancing actions to the within day needs of the system. If temporal products are to be used, this should only be the case under very special circumstances and should be subject to consultation, to allow parties to flag unforeseen market effects.

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:

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:

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:

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:

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:

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:

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:

Vattenfall strongly opposes the possibility the draft Code offers the TSO for the rejection at will of nominations and renominations. We believe the current text does not offer sufficient clarity for market parties to be ensured that their booked firm capacity can be used. The text of article 23. 1. i. d) of the Code should be removed to ensure that nominations and renominations do not lose their firmness. If this article is intended to apply only in cases of force majeure, this should be clearly stated.

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:

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:

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: As mentioned before, a system with WDOs will require different actions from a shipper than a pure daily balancing regime. This will also require a different process for re-nominations. The process should be adjusted when WDOs are put in place, to facilitate these developments.

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:

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:

We believe that the weighted average price should have a predictable element, to facilitate it as an incentive for shippers to manage their portfolio balance. Using the Title market product is the most transparent way to do this. However, if, due to certain WDOs, the Temporal market product is used on a frequent basis, it could be sensible to add this to the calculation. However, as mentioned earlier, we do not see the need for a separate temporal product.

Locational products should not be included in the calculation of the weighted average 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:

Similar to our answer to question 20, we believe the weighted average price should be designed primarily as an incentive for market based portfolio balancing by shippers. The most favourable way to do this is by setting up a calculation that is simple, transparent and based on a liquid product for predictability. This means that in principle, it should be based on within day market products only. When there is no liquidity in the within day market at all, using the day ahead market prices could be considered.

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:

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:

We believe the small adjustment is a non-market based incentive, which – due to its nature – can never present or reflect a value for physical flexibility. The adjustment should incentivise shippers to be balanced at the end of the day, rather than leave it up to the TSO. This incentive should be large enough to be seen as a true incentive, but also small enough not to impose penalties upon shippers that are extremely out of synch with the true cost of the actions of that shipper and taking into account that they have no relation with the actual balance situation in the grid. This would discourage new entrants into a market and is not desirable.

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:

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:

Article 32.2. In principle, WDOs should only be put in place if the TSO cannot maintain system integrity without them. Naturally, the 'cannot' part should be determined taking into account a cost-benefit analysis to assess the best balance between the benefits for a market of pure daily balancing and the costs of a TSO of keeping the system safe throughout the day. We propose to reword this article to reflect the single principle of maintaining a safe system, as well as the underlying cost-benefit analysis to determine whether or not WDOs should be allowed to be put in place. Minimising the TSOs need to take balancing actions should not be mentioned as a specific reason to allow WDOs to be put in place.

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:

In no case is it acceptable to have a deemed approval of the WDOs, when the NRA does not take a formal decision. For such important topic, it is necessary that the NRA takes a formal decision for or against the WDOs.

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:

No, we believe this issue should be further analysed. The discussion of the allocation of funds from over- or under recovery on the basis of booked capacity or used capacity is a very fundamental discussion, which includes in this case the possible integration of capacity rights and commodity flows. We believe this fundamental discussion and its effects on the market should be further explored. Neutrality arrangements cannot be 100% correct on the allocation of costs on causers. Great care should be taken to come to an arrangement that does not provide the wrong incentives, maintains a stable market and is transparent and non-discriminatory. We believe further research is necessary to determine the content of article 37.2.

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:

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:

CHAPTER IX. INFORMATION PROVISION OBLIGATIONS

Question 38 – Do you agree that prospective implementations of Variant 2 should be approved only after a consultation process? If not, please explain.

Response:

We believe the information provision within the Code is on the low side. Therefore, we support the need for consultation on the application of variant 2, as this allows the lowest information provision level of them all and should be applied as little as possible. Naturally, if this model is accompanied by additional information on portfolio and system level, this could compensate the lack of updates on the customer level.

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:

As mentioned before, information provision should be aligned with the process allowing market parties to react to this information and balance their portfolio.

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:

Besides the statements in the FG, we believe the NC should set out that markets should not decrease their information flow (speed and quantity), when implementing the NC measures. The NC sets a minimum. However, it should also indicate what the ideal information provision situation is, which should include near real-time information regarding the system balance and individual portfolio balance (confidential, of course).

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:

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:

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:

Firstly, we strongly believe the implementation of limitations of renomination rights will change the way in which sources of flexibility on one side of the border can be used to react to changes in demand on another side of the border. The possible, but not proven or even thoroughly analysed, positive effects of this measure on day-ahead and within day liquidity do not weigh up against the negative effects of this measure on the general market development and opportunities for demand and supply to meet. To ensure short term flexibility can be accessed by a market, limitation of renomination rights should not be applied.

Secondly, we believe that the entry/exit tariffs for storage should be set up to be cost reflective and in line with the actual use of the point/grid. This would optimise the ability of storage to be used as a competitive flexibility tool.

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:

We do not understand the topic of inclusion of LNG in the balancing zone. All entry points of a system, including those of LNG terminals, are part of a balancing zone. We do not see the need to change anything in this arrangement.

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:

We believe it is crucial to put in place tolerances when there is insufficient market and/or flow information available. These tolerances should ensure that no charges are incurred for imbalances that were not known to the market party or could not be remedies, due to the lack of short term liquid market or flexible gas. The text of the relating articles of the NC should be adjusted to reflect an **obligation**, rather than option for the TSO to put such measures in place.

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:

In any case, any imbalance charges must be based on the information provided by the TSO, as this is the only information available to the market parties to base their balancing actions upon. This will ensure that the quantity and timeliness of data are linked to the obligation to put in place tolerances. The quality will be left out, as this remains the risk of the TSO and market parties can and will not be charged for any incorrect data provision. The regulator should have the task of monitoring and incentivising the quality (as well as the quantity and frequency) of data provision.

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	<p>Article 9.</p> <p>We support a reference to cross-border cooperation in the NC, as this will aid market development and harmonisation of rules. However, we believe the text in the NC should be brought in line with the Gas Target Model. This framework document, intended to overarch the FGs and NCs, indicates that the creation of cross-border balancing zones should only be considered if a market is not capable of becoming a functioning market on its own. To ensure markets are given the opportunity to develop, in line with the vision of the Gas Target Model, we suggest limiting the text of article 9 to: “The TSOs shall cooperate in order to integrate European gas markets” and delete the rest of the text. This focuses the efforts on cross-border cooperation.</p> <p>Article 10.8 should be removed, as it only offers possible ways to integrate markets. Proposals or ideas have no place in the NC text and should be proposed for consultation by TSOs instead, if and when deemed appropriate.</p>
CHAPTER IV. OPERATIONAL BALANCING	
CHAPTER V. NOMINATIONS	
CHAPTER VI. DAILY IMBALANCE CHARGES	
CHAPTER VII. WITHIN-DAY OBLIGATIONS	
CHAPTER VIII. NEUTRALITY ARRANGEMENTS	
CHAPTER IX. INFORMATION PROVISION OBLIGATIONS	
CHAPTER X. LINEPACK FLEXIBILITY SERVICE	
CHAPTER XI. IMPLEMENTATION, INTERIM MEASURES AND ENTRY INTO FORCE	

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

Response:

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 support the use of a supporting document with the NC consultation. In addition, it would be beneficial if more practical examples are added to indicate why a certain option is favoured or why an option is simply not possible to be implemented. This would help us understand the reasoning better and allows us to better assess the effect of certain proposals.