

Meeting notes

Balancing Network Code (BAL NC): Refinement Workshop 26 July 2012, 10:30-16:30

ENTSO-E conference centre, Brussels, Belgium

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34	Edison SpA	Immovilli	Monica
35	Enagás S.A.	Vega Aguado	José
36	Energy Networks Association	McConnell	Adrian
37	Enexis	Luijten	Rene
38	Eurogas	Loudon	Margot
39	Europex (Powernext)	Filippi	Aude
40	EUROPOL GAZ	Yakubovich	Emiliya
41	ExxonMobil	Shackleton	Barry
42	Fluxys	Deschuyteneer	Thierry
43	Gas Connect Austria	Matzenauer	Alexander
44	Gas Natural Fenosa	Poblaciones Corencia	Rosalia
45	Gas Natural Fenosa	Von Munthe Af Morgenstjerne	Beatriz
46	Gaslink	Hayes	Celine
47	GASPOOL Balancing Services GmbH	Kemper	Sebastian
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50	GRTgaz	Quainon	Julien
51	IFIEC	Meuzelaar	Dirk Jan
52	IFIEC Europe	Hoehn	Valentin
53	IFIEC Europe	van de Worp	Jacques
54	GEODE	Thole	Christian
55	Interconnector Ltd.	Dhesi	Pavanjit
56	Interconnector Ltd.	Manning	Lucy
57	Ministry of Econ., Agriculture & Innovation (NL)	Van 't Hof	Wim
58	National Grid	Hamilton	Colin
59	National Grid	Shanley	Chris
60	Naturgas Energia Comercializadora_EDP Group	Amundarain Leibar	Mikel
61	NetConnect Germany	Alaerds	Stephan
62	NetConnect Germany	Sammut	Markus
63	NJSC "Naftogaz of Ukraine"	Frolov	Vadym
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65	OCI Nitrogen	Moling	Mathieu
66	Ofgem (UK)/ACER	Keyserlingk	Konrad
67	PGNIG SA	Kubala	Ewa
68	Plinacro ltd	Bago	Dragica
69	Plinacro ltd	Subotić	Mirella
70	Polish Oil and Gas Co	Stepniak	Beata
71	Polish Oil and Gas Co	Wisniewski	Mieczyslaw
72	RWE Polska S.A.	Radziwonko	Anna
73	RWE Supply & Trading GmbH	Rose	Stephen
74	RWE/Essent	Stolk	Rainier
75	Sonatrach Gas Comercializadora	Oliver	Paula
76	Stogit-GSE	Cigni	Alessandro
77	Swedish Energy Markets Inspectorate	Ter Bruggen	Björn
78	Thüga AG/Eurogas DSO Committee	Hennig	Eva
79	TIGF	Martin	Alexandre
80	Total	Malichecq	Mathieu
81	VCI/Cefic	Kronimus	Alexander
82	Verbund	Pflanzl	Thomas
83	Wien Energie Gasnetz GMBH	Jakwerth	Peter

1. Welcome & Introduction

ENTSOG welcomed stakeholders to the event, thanking them for their responses to the public consultation and for their continued participation in the BAL NC development process. ENTSOG stressed its commitment to deliver a robust network code which will build upon stakeholder feedback, to the extent practical, thereby better enabling proper market functioning. ENTSOG indicated that all presentation material used at the Refinement Workshop would be made available on the ENTSOG website.

2. Report on Public consultation

ENTSOG reported briefly on the 51 responses to the public consultation received in mid-June. ENTSOG explained its processes to distil key stakeholder issues from its analysis of all of the replies to the 57 consultation questions. The stakeholder issues, rather than the questions, will be the vehicle for presenting considered refinements to the Draft Code – both at the Refinement Workshop and in the “Analysis of ENTSOG Decision” supporting document to be issued in mid-September [see the Next Steps section below].

3. Update on Capacity Allocation Mechanisms (CAM) Draft Network Code

ENTSOG gave an update on the Draft Network Code on CAM, on which ACER issued a Reasoned Opinion on June 6th. ENTSOG outlined the issues raised by ACER focussing on those about which ENTSOG has the greatest concerns and on which ENTSOG would like the input of stakeholders.

ENTSOG will launch a brief stakeholder engagement process on July 27th, seeking written feedback by August 10th. It will also be holding an 'open house' on August 7th

In the Q&A session which followed, Wim Van 't Hof, Gas Coordinator at Ministry of Economic Affairs, Agriculture and Innovation, informed ENTSOG and stakeholders that there would be a member state pre-comitology meeting on the CAM Draft Code on September 20th. It encouraged ENTSOG to identify any changes included in the ACER opinion where the requests deviate from ACER's original framework guideline.

ENTSOG noted that it had been asked to submit the revised CAM code by September 17th. The Commission expressed its preference that the Comitology process should start before the end of 2012.

ACER took the opportunity to announce the following developments related to the Framework Guideline (FG) on the Tariffs Network Code

- 4 September: where ACER Board of Regulators meeting will provide an orientation discussion for the ACER FG process with the aspiration that the consultation will be started prior to
- 18 September: when ACER will hold a public workshop on the Tariff FG proposal.

4. Initial ACER reaction to Draft Code

Konrad Keyserlink, Ofgem but on behalf of ACER, explained how ACER used the public consultation period to conduct a "practice run" for formulating a Reasoned Opinion on the BAL NC. Given that the Draft Code is precisely that, ACER indicated that its informal preliminary opinion cannot be considered binding nor to fetter the discretion of ACER nor to have any legal status. ACER stressed that it was discussing intensively with ENTSOG and the Commission. ACER anticipate the process will continue throughout the network code development processes and has invited ENTSOG to supply it with any revised legal texts that ENTSOG develops to establish a further early informal review.

ACER gave an overview of the concerns that it communicated to ENTSOG in its informal preliminary opinion. The topics (chapters of the code) commented upon included:

- Within-day obligations;
- Operational balancing ("TSO procurement");
- Neutrality;
- Nomination rules;
- Role for NRAs in approving aspects of the balancing regime;
- Use of interim steps must be minimised;

- “Small adjustment” to imbalance charges may need to be capped;
- ENTSOG and ACER monitoring roles.

While maintaining that the preliminary opinion was “not the Reasoned Opinion,” it gave strong signals where it would not accept (come February 2013 in its Reasoned Opinion) some aspects of the Draft Code. Specifically ACER confirmed that the network code could not define any procedure for NRAs; the role of NRAs is defined in national administrative law and this must be respected. The network codes should not seek to reduce NRAs rights, or to fetter their discretion.

In the Q&A session which followed, the exchanges between stakeholders, ACER and ENTSOG included:

- Whether the network code would apply to interconnectors (i.e., “single pipeline operators”), such as Interconnector Ltd. and BBL Company, in part or in whole. ACER recommended that such TSOs have “conversations” with their respective NRAs. ENTSOG volunteered to contribute to any such interconnector/NRA discussions;
- Whether ACER’s suggestion that ENTSOG “also need to look at requirements for domestic entry or exit points” as regards nominations was outside of the scope of ACER’s own FG, which did not define a requirement for any detailed nomination rules. ENTSOG maintained that it considered the matter ‘out of scope’. However ENTSOG noted that in response to ACER’s request during the code development process to increase the scope of the code it would define detailed rules for IPs but did not intend to define further provisions for non-IP points.

5. Content issue analysis and preliminary views

In the substantive sessions to follow, ENTSOG gave an overview of stakeholder feedback on key issues and the rationale (where available) provided in the consultations responses. ENTSOG explained the policy considerations in-progress and where it was considering making refinements to the Draft Code. The issues presented are presented chapter-by-chapter below.

Chapter IV. Operational Balancing

ENTSOG’s overview of stakeholder feedback included the following issues:

- Merit order and the case to strengthen it;
- The relationship to, and placement of balancing services, relative to Short Term Standardised Products (STSPs) in the merit order;
- Originating party and the party making the (re)nomination in locational trades;
- Exchange-based trading;
- Balancing services procurement criteria;
- Market-based procurement process for balancing services;
- Contracts for balancing services to be limited to a maximum 1 year;
- TSO trading in adjacent markets;

- Trading day-ahead;
- Incentives.

In the Q&A session which followed, the exchanges between stakeholders, ACER and ENTSOG included:

- Whether a strengthened merit order would not risk TSOs using STSPs which were more costly than balancing services. A stakeholder suggested that the merit order could be revised on a rolling basis, serving only as guidance for – and not an obligation on – TSOs. ENTSOG concurred but indicated that the merit order has a role to support the development of a liquid market and that not all ex-ante assessments of single actions might be considered efficient. This is one of many trade-offs that needs careful consideration within the implementation of the balancing network code;
- Whether the proposed merit order would respect the ‘causers pay’ principle. ENTSOG confirmed that the Daily Imbalance Charge was the main network user incentive mechanism within the Balancing regime and might be considered to, at least partly, deliver a ‘causer pay’ principle. Further opportunities for more precision in the ‘causer pay’ principle may exist in within day obligations regimes where such arrangements might be justified;
- Where trading in an adjacent market, assuming NRA approval, would fall in the merit order. ENTSOG explained that adjacent market trading would need careful consideration and may be on a level of locational product. Any concerns about market failures due to liquidity differences across adjacent markets would be a matter for NRAs to address;
- On foot of the above question, ACER asked whether trading in an adjacent market would be evidence in support of a reason for merging balancing zones. ENTSOG responded that the considerations of allowing TSOs to trade in different markets and zone mergers are separate matters;
- Whether operational balancing agreements would be included in the Draft Code. ENTSOG replied that this is closely linked to interconnection agreements and might be a matter for consideration within the Interoperability network code. In an aside, ACER mentioned that ACER would be issuing its Framework Guidelines on the Interoperability Network Code by 31 July 2012.

Chapter II. Balancing System

ENTSOG’s overview of stakeholder feedback included the following issues:

- Single virtual trading point;
- Default rule on trade notification;
- Lead time trade notifications;
- Concept of single-sided notifications;
- Bringing in-line daily and hourly trade notifications.

Chapter III. Cross-border Cooperation

ENTSOG's overview of stakeholder feedback included the following issues:

- Review of the harmonisation of balancing rules;
- DSOs role in the consultation process;
- Involvement of ACER in ENTSOG review process;
- ENTSOGs role in the cooperation among TSOs.

In the Q&A session which followed, the exchanges between stakeholders, ACER and ENTSOG included:

- Whether a trade notification submission window of 30 minutes before the effective time of the trade could be harmonised via the code. ENTSOG explained that there was a clear intention to move to EU 'best practice' and noted that 30 minutes might only be warranted in an hourly regime;
- The EC inquired why ENTSOG was still considering two default rules instead of proposing a single harmonised rule. ENTSOG explained that stakeholders argued that the cost of such harmonisation (e.g., IT system for TSO, traders, etc.) far exceeds the benefit.

6. Content issue analysis and preliminary views

Chapter VII. Daily Imbalance Charges

ENTSOG's overview of stakeholder feedback included the following issues:

- Basis of daily Imbalance quantity (with reference to initial or final allocations);
- Timing of allocation information;
- Design of small adjustment;
- Inclusion of locational and temporal trades;
- Preference for single cash-out;
- Source of trades;
- Day-ahead trades.

Chapter X. Linepack Flexibility Service (LFS)

ENTSOG's overview of stakeholder feedback included the following issues:

- preference for explicit services;
- the link between WDOs and Linepack Flexibility Service;

part of Chapter XI: Tolerances

ENTSOG's overview of stakeholder feedback included the following issues:

- Limitations on application (use of term "may");
- Obligation to offer Tolerances
- Situations where information and liquidity lacking;
- Structure of quantities.

In the Q&A session which followed, the exchanges between stakeholders, ACER and ENTSOG included:

- How ENTSOG arrived at the proposed cap of 10% of WAP. ENTSOG explained that it had taken account of the feedback in the consultation and had considered current cash-out price methodologies noting that it was only GB that had a mechanism that directly maps to the approach described in the framework guideline. Based on available examples ENTSOG would propose 10% as a reasonable compromise;
- Given LFS could put constraints on the ability to use linepack to absorb flow mismatches on the grid, could the code counter-balance this 'risk' with incentives on TSO to respect right operational envelope? ENTSOG explained how the criteria for the introduction of a LFS product ensured that it should only be introduced where it did not increase the requirements for WDOs. ;
- How preventing additional or more stringent WDOs when wanting to introduce an LFS would work in practice. ENTSOG explained that this would be established in an NRA's eventual assessment of a WDO;
- Whether the exclusion for LNG in small markets would remain in the code given stakeholders' strong opposition and/or confusion about the matter. ENTSOG indicated that since ENTSOG did not understand the rationale for the provision, and the rationale for it was not clear in stakeholder feedback, that it expected the provision would be struck.

Chapter VIII. Neutrality Arrangements

ENTSOG's overview of stakeholder feedback included the following issues:

- Recovery of "efficient" costs and not "any" cost;
- Specificity on transparency of arrangements;
- Degree of prescription in code;
- Treatment of Variant 2 via a separate neutrality pot;
- Split pots other circumstances;
- Credit arrangements.

In the Q&A session which followed, the exchanges between stakeholders, ACER and ENTSOG included:

- Whether LFS services would be included in neutrality arrangements; ENTSOG indicated that this was not excluded in the Draft Code, thus leaving it to be determined in national rules;
- Based on what evidence, ENTSOG was considering making an obligation for a separate neutrality pot where Variant 2 is in place? Some stakeholders questioned whether this is a particular German issue but others noted the Variant 2 approach could be introduced elsewhere. Stakeholders indicated that the approach offered opportunity to better attribute costs in the regime and that such a decision should be left to NRAs, who are best-placed to assess the local situation. Some noted that the introduction of different neutrality might create additional administrative costs and that these might need to be considered in the NRAs decision;

- Whether the neutrality arrangement would allow for efficient network users to be rewarded. ENTSOG reminded stakeholders again that the Daily Imbalance Charge was the main mechanism for instituting this principle;
- Whether and how NRAs can incentivise TSOs, or ensure that they have ‘skin in the game’, in respect to their procurement activities. ENTSOG reminded stakeholders about the sections in the Balancing Operations chapter (e.g. Merit Order) -- and elsewhere -- which will limit TSOs commercial freedom in the balancing process; rules limiting TSO choice would not always lead to each individual decision being considered optimal. Thus ENTSOG feared that TSOs would face asymmetric risk, with downside arising from any inefficient assessment.
- ACER confirmed that TSOs should not be exposed to ex-ante assessment and that incentives should not generate only downside risks although how assessments would be made of “better than efficient” outcomes remains undefined.
- ENTSOG suggested that stakeholders and ACER consider the Neutrality Arrangements chapter as related to a settlement function. ACER maintained that any network code chapter on neutrality had to include a cross reference to the use of incentives for the sake of achieving efficiency gains.

Chapter V. Nominations

ENTSOG’s overview of stakeholder feedback included the following issues:

- Duration of transitional measure (relative to interim measures);
- Procedures at non-IPs;
- Shorter lead times for nomination and re-nominations and for matching;
- Compatibility with CAM Draft Network Code;
- Reducing capacity due to physical constraint.

Chapter IX. Information Provision

ENTSOG’s overview of stakeholder feedback included the following issues:

- Variant 2 treatment
- Additional measures in cost/benefit analysis (CBA);
- CBA earlier than two-years;
- Accuracy incentives;
- Provision first NDM provision (in terms of time of day);
- Information where WDOs exist;
- Granularity of information;
- Value of cross-reference to Transparency Guidelines.

In the Q&A session which followed, the exchanges between stakeholders, ACER and ENTSOG included:

- As regards the ability of a TSO to reject or partially accept (re)nominations, ENTSOG explained that in the business rules under consideration, the TSO will be able to reject/partially accept (re)nominations only when the acceptance of the requested flow or change would jeopardise system integrity, or when in respect of that Gas Day, it has already taken actions (e.g., curtailment of interruptible capacity rights, firm buy-back) and a Network User makes a (re)nomination that would exacerbate

the problem. ACER invited ENTSOG to provide historic data about how often and in which situations TSOs have had to resort to such nomination rejection;

- The extent to which this curtailment right for TSOs would undermine the right of firm capacity. ENTSOG will proceed carefully in formulating this part of the code, as defining capacity management goes well beyond the scope of the BAL NC;
- Whether a transitional period, such as the 3 year period now being proposed by ENTSOG, was justified for the introduction of (re)nominations to support the enduring (provisions of the BAL NC; ACER invited ENTSOG to provide evidence to demonstrate why the proposed transitional period was needed. A stakeholder indicated a minimum of 3 re-nomination windows was required to make this provision acceptable to them. A Stakeholder queried why when TSOs are providing aggregate IDM forecasts, they cannot provide those on an individual basis; another stakeholder indicated that the information was in some system for the Supplier and not Network User. ENTSOG indicated that the drafting was not intended to “limit” (i.e. individual info could not be provided) the information to aggregate and would check this.

7. Content issue analysis and preliminary views

Chapter VI. Within-day obligations

ENTSOG’s overview of stakeholder feedback included the following issues:

- More details on WDOs – definition of types of WDOs;
- A refined definition of WDOs;
- Types of WDOs;
- Pre-conditions and criteria for WDOs;
- Merging of criteria used by both TSO and NRA consultation process.

In the Q&A session which followed, the exchanges between stakeholders, ACER and ENTSOG:

- Concluded that the three types provide a comprehensive generic classification of possible WDOs;
- Confirmed that the detailed formulation of each proposed WDO scheme would need to be assessed against the criteria defined in the network code,
- Considered that the ability of a network user “to comply” with the WDO would need careful consideration, the aim should be that no network user should have an unwarranted exposure that it cannot reasonably be expected to manage (taking into account both quantity and price exposures), one stakeholder indicated that any WDO obligation with hourly consequences would require data provision at a similar time interval and with an ability to respond within that timescale, others noted that this might create significant additional costs and that these matters needed careful consideration before the approval of any WDO;
- Explored the close linkage of the timeliness of information provision to network users about both system level and portfolio level information and network user ability to respond to the management of their exposures
- Encouraged ENTSOG to consider a generic formulation of the information requirements that might be appropriate to support network users risk management

- Stressed that information provision should be considered to be the key network user requirement in the decision and decision process for WDOs
- Indicated a preference that WDOs should not imply charges to network users where the TSO is not taking management actions although others suggested that a less cost-reflective approach could be acceptable (particularly where less than perfect information is available particularly from a granularity and timing perspective)
- Confirmed the case for any WDO needs to be established (having account for genuine system needs, and the consideration that a better outcome will arise from network users facing the WDOs rather than the TSO managing the circumstances on behalf of all users on a socialised basis)
- Acknowledged that the WDOs should enable those that can manage their own portfolios within day using their own flexibility should be allowed to do so and that these portfolios should be granted some relief from the management costs that arise from other users
- Confirmed that ENTSOG should work to describe the three types in the code and to merge the criteria so that the TSO's and NRA's assessment of WDOs should be based upon common criteria to the extent possible.

8. Content issue analysis and preliminary views

Any other issues

ENTSOG asked the stakeholders present whether there was any other material issue that ENTSOG had not covered (other than WDOs which was to be covered in the final substantive session). No issues were raised by stakeholders.

9. Next steps

ENTSOG presented an overview of the Refinement stage of the development process, where stakeholder and ACER feedback will be used to clarify and refine the Draft Network Code.

- ENTSOG will be formulating a Refined Draft Code and circulating it for internal approvals in August and early-September;
- A Refined Draft Code will be issued in the public domain in mid-September in the context of the Stakeholder Support Process (SSP) to be held 14-28 September. The Refined Draft Code will be accompanied by an "Analysis of ENTSOG Decisions" (AoD) supporting document where ENTSOG will explain the refinements to the Draft Code implemented further to the public consultation and to provide the rationale for the approach chosen in respect of the most significant policy choices within.
- ENTSOG will then circulate the results of the SSP, the (possibly further) Refined Draft Code, and the (possibly refined) AoD document for another iteration of internal approval in October;
- ENTSOG will submit the final Draft Code and AoD document to ACER on 5 Nov. 2012;
- Commission will complete the impact assessment and encouraged ACER, ENTSOG and individual stakeholders to contribute data to inform the Commission's IA.