

Meeting notes

Balancing Network Code (BAL NC): Launch Workshop 13 Dec. 2011, 10:00-17:45; 14 Dec. 2011, 9:00-16:30

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BP Gas Marketing	Pearce, Andrew
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Snam Rete Gas	Gazzola, Marco
Statoil UK	Sykes, Chrstiane
Thyssengas	Wachholz, Stefan
TIGF	Martin, Alexandre
Utilities Service Group	Meuzelaar, Dirk Jan
Vienna Energy Gasnet	Jakwerth, Peter
VIK / IFIEC Europe	Höhn, Valentin

1. Introduction

Vittorio Musazzi, ENTSOG General Manager, thanked all of the stakeholders for their participation to date in this network code development process and encouraged them to continue their constructive engagement throughout the remainder of the process. Mr. Musazzi also introduced the team of ENTSOG Advisers, who would be facilitating the BAL NC project.

ENTSOG reminded the audience of the objectives of the code development process and its specific objectives for the Launch SJWS.

ENTSOG also explained the 'ground rules' for the live, unsecure web-streaming service being trialled at the event:

- ENTSOG was acting in accordance with majority view in trialling such a service for those unable to be present at the event. They asked any press viewing the webcast to observe 'Chatham House Rules,' as there was not yet a final decision on press participation;
- ENTSOG will seek further views on this service from webcast viewers after the trial so that it can provide future webcasts if warranted.

2. Outcome of project plan consultation

ENTSOG presented highlights from the response report for the project plan consultation, held in November 2011. While pleased with the extent of stakeholder participation committed via consultation responses and ad hoc communications, ENTSOG appealed for

more stakeholders to ‘make themselves known’ to ENTSOG – even when engaging only at the level of an observer.

Where stakeholders wish to amend or indicate their participation level (i.e., prime mover, active SJWS participant, consultation respondent or observer), please could they do so to ENTSOG project team member Tori Gerus (victoria.gerus@entsog.eu).

3. FGs interpretation and ‘Balancing Target Model’ - institutional perspective

The European Commission (EC) and ACER declined making general comments on the interpretation of the Framework Guidelines (FGs) or in reference to the ‘Balancing Target’. They announced their intention to make comments as issues were raised in the course of the Launch workshop.

4. BTM and key balancing concepts

Both ENTSOG and a prime mover representative presented their perspectives on both the BTM and the key concepts within the FGs formulated to achieve it. The workshop participants broadly accepted the BTM and related concepts as described and explored, specifically:

- The model should provide the destination following transition steps (where these are necessary). Some progress should be visible by 2014 and a mature market environment established by 2020 (as proposed by a prime mover);
- Daily commercial user balancing, “simple commoditised daily balancing”, should be the aspiration with “every day an island” (as a vehicle to promote liquidity of with day trading in respect of the daily commodity);
- The major role for achieving the commercial balance (and therefore physical daily balance) should be borne by network users;
- Entry/Exit regimes and easily accessible virtual trading point (VTP) trading is key to enable new entrants, risk management and to enable a focus for liquidity;
- Network users shall have appropriate information to manage their risks and opportunities within the commercial framework;
- One stakeholder suggested the trials to improve on balancing arrangements.

5. Elemental Areas of Framework – within-day obligations and other incentives

Both ENTSOG and a prime mover representative presented their perspectives on within-day obligations (WDOs) and related incentives. The workshop participants broadly accepted that:

- WDOs (or more likely incentives schemes) may be necessary, but the risks to liquidity and the efficiency of trading in the daily commodity need to be carefully considered (together with the other criteria in the FGs, plus any others that might subsequently be identified);
- TSOs shall strive to use a limited set of standardised short term products for its residual role;
- TSOs shall strive to use the wholesale market, on an equal footing to other network users, whenever possible;
- While the aspiration is that TSOs should transact in title products at the VTP, it is recognised that where TSOs need to be regularly both sides of the market within-

day, it may be more efficient to use physical markets. This is despite the fact that the buy-sell spread within day might be greater than is witnessed on the title market;

- The TSO may require balancing services where a sufficient risk is perceived that the short-term market will not deliver the required services. The procurement, and use, of these services shall be limited as much as possible;
- Incentives on both TSOs and system users will be a critical determinant of the way the regime functions;
- Incentives must be designed to ensure that they are complementary;
- For TSOs the incentives might reflect an appropriate inducement to utilise the short term wholesale market and balancing platforms in a manner consistent with a merit order;
- For network users, imbalance charges or the cash-out price should encourage trading and ensure appropriate delivery of physical products when used by the TSO in its residual role;
- Harmonisation of balancing regimes should be sought wherever possible and particularly to avoid material cross-subsidisation either between different classes of users and between adjacent balancing zones (but noting the trade-off with artificially inflating costs in a zone as a result of that very harmonisation);
- Balancing zones should wherever possible encompass downstream DSOs, if there is further balancing risks associated with downstream networks;
- One stakeholder, however, suggested that WDOs should not be a part of the BTM.

ACER, however, indicated that harmonisation of WDOs was not a primary objective of the FGs for this element, foreseeing a regime defined at national-level or balancing zone-level:

- The process in the FGs is that a TSO which wishes to propose WDOs shall consult on how they meet the criteria already listed within the FGs and the impact that they will have; NRA in approving them should ensure that these principles are met;
- Therefore, the BAL NC could identify additional criteria which must be met for WDOs to be adopted in a Member State and the process for WDOs being adopted. If there are additional criteria deemed important, then ACER is happy to consider them;
- The BAL NC does not need to get into the details of a WDO regime, for example, such as how TSOs recover the costs (are costs socialised or not and how will TSOs neutrality be ensured, etc.). This is a matter for NRAs to formulate in the course of their approval of WDOs.

ACER said that if there are alternative views or challenges to this approach, ACER is happy to consider them

6. Day 1 closing

ENTSOG provided a high-level summary of the content conclusions on which there was broad agreement by the Launch SJWS participants.

ENTSOG raised a final administrative matter, requesting webcast viewers to provide their impressions of the experience and any feedback on content issues to ENTSOG project team member Frederik Thure (frederik.thure@entsog.eu).

7. Day 2 opening

ENTSOG opened the second day of the workshop by thanking the participants for their valuable contributions to and constructive engagement in the debate on Day 1.

8. Elemental Areas of Framework – VTP trading

ENTSOG presented additional information on the VTP and related concepts, highlighting that:

- VTP trading will be the foundation of the daily balancing market
- a VTP trade represents a transfer of imbalance quantity (gas quantity) between trading parties; no concept of physical deliver;
- No capacity at VTP needed ;
- Links to physical flow changes are not direct; however trade will change the anticipated imbalance position of the parties and so exposures can change physical flows – additional a further indirect effect can occur via changes in exposure to wider network user community when relevant trade price impacts determination of imbalance charges, or cash-out;
- VTP trading's links with WDOs and with balancing tools needs careful consideration.

The workshop participants broadly accepted the concepts presented. There was also general acceptance of the open issues, or considerations, to be treated at future SJWS.

9. Elemental Areas of Framework – imbalance charges

ENTSOG presented its perspective on imbalance charges, or end-of-day cash-outs. There was general agreement among workshop participants that:

- The BAL NCs needs to define which trades will be included in price calculation, for which categories of trade and from which exchanges/platforms;
- Prices should be designed to be reflective of market conditions; a preliminary view is that no floors or ceilings are foreseen to be necessary in a competitive and 'liquid' market;
- Uplifts need to be carefully set and taking into account the risk of cross-border distortions.

There was also agreement of the open issues to be treated at future SJWSs.

10. Elemental Areas of Framework – information provision

ENTSOG presented its perspective on information provision. There was general agreement among workshop participants that:

- Information consistent with network user's management of risks and opportunities;
- Information provision needs to move forward to meet the needs of marketplace;
- DSO-cascade issue to be addressed some flows come from another DSO;
- Reconciliation (differences between allocations (for balancing) and individual meter based consumption) a downstream responsibility;

- Terminology issues challenging so need greater clarity. For example, “nominations” in the information provision context would be better referred to as “advisory forecasts”;
- The imbalance equation is: Imbalance = inputs less off-takes;
 - Off-take timing needs to be carefully considered for the different classes of users; some views expressed that imbalance exposure (to incentive prices) should only be derived based on final advisory forecast for non-daily metered (NDM) end users;
- Imbalance calculation needs to be considered in the round in conjunction with cash-out prices, information provision and the liquidity of the wholesale market.

There was also agreement of the open issues to be treated at future SJWSs.

11. Elemental Areas of Framework – wider commercial issues

ENTSOG presented its perspectives on the wider commercial issues raised in the FGs. There was general agreement among workshop participants that:

- For nominations and links to other network codes and to interoperability,
 - Terminology is a challenge (and we will do some more work to clarify);
 - Consistency is a major challenge across subjects (to be raised with EC/ACER).
- For TSO standardised products,
 - Merit order within use of short-term standardised products;
 - Delivery of product – bundled world, link to nominations/re-nominations, cash-out incentives;
 - One stakeholder suggested to shift time-swap into the category of a balancing service, not as short-term product.
- For settlement and neutrality,
 - Detailed issues require careful consideration;
 - Attribution of WDO-related actions to end-of-day /within-day reasons may be a challenge
 - These are matters for treatment by NRAs, as confirmed by ACER.
- For incentives,
 - The FGs say that temporal and locational actions excluded from Imbalance charge calculations;
 - Coherence and complementarity of TSO / system user incentives critical and will depend in particular on within-day targeting issues.
- For cross-border co-operation,
 - ENTSOG co-ordinating role in monitoring/reporting on extent of harmonisation;
 - Process need to continually identify options for greater regional co-operation;
 - One stakeholder suggested to not start the identification process before there has been reached enough harmonisation.

There was also general acceptance of the open issues to be treated at future SJWS.

12. Elemental Areas of Framework – transition measures

ENTSOG and a stakeholder, a German regional balancing agent, presented their perspectives on the transitional measures foreseen by the FGs. There was general agreement among workshop participants that:

- For tolerances,
 - Provide a means for network users to adapt to the transitioning balancing regime;
- For balancing platform,
 - That there are ‘lessons learned’ from recent experiences in France and other Member States;
- For imbalance price proxies,
 - There are various types of proxies: from benchmarks from competitive/liquid markets to administrative list prices;
 - The market conditions which warrant the event transition from proxies to actual imbalance/cash-out prices are unclear; the NC could define the conditions or criteria to be met before actual prices are introduced;
- For TSO surplus flexible gas release,
 - The definition of liquidity is a key parameter for the use of these measures, thus requiring careful consideration.

There was also general acceptance of the open issues to be treated at future SJWS.

13. Day 2 closing

ENTSOG provided a high-level summary of the content conclusions on which there was broad agreement by the Launch SJWS participants.

On process matters, ENTSOG concluded that:

- The press would not be invited to future SJWS for the BAL NC development process. ENTSOG will handle any inquiries from journalists as required;
- The use of live web-streaming at future SJWSs will be determined based on the feedback from views of the trial web-stream broadcast and based on available budget. If live web-streaming is used again, it could include a secure sign-in so that viewers can be identified;
- To avoid questions of semantics and the misunderstanding risks, it appears that it would be valuable to have the glossary from the Launch Documentation to be transposed into a draft of the “Definitions” section of the BAL NC. This would be a ‘living document’ with revisions made after each SJWS, including this Launch SJWS, based on the consensus clarifications made within;
- For example, the term “nominations” in the context of VTP trading will be replaced with “trade notifications”; in the context of DSO information provision will be replaced with “advisory forecasts.”

14. Next steps

ENTSOG will carefully consider all views raised at this session and will take account of stakeholder feedback when drafting discussion materials for the SJWSs where the above issues will be treated.

ENTSOG will review and revise the topic list and agenda for SJWS1. It expects to issue the draft SJWS1 agenda on 23 December 2011.

Next SJWS: SJWS1, 11-12 January 2012.