

# Comment

regarding the Implementation Proposals

by the Transmission System Operators and Market Area Managers  
in Germany

regarding Balancing-Relevant Issues

based on the Draft  
Network Code for Gas Balancing in Transmission Systems

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## Comments:

All comments are forwarded to the Federal Network Agency together with the recommendation document (to be prepared). In as far as a comment or individual parts of the comment is/are not to be forwarded to the Federal Network Agency and in as far as contents of the comment are not to be published, this has to be indicated accordingly by the participant in the consultation.

Please enter your comments along with reasons in the corresponding fields and send the document to [info@fnb-gas.de](mailto:info@fnb-gas.de) in an electronically editable format by 31st January 2014.

## 2 Intraday incentive system

### 2.1 Necessity

#### Comments regarding the need for an intraday incentive system

European Energy Exchange AG (EEX) considers the implementation of a pure daily balancing system for the German GASPOOL and NCG market areas as provided for as a standard model in the Network Code on Gas Balancing in Transmission Systems (NC BAL) to be an important milestone in the accelerated positive development of the German market areas within a harmonised European internal gas market.

Compared with daily balancing with intraday incentives, as seen from the perspective of the market, pure daily balancing makes an essential contribution to the significant and sustainable strengthening of liquidity, as well as market maturity, and, hence, the competitiveness of the two German market areas, GASPOOL and NCG, within the shortest possible period of time.

According to NC BAL, there is only a need for an intraday incentive system if:

- securing of network integrity is not possible with pure daily balancing for operating and/or commercial reasons and
- the control energy activities of the Market Area Managers (MAM) might be minimised significantly compared with pure daily balancing.

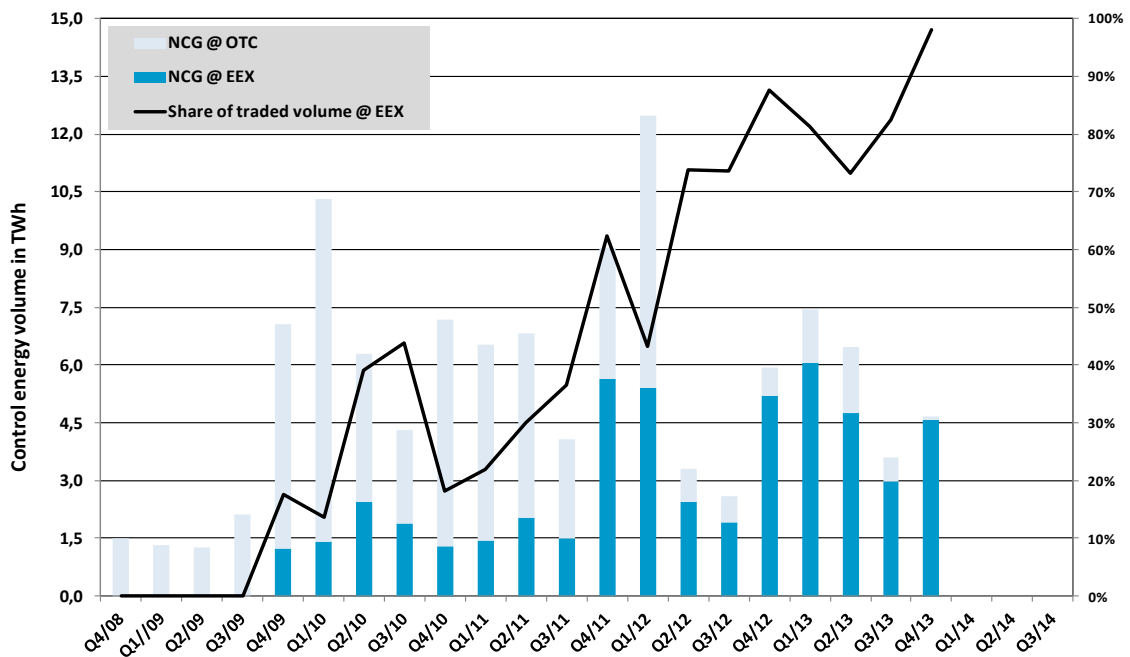
As seen from the perspective of EEX, the criteria specified above justify an intraday incentive system, in particular, in illiquid gas markets with a low market maturity and few active market participants.

For the following reasons, however, EEX recommends pure daily balancing for the German NCG and GASPOOL market areas:

#### **1. Sufficient availability of control energy products for pure daily balancing**

- Flexibility can be traded on a market price basis to a high degree through liquid and constantly available control energy products on the virtual trading points (VTP). Even today, trading of control energy is primarily required through the exchange under the control energy target model. On the EEX Gas Spot Market, a large number of trading participants (December 2013: 92) provide flexibility in the short term with prices and volumes being visible to the entire market.
- As is shown in Figure 1, individual MAM already trade more than 95% of the control energy through EEX at market-based prices today.

Figure 1: Trading of control energy within the NCG market area (Source: Own graphic)



- As a result of disproportionately low capacity utilisation in German gas storage facilities, there is a large amount of flexibility which can be offered by gas traders at market prices through the use of existing spot products. Compared with other countries in which pure daily balancing has been tried in practice (United Kingdom, France), Germany has significantly higher gas storage volumes with a concurrently high injection and withdrawal rate. As a result, supply shortages do not have to be expected at any time with regard to intraday structuring at market prices. Any risk to the security of the grid and of the supply is excluded because of the potentially available control energy flexibility.
- Complete coverage of the intraday control energy flexibility (which is required externally through global control energy products (cf. consultation paper by the TSO, section 2.1.2)) is neither affected in practice today nor required under the European target model. At present, control energy flexibility is created through a portfolio of cross - quality (global) and quality-specific (H-/L-gas) control energy products on the VTP and, in part, local control energy products (e.g. trading on the TTF VTP with handover at the TTF/NCG cross border point (CBP)). According to NC BAL, this will also be possible in the future.
- Moreover, further control energy flexibilities can also be traded via the MAM control energy portals if the control energy products on the VTP are not sufficient, or if there is no neighbouring liquid market area with a VTP for control energy trading downstream of the local network interconnection points or cross border points (CBP) in the future.

## 2. High profitability of control energy trading in pure daily balancing

- Under the current system, according to GABi Gas (Basic Model for Balancing Capacity and Balancing Rules), continuous exchange trading of (global or quality-specific) control energy products already leads to a positive balance of the control energy levy account or to the suspension of the control energy levy on account of lower procurement costs for MAM on liquid exchange markets, cf. Fig. 2 and 3.

Figure 2: Development of the control energy levy account (Source: own graphic)

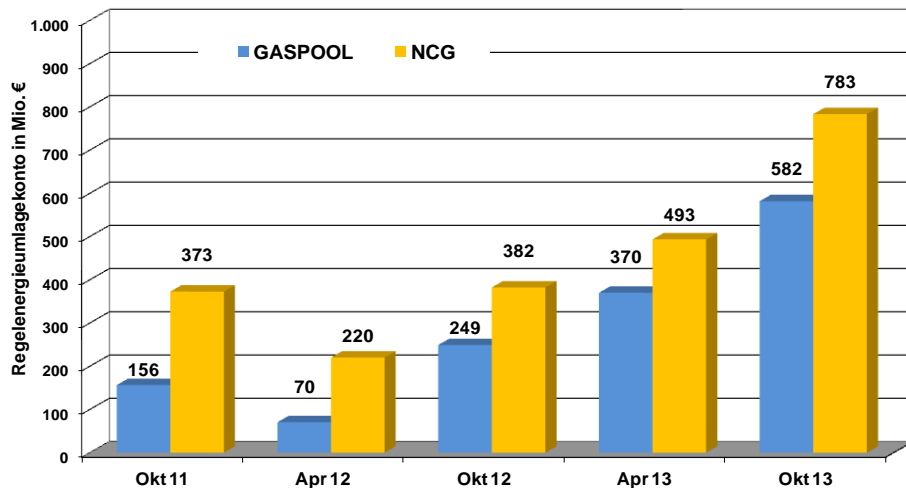
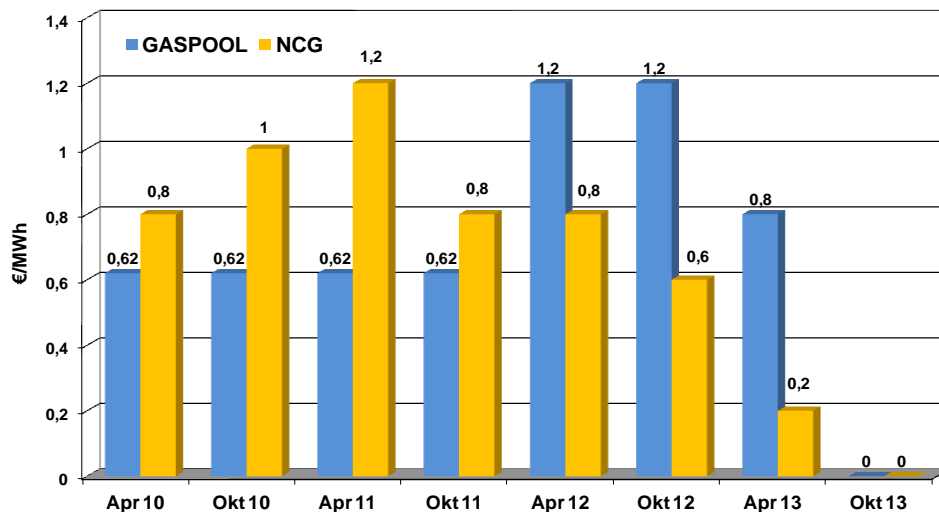


Figure 3: Development of the control energy levy (Source: own graphic)



- The changes to be expected in connection with pure daily balancing and the income or costs connected with it in control energy trading are not critical, as has been described above. Under the target model, the MAM also trades the same control energy products primarily through the exchange at market prices and, at least, achieves coverage of the costs for the control energy traded through the calculation mechanisms for control energy proposed in NC BAL and in the consultation paper by the transmission system operators (TSO).

- If, contrary to expectations, additional costs are incurred by the MAM/TSO, the positive balance on the control energy levy account of the MAM described above can initially be used over several years by applying the principle of commercial prudence. In parallel with this, the MAM/TSO, BNetzA and other market players will discuss possible adjustments.
- As a result, all commercial risks which pure daily balancing can entail for the MAM/TSO are minimal and, as a result, manageable.

### **3. Timely availability of control energy products in pure daily balancing**

- In the future, the physical availability of intraday control energy products at the MAM within the shortest possible period of time and with the required output and flexibility for the prevention of any instability of the network will be improved because:
  - a. Renomination deadlines at the TSO (as required under NC BAL, art. 5, para. 3) are reduced from the current two hours to 30 minutes,
  - b. As a result of this, the lead time for control energy trading on the exchange can also decline from three hours at present (TSO renomination deadline of two hours, one hour for nomination at ECC – the EEX clearing house) to, at a maximum, one hour (30 minutes for the TSO and 30 minutes for ECC) after consultation with the gas traders.
- Therefore, the harmonisation of the intraday control energy products can be preserved on the European gas market. Shorter nomination periods are possible at ECC on principle with the support of the MAM and the gas traders.

### **4. Operating and commercial advantage of pure daily balancing for the trading side**

- The introduction of pure daily balancing prevents discrimination against trading participants on account of the size of the portfolio/operating hour structure as outlined in section 2.5 of the TSO consultation paper. In the case of an intraday incentive system, major trading participants might have an advantage over trading participants with a smaller sales portfolio on account of portfolio effects.
- Additional operating/financial expenses for the introduction of intra-day information provision for an intraday incentive system can be avoided. The efforts/costs which are connected with the provision of intra-day information and which have to be assumed by the balancing group manager (BGM) would probably not be considered to be in proportion with the relatively low benefit compared with pure daily balancing. Moreover, in this case too, small trading participants would be more affected by the costs - compared to the major trading participants.

## **5. Risk of bringing into force a transitional solution which is not needed**

- EEX is of the opinion that the introduction of an intraday incentive system creates a potential risk that processes/systems which have been created and the appertaining deadlines for the provision of information will (or might) not be changed without further efforts (additional costs, financial expenses or additional time required).
- This applies, in particular, with regard to a subsequent full switch to the pure daily balancing system laid down in the European Gas Target Model.
- As a result, a situation preventing the faster development of the German gas markets would be created for the forthcoming years.

## **6. No abuse of pure daily balancing in Germany by neighbouring countries**

- As seen from the perspective of EEX, the commercial/operating risk that flexibility provided in Germany might be used for balancing in neighbouring countries (such as the Netherlands) is marginal.
- Particularly within the European context, and for the following market-based reasons, we believe the argument of the likelihood of abuse at the expense of the German market areas to be ill-founded:
  - a. Today, neighbouring countries (e.g. the Netherlands) with hourly balancing are already connected to countries, such as France and the United Kingdom, with pure daily balancing from a network perspective. Negative effects or even abuse at the expense of the countries with pure daily balancing are not known.
  - b. Cross-border-point gas trading utilising gas transport capacities permits:
    - gas transport system operators (TSOs) to sell transport capacities at market cross border points, in addition,
    - the storage system operators (SSO) to sell additional storage capacities,
    - the gas traders to optimally manage their portfolios on a market price basis across national borders.
  - c. On principle, border-crossing shifting of flexibility is not possible to an unlimited extent – since it is only possible in the context of the transport capacities available between the market areas. Therefore, commercial/operating risks resulting from this can be calculated.
  - d. On the European internal gas market, German trader/shipper already today benefit from the flexibility on the neighbouring markets. For example, German trader/shipper indirectly conclude contracts regarding the Dutch TSO's conversion flexibility when they buy L-Gas on an inter-quality basis at the H-gas price on the TTF VTP and subsequently transport it to Germany as L-gas.

## **7. Supporting the European internal gas market with uniform rules and regulations**

- The introduction and implementation of a pure daily balancing as provided for under NC BAL does not only contribute to increasing efficiency so as to minimise costs in control energy trading. At the same time, it also forms an important contribution to the harmonisation efforts underway for the establishment of a European internal gas market - which EEX supports.

### **2.2 Description of the target model**

#### Comments on the systematics of daily flexibility

No answer

### **2.3 Amount of the daily tolerance**

#### Comments on the amount of the daily tolerance

No answer

### **2.4 Flexibility cost contribution**

#### Comments on the rules of the flexibility cost contribution.

No answer

## 2.5 Fulfilment of the criteria as per art. 26 para. 2 lit. (a) - (f) NC BAL

### Comments on the criterion as per art. 26 para. 2 lit. (a) NC BAL

Even though we can assume that the proposals for an intraday incentive model satisfy the criteria required according to art. 26 para. 2 – in particular, subsection (a) - and that they do not unduly restrict border-crossing trading and the entry of new network users, we have to point out that the aim is not only to prevent negative effects, but that the implementation of NC BAL also aims to achieve a positive further development of the wholesale market. Against this background, EEX is concerned that an intraday incentive system might weaken the effect of pure daily balancing and might lead to a stagnation of the market development – cf. answer regarding 2.1.

### Comments on the criterion as per art. 26 para. 2 lit. (b) NC BAL

No answer

### Comments on the criterion as per art. 26 para. 2 lit. (c) NC BAL

No answer

### Comments on the criterion as per art. 26 para. 2 lit. (d) NC BAL

No answer



Comments on the criterion as per art. 26 para. 2 lit. (e) NC BAL

No answer

Comments on the criterion as per art. 26 para. 2 lit. (f) NC BAL

No answer

### **3 Control energy fees**

Comments on the non-implementation of the exceptions defined in Art. 21 para. 2 NC BAL

No answer

Comments on the determination of the final volume of control energy based on the D+1 data

No answer

Comments on the inclusion of, at least, the quality-specific products and, if applicable, of the local products in the determination of the marginal selling and marginal buying price and of the volume-weighted average gas price

EEX supports the proposal made by the TSOs.

*Comment on the non-use of the “small adjustment” as of the launch of the amended balancing model*

EEX supports the proposal made by the TSOs.

*Comments on the non-use of the other parameters according to art. 20 para. 3 lit. (c) NC BAL*

EEX supports the proposal made by the TSOs.

## 4 Interim measures

### Comments on the preservation of the existing physical balancing platforms

EEX supports the proposal by the TSOs regarding the preservation of a bilateral control energy platform of their own if:

- The exchange itself cannot develop and operate any suitable exchange control energy platform as a preferred solution as against the bilateral control energy platform of the MAM (even after support has been provided by the MAMs) and
- The MAMs – like EEX – can operate their own control energy platform with a sufficiently high level of failure safety - assuming they can prove this to the market.

#### **Digression: Availability of EEX for control energy trading**

In 2013, the trading availability of intraday control energy products through 24/7 trading on EEX was 99.5%. (Even taking into account scheduled and unscheduled maintenance windows availability was still 98.6 percent.)

The non-availabilities of the EEX Gas Spot Market listed in the consultation paper primarily resulted from the migration of the EEX Gas Markets (Spot and Derivatives Markets) to the *Trayport ETS* market standard which was carried out in several stages throughout 2013 in the framework of the PEGAS cooperation. Additional maintenance windows were necessary in the course of this switchover and, in addition, there also were very few unscheduled non-availabilities.

Moreover, the period referred to in the consultation paper also included the introduction of quality-specific gas products on the EEX Gas Spot Market at the beginning of the current gas business year on 1st October 2013.

In addition, trading on EEX regarding individual gas products/gas markets was also stopped if Market Area Managers had maintenance windows of their own and informed EEX of this fact in advance (e.g. 4th December 2013: scheduled non-availability of 4 hours).

Following the completion of the migration process to *Trayport* in 2013, EEX will further increase the availability of the trading systems/market communication with the help of the following measures:

- Improvement of the internal IT infrastructure
- Improvement of the coordination of downstream service providers
- Implementation of the business processes adjusted to *Trayport ETS*
- Enhanced coordination/communication with the MAM and trading participants