



Comment on the
Determination Procedure for Gas Balancing
(Implementation of the Network Code for Gas Balancing)

Notification and 1st Consultation
Reference no.: BK7-14-020

Datum / Date **05/05/2014**

Ort / Place **Leipzig**

Dokumentversion / Document Release **0001A**

PRELIMINARY REMARKS

European Energy Exchange AG (EEX) welcomes the consultation initiated by the Federal Network Agency (BNetzA) regarding the *notification in the context of a determination procedure for the revision of the basic model for the balancing regime in the gas sector (GABi Gas)*. At the beginning of the year, EEX took part in the consultation by the German Transmission System Operators and Market Area Managers on *Implementation Proposals regarding Balancing-Relevant Issues based on the Draft Network Code for Gas Balancing in Transmission Systems* by submitting a comment (FNB Gas consultation).

We are pleased to use this opportunity in the framework of the notification of the German Federal Network Agency (BNetzA) to explain our position and to address those aspects which are essential from our perspective. This concerns, first and foremost, the following aspects:

- In keeping with the Network Code on Gas Balancing in Transmission Systems (NC BAL) we do not see any need for the introduction of within day obligations in German market areas on principle. Instead pure daily balancing, in our opinion, constitutes an important measure ensuring that the German market areas develop positively within a harmonised European internal gas market and maintain their position in the international competition.
- EEX can calculate and continuously publish the indices for the determination of prices provided for in the notification. Of course, we are pleased to support the Market Area Managers in this way with regard to the envisaged reporting requirements.
- We expressly advocate the focus on trading in balancing gas on the exchange which is described in the notification since this both makes an important contribution to the liquidity of the German trading market and leads to a reduction of costs for the use of balancing gas by the Market Area Managers as a result of competitive market prices.



About EEX

The European Energy Exchange (EEX) is the leading energy exchange in Europe. It develops, operates and connects secure, liquid and transparent markets for energy and related products on which power, natural gas, CO₂ emission allowances, coal and guarantees of origin are traded. Clearing and settlement of all trading transactions are provided by the clearing house European Commodity Clearing AG (ECC). EEX is a member of Eurex Group.

COMMENTS REGARDING THE COMMENCEMENT ORDINANCE

1. Fundamental aspects: System of daily balancing and allocation

EEX advocates the preservation of the principles of the existing Basic Model for basic model for the balancing regime in the gas sector (GABi Gas). As seen from the perspective of EEX, these requirements have shown their mettle in practice and they have proved to be in line with the market as well as competitive.

2. Balancing gas prices

In keeping with the specifications in the Network Code for Gas Balancing and the requirements outlined in the notification, EEX can create additional indices for volume-weighted average gas prices, at the latest, until October 2015. These indices can be formed on a market-specific basis and consider all trading transactions at the virtual trading point (VTP) for the respective gas delivery day. This comprises both day trades (e.g. Day-Ahead), as has been the case so far, as well as intra-day trading transactions (Within-Day). The volume-weighted average gas prices and the prices adjusted by 10% can be provided and published by EEX continuously as well as promptly.

3. Within day obligations

At this point, we would like to give the reasons which, from the perspective of EEX, support pure daily balancing. These statements are based on our comment in the framework of the FNB Gas consultation.

EEX considers the implementation of a pure daily balancing system for the German GASPOOL and NCG market areas as provided for as the standard model in NC BAL to be a major milestone for an accelerated positive development of the German market areas within a harmonised European internal gas market.

Compared with daily balancing with within day incentives, pure daily balancing contributes to a significant and sustainable strengthening of the liquidity, market maturity and competitiveness of the German GASPOOL and NCG market areas on the harmonised European internal gas market within the shortest possible period of time.

According to NC BAL, an within day incentive system is only needed in the following cases:

- If the integrity of the grid cannot be ensured with daily balancing for operating and/or commercial reasons and
- If the balancing gas activities of the Market Area Managers (MAM) might be reduced significantly compared with daily balancing.

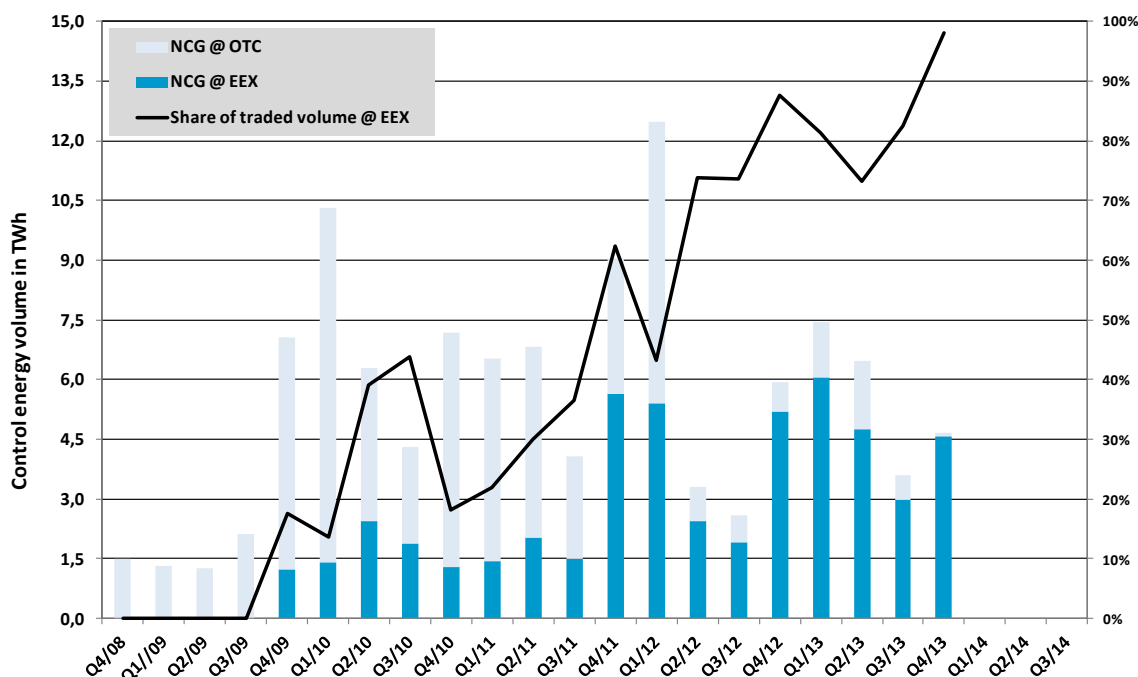
In the opinion of EEX, the criteria specified above exclusively justify an within day incentive system in illiquid gas markets with low market maturity, few active market participants and a lack of liquid, market-based trading in balancing gas.

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

a. Sufficient availability of balancing gas products for daily balancing

- Flexibility can be traded on a market price basis to a high degree through liquid and constantly available balancing gas products on the virtual trading points (VTP). Even today, trading of balancing gas is primarily required through the exchange under the balancing gas target model and implemented in this form in practice. On the EEX Gas Spot Market, a large number of trading participants (April 2014: 131) provide flexibility in the short term with prices and volumes which are visible to the entire market.
- As is shown in Figure 1, individual MAM already trade more than 95% of the balancing gas through EEX at market-based prices today.

Figure 1: Trading of balancing gas 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 degree 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 balancing gas flexibility.
- Moreover, for the time being, further balancing gas flexibilities can also be traded via the MAM balancing gas portals if the balancing gas products on the VTP are not sufficient, or if there is no neighbouring liquid market area with a VTP for balancing gas trading downstream of the local network interconnection points or cross border points (CBP).

b. Profitability and balancing gas trading activities in 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) balancing gas products already leads to a positive balance of the balancing gas levy account or to the suspension of the balancing gas levy on account of lower procurement costs for MAM on liquid exchange markets, cf. Fig. 2 and 3.

Figure 2: Development of the balancing gas levy account (Source: Own graphic)

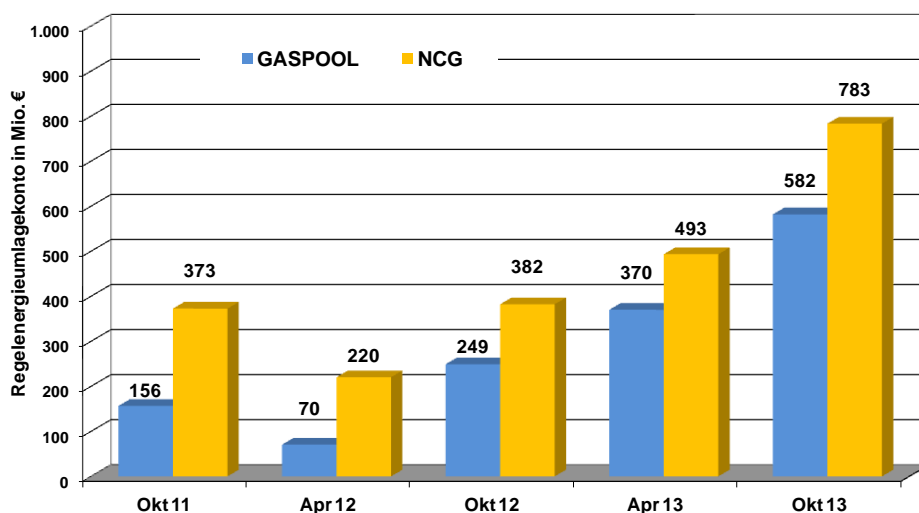
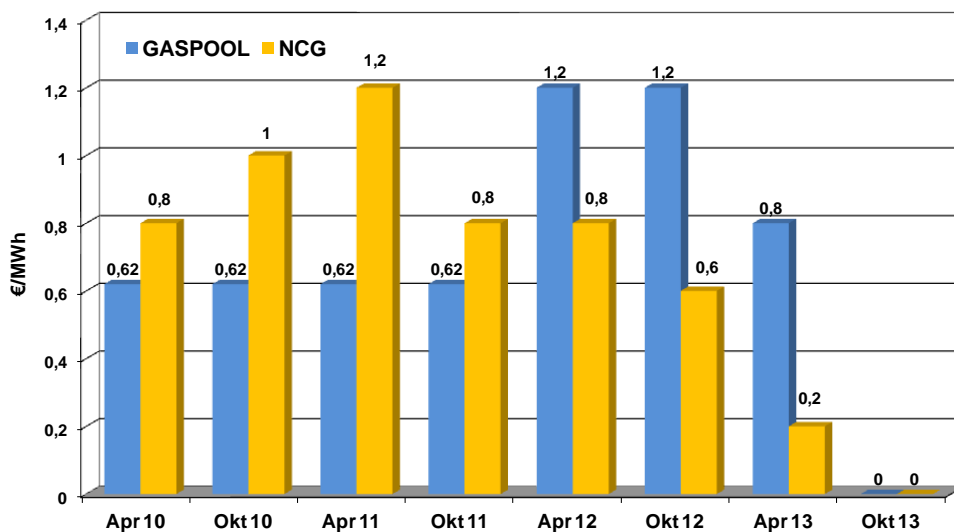


Figure 3: Development of the balancing gas levy (Source: Own graphic)



- The changes to be expected in connection with pure daily balancing and the income or costs connected with it in balancing gas trading are not critical, as has been described above. Under the target model, the MAM also trades the same balancing gas products primarily through the exchange at market prices and, at least, achieves coverage of the costs for the balancing gas traded through the proposed calculation mechanisms for balancing gas.
- If the introduction of daily balancing results in higher balancing gas volumes, these should be considered as being market neutral and should not be used as arguments against daily balancing, in the opinion of EEX, since a sufficient amount of balancing gas volumes is available, can be traded at market prices by the Market Area Managers and, hence, contributes to cost coverage.
- Balancing gas volumes which are not traded at market prices also lead to additional costs in the case of a within day incentive system. This means that, instead of the frequency with which balancing gas is used or the design of the balancing system, the prices of balancing gas are decisive in evaluating the profitability of balancing gas trading.
- As a result, all commercial risks which pure daily balancing can entail for the MAM/TSO are minimal and, as a result, manageable.

c. Timely availability of balancing gas products in daily balancing

- In the future, the physical availability of within day balancing gas 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:
 - Re-nomination deadlines at the VTP (as required under NC BAL, art. 5, para. 3) are reduced from the current two hours to 30 minutes and
 - As a result of this, the lead time for balancing gas trading on the exchange can also decline from three hours at present (TSO re-nomination 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 within day balancing gas products can be maintained on the European gas market. Shorter nomination periods are possible at ECC on principle with the support of the MAM and the gas traders.

d. Advantage of pure daily balancing as against intraday incentives

- On principle, the introduction of pure daily balancing prevents a number of risks, controversial discussions and time/legal risks which national and international market players might be subject to at present in connection with the planned introduction of within day incentives, such as:
 - Management of the different current customer groups for gas withdrawals which is not free from discrimination,
 - Operating/financial expenses and deadlines for the provision and implementation of further information for the implementation of the within day incentive system,
 - Legal conformity of GABi Gas with NC BAL and uncertainty regarding the applicability of the within day incentive system in Germany which might result from this.

e. Risk of bringing into force a transitional solution which is not needed

- EEX is of the opinion that the introduction of an within day 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.

f. No abuse of 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 with hourly balancing (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 insufficient:
 - 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.
 - Cross-border-point gas trading utilising gas transport capacities permits:
 - gas transport system operators (TSOs) to additionally sell transport capacities at cross border points,
 - 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.
 - 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.
 - On the European internal gas market, German traders/shippers already today benefit from the flexibility on the neighbouring markets. For example, German traders/shippers 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.

g. Supporting the European internal gas market with uniform rules and regulations

- The introduction and implementation of daily balancing as provided for under NC BAL does not only contribute to increasing efficiency so as to minimise costs in balancing gas 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.

4. Within day information provision

No answer

5. Shortening of the nomination period at the virtual trading point

The envisaged harmonisation and reduction of the nomination periods at the VTP is advocated by EEX on principle. Provided there is a sufficient market demand, we will consider these periods in the trading periods and lead times for gas products offered on the exchange.

6. Balancing gas

EEX welcomes the strengthening of the focus on transparent, non-discriminatory and market price-based trading of balancing gas on the exchange, which is described in the determination procedure because it has already had an extremely positive effect both on the liquidity of the trading markets and the reduction of costs of using balancing gas at the Market Area Managers as a result of competitive prices in the past.

In addition, EEX shares the view of BNetzA regarding the adjustment of the current target model of the Market Area Managers and considers the envisaged changes to be appropriate. We welcome, in particular, the limited term of the bilateral balancing gas platform at the Market Area Managers until 30th September 2020. As a result, the Market Area Managers, the market participants as well as the exchange are given sufficient lead time to maximise the use of the priority balancing gas products (MOL 1 and MOL 2) and to introduce further products which are necessary for the use of balancing gas.

Therefore, EEX will introduce further (local and/or point-specific) balancing gas products in coordination with the Market Area Managers, the trading participants and BNetzA provided these local or point-specific balancing gas products:

- are still necessary after the implementation of the Network Code on Gas Balancing if MOL 1 and MOL 2 are used,
- can probably be traded by a sufficiently high number of market participants on a non-discriminatory basis at market prices and
- if a risk of the establishment of oligopolies (oligopoly prices) has to be expected at these points/sub-markets on account of insufficient competition among balancing gas suppliers/buyers.

However, after an adequate implementation phase, the same products should no longer be offered on the bilateral balancing gas platforms of the market area managers in parallel because:

- for operating/practical reasons, the balancing gas traders should only be able to offer the available gas volume on one platform in order to avoid the risk of double execution (if the gas is offered on two platforms) in combination with a deviation within their own balancing area which is subject to costs,
- this will split liquidity across two platforms instead of concentrating it on the exchange and because, as a result of this, balancing gas prices which are less market based will be established – at least, on the bilateral balancing gas platform.

7. Neutrality charge(s) for balancing

No answer

8. SLP incentive system: settlement of network accounts

No answer

9. Reporting obligations and transparency

EEX will support the Market Area Managers in implementing the publication requirements resulting from the Network Code on Gas Balancing.

Both the volume-weighted average gas prices and the prices established after the adjustment by 10% can be published by EEX in a form which is machine-readable/can be processed electronically at least on an hourly basis and exchanged with the Market Area Managers if required.

Moreover, the history of the data can be made available by EEX, at least, for the last 12 months in a form which is machine-readable/can be processed electronically.

10. Miscellaneous

No answer

CONTACT

European Energy Exchange AG

Augustusplatz 9

DE-04109 Leipzig

www.eex.com

Sirko Beidatsch

Strategy & Market Design

Phone: +49 341 2156-223

sirko.beidatsch@eex.com

Robert Gersdorf

Political Communications

Phone: +49 341 2156-218

robert.gersdorf@eex.com