

GTS Market session balancing regime

21 September 2021



Overview of reactions on market session 1 July

- Experiences with the existing balancing system are positive and the balancing regime is simple, robust and effective
- Information (provision) by GTS is excellent
- Randomization of balancing actions is successful, so why additional changes? What is the actual problem?
- Do not apply changes that will “hurt” TTF
- Parties agree with GTS interpretation of art. 26.2c NC BAL
 - Parties state that buying/selling commodity is not about cost.
 - So, is there any compliancy issue with NC BAL?
- Balancing action on portfolio level is seen as extra risk
- Balancing action on portfolio level based on simple POS check also impacts “prudent” shipper.
 - exact definition of non-prudent balancing behavior necessary
- Try to punish only the non-prudent shippers

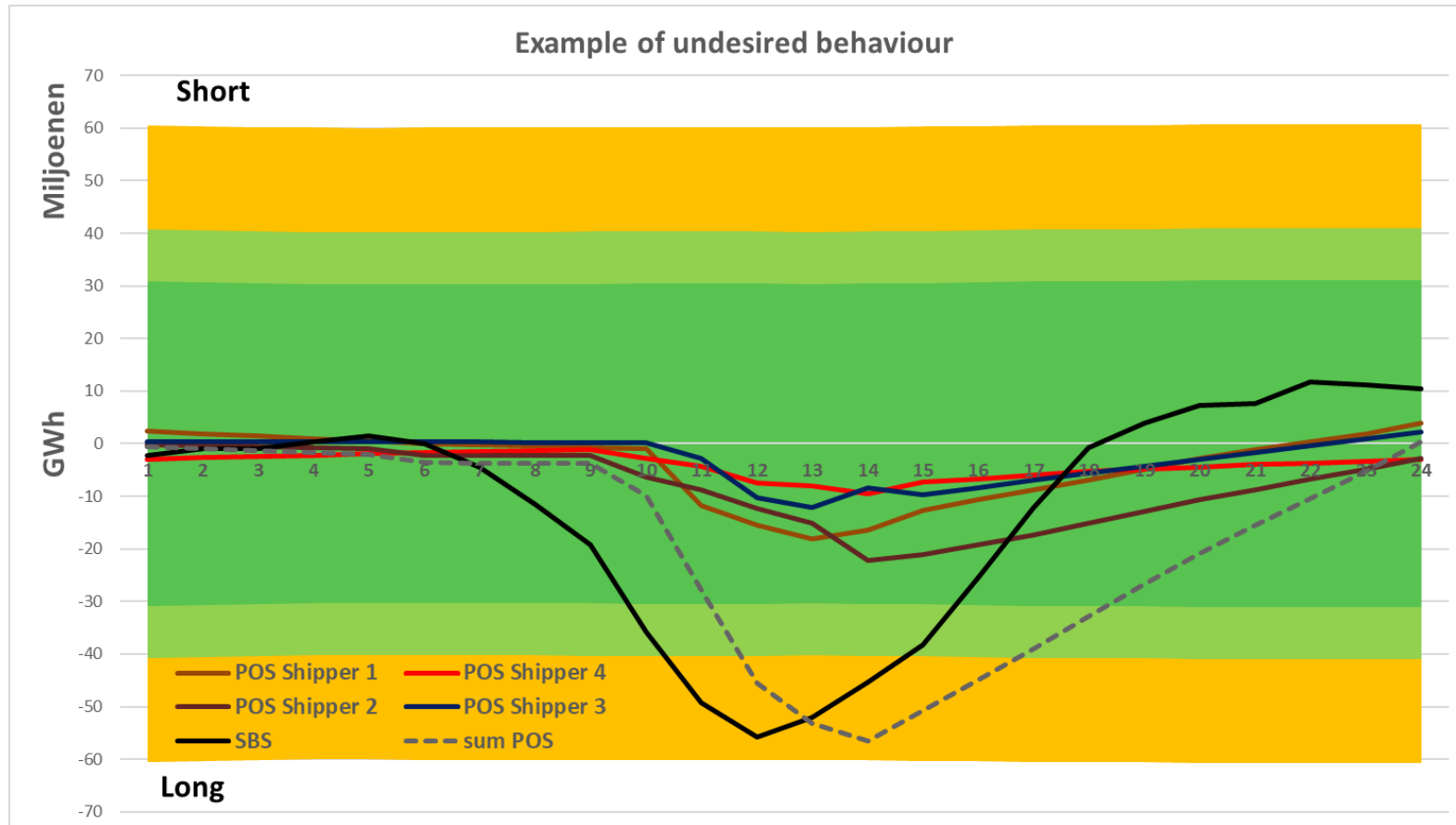
What did GTS do in the meantime?

- We replied to all parties and thanked them for their reactions
- We evaluated the session with ACM
- The market session has given us more clear and new insights:
 - No need to adjust the fundamentals of the balancing regime
 - No need for focus on charges
 - But we want to focus on banishing the so called 'unwanted balancing behaviour' in order to strengthen the balancing fundamentals
 - Simple measures to increase offered volume on exchange

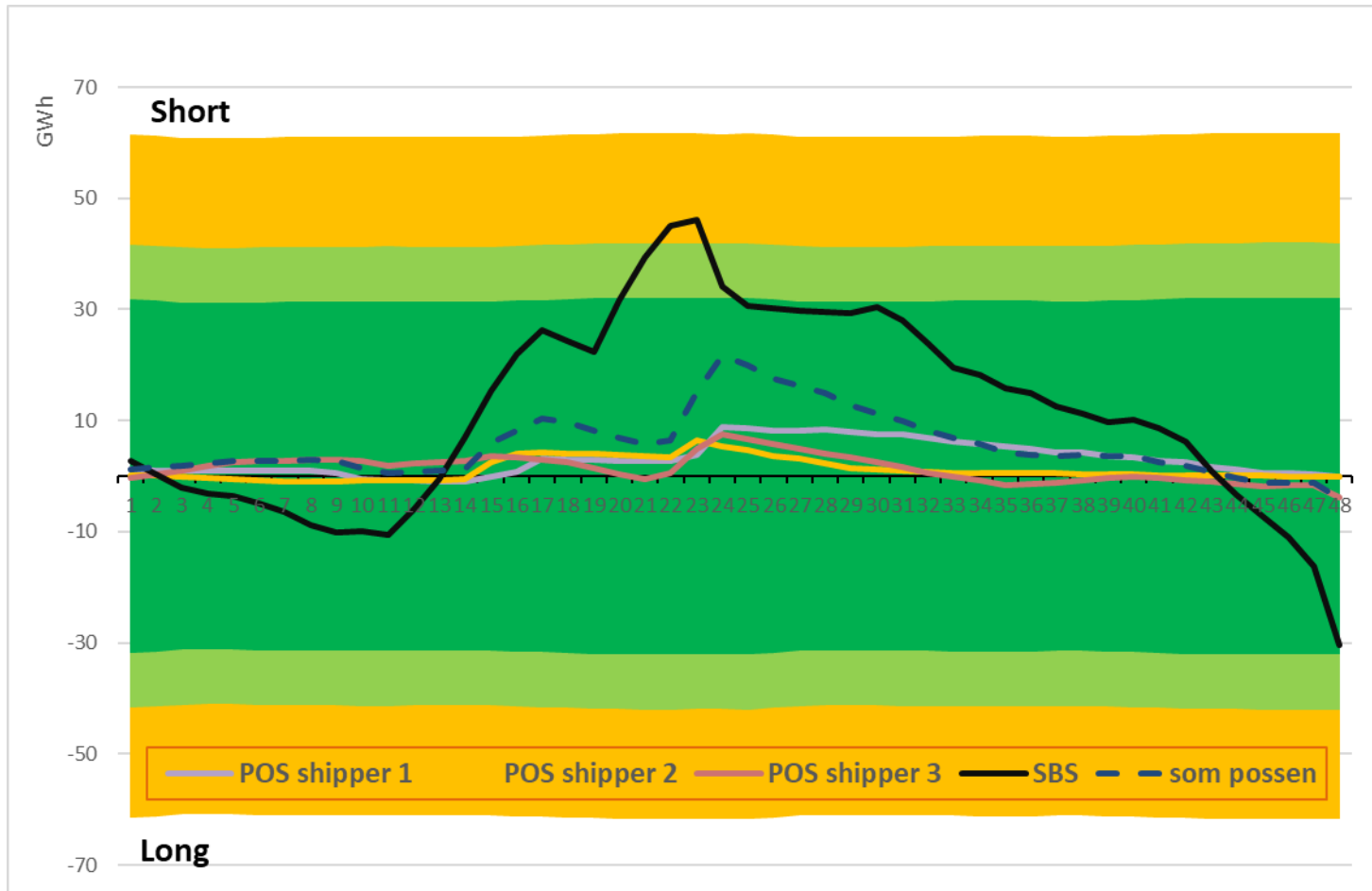
Unwanted balancing behaviour still exists

- Randomization of balancing actions is successful with regard to price setting on ICE ENDEX
- But unwanted balancing behaviour is still present after 3 September 2020
- So we will focus on preventing this unwanted balancing behaviour
- But what is exactly unwanted balancing behaviour?
- Next examples took place in June and September 2021 (first example also shown in market session on 1st of July)

Example of unwanted balancing behaviour (1/2)



Example of unwanted balancing behaviour (2/2)



Characteristics of unwanted balancing behaviour

- SBS outside dark green zone
- Shipper has high level of portfolio imbalance
- Shipper increases level of portfolio imbalance via a TTF transaction
- TTF transaction is significantly higher than physical part of the portfolio
- This means that increase of portfolio imbalance is a commercial activity that is carried out on purpose and not because of a physical incident or physical “surprises”
- Shipper does not act according to article 4.1 NC BAL and therefore we consider it non-prudent balancing behaviour
 - The network users shall be responsible to balance their balancing portfolios in order to minimise the need for transmission system operators to undertake balancing actions.
- POS EOD of those shippers regularly nearly zero, so increasing the LFS factor will be no sufficient incentive to stop the unwanted behaviour

Definition of unwanted balancing behaviour

We consider the following conclusive characteristics as unwanted balancing behaviour at time T:

1. SBS outside dark green zone
2. Shipper is causer: POS and SBS in the same direction
3. Too high portfolio imbalance: $\text{Abs(POS)} > 15\%$ of max value of dark green zone (mostly 3-5 GW)
4. Imbalance increases: $\text{POS}(T) > \text{POS}(T-1)$ (in absolute sense)
5. TTF allocation bigger than physical allocations: $\text{abs(TTF)} > \text{abs(physical entry)} + \text{abs(physical exit)}$
6. TTF allocation in same direction as SBS
7. So high portfolio imbalance increase caused on “purpose” by commercial TTF deal and not by physical “surprise”.
8. Shipper did not minimise the need for the TSO to undertake balancing actions and is therefore in breach with NC BAL article 4.1

Financial charge in case of unwanted balancing behaviour

1. First time of unwanted balancing behaviour: 10% charge on balancing action transaction price only for shipper who shows unwanted balancing behaviour
2. For each following occurrence of unwanted balancing behaviour the financial charge will be increased by 10%
3. The financial charge will be applied for this shipper in every consecutive balancing action in which he is causer.
4. The financial charge will be decreased by 10% in case shipper has shown normal behaviour in ten consecutive balancing actions
5. A shipper with a financial charge of 50% will be considered as repeatedly non-prudent, which can lead to withdrawal of the shipper license
6. The financial charge will be part of the neutrality charge

Concluding remarks unwanted behaviour

- We expect that the unwanted behaviour will be minimized by foreseen measures
- Foreseen measures will have no big impact on good working balancing regime, but in this way we improve the underlying fundamentals
- We only punish the shippers who show the unwanted balancing behaviour
- Our proposal is to implement the definition of the unwanted balancing behaviour and the financial charge in case of unwanted behaviour in the Dutch Transport Code Gas via a code change proposal

No focus on charges

- NC BAL Article 26.2c is not one of the most clear articles
- Anyhow NC BAL aims to stimulate shippers to minimize their portfolio imbalance at EOD.
- In the Netherlands we need physical buffering at night to be prepared for the gas peak between 7-9 in the morning
- Therefore, a SBS of zero at EOD would be counter productive
- Shippers can have a portfolio imbalance at EOD and pay a reasonable price for their imbalance by the LFS fee.
- We can deliver the LFS service at low cost (in fact we deliver it from our physical buffer), so we do not need to increase the charge from cost perspective
- For GTS it is not clear that we should change the LFS factor because of supposed non-compliance with NC BAL
- ACER published their 'Balancing Monitoring Report' on 20 July 2021 and described in chapter 4.3.4. The Dutch 'continuous imbalance' regime as a case exploration. No hints on possible non-compliant charges.

Concluding remarks regarding charges

- We want to focus on improving the balancing regime and the underlying fundamentals
- We want to focus on stimulating proper balancing behaviour and to prohibit unwanted behaviour as explained in previous slides
- Supposed non-compliancy with NC BAL is not clear for GTS
- Increase of LFS charge will not banish unwanted balancing behaviour
- We therefore propose the following:
 - leave LFS charge as is
 - no introduction of additional charges for balancing actions, besides the one for shippers that show unwanted balancing behaviour (as explained in previous slides)

More offered volume on ICE (1/2)

Current situation

- Shippers who want to offer volume on the exchange have to divide their available volume over two products (WD, Next Hour) while only one product will be called by GTS
- Shippers who want to offer all their available volume have to choose between one of both products, but their choice could be wrong, and in that case available volume will not be used
- Especially when SBS is near the boundary between the light green and the orange zone, the product choice can shift at a late stage when SBS moves from one zone to another zone and after shippers have offered their product volume for the other zone

More offered volume on ICE (2/2)

Proposed improvement

- At the first or second announcement of a balancing action (xx:10 or xx:15), we also choose the product type (WD or Next-hour) and stick to that product type, even if the SBS has moved into another zone at the time of the balancing action (between xx:21 and xx:22)
- This allows shippers who want to offer available volume on the Exchange to offer more volume for the right product
- This adjustment has been suggested by various parties

Concluding remarks about more volume on ICE

- We expect that this change will lead to more offered volume on the exchange
- No big impact on good working balancing regime, but with this we improve the underlying fundamentals
- A code change for this improvement is not necessary, our proposal is to implement this change in the DPM Balancing Action through the ICWG process with NEDU

Next steps

- GTS is happy to receive your written view by 8 October cob
- Please send your view to: gasmarket@gastransport.nl
- Based on all information, GTS will draw a draft code change proposal
- This proposal will be presented and discussed in a formal GEN meeting of Netbeheer Nederland on 16 December 2021 (that meeting is only for Representative organizations)
 - Before that, proposal must be approved by all Dutch network operators (Taakgroep Regulering): 25 November 2021
- Netbeheer Nederland will send the final code change proposal to ACM (with all comments of Representative Organizations)
- ACM will judge the code proposal and takes a decision