EFET European Federation of Energy Traders

Amstelveenseweg 998
1081 JS Amsterdam

Phone: + 31 20 520 7970
Fax: + 31 346 283 258

Email: secretariat@efet.org
Website: www.efet.org

ABN Amro Bank Amstelveen:
Account no: 54 05 15 116

Energiekamer
For the attention of:
Mr van der Meulen
Postbus 16326
2500 BH Den Haag

Kennisgeving ter inzage legging codewijzigingsvoorstel inzake het wetsvoorstel versterking gasmarkt

Zaaknummer:102669

Tuesday,19th January 2010

Dear Mr. van der Meulen,

The European Federation of Energy Traders (EFET) has recently been accepted in GEN as a representative organisation in the Netherlands and as a result, this is our first opportunity to comment on the proposals for the new gas balancing regime. However, it must be noted that it is difficult for EFET to fully comment on the draft Codes given that they are only available in Dutch. The new balancing regime and its implementation is a very important issue for the members of EFET and therefore for future consultations, consideration should be given to whether an informal English translation could also be provided.

For some time EFET has lobbied for the introduction of balancing markets and is therefore pleased that GTS has decided to introduce this concept. Whilst it is a vast improvement on the current regime, there are still elements of the proposal which may need refinement.

Market Model

Submission of Programmes

4.1 of the Transportvoorwaarden Gas-LNB states that a programme must be submitted by each Program Responsible Party (PV) on D-1 by 14:00, after this GTS will then endeavour to approve the programme by 15:00. If programmes are not approved, shippers have until 22:00 to amend the programme. EFET has recently discussed with GTS the possibility of allowing traders to amend their programmes throughout the day to ensure that they are representative of the trades that have been done since submission of the programme at 14:00. Although the current drafting does not explicitly forbid this action, to alleviate any misunderstandings it would be more appropriate to draft a specific paragraph ensuring that programmes can also be changed on the instigation of the PV up until 22:00 D-1 and not just GTS.

That said EFET struggles to see the benefit of the submitted programme on D-1 given that PVs are able to deviate from their programme on the actual day without (financial) consequences. The nominations submitted at 14:00 D-1 will be the best estimate of PVs at the time and therefore, GTS could use them as well as their own forecast of system demand to calculate the level of damping that can be applied on a portfolio basis. The use of nominations then removes the need to submit a programme. An additional cause for concern is the lack of clarity surrounding the workings of the VPPV. Given its complexity, more time needs to be devoted to this topic to ensure that all PVs understand the new market model concept.

Exit

For large consumers directly connected to the GTS network it is necessary to preserve the current sourcing situation, which at present allows one balancing supplier and one or more proportional (base load) suppliers. The current drafting stating that there can be more than one PV with a Balancing Allocation Role at an Exit point connected to the GTS grid means that PVs cannot continue with the current sourcing strategy, at least not without having to disclose potential trade secrets to the PV (daily volumes and sources of baseload supplies). Although the number of parties affected is limited the volume of gas justifies a solution.

Damping

There are some concerns within EFET with respect to the alpha and beta parameters that calculate the level of damping applied on a PV level. In recent meetings, GTS has explained that the alpha represents the smoothing that can/will be applied all year round, whereas beta represents additional smoothing and is dependent on the load level in the system. It is important to ensure that the PVs who have opted out of damping are not penalised due to a small green zone (affected by the beta), resulting in GTS taking more actions on the Bid Price Ladder (BPL). Rules and or guidelines regarding the usage of beta should be approved by the regulator. Also the methodology as well as historical data on the alpha and beta, temperature and throughput data should be made available to enable PVs to anticipate the daily damping levels.

BPL

Volume and price restrictions

Section 4.1.3 of the Codes allows parties to change their bid/offer volumes on the BPL up until 8 hours before the hour of delivery. Whilst EFET understands the reason behind this long lead time, we consider that it should only be used as a transition measure to help provide comfort to GTS that bids/offers are available throughout the day. The strict rules on volume reservation and adjustment lead times do not allow for a flexible allocation of volumes to all zones and are likely to let certain volumes go unutilised. GTS should aim to remove/adjust this obligation as soon as possible, with an obligatory review of this after the first six months of operation.

In various meetings, GTS has stated that if a physical asset becomes operationally unavailable after the eight hour lead time, the party should notify GTS who will remove the specific bid/offer from the system. However, this Force Majeure clause is not reflected in the current drafting of the Codes. This section therefore needs to be updated to help provide additional comfort to PVs that their portfolio will not be short if GTS takes an offer from the BPL which they cannot deliver due to operational constraints. It is also not clear whether PVs are permitted to submit offers from a portfolio of physical assets, if this was permissible it may help to overcome operational constraints, benefiting GTS in its role as residual balancer.

Further to the volume restriction there is also a price restriction in place which means that prices can only be changed on the BPL up to four hours before the hour of delivery. Again whilst it may be sensible to put this restriction in place initially whilst the bid ladder is in its teething phase, this should only be a temporary measure. In the long run it is important that prices can increase and decrease according to market fundamentals. By allowing prices to rise when the system is tight incentivises PVs to balance their own portfolios on the within day market to avoid the high marginal price on the BPL, thus helping the system to remain in balance.

EFET notes that in the current drafting the minimum lot size for a bid/offer is 150 MWh; this is a large amount of gas to provide in one lot and may limit the number of parties that are able to offer this volume on a continual basis. It would be beneficial to reduce the minimum size, preferably with an aim to reduce it to 30 MWh as soon as is practically possible.

Reservation payments

GTS has been provided with the possibility of forward contracting for flexibility as a method to encourage PVs to participate on the BPL. This issue is addressed in section 4.1.3.5 which gives GTS the option to enter into contracts with PV parties to offer a minimum amount of gas on the BPL where the price of the gas is in accordance with the terms of the contract. As currently drafted, this section is confusing. It is not clear to EFET whether the price will be actually agreed in the contract or not. However, if this is correct then this section contradicts 4.1.5.1 which states that parties will be paid the marginal price for their gas plus the 'prikkelcomponent', specifically when more than one bid/offer is taken in an hour. Further clarity is required.

EFET does not believe that reservation payments are a way forward with respect to improving liquidity on the BPL. This is because only the largest players will be able to enter into a contract with GTS to provide this flexibility, much like the current combiflex tendering regime. Depending on the amount of flexibility pre-contracted, there may be a number of days where the only bids/offers taken by GTS are those of the pre-qualified bidders and therefore disadvantaging the smaller players who may be able to offer assistance on particular days but cannot commit on an annual basis. This could lead to a reduction in incentives on other PVs to place bids/offers on the BPL thus further reducing liquidity.

EFET considers that it may be better for GTS not to exercise its reservation payment option and allow the BPL to operate according to market fundamentals. If after a review it is clear that the market is not functioning correctly, then GTS alongside PVs will need to create alternative ways to help promote liquidity on the BPL.

Prikkelcomponent

In 4.1.5, GTS has introduced the concept of a Prikkelcomponent to ensure that parties are always incentivised to balance their own portfolio rather than leave it to GTS to balance the system on their behalf. As currently drafted there is no clarity as to how it will be calculated and the duration that this component will remain in place. Further clarity is needed before the Codes can be approved. Furthermore, EFET questions the need for this prikkelcomponent, given that typically physical gas offered to a TSO will be at a premium to the prices on the within day market especially in a tight market.

Merging the within day market and the balancing market

At present the BPL and the within day market are separate tools with which to balance the system. EFET envisages that ultimately to increase transparency and liquidity of the within day traded market, the BPL and commercial trading platforms in the Netherlands need to become more integrated. The proposed separation, although understandable during the first phase of the new balancing regime, creates a separate commodity market for each of the coloured zones the system balance. In order to promote liquidity on the within day market it is important that these two markets can be merged. EFET considers that the drafting in Code should be amended to state that as a target, GTS should work towards the merger of these markets.

Please do not hesitate to contact Fiona Strachan on +44 (0)207 948 3881 if you have any questions.

Yours Sincerely

Jan Van Aken
EFET Secretary General

Note. The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 90 energy trading companies, active in over 27 European countries. More information about EFET views and activities is available on www.efet.org.