NetConnect Germany

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Questions and answers on the Product Descriptions "Long-Term Options" and "Short-Call Balancing Services"

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1. VERSION HISTORY

No.	FAQ version	Changes made by author[1)]	Relevant version of Product Description LTO	Relevant version of Product Description SCB
6	12 April 2021	Renamed document and added chapter 4 on SCB	1 January 2021	1 January 2021
5	8 March 2021	Added questions 1.5.1-5 and 1.5.1-6	1 January 2021	n/a
4	24 November 2020	Added version history and made minor editorial changes; rephrased question 1.5.2-4 and added questions 1.5.1-4, 1.6-2, 1.6-3 and 12-1	1 January 2021	n/a
3	27 October 2020	Added questions 1.5.2-8, 1.5.2-9, 1.5.2-10 and 1.6-1	1 October 2020	n/a
2	25 September 2020	Added questions A.1, 1.5.1-2, 1.5.1-3, 1.5.2-5, 1.5.2-6 and 1.5.2-7	1 October 2020	n/a
1	14 September 2020	First version of FAQ document	1 October 2020	n/a

[1)] The numbers cited in each case relate to the most recent version of the FAQ document as valid at the time when the changes are made.

2. PREFACE

This FAQ document relates to the Product Descriptions "Long-Term Options" (below referred to as the "PD LTO") and "Short-Call Balancing Services" (below referred to as the "PD SCB") as valid from 1 January 2021. It sets out answers to general questions that NetConnect Germany GmbH & Co. KG (NCG) has received from market participants regarding their understanding of the LTO and SCB balancing products, which NCG makes available to all market participants via this document.

All questions included in this document have been anonymised. Questions have been received both in German and in English.

Please also note the following:

- This FAQ document is not exhaustive. If you would like to send us questions for the FAQ list, please send an email to market@net-connect-germany.com.
- Please note that not all questions from market participants are included in this FAQ document. NCG evaluates all questions on a case-by-case basis as to whether or not NCG considers them to be of general relevance with the aim of aiding market participants' understanding of the LTO and SCB products.
- Please also note that for reasons of transparency NCG will usually answer individual questions regarding the areas covered by this document by including them here instead of sending individual responses.

3. LTO QUESTIONS AND ANSWERS

3.1. GENERAL LTO QUESTIONS

QUESTION A-1

Do the physical effect rules introduced as of 1 October 2020 also apply to the exchange products traded within MOL 2 (i.e. do the rules set out for the product variant "RoD" also apply to the quality-specific/zone-specific products and the "Hourly" rules to the hourly exchange products EEX NCGL-EAST and EEX NCGL-WEST)?

Answer NCG

The physical effect rules applicable to the exchange-traded products are set out in section 25 of the Balancing Group Contract Terms & Conditions as well as in the supplementary implementation guide on section 25 published jointly by the two market area managers. Amendments to the PD LTO do not affect the rules applicable to the exchange products.

However, the implementation guide has also been updated with effect from 1 October 2020 as regards the hourly products, with the "H-1" approach being reflected there, too. As a result, the same physical effect requirements apply to the hourly products within MOL 4 and MOL 2.

3.2. SECTION 1.5.1

QUESTION 1.5.1-1

Is it compliant with the obligation of the product description if the requested physical balance was in place even before the activation of the LTO RoD?

Answer NCG

As stated in section 1.5.1, sentence 7, this is accepted but only by way of exception. Even if the required physical balance (= net flow) is already in place when the call order is issued, NCG normally expects providers to deliver on an LTO call order in the contracted balancing zone (i.e. to change the physical balance accordingly).

Question 1.5.1-2

Follow-up to question 1.5.1-1:

- [A] has nominated an entry flow of 500 MW into and an exit flow of 100 MW out of the balancing zone contracted by [A] (physical balance = 500 - 100 = +400)
- NCG issues the following call order: 500 MW LTO RoD (System Buy)
- Question: What is the change that NCG would normally expect from [A]?

Answer NCG

For each LTO call order, the provider is normally expected to provide a physical effect corresponding to the call quantity, i.e. to change the provider's physical balance accordingly. In the above example the following options are available to achieve this:

1) Increasing the existing entry flow by 500 MW (physical balance = 1,000 - 100 = +900 → 500 more than before)
2) Increasing the existing entry flow by 400 MW and reducing the existing exit flow to zero (physical balance = 900 - 0 = +900 → 500 more than before)

Question 1.5.1-3

Do the new rules for the product variant RoD (net flow into the relevant zone in the case of a System Buy, net flow out of the relevant zone in the case of a System Sell) mean that providers can no longer use a reduction of their flows (i.e. reduce their exit flow for a System Buy or reduce their entry flow for a System Sell) to deliver on an LTO call order?

Answer NCG

Providers can still use flow reductions to deliver on LTO call orders. However, the net flow approach means that ultimately for a System Buy at least an entry flow equal to the call quantity needs to be present (exit flow in the case of a System Sell), i.e. providers always need to have (at least) entry capacity in the case of a System Buy and exit capacity in the case of a System Sell (see also question 1.5.1-2).

Question 1.5.1-4

Follow-up to question 1.5.1-2:

- [A] has nominated only an exit flow of 500 MW in the balancing zone to which [A's] LTO contract relates (physical balance = -500)
- NCG issues call order: 500 MW LTO RoD (System Buy)
- Question: Is the LTO call order fulfilled if the provider reduces its exit flow to zero?

Answer NCG

No, the provider must ensure a net flow onto the system, i.e. a positive physical balance. The provider has to nominate either an entry flow of 1,000 MW or reduce its exit to zero and in addition nominate an entry flow of 500 MW.

Question 1.5.1-5

Sentences 1 to 3 in section 1.5.1 of the PD LTO provide that certain entry and exit points must not be used to provide a physical effect in case of a call order. How is this taken into account in determining the provider's physical balance under section 1.5.1?

Answer NCG

As stated in sentence 5 of section 1.5.1 of the PD LTO, the relevant inputs and offtakes for calculating the provider's physical balance are those "in the agreed balancing zone or sector". This means that all inputs and offtakes (Entryso/Exitso) of the provider at all entry and exit points belonging to the relevant balancing zone or sector will be taken into account, irrespective of whether or not they are excluded under sentences 1 to 3 of section 1.5.1.

Question 1.5.1-6

According to the list of entry and exit points published on the NCG website, the VIP NCG-TTF-H belongs both to the balancing zone HN (high-CV zone North) and the balancing zone HM (high-CV zone Central). How is this taken into account in determining the provider's physical balance under section 1.5.1?

Answer NCG

Given that the VIP belongs to both balancing zones, the provider's inputs and offtakes at the VIP count fully in both balancing zones when it comes to determining the physical balance.

For completeness sake, please note that the VIP NCG-TTF-H must not be used to provide a physical effect in case of a call order, as provided in section 1.5.1, sentence 3.

3.3. Section 1.5.2

Question 1.5.2-1

Scenario: Call order for LTO Hourly for 100 MW (System Buy) for balancing zone LW (West)

- [A] has nominated a constant flow of 500 MW for the gas day in question
- NCG issues the following call orders to [A]: 100 MW for hour 10, 100 MW for hour 11, 100 MW for hour 12
- Question: Is it correct hat [A] is required to deliver the following: 600 MW in hour 10, 700 MW in hour 11, 800 MW in hour 12?

Answer NCG

Under the rules for the hourly product, you have to effect a net flow increase compared with the previous hour in the case of a System Buy situation, i.e. if the physical balance resulting from your Entryso and Exitso quantities in the balancing zone LW was +500 before the call order was issued, it would have to change to +600 in the following hour. Accordingly, if your net flow was -300 before, it would have to change to -200 etc.

If NCG issues several call orders for several consecutive hours, an additional physical effect is only required for the difference between the call order quantities requested for the individual call hours (see PD LTO section 1.5.2, sentence 5). In the above example NCG would therefore expect a flow of 600 MW in hours 10, 11 and 12, respectively.

Question 1.5.2-2

Scenario: Call order for LTO Hourly for 100 MW (System Buy) for balancing zone LW (West)

- [A] has nominated a constant flow of 500 MW for the gas day in question
- [A] buys on the exchange: 500 MW RoD starting from hour 10 → [A] reduces flow accordingly (to zero)
- NCG issues a call order (LTO Hourly) to [A] for 100 MW (System Buy) for hour 10
- Question: Is it correct hat [A] is required to deliver the following: 600 MW in hour 10?

Answer NCG

It is correct that NCG expects a flow of 600 MW to be delivered in hour 10 (flow in previous hour = 500 MW + 100 MW for the LTO Hourly call order; see PD LTO section 1.5.2, sentence 2).

Question 1.5.2-3

- Final nomination of [A] for hour 9 = 0
- NCG call order for hour 10 (LTO Hourly System Buy) = 800
- [A] increases entry flow in hour 10 to 800
- NCG call order for hour 11 (LTO Hourly System Buy) = 200
- Question: Is it correct that [A] has to increase the entry flow to 1,000 in hour 11?

Answer NCG

In this case the entry flow in hour 11 must be at least 200 in order to fulfil the LTO call order. LTO call orders for the Hourly product variant do not have an additive effect when they relate to successive hours (see PD LTO section 1.5.2, sentence 5 as well as question 1.5.2-1).

Question 1.5.2-4

It is stated that "the change in the physical inputs or offtakes of the Provider shall be made in each case in relation to the hour (hour "H-1") that immediately precedes the hour for which the Call Order is made (hour "H"). What does that mean in case of an activation in the first hour of the gas day?

Answer NCG:

This provision has been changed with effect from 1 January 2021 based on suggestions NCG has received from suppliers. It no longer stipulates an initial physical balance of zero at the start of the gas day for the hourly LTO product but uses the provider's net flow (balance of the provider's physical inputs and offtakes) in the previous hour as reference, i.e. the same rule applies as in all other hours of the gas day. System Sell call orders for the delivery hour from 6am to 7am can therefore also be met by reducing an entry flow, provided the provider had a corresponding entry flow in the relevant balancing zone in the last hour of the previous gas day (hour 5-6).

Question 1.5.2-5

- [A] holds LTO Hourly contracts for both System Buy and System Sell (each for the low CV balancing zone "West" (LW))
- [A]'s final nomination (= allocation D+1) in LW for hour 14 = 0 MW
- NCG issues the following call order for hour 15: 600 MW LTO Hourly LW (System Buy)
- [A]'s final nomination for hour 15 = entry flow of 600 MW
- NCG issues the following call order for hour 16: 200 MW LTO Hourly LW (System Sell)
- Question: The difference between the call quantities for hours 15 and 16 amounts to -800 MW. Does this mean that [A] has to nominate an exit flow of at least 200 MW in hour 16?

Answer NCG

Yes, that is correct. In accordance with section 1.5.2, sentence 5 of the PD LTO, the entry flow that was added to deliver on the LTO call order in hour 15 is not taken into account for hour 16, i.e. the reference quantity for hour 16 equals the entry flow from hour 15 less the call quantity for hour 15 (= H-1), which in this case gives a reference quantity of zero.

Question 1.5.2.-6

Follow-up to question 1.5.2-5 (adjusted example):

- [A]'s final nomination (= allocation D+1) in LW for hour 14 = entry flow of 400 MW
- NCG issues the following call order for hour 15: 600 MW LTO Hourly LW (System Buy)
- [A]'s final nomination for hour 15 = entry flow of 1,000 MW (400 + 600)
- NCG issues the following call order for hour 16: 200 MW LTO Hourly LW (System Sell)
- Question: What does [A] have to deliver in hour 16?

Answer NCG

In hour 16 NCG would expect an entry flow no greater than 200 MW (alternatively an entry flow of 400 MW plus an exit flow of 200 MW → net flow is relevant). In accordance with section 1.5.2, sentence 5 of the PD LTO, the entry flow that was added to deliver on the LTO call order in hour 15 is not taken into account for hour 16, i.e. the reference quantity for hour 16 equals the entry flow from hour 15 less the call quantity for hour 15 (= H-1), which in this case gives a reference quantity of 400 MW (entry).

QUESTION 1.5.2-7

Example:

- [A]'s final nomination (= allocation D+1) in balancing zone LW in previous hours = 0 MW
- [A] sells (System Buy) 500 MW on the exchange via the hourly product EEX NCGL-WEST (MOL 2) for hour 9
- [A]'s final nomination (= allocation D+1) in LW for hour 9 = entry flow of 500 MW
- NCG issues the following call order for hour 10: 300 MW LTO Hourly LW (System Buy)
- Question: Does [A] have to nominate an entry flow of 300 MW or of 800 MW in hour 10?

Answer NCG

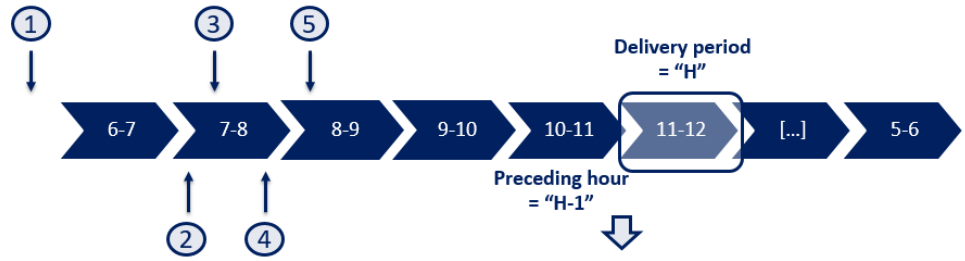
An entry flow of 300 MW is sufficient because the LTO product in the product variant "Hourly" serves as back-up for the hourly exchange product, i.e. NCG considers these two products to be identical when it comes to the required physical effect (see also questions 1.5.2-1 and 1.5.2-3).

QUESTION 1.5.2-8

If the provider has sent a within-day renomination and NCG issues a call order after the re-nomination was sent but before the corresponding allocation has been received, based on what quantity does the provider have to deliver the physical effect?

Answer NCG

The relevant reference under the "H-1" approach is always the actual flow in the hour preceding the delivery hour, as it is later allocated (= last confirmed nomination). Whether or not the network operator has already confirmed this quantity at the time when the MAM issues the call order is not of concern in this regard.



Quantities as nominated by provider*
(Example for balancing zone LW)

		10-11	11-12
1	Nominations as at D-1	+200	+200
2	Provider renominates to reflect current planning (= last renomination for hour 10-11)	+300	+300
3	MAM calls bid (System Buy 100)	+300	+300
4	Network operator confirms renomination	+300	+300
5	Provider renominates to provide physical effect	+300	+400

Required change:
+100 compared to H-1

** The table shows the balance (net position) of all quantities of the type Entryso and Exitso nominated by the provider in the relevant zone*

Question 1.5.2-9

Regarding the data series types used to calculate the physical balance (net flow): The LTO document only refers to “Entryso” and “Exitso”. Is it correct, then, that VTP quantities (“Entry VHP”, “Exit VHP”) are not included? What about conversion? Can the provider use the conversion mechanism to balance its balancing group?

Answer NCG

As described in the PD LTO, only the provider’s “Entryso” and “Exitso” quantities in the relevant balancing zone count towards the physical balance as determined under the PD LTO, i.e. any and all other types of quantities recorded in the provider’s balancing group are not taken into account when determining the provider’s physical balance. Use of the conversion mechanism for the purpose of providing gas for balancing is not permitted as set out in section 1.9 PD LTO.

Question 1.5.2-10

Regarding the way the product interrelates with the exchange products subject to specific physical delivery restrictions: For example, if we buy 100 MWh for delivery in LW (EEX) for hour 10-11 and then, a few minutes later, the MAM issues a System Buy call order also for LW for the same hour, what do we have to nominate?

Answer NCG

The MAM will not in practice buy or sell the hourly exchange product and then issue a call order that is for the corresponding LTO product for the same hour and same balancing zone but in the opposite direction.

3.4. Section 1.6

Question 1.6-1

The former product description (as valid until 30 September 2020) defined among other aspects that providers were not allowed to use either short-term capacity (within-day/day-ahead) or interruptible capacity. This rule was removed from the product description with effect from 1 October 2020. Does this mean that providers are now allowed to also use short-term and/or interruptible capacity for LTO purposes?

Answer NCG

Yes, that is correct. The previous capacity requirements have been revoked in order to allow providers more flexibility.

Question 1.6-2

In the past LTO providers had to be able to prove to NCG that they were in a position to meet LTO call orders at any time throughout the contract period regardless of whether or not there had actually been an LTO call order. In particular, the provider had to be able to provide proof of having booked long-term firm capacity for this purpose. What does the revocation of the capacity requirements (see question 1.6-1) mean with regard to the provider's obligation to provide proof?

Answer NCG

LTO providers no longer have to submit proof of particular capacity bookings. Each provider is responsible for ensuring that it can meet LTO call orders from NCG at any time within the agreed lead time. No additional requirements are currently stipulated.

Question 1.6-3

Are providers allowed to use overnomination to deliver on an LTO call order?

Answer NCG

Yes. Each provider is responsible for ensuring that it can meet LTO call orders from NCG at any time within the agreed lead time. No additional requirements are currently stipulated.

3.5. Section 12

Question 12-1

Assuming a call order is issued for a delivery period of 24 hours and the provider fails to deliver a physical effect in one hour, is it correct that a penalty of EUR 0 applies because the breach is less than 5% (1/24 = 4.17%)?

Answer NCG

No. Please see the example below for a more detailed explanation of how the penalty provisions work.

Call order in question = LTO SystemBuy 200 MWh/h for the delivery period from 6am to 6am (24 hours)

- Call quantity = 24 h x 200 MWh/h = 4,800 MWh
- Commodity charge agreed with the provider = 16 EUR/MWh
- Call fee = 4,800 MWh x 16 EUR/MWh = EUR 76,800
- Capacity charge agreed with the provider for a delivery rate of 200 MWh/h for the quarter in question = EUR 180,000

The penalty applicable under section 12.2 is calculated as follows:

Penalty	= (shortfall rate + penalty surcharge) x call fee
Shortfall rate	= shortfall quantity / call quantity = 200 MWh / 4,800 MWh = 4.17%
Penalty surcharge	= according to table → for 4.17% = + 0%
Section 12.2 penalty	= (0.0417 + 0) x EUR 76,800 = EUR 3,202.56

In addition, the penalty under section 12.3 applies.

Assuming that the above call order was the only LTO call order issued to the provider in the relevant call month, the shortfall rate determined under section 12.2 also applies under section 12.3. This gives the following penalty:

Penalty	= (shortfall rate + penalty surcharge) x capacity charge
Capacity charge	= proportionately per month → EUR 180,000 / 3* = EUR 60,000
Section 12.3 penalty	= (0.0417 + 0) x EUR 60,000 = EUR 2,502

The total penalty payable for the breach amounts to EUR 5,704.56 (EUR 3,202.56 according to section 12.2 plus EUR 2,502 according to section 12.3).

** This is a simplified calculation not taking into account the varying number of days in the respective months.*

4. SCB QUESTIONS AND ANSWERS

4.1. GENERAL SCB QUESTIONS

QUESTION B-1

The PD SCB was changed with effect from 1 January 2021. What has changed?

Answer NCG

The main changes were the following (for details see the tracked-changes version of the PD SCB published on the NCG website[1]):

- Introduction of the "H-1" approach with regard to the physical delivery of the SCB product at "RLM" exit points in section 1.2(a)
- Inclusion of the possibility to deliver the SCB product at storage points connected to distribution networks in section 1.2(b)
- Description of the additional requirements for delivering the SCB product at distribution-level entry/exit points (RLM or storage) in section 1.3
- Introduction of the possibility to carry out test call orders in section 9.3

QUESTION B-2

Is it correct that there are three different options of delivering the SCB product?

Answer NCG

Yes, that is correct. Section 1.1 of the PD SCB sets out provisions for delivering the product at transmission-level storage points (in practice: Epe-L storage). Section 1.2 sets out the possible alternatives, namely via RLM exit points (subsection a) or distribution-level storage points (subsection b).

[1] See https://www.net-connect-germany.de (English-language version) and go to „Information" → „Balancing Gas Supplier" → „Contract Terms & Conditions Balancing Gas Supplier"

QUESTION B-3

Can the provider choose which delivery option to use when receiving a call order?

Answer NCG

In the case of section 1.1, its application is bindingly agreed during the tender process, with the provider specifying the relevant storage point and storage system operator (SSO) at the time of submitting its bid. Once the MAM awards a contract on the bid, the provider has an obligation to keep the SCB product available at the specified storage point, i.e. to ensure that the SCB product can be called by the MAM at any time throughout the agreed contract period in accordance with the product description and at the delivery rate agreed. For the necessary contractual arrangements to be entered into with the relevant SSO see section 10 of the PD SCB; for the pertinent call arrangements see sections 8.1, 8.2 and 8.4 of the PD SCB.

In the case of section 1.2, the provider only specifies the relevant balancing zone at the time of submitting its bid, i.e. at the time when the contract is awarded it is not determined whether the provider will deliver the SCB product via an RLM exit point or distribution-level storage point. If called on the product, the provider is free to decide which delivery option to use. However, the provider has an obligation to ensure that calls can be met at any time in accordance with the product description, which means that the provider has to enter into contractual arrangements with the relevant industrial user (RLM) or SSO (distribution-level storage) and – if applicable – also with the responsible distribution system operator (when using points connected to distribution networks, see section 1.3 of the PD SCB).

QUESTION B-4

Is it possible to deliver on an SCB call by reducing an existing flow?

Answer NCG

Yes, it is.

For delivery via RLM exit points see section 1.2(a), for delivery via distribution-level storage points see section 1.2(b).

In the case of section 1.1 (transmission-level storage points), call orders are implemented via direct access to the storage facility. Actual physical delivery is handled by the SSO acting on behalf and in the name of the provider. The provider is notified of the call order but does not have to actively implement it (see section 8.2 of the PD SCB).

4.2. Section 1.1

Question 1.1-1

Does the provider have to book the transportation capacity needed to deliver the SCB product?

Answer NCG

No, in the case of section 1.1 (transmission-level storage point) this is not necessary. The MAM receives direct access to the storage facility, the required transportation capacity is provided by the transmission system operator.

Question 1.1-2

Is it allowed to use interruptible storage capacity to deliver the SCB product?

Answer NCG

The provider has to ensure that the SCB product can be called at any time throughout the contract period in accordance with the product description. Additional details must be agreed with the relevant SSO (see section 10 of the PD SCB).

4.3. Section 1.2

Question 1.2a-1

Section 1.2(a) states that the required change in consumption must be effected relative to the preceding hour "H-1". Does this also apply with respect to the first delivery hour of the gas day?

Answer NCG

Yes. As is the case with the LTO "Hourly" product variant (see Question 1.5.2-4 above), the SCB product is used for structuring purposes. In order to achieve this aim, the PD SCB requires the provider to change its flows compared with the hour ("H-1") preceding the called delivery hour. There are no special arrangements regarding the first hour of the gas day, so if and when the SCB product is called for the delivery hour 6-7, consumption at the relevant points must change compared to the flows in hour 5-6.

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