



## MEMO

# BALANCING - NEUTRALITY PRINCIPLES FOR START-UP PERIOD

## 1. Background

On 1 October 2022 the new gas balancing model and Energinet's new backend IT-system was commenced. During the first period after commencement, the market participants have experienced difficulties in balancing their portfolios, mainly due to IT defects in Energinet's new IT system and data issues stemming from Danish and Swedish DSOs as well as Energinet. Energinet acknowledge that this has been the case.

Since the beginning of January 2023, many of the challenges with IT and data have been solved, which has entailed a more stable operation and thereby a more stable basis for balancing.

Following the challenges in the first period, Energinet has investigated the legal basis for invoicing imbalance charges based on General Terms & Conditions for Gas Transport. Based on this investigation, two main principles apply:

- Energinet are not entitled to collect imbalance charges for shippers in situations where the imbalances are caused by significant mistakes made by Energinet, or from data errors from Energinets subcontractors (i.e. Danish and Swedish DSOs).
- Energinet must collect imbalance charges where imbalances are not caused by Energinet, or from data errors from Energinets subcontractors.

## 2. Description of neutrality principles

The extraordinary neutralization is a neutralization of the incentive charges in the balancing model, reducing the difference between the balancing payment including NPP on a given gas day, and full neutralization. The extraordinary neutralization will be based on the following overall principles:

- Energinet will investigate all gas days where there has been traded in the yellow zone between 1 October 2022 and until 8 January 2023.

- The neutralization will only apply for shippers delivering gas towards the Joint Exit Zone.
- For all gas days where Energinet determines that imbalances were caused by mistakes from Energinet and/or from data errors, all imbalance charges (both yellow zone and end-of-day prices) for the current gas day will be neutralized via the EEX ETF EGSI price.
- In special cases where the EGSI price is less attractive for the shipper, the original balancing price will apply.
- 8 January 2023 is chosen as cut-off date when the last major IT-challenge (matching) was solved. The cut-off date also indicates a general improvement in the number of issues, as well as improvement response time and communication from Energinet's side. However, if Energinet identifies gas days with similar IT-challenges after this cut-off date, these will also be considered, in terms of neutralization.
- The No Punishment Principle (NPP) will generally apply both during and after the determined period, to indemnify balancing costs incurred by missing and/or faulty data.

Each shipper will receive a detailed overview of the neutrality calculation for each relevant gas day and yellow zone hours for the relevant month, together with the specific neutrality credit note/self-billing.

### 3. Specific remarks to market comments

Energinet has received the following remarks from the market, based on the gas news on principles for neutralization of gas balancing charges from 25 April 2023:

1. *"The listed principles seem to be fair for the chosen period (1 October 2022-8 January 2023). However, as industry, we do not agree on the chosen cut-off date."*
  - a. **Energinet answer:** see answer to question 5 below specifically addressing the cut-off date.
2. *"It should be secured that shippers not delivering gas towards JEZ are not discriminated, by only neutralizing shippers delivering gas to JEZ"*.
  - a. **Energinet answer:** Energinet agrees with the statement, however shippers not delivering gas towards JEZ generally does not have the same challenge in balancing and need for data, as shippers delivering towards JEZ.
3. *"It is questionable that Energinet are evaluating if there have been significant errors, when it is Energinet themselves that has caused the errors. Also, it should be clear that the principles are also valid for errors caused by Energinet's subcontractors (Evida/Nordion)"*.
  - a. **Energinet answer:** Energinet uses objective criteria based on an external legal assessment, to determine the gas days that must be neutralized. The background for, and overview of, which gas days are neutralized is presented in point 4 below. As stated in the main principles in point 1, Energinet subcontractors are also considered in terms of determining the neutralization.
4. *"Can Energinet describe those situations where the EGSI price is less attractive than the normally applicable balancing price, and how Energinet are able to assess this?"*.
  - a. **Energinet answer:** This principle is added to ensure that situation is not worsened for the shipper when neutralizing. There are some special cases in terms of yellow zone trades when applying the EGSI price would either increase the imbalance payment for the shipper, or decrease the imbalance payment to the shipper, thus worsening the situation instead of neutralizing.

- The situation can occur if prices increase/decrease significantly during the gas day.
- b. An example of this is on the 22 November 2022, where the price from the first yellow zone trade at 13 is priced at 117.650 Eur/MWh, whereas the EGSI price for this gas day is 117.838 Eur/MWh. As the yellow zone trade is in the short direction, the EGSI price is less attractive for the shipper (higher) than the traded price in the yellow zone for this specific hour.
5. *“What are the reasons behind the cut-off date of 8 January 2023, which from a market perspective seems to be too early, in terms of issues with the balancing model?”*
    - a. **Energinet answer:** The regular No Punishment Principle (NPP) was added as part of the balancing model, to generally safeguard the market from the risk of poor data quality. This means that the NPP will generally apply in terms of mitigating consequences of data quality issues but is not designed in terms of mitigating the consequences of other IT-errors not related to data quality. So, the determination of the 8 January 2023 as cut-off date is based on when the different IT-errors was solved, as the NPP will apply in terms of data quality issues/data errors. However, Energinet has identified some gas days after the 8 January, where IT-issues also were present, see overview in point 4 below.
    - b. It is important to note that forwarding an Urgent Market Message (UMM) does not in itself entitle for neutralization, as the UMM’s will be used in normal operation, when data errors occur (e.g., informing of the use of fallback data).
  6. *“On which gas days will the regular NPP apply?”*
    - a. **Energinet answer:** The regular NPP applies on all gas days, no matter if the Accumulated System Balance has been in the yellow zone or not. So, the regular NPP is not based on certain situations or occurrences but is generally applied and calculated for every gas day.
  7. *“Will the calculation of the neutralization be done on a market level or shipper level?”*
    - a. **Energinet answer:** the calculation will be done on a shipper level, meaning that the neutralization will be calculated based on each shipper’s individual position on the gas day in question.

#### 4. Background and overview of neutralized gas days

Energinet has made a detailed analysis of all gas days where the ASB has been in the yellow zone, from 1 October 2022 until 1 June 2023. The selection of relevant gas days for neutralization has been based on the following issues:

- General startup issues with the balancing module and short time for the market to prepare IT-systems, test, communication etc.
- Major data issues
- Matching errors
- Errors in causer allocation
- Deviations in yellow zone trading procedure due to data issues

As described in point 3 above, the 8 January 2023 is considered as the cut-off date for neutralization, as this the date when the last systematic IT-error was solved (matching issue). This means that when data issues occur after this date, it will be the regular NPP that will safeguard the market against data errors. However, Energinet has identified some single gas days after

the 8 January, where similar IT-issues as during the neutralization period has occurred, which will also be neutralized based on the same principles.

For the period before 8 January only 3 gas days out of a total of 49 gas days are not neutralized, but the regular NPP will apply. Specifically for these 3 gas days, Energinet have not detected any major IT or data issues.

Month	Neutralized days	Number
<b>October 22</b>	All yellow zone gas days	13/13
<b>November 22</b>	All yellow zone gas days, except 24 November and 29 November	9/11
<b>December 22</b>	All yellow zone gas days, except 10 December	21/22
<b>January 23 (Before 8 January)</b>	All yellow zone gas days	3/3
<b>January 23 (after 8 January)</b>	11 January, 19 January, 20 January	3/10
<b>February 23</b>	2 February	1/6

*Table 1: Overview of gas days that will be neutralized.*

In practice, the neutralization amount will be the delta between what is already neutralized via the regular NPP and the total neutralization sum.