

Daily balancing

as new working mode of the Ukrainian gas market

May 8, 2019

What is daily balancing

Daily balancing is the precise coverage of gas demand with gas supply within one day period. It is secured through the Information Platform of Daily Balancing as created by the Ukrainian transmission system operator (TSO) – Ukrtransgaz. The platform is a software environment based on SAP NetWeaver, where customers of gas transmission services file their nominations for the next day, and Ukrtransgaz (UTG) aligns customers' imbalances. In other words, with the help of the Ukrtransgaz platform, it is possible to match supply and demand on the gas market of Ukraine on a daily basis. Also, the TSO offers service for each consumer, using an EIC code¹, to check availability of a particular supplier and its own status, including whether it was put on the disconnection list or not. This will help gas consumers to avoid false or unjustified disconnections, and prevent manipulation with the information².

This is also one of the steps envisaged in the Association Agreement between Ukraine and the EU, which will allow European energy companies to work in the Ukrainian market on the same rules as they work in the EU.

Daily balancing will help make the natural gas market more transparent and competitive. Ukrtransgaz argues that the transition to daily balancing harmonizes its performance as TSO with European TSOs.

Ukrtransgaz identifies shifting from paper to electronic communication among gas market participants as one of the platform advantages. This will reduce the time to process the nominations. It is also an opportunity to verify the volumes of entry and exit in the system on daily basis, which will allow for more accurate reporting and portfolio of each customer of transmission services along with its consumers. According to Ukrtransgaz, the platform «allows the TSO to see the status of imbalances of the customers of transmission services, control the sufficient level of financial provision for each nomination, and, therefore, carry out an assessment of its own operating costs and forecast possible losses»³.

What are the first results of daily balancing?

The launch of daily balancing has been postponed three times, and on March 1, 2019, the platform became operational thanks to the joint efforts of the NEURC (Ukrainian energy regulatory authority), Ukrtransgaz and market participants.

From the beginning of 2019, the TSO reports to the regulator on the performance of the Information Platform on a weekly basis.

Within 10 days of operation in daily balancing mode, the volume of gas sold and purchased amounted to 1.387 billion cubic meters. Thus, the average daily volume equaled to 138.7 million cubic meters⁴.

¹ Unique 16-digit identification code assigned to each entity in the gas market; it can be found in utility bills and contracts for the distribution of natural gas.

² <http://utg.ua/utg/media/news/2019/03/ukraine-gas-market-switched-to-daily-balancing.html>

³ Ibid.

⁴ <http://utg.ua/utg/media/news/2019/03/13-03-2019-dobovij-ob-syag-kupivli-prodazhu-gazu-v-ukrani-skladae-140-mln-kub-m.html>

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According to Ukrtransgaz, the results of the platform performance in March - the first month in the mode of daily balancing, - the accuracy of the calculations of positive (241 million cubic meters) and negative (336 million cubic meters) imbalances increased by 6 times⁵. For comparison, in January, the cumulative imbalance amounted to 2.87 billion cubic meters (negative) and 2.33 billion cubic meters (positive)⁶.

However, the launch of the platform included heated discussions.

On March 2, Ukrtransgaz officially appealed to the NEURC with a request to mediate among market participants on the issues of daily balancing⁷. The letter states that market participants (reference is made to statements by Regional Gas Company group in the media⁸) publish a large number of statements, which - according to Ukrtransgaz - were manipulative and were intended to sabotage the transition to daily balancing.

Instead, the NEURC planned to inspect 30 regional gas companies in the mode of daily balancing (NKREKP chairman O. Kryvenko stated in a post on Facebook⁹) upon the complaint of Ukrtransgaz. Earlier the CEO of Naftogaz A. Kobolyev reported on the facts of distribution of «social» gas (intended for households) to commercial companies, as fixed by the balancing platform¹⁰.

The main disadvantages, on which market participants complained, can be summarized as follows:

- technical problems of the Information platform for daily balancing - traders have stated that there are problems with incorrect display of information on the platform¹¹;

- inaccessibility of the TSO digital signature - market participants state this is a violation of the Gas Transmission System Code, and without an electronic signature, the TSO can change the data provided by market participants and will not be able to track these changes¹²;

- impossibility to track in the system the relations between suppliers and consumers, in particular correspondence about termination of contracts¹³;

- payments for the imbalances. The portal mind.ua run a survey of 20 market participants showing dissatisfaction with the payments system: «under the daily balancing scheme, if the trader has excessive volumes of unsold gas at the end of trading day, Ukrtransgaz automatically buys it in at a discounted price calculated as «basic price minus 10%». If the trader has a shortage of gas (the volumes consumed more than nominated), Ukrtransgaz automatically sells the missing amount at an overpriced cost of «basic price plus 10%»¹⁴.

- increased administrative burden: «every day we must not just confirm the nominations, but also track them in the system, as there is a risk of some not being processed. We now have to control everything seven days a week»¹⁵. This manner of operations increases operational risks, which, according to market participants, can increase the price of gas¹⁶.

Despite many technical and organizational inaccuracies, the information platform launch can be considered as successful. Following the first month of the platform operation, major technical errors were eliminated, and Ukrtransgaz held a number of training sessions with market participants to improve their operations¹⁷. According to the results of the NEURC inspection of Ukrtransgaz in the part of functioning of the TSO Information Platform,

5 <http://utg.ua/utg/media/news/2019/04/ukrtransgaz-pidbyv-pidsumky-pershogo-misiacia-roboty-v-dobovomu-balansuvanni.html>

6 <https://eba.com.ua/uchasnyky-rynku-pidbyly-pidsumky-pershogo-misyatsya-dobovogo-balansuvannya-na-rynku-gazu/>

7 <http://utg.ua/utg/media/news/2019/03/ukrtransgaz-zvertat-sya-do-nkrekp-02-02-2019.html>

8 <http://reform.energy/analitics/rgk-informatsionnaya-platfor-ma-dlya-sutochnogo-balansirovaniya-ao-ukrtransgaz-funktsioniruet-s-nedopustimyimi-oshibkami-10692>

9 <https://www.facebook.com/Ok.Kryvenko/posts/259877081582098>

10 <http://reform.energy/news/nkreku-namerena-proverit-30-oblgazov-na-predmet-pereprodazhi-sotsialnogo-gaza-kommercheskim-predpriyatiyam-10812>

11 <http://utg.ua/utg/media/news/2019/03/siogodni-zustrily-sia-z-uchasnykamy-rynku-gazu-na-kruglomu-stoli-dobove-balansuvann>

[ya-rynku-gazu-v-ukraini.html](http://utg.ua/utg/media/news/2019/03/ukrtransgaz-zaplanu-vav-kalendar-zustrichei-z-uchasnykamy-gazovogo-rynku.html)

12 <https://www.epravda.com.ua/press/2019/03/14/646083/>

13 <https://expro.com.ua/zahodi/kruglii-stl-dobove-balansuvannya-rynku-gazu-v-ukran>

14 <https://mind.ua/publications/20194433-po-garyachih-sli-dah-4-golovni-problemi-dobovogo-balansuvannya-gazu>

15 Ibid.

16 Ibid.

17 <http://utg.ua/utg/media/news/2019/03/ukrtransgaz-zaplanu-vav-kalendar-zustrichei-z-uchasnykamy-gazovogo-rynku.html>

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five incompliances with the requirements of the Gas Transmission System Code have been discovered¹⁸. The NEURC gave the time until May 20 to bring the platform performance in line with the regulations.

An essential part of the regulatory work on correction of problematic issues was carried out following the results of the mediation of Ukrtransgaz and the NEURC by the Energy Community Secretariat¹⁹.

The launch of the balancing platform is fully justified, as it is a more effective tool for controlling the market and its participants. Daily balancing reduces corruption risks, since it allows better regulation of the operation of gas transmission and distribution systems, discourages manipulation of data on the volumes of gas supplied and sold to consumers, and Ukrtransgaz will better control gas flows at the entry/exit points²⁰.

A huge plus is that the Ukrainian gas market begins to «play» according to European rules - in the same mode as the EU market, which is more comfortable for European companies and much more transparent.

What's next

According to Ukrtransgaz, which reported on the results of the first month of daily balancing, in the future it is planned to «start capacity booking at each of the entry/exit points (May 2019), launch trading platforms (June 2019) and launch the Information Platform of the Storage System Operator of Ukraine (June 2019)»²¹. In parallel, the Ukrainian TSO expects the NEURC to settle the issue of unauthorized withdrawal, while the regulator has put forward its demands to Ukrtransgaz after the recent inspection.

Therefore, the dialogue between the TSO and market participants, as well as the mediation of problem issues with the participation of the NEURC and experts of the Energy Community Secretariat should continue.

¹⁸ <https://www.facebook.com/Ok.Kryvenko/posts/281898929379913>

¹⁹ <https://energy-community.org/news/Energy-Community-News/2019/03/01.html>

²⁰ <http://utg.ua/utg/media/news/2019/03/ukrtransgaz-zakryvatyme-akty-fizychnogo-balansuvannia-za-misiac-zgidno-danyh-informacii-noi-platfomy.html>

²¹ <http://utg.ua/utg/media/news/2019/04/ukrtransgaz-pidbyv-pidsumky-pershogo-misiacia-roboty-v-dobovomu-balansuvanni.html>