

**RESPONSE TO ERGEG'S PUBLIC CONSULTATION PAPER
– FRAMEWORK GUIDELINE ON GAS BALANCING RULES –
E10-GNM-13-03
Response
By the System Users Committee of Eurogas**

PROBLEM IDENTIFICATION, SCOPE, DEFINITIONS, PURPOSE, POLICY OBJECTIVES AND COMPLIANCE

Question 1: Do you agree that the problems identified in the problem identification chapter are the main ones? Are there additional problems that should be addressed within the gas balancing pilot framework guideline?

The section on problem identification in the impact assessment document provides a reasonable high level summary of the main issues relating to the balancing of gas transmission networks in the EU. Balancing of dedicated gas interconnectors e.g. with one entry and one exit point may be less complex.

A couple of additional issues that should be addressed include:

- the need to ensure that the resulting model for gas balancing works well in coexistence with EU electricity markets;
- the need to ensure that TSOs are able to obtain the information they need from connected gas systems, in particular from EU distribution networks;
- the extent to and manner in which system imbalance costs are targeted to the users who cause the system to be out of balance, considering both the need to avoid undue cross subsidies and the need to have a system that is open to new entrants

Question 2: Do you agree with the scope (section 1) and objectives (section 3) of this pilot framework guideline? Are there policy issues that should, but are not currently addressed by the draft document?

Eurogas supports the scope and objectives, subject to more detailed comments we make in answer to the questions below. We would like to highlight the need mentioned in 3.3 to ensure that nomination procedures are consistent with balancing arrangements.

ERGEG and the NRAs should consider how they will ensure that DSOs provide TSOs with the information they need and within a reasonable time interval, given that the Framework Guideline and resulting Network Code does not place binding obligations on DSOs.

Question 3: In your view, should the European network code for gas balancing lead to an amendment of national balancing rules? If so, how detailed should the European target model be?

The European network code should lead to amendments of national balancing rules, where existing rules do not comply with the code. The European target model should be sufficiently detailed to deliver necessary improvements to the EU gas market, but should allow for some flexibility through the use of pre-defined interim steps designed to reflect the different technical characteristics of existing network infrastructure throughout the EU.

Question 4: Do you agree with the approach of defining a target model for the network code and allowing interim steps subject to NRA approval?

Yes. Interim steps could in particular allow for recent changes that have benefited local balancing markets to be maintained, with transition to the full target model as and when it is feasible.

The NRAs should report on any interim steps applied to ACER, which should report on the impact of these on in achieving progress of these towards the target model in the interest of cross-border markets.

Question 5: What timescale is needed to implement the provisions in the target model outlined in Part II after the network code is adopted? Is 12 months (as in section 10) appropriate or should it be shorter or longer?

Given the different starting points and challenges for each TSO network it would not be appropriate to set a fixed timescale. A short timescale would be impractical for some, while a long timescale that accommodates all networks would not incentivise early implementation by networks with lower hurdles. Eurogas proposes that the emphasis should be placed on the NRA carrying out a regular review of the progress of each TSO's implementation, ensuring that the TSO moves through any interim steps towards each element of the target model as soon as is reasonably practicable.

Question 6: Should the pilot framework guideline be more specific regarding the purpose and policy objectives for network codes (section 3), in particular areas including nomination procedures?

Eurogas believes that there will need to be more detailed guidance on nomination and renomination procedures. Although this subject is also relevant in relation to Capacity Allocation and Congestion Management the FG Balancing appears to be the best location for this, and is required under Article 8.6.i of the Regulation.

In particular, it is important that the FG balancing confirms that network users should have the right to make frequent re-nominations (including close to the end of the gas day), in order for network users to be able to use fully the flexibility they have access to.

Question 7: With reference to section 3 (proposed policy objectives), do you have comments on how Article 21 of the Gas Regulation 715/2009 should be reflected in the gas balancing network code?

Eurogas believes that the FG Balancing is largely reflective of Article 21 of the Gas Regulation 715/2009.

The role of network users and TSOs

Question 8: Is it necessary to have a harmonised approach to the network user and TSO roles regarding gas balancing?

It is fundamental that there should be a clear understanding of the roles and at there should be a harmonised approach to these roles.

Question 9: What are your views on the proposals for the target model to be reducing the need for TSOs to undertake balancing activities?

A successful implementation of the target models would probably lead to a reduction in the need for TSOs to undertake balancing activities; however this should not be a goal in itself.

Question 10: Is it appropriate for the target model to impose within-day constraints on network users? If so, should such constraints be imposed on all network users or only on certain groups of network users? If within-day constraints should only be imposed on certain groups of network users, which ones are these? How could this be justified?

Eurogas believes that in defining the target model as “daily balancing”, this should not include any within-day constraints on network users that attract imbalance charges or other significant penalties if exceeded.

Eurogas believes that within-day constraints that attract imbalance charges if exceeded could form part of an interim step towards daily balancing under a case by case evaluation and approval of NRAs. This could be achieved in the FG Balancing by moving paragraph 6.4 to section 6.B Interim Step. In case the application of within-day constraints is limited to certain groups of network users the NRA shall ensure this does not result in any discrimination or create barriers to entry.

Question 11: Is balancing against a pre-determined off-take profile a useful interim step?

It is possible that this could be a useful interim step, but Eurogas would welcome more discussion of how this could be applied; above all if balancing against a pre-determined off-take profile was limited to some categories of customers (e.g. non-daily metered) implicitly excluding them from market risks. Discussion of the latter point should consider the possible costs and benefits for all categories of network users.

A range of interim steps should be possible in order to allow for choice of the most appropriate model for the market in question and reflect the availability of flexibility to network users and avoid barriers to entry.

Question 12: Should TSOs have the option to sell flexibility provided by the gas transmission pipelines system (linepack) subject to the NRAs’ approval? If so, should this be mandatory?

Caution should be exercised if TSOs are to be given the option to sell flexibility from linepack subject to the NRA’s approval, as this could limit the extent to which flexibility is transferrable between market areas. Also selling flexibility/linepack ex ante could lead to hoarding and undiversified demand being greater than the diversified amount that is actually needed. If this is to be contemplated it should be balanced against the benefit to the overall market (and neighbouring markets) of the TSO using flexibility from linepack to support its balancing responsibilities.

Question 13: Should the target model enable TSOs to provide tolerances to market participants for free or should this be an interim step?

Optimally there should not be a need for the TSO to provide tolerances to market participants so they should not be a requirement in the target model. Tolerances could be part of an interim step; in particular they could be used to help network users adjust to a new balancing model as part of a “soft landing”.

TSO OBLIGATIONS ON INFORMATION PROVISION

Question 14: Are there any additional information requirements that you believe should be included? In particular, should the pilot framework guideline oblige TSOs to provide information beyond the requirements set out in the revised Article 21 and Chapter 3 of Annex 1 to Regulation (EC) No 715/2009 (as recently approved through comitology)? If so, please provide details?

We believe the information requirements specified in Article 21.2 and Chapter 3 of Annex 1 of the Regulation are sufficient to ensure TSOs can implement the target model and the interim steps both safely and efficiently. That said, we would expect the European network code to be more specific about how such information, which is necessary for users to balance their portfolio and to understand the balance status of the system, will be provided and how frequently (particularly non-daily metered demand).

Question 15: What are the benefits and disadvantages of TSOs providing network users with system information?

When TSO's provide network users with timely (including near real time where appropriate) and sufficiently comprehensive information about both the system status (to all users) and the individual user's own status (held confidential), users are better able to respond to changes in supply and demand and chose the most cost efficient way of doing this. This thereby helps minimise the role of the TSO and overall cost of balancing.

Question 16: What are the costs of TSOs providing network users with system information? How do these compare against the benefits and/ or disadvantages?

This question is best answered in detail by TSOs and Regulators who may be verifying the cost information; however Eurogas believes that the costs are not be prohibitive.

BALANCING PERIODS

Question 17: What are your views on our assessment of the policy options?

The IIA considers three policy options: an hourly system; a daily system and a cumulative system. Balancing against a predicted within-day profile is mentioned as an interim step towards daily balancing.

Considering the length of the section assessing these 3 policy options, it gives a reasonable high level summary of the pros and cons of each system. Further assessment is needed of what, if any, additional flexibilities could form part of the daily balancing target model and which measures should be limited to being classed as interim steps.

Question 18: Are there relevant additional policy options on balancing periods which have not been considered in this section? Should these be considered going forward?

A wider range of interim steps could be allowed in the move towards a target model; for example the cumulative system (e.g. Dutch model) could be accommodated as a legitimate interim step.

Question 19: Is it necessary to harmonise balancing periods? If so, what are the benefits of a regional or pan-European harmonised balancing period? If not, why is it not necessary? Please explain your answer.

Eurogas has a preference for a harmonised balancing period, where this is practical, as it simplifies cross-border trade and reduces barriers to entry. If this proves not to be possible

across all networks then it is important to remember proper implementation of other aspects of the FG Balancing in such networks will still benefit the development of the EU gas market.

Question 20: If you agree with a harmonised balancing period, what do you consider is the appropriate length of the balancing period?

Eurogas supports the gas day as the target model for a harmonised balancing period, recognising that certain flexibilities will be needed e.g. via interim steps.

Question 21: Do you agree with the target model? (Please explain your answer).

Eurogas believes the target model should be daily balancing, with individual shipper imbalances being cashed out at the end of the day. This would mean that shippers only incur imbalance charges according to their individual portfolio position at the end of the day.

Within the target model, Eurogas considers that there could be a number of ways in which the TSO could work with shippers to maintain system balance within-day and avoid undue socialisation or "smearing" of balancing costs e.g.

- Allowing the TSO to accept bids/offers on the within-day market for delivery at a specific location, for a specific duration and/or with a specific flow rate.
- Ensuring that the daily imbalance charging structure gives strong pricing signals that will encourage users to minimize their imbalance throughout the day.
- Incentives to reward shipper contributions towards a within-day system balance.
- Requiring shippers to provide forecast hourly flow information at relevant points.

Eurogas feels that the options described in 6.4 should nevertheless form part of an interim model whilst they allows TSO's to impose an imbalance charge on network users. Any options should also be pre-defined in the European network code to prevent a proliferation of different within day restrictions, which would counteract the drive to achieve harmonisation and hamper integration.

Eurogas would welcome further analysis by ERGEG of the methods that may be used to support within day balance.

Question 22: What would be the costs of implementing the target model in (and beyond) your Member State or balancing zones(s) (as the case may be)?

Individual member companies are best placed to comment on this as they will have better information on the possible costs and benefits of implementation in the particular markets in which they are active. This question is best answered by TSOs and Regulators who may be verifying the cost information

TSO BUYING AND SELLING OF FLEXIBLE GAS AND BALANCING SERVICES

Question 23: Do you agree with our assessment of the policy options?

The IIA considers four policy options which are procurement through 1) gas wholesale market 2) a stand-alone balancing market or platform 3) periodic tenders and 4) long term contracts and/or direct access to flexibility. Eurogas broadly agrees with the descriptions and assessments of the pros and cons of these procurement measures.

Question 24: Do you agree with the target model? (Please give reasons). If so, what do you consider are the benefits and disadvantages of the target model?

Eurogas has a long-term preference for TSOs to procure balancing energy from a centrally cleared within-day trading market that can also be used by network users to manage their individual imbalances. We consider balancing platforms to be the final interim step before moving to TSO trading on the wholesale market.

Question 25: What are the costs of implementing the target model in your Member State?

This question is best answered by TSOs, operators of existing platforms and Regulators who may be verifying the cost information.

Question 26: What interim steps, if any, may be needed in your Member State or balancing zone(s)?

Eurogas generally agrees with the interim steps proposed in the draft FG and the circumstances in which they may be used. Individual member companies are best placed to comment on the steps that would be needed in individual markets as they will have better information on the precise interim steps that may be needed.

Question 27: Is it appropriate for balancing platforms to be part of the target model subject to NRA approval, even where markets are sufficiently liquid to enable TSO procurement on wholesale markets?

We do not see a need for balancing platforms to be part of the target model. Experience shows that the wholesale market can be designed to allow market participants to offer locational gas to the TSO. Balancing platforms could be considered an advanced interim step.

Question 28: Is it appropriate for TSOs to procure balancing services on the wholesale market and/or or is appropriate for these to be procured on the balancing platform? Should TSOs be permitted to reserve long-term contracts for flexible gas and/ or associated capacity for this purpose?

The target model should be for TSOs to procure balancing services on the same wholesale market where network users are simultaneously procuring/selling gas for their own portfolios. However, as mentioned above, this could include a mechanism for the TSO to specify certain characteristics for gas that it may need to procure on a case by case basis e.g. by location or for a set duration.

As part of interim steps TSOs may use a balancing platform and procure flexible gas through term contracts, wherever possible via competitive tender and for a short term duration.

Question 29: In your view is it possible in your market to reduce TSOs' reliance on long-term products? If so, how may this be best achieved?

Individual member companies are best placed to comment on this in detail. As a general remark, Eurogas believes that effective implementation of the 3rd Package should facilitate an improvement in wholesale market liquidity which would enable most TSOs to reduce reliance on long-term products to a minimum.

IMBALANCE CHARGES

Question 30: Do you agree with our assessment of the policy options?

The IIA identifies three policy options for imbalance charges: 1) charges based on efficiently incurred TSO procurement costs on market-based mechanisms 2) charges based on an administered price and 3) charges based on a cost proxy (e.g. basket of wholesale prices).

Eurogas broadly agrees with the assessment of the policy options.

Eurogas believes that imbalance charges should ideally be based on marginal prices in the local balancing market.

Question 31: Do you agree that methods for calculating imbalance charges should be harmonised? If so please explain what the benefits may be. If not, please explain why not.

Eurogas has a preference for imbalance charges being based on marginal prices in the local balancing market. Setting out an optimal target model such as this should be the main objective with practical interim steps. This will also naturally lead to a degree of harmonisation, which has the benefits of reducing complexity and making it easier for market participants to operate in multiple markets.

Question 32: What are your views of the target model? In particular, please provide your views on:

- **Whether an imbalance charge should be applied when TSOs do not take balancing actions;**
- **What the imbalance charge should be based on, if it is applied when the TSO has not taken a balancing action, whether imbalance charges should be dual or single priced;**
- **Whether imbalance charges should be based on the marginal price.**

Eurogas generally agrees with the target model, in particular for imbalance charges to be based on the marginal price. In an end of day cash out model, an imbalance charge will need to be applied even if the TSO has not take balancing actions.

Question 33: What would be the costs and benefits of implementing your preferred options in your Member State?

Individual member companies are best placed to answer this question as they will have better information on the possible costs and benefits of implementation in the particular markets in which they are active.

Question 34: What are your views on the interim steps in the document?

Eurogas agrees that the option of applying interim steps will be needed in several markets and welcomes the inclusion of this in the document.

CROSS-BORDER COOPERATION

Question 35: Are there any other relevant policy options on cross-border cooperation that should have been included in this section?

See answer to 36.

Question 36: Do you agree with our assessment of the policy options in this section?

Eurogas believes that the main policy options have been highlighted, but considerably more analysis needs to be carried out before detailed mandatory recommendations are included in the Framework Guideline. As a long-term objective Eurogas supports the merging of balancing zones, including across one or more Member States, where this would support the competitive gas market.

Eurogas would support the inclusion of requirements such as 9.3, which would require ENTSO-G to regularly identify possible mergers of balancing zones. However, practically it may be premature to require detailed rules to be set out in the Network Code at this stage, as is suggested in paragraphs 9.4 and 9.5.

Question 37: Are Operational Balancing Accounts (OBAs) useful to deal with steering differences? Should the network code make it mandatory on TSOs to put in place OBAs?

OBAs should be put in place to manage steering differences, but should not extend to residual balancing unless the networks or market areas covered by the OBA are part of a single balancing zone.