

## *GTE comments*

### ERREG Consultation on "Guidelines for Good Practices for Gas Balancing-GGPGB"

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#### **Preliminary Remarks - Importance of the GGPGB**

1. GTE<sup>1</sup> welcomes the opportunity to submit its views on the proposals set out in the consultation on Guidelines for Good Practice for Gas Balancing (GGPGB). GTE acknowledges the importance of providing a set of balancing principles and supports the principle of establishing a set of Guidelines for Good Practice for Gas Balancing (GGPGB) in close cooperation with the industry.
2. The issue of balancing is particularly important from a TSO perspective in that the gas industry is affected by an increasing gas demand volatility and unpredictability coupled with the persistence of a certain number of constraints and rigidities that drive a growing demand for flexibility tools. GTE notes that the GGPGB should be consistent with the further development of the flexibility tools market.
3. The factors driving gas flows volatility include the growth of gas consumption for electricity generation; the current use of Combined Cycle Gas Turbines (CCGTs) is that CCGTs will not only form base-load plants but also mid-merit and peak shaving. . The consequent transfer into the gas demand of the gas-electricity and electricity-electricity arbitrages at domestic and pan-European level. Another consideration in a liberalising market is that gas flows may become less predictable, as a consequence of shippers using market opportunities.

#### **Scope and objectives** (ref. page 3 ERREG GGPGB Consultation Paper)

4. GTE believes that the GGPGB (with its current scope) will be helpful in guiding TSOs in designing their balancing rules. In that sense the GGPGB can be seen as operational tools that are of direct use for defining the technical and commercial quality standards defined and implemented at national/TSO level. GTE seeks to understand the significance of the statement that the GGPGB represents ERREG's advice to the Commission on its interpretation of article 7 of the Gas Regulation. GTE continues to believe that the Madrid Process is the appropriate Forum to make voluntary agreements, such as the GGPGB, between stakeholders to enhance the development of a fully operational internal market. The benefit of the Madrid Process is that all the stakeholders are represented. In particular, GTE wishes to proactively cooperate by bringing forward its expertise in the further development of the GGPGB.
5. GTE agrees that the TSOs have an important role to play in designing the gas balancing mechanisms, in order to help ensure the safe, secure and efficient operation of the network.
6. In particular, GTE believes that balancing rules must be based on objective criteria and reflect genuine system needs taking into account the resources available to the transmission system operator. These objective criteria and genuine system needs have to be determined by performing a cost-benefit analysis and a risk assessment of the safe, reliable and economic operation of a gas transmission system, for which the TSO is responsible. The basis for this assessment will be the physical

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<sup>1</sup> GTE - Gas Transmission Europe - is focused on transmission related activities and represents the TSOs in 26 countries. GTE is one of the three columns of GIE - Gas Infrastructure Europe - the European association of the natural gas infrastructure industry, the other columns being GSE - Gas Storage Europe - and GLE - Gas LNG Europe.

properties of the transmission system, contractual agreements and Security of Supply. Balancing rules should also be designed to facilitate as much as possible effective competition and market participation.

7. Measures in the form of balancing rules that take into account resources available to the TSOs are designed to mitigate the risks that are identified by the TSOs. Where representatives of stakeholders agree to disregard a certain risk, the responsibility of the occurrence of the event associated to that risk is shared and consequences be borne by all stakeholders. In this way balancing rules are designed in a fair, non-discriminatory and transparent way, to which both TSO and system users are committed.
8. The importance of balancing rules for transmission is major and therefore the decisions on the design of balancing rules should be made on the national level and for each TSO separately.
9. GTE questions the feasibility of the 1 January 2007 deadline for the implementation of the provisions of the GGPG. In order to implement the proposals, legal changes on the national level as well as complex investments in information, measurement and telecommunication systems may be necessary. The analysis of these aspects needs to be the next step.

**Required characteristics of a balancing regime** (ref. Paragraphs 1.1 – 1.5 ERGEG GGPG Consultation Paper)

10. GTE suggests to bring paragraph 1.2 in line with Article 7.1 of the regulation and skip the phrases “market based”, “and market needs” and “and to the network users”. For a view on how to determine the objective criteria and genuine system needs see paragraph 6 of this document.

**Balancing period** (ref. Paragraphs 1.6 – 1.9 ERGEG GGPG Consultation Paper)

11. There is a multitude of factors – such as system requirements and cross-subsidisation– that are relevant for the design of balancing rules, factors that are specific to a certain transmission system. GTE broadly agrees on the list provided at point 1.6 of the consultation document.
12. GTE supports daily balancing with – where appropriate - intra-day constraints, for example on an hourly basis. Where the risks of a pure daily regime and the costs of mitigation outweigh the benefits of daily balancing, additional rules –for example hourly constraints or scheduling rules– need to be put in place. Intra-day constraints may be needed because of genuine system requirements, possible cross subsidization effects and in order to reduce possible misuse of balancing regimes; cases may be transit, CCGT and flow profiles at system entry points.
13. GTE suggests to amend the point 1.7 from “...unless there are technical/operational reasons that..” into “... unless there are technical/operational and/or economic reasons that...”.
14. GTE supports the development of market based mechanisms for balancing such as flexibility markets and intra-day spot markets, as this effectively targets costs towards the network users responsible for the actual imbalances.
15. Where genuine system needs and market liquidity do not allow for market based balancing mechanisms TSO must be able to acquire its flexibility tools by contracting with system users.

16. The use of cumulative imbalances can be an effective way to introduce tolerances possible in combination with the use of a balancing period. However, GTE believes that there are risks associated with a balancing system that uses only cumulative imbalances with respect to the development of a liquid balancing market, because then network users will certainly have fewer incentives to use the balancing market to settle imbalances; imbalances created in one day can be compensated on another.

**Imbalance and Penalty Charges** (ref. Paragraphs 1.10 – 1.17 ERGEG GGPGGB Consultation Paper)

17. GTE notes that the GGPGGB acknowledge the possibility that not all balancing mechanisms are currently market based, and subsequently use tolerance services. GTE notes that as the balancing mechanism develops into a market based mechanism, the inherent trade off between tolerances and the market mechanism may become more apparent and would ultimately lead to a situation where the market provides for balancing gas, and the use of tolerances is minimized. GTE repeats its support here for the development of such market based mechanisms.
18. With regard to bullet 1.14 on provisional allocation GTE notes, that if information flows are a problem, there will also be a problem with providing provisional allocations. Provisional allocations can only be used if shippers commit themselves to paying imbalance charges based on this provisional data. Finally, a system of reconciliation –to settle the difference between the provisional allocations and the final ones- has to be put in place.

**Trading & Pooling of imbalances positions** (ref. Paragraphs 1.18 – 1.20 ERGEG GGPGGB Consultation Paper)

19. GTE recommends the use of ex-ante pooling & trading of imbalance positions that gives appropriate incentives to shippers to balance their positions within the relevant balancing period. Ex-post trading of imbalances however, does not reduce the costs of residual balancing actions; introducing ex post trading will lead either to a situation in which the charges for imbalances increase or the TSO cannot recover its costs. In addition GTE is concerned that ex-post trading potentially will increase the need for balancing actions and about the adverse effects of such pooling on the development of liquid balancing markets.
20. In the case that tolerance services would be allowed in a transitional period, GTE agrees with tolerance levels designed taking into account seasonality and actual technical capabilities of the transmission system (paragraphs 1.19-1.20).

**Market information and transparency of balancing arrangements** (ref. Paragraphs 1.22 – 1.25 ERGEG GGPGGB Consultation Paper)

21. Information on the actual entry and exit flows is essential in order to permit network users to balance their own positions; consequently, it plays an essential role in the correct development of market-based mechanisms of balancing.
22. The type of information needed by system users to balance their portfolios in conformity to the balancing rules should be consistent with the basic features of these balancing rules, such as the balancing period. Once the information needed is determined, the next step is to identify the information provider. The possibilities range from a solution where the TSO has the role of “Informative-hub” to

the opposite end, which could be defined as “decentralized solution”, i.e. every system user has the task to recover the information necessary for running its respective activity. Following the characteristics of every system and the related consideration of economical efficiency, intermediate results between the two cited extreme can be found. In any case, where a TSO has available all or part of the information needed for balancing a user’s portfolio the TSO will provide this information to that system user.

23. Some Member States have assigned one or more functions typically attributed to a TSO to other entities or bodies; some of these functions are related to the creation of information needed to calculate the balancing status of network users. If TSOs have to inform network users on their balancing status, these other entities and bodies must supply the TSO with the relevant information; this information should be accurate and supplied in a timely manner. GTE thinks that this obligation should be added to bullets 1.22 and/or 1.23.
24. Member states can and have assigned functions typically attributed to a TSO to other entities or bodies, in compliance with EU Directive 2003/55. As a result of these assignments, TSOs may not have access to all relevant information –e.g. specific meter readings or allocations– necessary to give individual network user its balancing status in a timely manner. The entities or bodies that have the necessary information should provide this information in a meaningful, clear and timely manner and in an easy accessible way. This is required both for providing information on balancing status and for provisional allocations for imbalance and penalty charges.
25. GTE underlines that TSOs cannot always have more accurate information on the actual entry and exit flows of shippers and within-day balance positions than shippers. Each customer has its own specific intraday profile. TSOs know only the value of nomination the for relevant balancing period. On the other hand, shippers have contracts with their customers and suppliers and by this way they can know their inputs-offtakes profiles, having possibilities to take the most accurate information on its balance position within the relevant balance period.
26. Where the TSO takes responsibility to provide information it has no access to, TSO will only do so if the conditions are set for the TSO to gain access to this information. This includes adequate incentives for investments (metering and ICT technologies, telemetry and connective platform) and system incentives to other gas undertakings and system users to make the necessary information available. Without these measures TSOs cannot be held responsible for providing information by processing primary data produced by third parties.
27. Attention should be paid to potential problems linked to confidentiality and the provision of information by TSOs to third parties.

**Balancing Costs and Incentives for TSO** (ref. Paragraphs 1.26 – 1.30 ERGEG GGPGGB Consultation Paper)

28. GTE proposes to adapt the wording of bullet 1.26 in line with the text of Article 7 of the Regulation (EC) 1775/2005: “Imbalance charges shall be cost-reflective to the extent possible, [..]”
29. In bullets 1.27 the verb “permit” is used –“..TSO’s balancing regime permits the acceptance of bids and offers..”. GTE has interpreted this as “..TSO’s genuine system needs and the safe and secure operation allow for accepting bids and offers.. “. An analogues remark goes for bullet 1.28. Local bal-

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ancing issues, physical properties of the transmission system and market liquidity are aspects that determine whether or not the TSO is permitted to accept bids and offers.

30. GTE proposes to introduce a system of incentives based on clear targets for the TSOs balancing performance. This would allow to find an optimum trade-off between the goal of safe and economic operation of the network on the one hand and to minimize the TSOs' costs for residual balancing on the other. In this case, the incentives for the TSOs aim at improving the efficiency of the system as a whole by stimulating network operator's balancing actions in a direction aligned to network users needs.

**Role and responsibilities of TSOs** (ref. Paragraphs 1.26 – 1.30 ERGEG GGPGC Consultation Paper)

31. TSO role in designing and managing Balancing Rules (Paragraph 3.1): TSOs should have a leading role in designing balancing rules. GTE believes that the version of the Balancing Rules that enter into force should be designed through an appropriate consultation process with stakeholders and if applicable validated by the relevant authority.
32. TSO role in providing information (Paragraph 3.4): in addition to what was reported at point 2.4, GTE believes that the content of annex 2 is too wide. It goes far beyond the possibility of TSOs of providing such information based on the current configuration of the gas industry in the various EU countries (especially as far as meter ownership and regulatory/legislative frameworks are concerned).
33. Role of other bodies and entities in providing information As stated before other entities or bodies may have roles and responsibilities in providing information on for example the balancing status. Cf. bullet 24 of this document.
34. GTE would like to note that part of the information targeted to individual users (such as forecast and actual demands and forecast and actual weather information) should be made available to the whole market while part of the information to be given to the market could infringe the confidentiality of single network users.