



**EREG Public Consultation on
Guidelines of Good Practice for
Gas Balancing (GGPGB) -
Evaluation of the Comments Received**

**Ref: E06-GFG-17-04a
6 December 2006**

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1. Introduction

This document provides a summary and explanation of the main changes that have been made to the GGPGB since an initial version was published for consultation in April 2006.

The Guidelines of Good Practice for Gas Balancing (GGPGB) of 6th December 2006 represents ERGEG's (final) advice to the European Commission on its interpretation of Article 7 of the Gas Regulation¹.

2. Open and transparent consultation

ERGEG has developed the GGPGB through extensive and transparent consultation with market participants:

- In July 2005, ERGEG published the "Gas Balancing paper" for consultation. The consultation set out the key issues associated with gas balancing and requested comments on proposed changes to the CEER high level gas balancing principles². This paper also proposed, based on the high level principles, the development of more detailed Guidelines for Good Practice for Gas Balancing (GGPGB).
- A conclusions document, with revised principles was published in April 2006.
- A draft version of the GGPGB was published for consultation alongside the final high level gas balancing principles in April 2006³.

3. Summary and response: General Comments received from respondents

General

One respondent indicated in their response its preference for a market based balancing mechanism and suggested that this should be included as an objective in the GGPGB. However, the Gas Regulation does not state or require that gas balancing mechanisms need to be market based (either now or in the future). Whilst a market based system can provide

¹ Regulation (EC) No 1775/2005 of the European Parliament and of the Council of 28 September 2005 on conditions for access to the natural gas transmission networks.

² 16 responses were received to the July 2005 consultation.

³ 12 responses were received to the draft GGPGB and all non-confidential ones are available on the ERGEG website:

http://www.ergreg.org/portal/page/portal/EREGEG_HOME/EREGEG_PC/ARCHIVE1/GGP%20for%20Gas%20Balancing

benefits in terms of transparency and management of risk it is important that the GGPGB remain consistent with the relevant legislative requirements.

Another respondent suggested that the guidelines should refer to a spot market, which it believed is a pre-requisite for a well functioning market. Spot markets for gas do not exist in most EU Member States therefore it would not be appropriate for the GGPGB to reference them at this stage.

Balancing period

Four respondents reiterated their support for daily balancing. The July 2005 consultation paper indicated that there was no single answer for the appropriate balancing period. ERGEG considers that daily balancing is preferable unless there are technical/operational reasons that mean that some other balancing period is necessary to ensure that system can be balanced and/or for safety/security reasons. As such, it would not be appropriate for the GGPGB to rule out anything but daily balancing.

Penalty Charges

Respondents had different views over whether penalty charges should be strictly cost related or include some level of incentivisation. The wording in paragraph 1.17 of the GGPGB allows for both methodologies and reflects Article 7 of the Gas Regulation.

Trading and pooling of imbalance positions

Five respondents raised concerns about the pooling of imbalances. Four respondents felt that the section lacked definition and two were concerned that such a practice would undermine the incentives provided to market participants to balance their portfolios.

Trading and pooling of imbalance positions can provide market participant with additional ability to manage the level of risk they are exposed on an efficient basis. This may be particularly important where access to flexibility tools and services are limited. Nonetheless, it is recognised that allowing trading and pooling of imbalance positions should not impinge the incentives provided to market participants to manage their imbalance positions efficiently or on the safety and security of the network. An appropriate change has been made to the GGPGB to reflect this position.

Tolerance Levels and Tolerance Services

Some respondents objected to the inclusion of tolerance levels in the guidelines.

This inclusion not only reflects the Gas Regulation 1775/2005 but also the needs of markets that are as yet not developed enough to provide the flexibility tools and services required by

network users to effectively manage their imbalances. Tolerance levels can compensate for this lack of flexibility.

Transparency

A number of respondents commented that the transparency section and Annex 2 was not detailed enough. Another respondent suggested that it was too detailed. One respondent also suggested that information release should be consistent between all TSOs.

It is important that **minimum requirements** for the provision of information through balancing mechanisms are specified in the GGPGB. It would not be appropriate to specify the information requirements in more detail at this stage. This is because balancing mechanisms and the terminology used are not the same across all Member States. It is important therefore to retain flexibility whilst identifying the minimum requirements for information provision. The GGPGB requires that TSOs publish the required information based on the balancing regime in place and that this must be approved by the National Regulatory Authority (NRA) in consultation with network users.

As part of ERGEG's work on monitoring implementation of the GGPGB it will look at the information provided by TSOs. If there are examples of best practice then ERGEG will consider whether they should be applied in all Member States by amending the GGPGB. Similarly, if the level of consistency in information provided (in terms of the level of detail, quality and timeliness) is not sufficient (and cannot be justified by differences in balancing mechanisms) then ERGEG will consider making changes to the GGPGB to provide greater definition.

Another area where a few respondents expressed concern was about the rule of less than three in relation to the provision of information. Respondents were concerned that TSOs would use this clause in order to restrict the amount of information provided to the market. However, the rule of less than three does not automatically exempt TSOs from providing information and it must provide justification to the NRA about non-publication of gas balancing information.

Two other respondents requested that Annex 2 include requirements for the provision of information on linepack. Given that linepack is not available on all networks ERGEG considers that this should be looked at on a case by case basis as part of the development of the information template by TSOs/NRAs in consultation with users. Consideration would need to be given to the requirement to balance transparency and commercial confidentiality.

Harmonisation

There was support among respondents for some harmonisation of balancing regimes. The requirement in the GGPGB reflects those of the Gas Regulation by providing some further guidance on how best to take forward harmonisation. The issue of harmonisation of gas balancing mechanisms may also be looked at as part of ERGEG's Gas Regional Initiative (www.ergreg.org).

4. Summary of text changes that have been made to the GGPGB

The following changes to the text have been made following specific comments received from respondents. Where these changes are substantive, ERGEG has provided reasons for the change. In most cases, however, the changes do not substantially alter the substance of the guidelines but instead, provide greater clarity. A number of other minor changes have been made to the text and these are highlighted in the attached marked up revision of the GGPGB.

Change (underlined words inserted)

Scope and objective:

Paragraph 1 - Insert "(which came into force on 1 July 2006)"

Change (underlined words inserted)

Scope and objective:

Paragraph 1 - Insert "and" between "networks" and "includes"

Change (underlined words inserted)

Scope and objective:

Paragraph 2/2nd sentence – Replace "in" with "on".

Change (underlined words inserted)

Scope and objective:

Paragraph 2/3rd sentence - Insert "and" between "networks" and "includes"

Change (underlined words inserted)

Scope and objective:

Paragraph 2/3rd sentence – Move “and are based on objective criteria” and insert between “rules” and “a designed”.

Change (underlined words inserted)

Scope and objective:

Paragraph 1 - Insert “and” between “networks” and “includes”

Change (underlined words inserted)

1.3 Insert “and any subsequent changes”.

This is not a change as such just a condensing of the guidelines, paragraph 1.35 allowed for market participants to be consulted if changes are made to balancing guidelines.

Change (underlined words inserted)

1.6 Delete “undue” before barriers throughout the bullets in this paragraph.

The removal of this word provides greater clarity.

Change (underlined words inserted)

1.6, replace “can” with “should generally”

Change (underlined words inserted)

1.6 Insert at the end of the 2nd sentence “and decisions should be published with supporting information”

Change (underlined words inserted)

1.6 Reword 1st bullet :

“Whether consumers’ daily offtake profile, has on average, a broadly recurrent pattern”

Change (underlined words inserted)

1.6 Reword 3rd bullet :

“The interaction with balancing periods in connected gas systems to ensure that no undue barriers to cross trade and flows of gas are created”.

Change (underlined words inserted)

1.6 Insert an additional bullet at 2

“Whether the arrangements would create any undue barriers to entry – particularly for new (and smaller) market entrants”

Change (underlined words inserted)

1.6 Replace “frequency of balance” in the 8th bullet with “balancing period”

Change (underlined words inserted)

1.7 Delete last sentence.

Now included as a bullet in 1.6.

Change (underlined words inserted)

1.8 Reword as follows:

“As an alternative, or in addition to balancing systems based on a balancing period, it also possible to use a system where there is no **pre-defined** balancing period. As long as the cumulative imbalance position of a network user is kept within specified tolerance levels there is no settlement procedure and therefore balancing period.

Change (underlined words inserted)

1.12 Insert “after it has been approved by the relevant authority”

Change (underlined words inserted)

1.13 Insert “all” before “network users”.

Change (underlined words inserted)

1.15 Insert “Provisional allocations will be settled as soon as possible”.

Reason for change

It is important where information is not made available to network users in order for them to manage their imbalances efficiently, and provisional allocations are used that these are settled as soon as possible.

Change (underlined words inserted)

1.15 Insert at the end of the paragraph new sentence “After the expiry of the settlement period for final allocations no penalty charges should be charged by the TSO”.

Reason for change

Change (underlined words inserted)

1.19 Insert "and, where appropriate, adjacent transmission systems" at the end of the sentence.

Change (underlined words inserted)

1.18 Amend paragraph as follows:

"In the absence of a well functioning/liquid within day market, allowing market participants to manage their imbalance positions efficiently, the TSO should have or should allow systems to be put in place to facilitate the pooling and trading of imbalance positions. The period of time allowed for pooling and trading of imbalance positions needs to be consistent with that allowed for provisional allocations made by the TSO. The provision of such systems should not in anyway undermine the primary responsibility of network users to efficiently manage their inputs and offtakes over the relevant period (according to the rules and incentives of the respective balancing regime) and/or the safe, secure and economic operation of the network.

Change (underlined words inserted)

1.19 Insert "and, where appropriate, adjacent transmission systems" at the end of the sentence.

Change (underlined words inserted)

1.22 Insert available "directly to network users or to the" before public in the first sentence.

Reason for change

This has been inserted to clarify that not all the information in Annex 2 has to be made available to the public, some is for network users only.

Change (underlined words inserted)

1.26 Replace “neutral” with “reflective”

Change (underlined words inserted)

1.27 Insert “the purposes of residual” before “balancing gas”.

Change (underlined words inserted)

1.28 Insert “ TSOs should provide the gas in other ways according to transparent non-discriminatory procedures and delete “ TSOs should contract for gas in other ways”.

Reason for change

This change is intended to ensure that the mechanism used by the TSO is transparent and non-discriminatory.

Change (underlined words inserted)

1.31 Insert “(and at least make compatible)” into the first sentence.

Change (underlined words inserted)

1.32 Shall be revised as follows :

“Where balancing regimes remain different between interconnected networks, a report shall be produced to identify the key areas of difference and their impact, including on trade and the efficient operation of the market. In addition, where appropriate, an action plan shall be produced between the TSOs to identify the development of measures to ensure greater harmonisation (and compatibility) of balancing regimes and their structures.”

Change

1.35 Delete paragraph as the requirement to consult on any changes is now included in 1.3.

Change (underlined words inserted)

Annex 1: Definitions

Delete “relevant authority” definition.

Reason for change

This definition is no longer required.

Change (underlined words inserted)

Annex 2: Market Information and transparency of balancing arrangements

Insert “Individual” before “Forecast demands” for network users.

Change (underlined words inserted)

Annex 2: Market Information and transparency of balancing arrangements

Insert “Aggregate” before “Forecast demands” for the market.

Change (underlined words inserted)

Annex 2: Market Information and transparency of balancing arrangements

Insert “Balancing” before “contract information”.

5. Summary of comments received that have not been incorporated in the revised GGPGB

Listed below are a number of proposed changes from respondents that ERGEG considers are not appropriate to make.

Proposed Change

1.3 Delete “(unless the balancing rules are already specified in national legislation where this requirement would not be relevant)”.

ERGEG view

It is necessary to include this to reflect the differences in legislative arrangements between Member States.

Proposed Change

1.6 Delete 3rd bullet.

ERGEG View ERGEG consider that this criterion is a relevant consideration in deciding on the appropriate balancing period.

Proposed Change

1.7 Delete “unless a different period is specified in national law”.

ERGEG view This has been not been deleted as it reflects the differences in legislative arrangements across Member States.

Proposed Change

1.10 Amend 2nd sentence. “Imbalance charges shall be based on efficiently incurred costs [costs must correspond to the costs the TSO actually incurs for its balancing service provision and additional penalty charges cannot be justified as these are not cost reflective.]”

EREGEG view The proposed change does not reflect the wording of other parts of the guidelines or the Gas regulation.

Proposed Change

1.31 Insert “at a Pan-European level” between balancing regimes and “and streamline”

EREGEG view This extends beyond Member States and as such is not appropriate.

Proposed Change

1.35 Include “subject to the approval by the NRA and be” after the TSO should in the first line.

EREGEG view Not all NRAs or relevant national authorities approve amendments to balancing services.

Proposed Change

2. Include a new paragraph 2.2 “ The NRA shall approve the balancing regime proposed by the TSO including any additional or special conditions applicable for any of its affiliated networks”.

EREGEG view This is mentioned earlier in the guidelines and the applicability of changes in the Guidelines to affiliated or vertically integrated companies is addressed by 1.4.

Proposed change

3.4 Insert “linepack data “ and add “This information must correspond with the balancing period”.

EREGEG view Linepack information has not been included as it is not available on all networks. ERGEG considers that this should be looked at on a case by case basis as part of the development of the information template by TSOs/NRAs in consultation with users.

Proposed Change

4.3 Insert new paragraph : “National incumbents/ dominant supply participants must participate in the balancing market and offer flexibility to the market”

ERGEG view This goes beyond the requirements in the Gas Regulation.