



EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR ENERGY

Directorate B - Security of supply, Energy markets & Networks
The Director

Brussels, 06 AOUT 2010
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ERGEG
Lord John Mogg
President
Rue le Titien 28
1000 Brussels

Subject: Invitation to draft a pilot framework guideline on gas balancing rules

Dear Lord Mogg,

Dear John,

At the 16th Madrid Forum it was concluded that in the interim period to third package application, ERGEG and ENTSOG should commence work on a pilot framework guideline and network code on gas capacity allocation. At the 17th Madrid Forum, it was agreed that this approach should be extended and that ERGEG should work on a pilot framework guideline for gas balancing. This work should be presented at the 18th Madrid Forum.

In the context of this new pilot project, I therefore invite ERGEG to assume the role assigned to the Agency under Article 6 (2) of EC Regulation 715/2009 ('Gas Regulation') and submit to the Commission a non-binding framework guideline on gas balancing rules in accordance with Article 8(6)(j) of the Gas Regulation within six months of receipt of this notification.

In developing the gas balancing framework guideline, I would ask you to apply the procedures and obligations as defined in the Gas Regulation as if they were already binding and as if you were the Agency, in particular with regard to transparency and consultation obligations.

The purpose of the pilot framework guideline and network code on gas balancing shall be to enhance the functioning of European gas market by setting the basis for market-based balancing rules as required under Article 21 of the Gas Regulation. The level of harmonisation shall be such to facilitate the creation of cross-border balancing zones.

The procurement and selling of balancing gas by TSOs, the setting of imbalance charges for network users, and the interaction among network users shall follow market rules. Balancing rules shall make use of, interact with, and stimulate gas markets. There shall be no separate arrangements for gas traded for balancing and gas traded for other purposes. The framework guideline shall cover rules on nomination procedure, insofar as these are necessary to allow shippers to take corrective action during the respective

balancing period and insofar as these rules are not already sufficiently covered by other network codes or by guidelines annexed to the Gas Regulation.

The framework guidelines should also identify objective reference criteria for the transitional stages needed where within a given balancing zone the necessary conditions for relying autonomously on a set of market- based balancing rules are not yet met.

On 14 July 2010, my staff met with representatives from ERGEG and ENTSOG in order to define more clearly the scope of the framework guideline on gas balancing. It was agreed that the framework guideline should in particular provide guidance on:

- Criteria for the network code to determine one harmonised settlement period for the cash settlement of network users' imbalances, including the definition of the European gas day;
- principles for TSO's procurement and selling of balancing services needed to operate and balance the gas transmission system;
- the basis for the calculation of imbalance charges taking into account the requirements of Article 21 (3) of the Gas Regulation for cost-reflectivity (to the extent possible) and for providing appropriate incentives on network users to balance their input and off-take of gas, leaving a residual balancing role to the TSO;
- information required by network users to take timely action to manage their risks and opportunities, including guidance on the provision of information by both network users and connected infrastructure operators to the TSO, where further information than that defined in the existing legal requirement may be needed.
- the scope and extent of inter-TSO cooperation, including operational balancing between TSOs, to further integrate markets cross-border.

The pilot framework guideline will in no way prejudice the work of the Agency and may be subject to review in order to achieve compatibility with an overall gas market model still under discussion.

I will send a copy of this letter to all participants to the Madrid Forum, in order to apply the high standards for transparency the Gas Regulation requires from the Agency and ENTSOG to the Commission itself.

Best regards,



Heinz Hilbrecht

c.c.: ENTSOG, Madrid Forum Participants, Mr Pototschnig, Mr Repa