

## Pilot Framework Guideline on gas balancing rules

GDF SUEZ welcomes the possibility offered by ERGEG to comment its Draft Pilot Framework Guideline on gas balancing rules and appreciates the high quality of the documents, especially the initial impact assessment.

GDF SUEZ supports in general the analysis, the objectives and the target model and interim steps described in the document.

The following response reflects the views of GDF SUEZ as network user.

### **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?

GDF SUEZ agrees that the main problems are indeed identified in the problem identification chapter but would like to point out that lack of harmonization in nomination procedures is also a main barrier encountered by shippers to balance their portfolios.

Additional issues should be addressed, such as:

- 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 DSOs;
- 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.

GDF SUEZ would also like to add that in some countries, the responsible party for balancing is not the TSO but the SSO, which means shippers cannot supply customers without having access to storage capacities.

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?

GDF SUEZ agrees on the scope and also on the objectives but is of the opinion that another objective of this pilot framework guideline should also be to improve the security of gas supply within the EU and to develop balancing rules that contribute to this objective.

Moreover, another objective should be to achieve a better consistency between gas and power market, especially with regard to the nomination procedures.

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?

GDF SUEZ thinks that the European target model should be described in detail in order to avoid too many differences between national balancing rules, and to achieve a better harmonization.

If national balancing rules are not consistent with the European network code, they must be changed.

**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?**

The network code should take into account the current situations, e.g. countries where there is not yet a developed and liquid wholesale market, difficulties to establish within day allocations of good quality. As it could take several years to reach the target model, interim steps are needed in order to improve the current situation as soon as possible, but all interim steps should be consistent with the target model.

**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?**

The current balancing regimes should be improved as soon as possible and a period of maximum 12 months should be sufficient for TSOs and NRAs to implement the changes adopted in the network code.

**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?**

GDF SUEZ considers that the definition and harmonization of nomination procedures are a key issue to improve balancing between adjacent areas; this issue should be developed and described in detail in the pilot framework guideline. The document should in particular contain binding provisions for the harmonization and definition of the gas day, the schedule for nomination during the day, the unit used for nomination. These questions may be also addressed in another network code, such as the one on interoperability rules, but under the condition that their adoption would not be delayed and would remain consistent with the implementation scheduled for the Code on balancing.

**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?**

GDF SUEZ thinks that the Article 21 is well reflected in the Framework Guideline.

## **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?**

GDF SUEZ supports the idea to have a better harmonization within Europe of the split of balancing responsibilities between TSOs (i.e. the entity responsible for keeping the system in balance) and network users.

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

In GDF SUEZ's opinion, the role of TSOs in the target model must be limited to balance the network when there is residual imbalance, unsolved by the shippers. TSOs and NRAs must also encourage the development of liquid within-day markets, and make the access to flexibility resources (as linepack, underground storages...) easier.

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 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?

GDF SUEZ does not support the idea to impose within-day constraints on network users : within-days imbalances must be solved, in the target model, via market-based mechanisms, as for example by creating special products in the market to cover TSOs needs (hourly products or products with a specific delivery point). The corresponding charges must be paid by the users that have caused these within-days imbalances.

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

As long as TSOs are not able to provide shippers with timely and reliable information on the status of their portfolio, the use of pre-determined off-take profiles could be a first and interim step. These pre-determined off-take profiles must be determined on the basis of all relevant information and should be representative for the real consumption of the end-users.

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

If gas networks have a linepack capacity which is higher than the needs to balance the system within the day, TSOs should have the option to sell the excess of flexibility to shippers as they are in the best position to monetize it. In case of insufficient liquidity on the wholesale market and subject to NRAs' approval, this extra-flexibility should be sold preferably to network users that uppermost need this flexibility, i.e. shippers that supply to end users.

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

There is in the target model no need to give shippers tolerances as they will have detailed and frequent information on their portfolio status and possibilities to manage it via a liquid within-day market.

Tolerances should be provided only as an interim step, especially when some preconditions are not fulfilled:

- TSOs are able to supply shippers with sufficient information to balance their portfolio, as detailed in the revised Article 21 and Chapter 3 of Annex 1 to Regulation (EC) No 715/2009,
- TSOs buy all the balancing gas via either the wholesale market or via a balancing platform.

Moreover, GDF SUEZ insists that these tolerances should not be allocated according to the capacity portfolio but that shippers should have the choice to book the quantity of tolerances they need.

### **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?

If TSOs comply with the requirements set out in the revised Article 21 and Chapter 3 of Annex 1 to Regulation (EC) No 715/2009, this will be a great improvement compared to the current situation and shippers would be in a much better position to balance their portfolios.

GDF SUEZ would like also to highlight the role of the DSOs in this domain, as they are supplying allocation data on the distribution exit points for which it is often a real challenge to calculate these figures on a hourly basis. Regulators should encourage and develop the relationship between TSOs and DSOs in order to ensure that the requirements set out in the Regulation will be fulfilled.

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

The main benefit is that shippers can timely mobilize their flexibility resources and take the necessary actions in order to be able to respond to the needs of the TSO for balancing gas.

A possible risk of higher transparency is that, when the TSOs announces that the system is long, all shippers reduce their supply and that abruptly, the system becomes short ; however , this event should not occur if there is an appropriate incentive for the shippers who are helping the system.

### **Balancing periods**

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

GDFSUEZ agrees with the assessment of the policy options.

**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?**

GDF SUEZ agrees that the three policy options proposed in the Framework Guideline are the three relevant ones.

**Question 19: Is it necessary to harmonize 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.

GDF SUEZ supports the harmonization of balancing periods as it would definitely be an improvement in order to create a single gas market in Europe : this will favor the exchanges of within-day flexibilities between neighboring balancing zones/countries and enhance liquidity on the within day (balancing) markets.

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

GDF SUEZ prefers daily balancing as the target option as this is the most simple model which also offers lower barriers for new entrants. However, for countries where there is a scarcity of flexibility resources, the implementation of a daily balancing could be costly and take time. Therefore, this cost should be assessed and compared with the benefits expected for the end-users. If the cost/benefit balance is not positive, then a hybrid model might be preferable. In this respect and provided this cost/benefit analysis is regularly reviewed, a cumulative system, like the one that will be implemented by GTS in April 2011, is acceptable.

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

GDF SUEZ agrees with the target model presented in the document and supports the daily balancing as the preferred model.

In case there are within-day imbalances (for example lack of gas during the peak consumption in the morning), the TSO should solve the problem by buying/selling gas in the wholesale market with specific within-day products. The corresponding cost should then be paid by the grid users that have caused this imbalance.

## **TSO buying and selling of flexible gas and balancing services**

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

GDF SUEZ agrees with the assessment of the policy options presented in Draft Framework Guideline.

**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?**

GDF SUEZ supports the target model presented in the Draft Framework Guideline, where the TSO is covering its balancing needs via the wholesale market and not by long term contracts. The main benefits of this model is the enhanced efficiency and its positive impact on the market liquidity: if a TSO is balancing the network with a long term contract he will size his contract to face the worst case but most of the time, he will only use a part of the flexibility and the rest of the flexibility will be unused, even if it could have been monetized by shippers. It is hence more efficient that shippers own themselves the flexible resources and use them for balancing purposes when this is needed and for other (e.g. commercial) purposes if their flexibility capacity exceeds their balancing needs .

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

For countries where it is not realistic to source all the flexibility needs via a wholesale market because of a lack of liquidity, an interim step could be to start with a mix of balancing gas coming from long term contracts and the rest coming from the wholesale market and to gradually increase the part of the gas coming from the wholesale market.

**Question 27 (+ Question 28): 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?**

There is no clear interest to promote a separate balancing platform when there is a sufficiently liquid wholesale market : TSOs can then buy or sell directly on this market.

**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?**

It will be possible to reduce TSOs reliance on long term products if there is sufficient liquidity in the within-day market, which implies, among others, an easy access to flexibility sources (in the area itself or coming from adjacent networks): this can be achieved by facilitating the access and, where needed, by changing the access rules to flexibility sources, underground storage especially.

## **Imbalance Charges**

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

GDF SUEZ agrees with the assessment of the policy options.

**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.

GDF SUEZ thinks it is very important to harmonize the method for calculating imbalance charges in Europe, especially in a daily balancing target model : if one area has very high imbalances charges and the adjacent one only low imbalances charges, then shippers might do some arbitrages and might be tempted to increase their imbalances in the zone/country with low charges in order to reduce their imbalances in the first zone.

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.

In GDF SUEZ's opinion, when the TSO does not take any balancing actions, the price charged for imbalances should be the daily spot price of the concerned wholesale market, with a small uplift to incentivize shippers to be balanced. At the end of the year, the benefits made by the TSO with the uplift should be returned to the concerned market operators, in proportion of their gas volumes delivered to end-users.

When the TSO has taken a balancing action, the imbalance charges should be :

- For the shippers whose individual imbalance increases the overall imbalance of the grid : charged at the marginal price paid by the TSO to solve the imbalance,
- For the shippers whose individual imbalance decreases the overall imbalance of the grid : equal to the spot price of the wholesale market with a small uplift to incentivize shippers to be balanced.

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

If the TSO procures all the balancing gas via a long term contract, GDF SUEZ agrees that the imbalance charges should be calculated on a proxy based on the prices in the relevant wholesale markets ; however, if the TSO procures part of its gas needs via the wholesale market or a balancing platform, then the imbalance charges should be calculated either on the proxy or on the marginal price of the concerned wholesale market.

## **Cross-border cooperation**

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

As explained, a prerequisite for efficient cross border cooperation means is also a better harmonization of the standards defined by TSOs: a same definition of gas day (6h-6h), a same format of messages to exchange information (EDIGAS), a same unit for nomination, a same leadtime for renominations...

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

GDF SUEZ agrees that adjacent areas have to be merged, when this is technically possible ; when this is not possible, then shippers must have the possibility, when cross border capacity is available, to flow gas from an area to another in order to better balance their portfolios and to net opposite positions.

There is no clear interest for TSOs to act as an intermediary to facilitate cross border trading as this can be done directly by shippers. Therefore, GDF SUEZ supports the establishment of proposals for shipper-led cross-border portfolio balancing.

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?

There are already a lot of Operational Balancing Accounts in place in Europe, which allow TSOs to help each other. The network code should indeed make it mandatory to put in place OBAs and exemptions should only be granted by NRAs.