

Mrs. Una Shortall
Council of European Energy Regulators (CEER)
Rue le Titien, 28
B 1000 Bruxelles

ABN Amro Bank Amstelveen:
Account no: 54 05 15 116

20 June 2006

Dear Mrs. Shortall,

Ref: EFET response to ERGEG's draft Guidelines for Good Practice for Gas Balancing (GGPGB)

Thank you for the opportunity to provide comments on ERGEG's draft Guidelines for Good Practice for Gas Balancing (GGPGB).

In general EFET feels that the guidelines are helpful in underlining the importance of balancing regimes but we are disappointed that they repeat rather than build on EC/1775/2005 and therefore fail to establish practical and detailed explanations for what is expected of TSOs in relation to gas balancing.

EFET has previously communicated on its preferred balancing regime which should include the following features:

- Wholesale trading and an entry/exit system are pre-requisite for a market-based cash-settled balancing market with commercial incentives for users to balance their position
- The balancing period should not be shorter than it is technically possible; EFET promotes Daily Balancing
- TSOs must provide appropriate information for users to take corrective measures
- The residual system balancing is the responsibility of the TSO, whose costs that are efficiently incurred should be regulated and cash-neutral.

In particular, EFET would like to stress two main areas need clarification:

Additional transparency and availability of information

Market participants need to be able to predict the likely evolution of supply and demand affecting transportation flow, asset performance and gas prices. Without good information, the risks of making these judgements increase and the development of well functioning wholesale markets slows down or shudders to a complete stop.

- There was a wide recognition at the 11th Madrid Forum that information transparency is essential and that the provision of information must be on a non-discriminatory and user-friendly basis. There is however little evidence of real effort being made to achieve this and EFET fears that the current draft of the guidelines will have little impact in helping to improve this situation. For example the section dealing with market information and transparency of balancing arrangements relates to the very general (and in our view inadequate) information provisions in Annex 2 and for which there should be no question of genuine commercial confidentiality preventing information release. EFET has expressed serious reservations in the past about the use of the 'less-than-3 shipper rule', in this particular case it is simply irrelevant and should be deleted to avoid causing confusion.
- Related to the role of the TSO, the final paragraph suggests that there may well be existing obligations and agreements that deviate from the principle of fairness and non-discrimination regarding balancing services for all parties. Clearly this is undesirable, and the current text, that requires the position to be explained to the relevant national authority, is inadequate. At the very least the existence of such obligations and agreements with the TSO that potentially affect the market must be published, and the national regulatory authority, after consultation with other interested parties, will need to judge whether or not further information regarding the arrangements must be released to the market.

Daily and market based gas balancing

EFET advocates a consistent approach to gas balancing markets across Europe. In practice, whilst different balancing periods might be more or less workable in different physical situations, the goal of a consistent basis means in practice that Europe needs to converge on daily balancing periods with information provision and access to a balancing market on an intraday (within-day) basis. The guidelines need to state this goal very clearly. At the same time we must be realistic that reliance on a balancing market might not be possible until the market conditions enable supply competition to be established.

- Where TSOs provide balancing services (in the transition to market-based balancing) then these must be based on the recovery of only their efficiently incurred costs. Once an intraday market has been established then the TSO should be allowed to use the market for the purpose of residual balancing. Market participants must have both the information and the means to correct their imbalances during the day. The remaining imbalance can then be 'cash-out' based on market forces rather than being subject to a charge based on the TSOs' efficiently incurred costs that would have to be set administratively.
- Until balancing markets are established the TSOs costs must be monitored and audited by regulatory authorities so as to ensure they have been efficiently incurred and that they do not contain undue or unjustified penalties. Once a market based balancing cashout price is available and balancing tolerances are reduced or removed, there is no need to charge any additional penalties or charges on top of this price.

We hope that the comments in this letter alongside with our detailed mark up of the actual text will be of assistance.

Please do not hesitate to contact me, or Eric Bensaude who has led our Gas Balancing Project Group, if you have any questions about our response.

Yours sincerely



Colin Lyle
Chairman, EFET Gas Committee
European Federation of Energy Traders