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Dear Sirs

### **Gas Balancing Rules on European Gas Transmission Networks Draft Pilot Framework Guideline**

Thank you for the opportunity to respond to the above consultation document. BP wishes to make the following comments. These comments are not confidential.

All parties involved in the use and operation of a gas transmission system have a role to play in keeping that system in balance. To do this users must have access to information regarding the status of the system and their position within that system, they must also have access to a range of flexibility tools to enable them to balance their portfolios by the end of the balancing period.

BP agrees with ERGEG that the best way to balance these systems is through market-based solutions; this will see the users of the systems taking the main role in keeping the system operating within designated limits. The TSO should be the residual balancer taking action only when it sees the system moving outside the operational limits of the system. How many times this happens during a balancing period will in part depend on how the system is configured and how many users there are on the system. For shippers to play the main role they require access to system information in a timely manor. They also need to be able to see their position at any time during the gas day so that they can decide if they need to take action to balance their position and to help with the overall system balance.

### **Answers to the Consultation Questions**

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## **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?**

BP agrees that the main problems are related to cross border trading and network efficiency and these have been identified in the chapter. Nevertheless, the recommendations should also consider the level of private investment in the provision of flexibility products and should not assume that balancing relates only to regulated facilities. Additionally, some member states remain concerned about security of supply, for which they may argue for retention of products such as strategic storage and public service obligations. Where this is the case, it may be necessary to recognise these concerns and insist on appropriate transparency around how these obligations operate, and ensure they have minimum interference with the efficiency of the market.

### **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?**

BP agrees with the scope and objectives of the pilot framework guideline, with the addition of addressing Public Service Obligations, where necessary, as explained in the response to question1.

### **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?**

BP agrees that amendment of national balancing rules will be necessary. The current mismatch of balancing regimes is constraining cross-border trade and provides an apparent concern for TSOs who maintain restrictions on renomination and capacity access because of perceived negative outcomes from “arbitrage” between balancing regimes. Greater consistency could improve regional efficiency without opening up to those perceived concerns.

Differences between national characteristics and capabilities may lead to slight differences in regimes that are permissible and manageable. To that effect, a single, detailed regime may be untenable or linked to a lowest common denominator. A principle-based high-level target model based on harmonisation would be preferable.

### **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?**

This would seem a sensible proposal. The issue will be how long is given to a local market to adapt to the target model of the network code. There is a risk that you could continue to have fragmentation of the balancing markets if no timeframe is set for when markets have to be compliant. It should also be remembered that evolution towards the target may be the preferred model, with low level changes to existing regimes rather than whole scale imposition of a complete model. Therefore any approach should take this evolutionary process into account. Changes should also recognise that commercial positions and investments may have been made on certain expectations. Time must be allowed for the market to adjust and put revised arrangements in place.

### **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?**

Without knowing what the network code looks like this is a difficult question to answer. It will depend on how much work is needed to bring a balancing area up to the required level of compliance with the code. If there is a very illiquid market then the changes needed to IT

systems and processes for both the TSO and shippers may require longer than twelve months. However there will also be cases where the changes required could be introduced with little effort; in that case the lead time needed may be substantially less. What ever the timescale is the NRA needs to be monitoring the progress and challenging the TSO where progress is perceived to be slow.

**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?**

The objectives as set out in section 3 are detailed enough. It will be for ENTSO-G to interoperate them as they see fit.

**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?**

It would seem that the whole purpose of the network code is to reflect the clauses in Article 21.

**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?**

If you are going to have a balancing regime across the Member States that is consistent, then almost by default you are going to have a harmonised approach to the network user and TSO. This may take time to achieve as some balancing zones are more developed than others.

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

The whole purpose of the target model is to have a market based approach to balancing across all market areas. This naturally lends its self to shippers taking the lead where balancing is concerned. However the TSO will always be the residual balancer but the need for intervention in the market should reduce as balancing zones become increasingly harmonised. The need for the TSO to take an action should not be seen as a failure of a market based solution where that is the most efficient solution.

**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 of 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?**

Within day constrains should only be applied where there is a local situation requiring scale back of supply for to enable the system to continue to operate within its operational limits. It should not be used for within day actions. While it may be necessary to protect certain classes of users through PSOs, this should apply only in emergencies, not to the general operation of the system.

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

Where users of the system have supply portfolios that include non-daily metered sites they have to have an off-take profile to nominate against. This will continue as long as you have non-daily metered sites.

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

The use of linepack during the day by network users helps to balance their position. This is a service that is part of the system operation; it should not be seen as an additional product that TSOs can charge for. In other words it should be included within the allowed revenue.

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

If the user is provided with enough information that they are able to see their position, then there should not be a need for tolerances. However if the information provision is not sufficient then there may be a requirement for tolerances. Any such requirement should be on an interim basis.

**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?**

The requirements as set out in Article 21 should be sufficient for users to balance their positions. However this all depends on when the information is published and just how easy it is to access the information as well as how clear it is. Care must also be taken that no individual's position is published to the whole market. If this situation were to arise then the relevant NRA should exempt the TSO from having to publish that data publically, it should only be made available to the user concerned.

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

System information helps the user to determine their overall position and whether they need to take an action. Some surveillance to protect against potential gaming may help confidence to develop.

**Question 16: What are the costs of TSOs providing network users with system information? How do these compare against the benefits and/ or disadvantages?**

TSO are best placed to answer this question. However we can say that the more complex the balancing system the more cost is going to be placed on both the TSO and the user. This will inevitably end up being passed onto the end consumer. In any case, most of the information requested will already be produced internally, so should have little additional cost to publish it. Efficient costs should be recoverable through tariffs.

**Balancing periods**

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

It is still not clear from the document what the actual option should be. After saying that daily balancing should be the preferred option ERGEG then goes on to recommend within day and cumulative balancing periods in certain circumstances. We believe more clarity is needed around which option ERGEG is going to require ENTSO-G to base a network code on.

**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?**

Not as far as we are concerned.

**Question 19: Is it necessary to harmonise 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.**

We believe it will be highly desirable to have harmonised balancing periods. The framework guidelines for capacity allocation management is targeting harmonised capacity allocation across TSO networks. For this to work effectively the two processes should be harmonised. However, we would not wish to see all regimes dragged down to the lowest common denominator. A daily balancing regime could be connected to an hourly balanced regime, as long as suitable interface products exist between the two.

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

Balancing periods should be daily.

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

Yes, we do agree with the target model. Having a daily balancing period gives the users the flexibility to manage their portfolio. It would in our opinion create a liquid market as users would be actively trading to manage their imbalances. We do not however agree with restrictions of nominations within day. Users need all the flexibility that is available to help manage their portfolio. Imposing restriction on nominations could also reduce liquidity in the market.

For clarity, we assume that the target model is based on a gas day, and not a rolling 24 hour period.

**Question 22: What would be the costs of implementing the target model in (and beyond) your Member State or balancing zones(s) (as the case may be)?**

This question would best be answer by the TSOs who have the relevant information. However information on costs should be rigorously checked by the relevant NRA.

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

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

The assessment of the policy options provides a detailed overview of the current options.

**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?**

BP agrees with the target model. We see this as the only way you will encourage a fully functioning liquid market to evolve. However we would like to see a time limit set for a transition from long term procurement of the use of a balancing platform. We are not in favour of allowing the TSO to use a stand alone balancing platform if there is already a functioning traded market in existence. There seems little advantage in having the TSO use a separate system to balance. Using the same platform will encourage market pricing develop.

**Question 25: What are the costs of implementing the target model in your Member State?**

The TSOs are best placed to answer this question.

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

We operate in more than one Member State. Some of these are more developed than others, for example the GB market. In this market no interim steps need to be taken as the balancing regime is fully developed. In some other markets we operate in some more liquidity is required but this could come about through better access to capacity.

**Question 27: 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?**

As stated in our answer to question 24, the TSOs should use the same trading platform to balance the system as the users use to trade gas. It would appear to be a total waste of money for the TSO to operate a separate platform to perform balancing action where there is a functioning market.

**Question 28: Is it appropriate for TSOs to procure balancing services on the wholesale market and/or or is appropriate for these to be procured on the balancing platform? Should TSOs be permitted to reserve long-term contracts for flexible gas and/ or associated capacity for this purpose?**

Where possible, all balancing should be done through the wholesale market. As stated in the previous answer this should be on the wholesale market using the same platform as the market uses. The use of long-term contracts should be phased out where they exist. No new contracts should be entered into.

Nevertheless, we recognise that not all markets are at a sufficient state of maturity for this to be implemented immediately and some of the less preferred options may be necessary while the market develops.

**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?**

The whole push from ERGEG is to get to a market based solution to system balancing. To achieve this the TSO will have to take balancing actions in the wholesale market. If there are long term contracts in place that are hindering the progression to market based balancing then the NRA should encourage the TSO to terminate these contracts at the earliest opportunity.

Where appropriate, the TSO may be subject to incentives to reduce the cost of balancing e.g. by fixing the allowed costs and letting them keep any savings. The proportion of balancing gas that is sourced from the market on a within-day basis could be subject to agreement with the regulator (e.g. increasing from 25% to 100% over 4 years in increments of 25%).

### **Imbalance Charges**

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

We agree with the assessment of the 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.**

As we have stated in previous answers we agree with the aim to have a harmonised balancing regime in Europe, this includes having harmonised imbalance charges. Harmonisation will make operating in several markets easier for users as common rules will apply across different systems. This is particularly important as users are being forced to trade hub to hub by the recommendations in the framework guidelines on capacity allocation management.

**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.**

***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***

The target model will deliver the most cost reflective price for imbalance charges. If the TSO has not taken any action to keep the system in balance a charge should not be applied as the system should be seen to have balanced it self. As no action was taken by the TSO no costs have been incurred by them.

***Whether imbalance charges should be dual or single priced***

Whether it is dual or single priced makes little difference. What should be applied is a debit/credit to the marginal price depending on whether the user is deemed to be in a positive or negative position.

***Whether imbalance charges should be based on the marginal price***

Following the example of the GB market and using a similar formula as that set out in the Uniform Network Code would seem appropriate.

**Question 33: What would be the costs and benefits of implementing your preferred options in your Member State?**

This question is best answered by the TSO.

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

Although we can see that there will be certain markets that will require interim steps our concern is for how long the interim steps are in place. No reference is made throughout the document on a cut of time for any interim measures applied. This poses the risk that you will have a continuing two tier system for some time to come within the European market area.

**Cross-border cooperation**

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

The document covers the most relevant options available.

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

Convergence of regulatory requirements and of network access regimes should allow a shipper-led regionalisation of markets, though clearly the TSOs have an important role in ensuring the operational integrity of any solution. However, we are sceptical that TSO-led approaches will be consistent with the development of an effective market.

**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?**

OBAs are used helpful in managing pipeline interconnections. There should be no obligation put upon the TSO to have OBAs in place, though we would hope that where they are helpful to both TSOs and network users, then TSOs would be free to put them in place

We hope that you find these comments helpful. If you wish to discuss further please don't hesitate to contact me on the number above.

Yours sincerely

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