



Position Paper on Gas Balancing

ERGEG has presented a discussion paper on July 18th, 2005 concerning the revision of the CEER Guidelines on balancing. Future guidelines on gas balancing shall ensure an effective and non-discriminatory operation of the balancing regime. **GEODE** regards the issue of balancing as of major importance for the well-functioning of an internal gas market and welcomes the discussion paper as an important working basis.

GEODE supports the work undertaken regarding unified definitions in relation to balancing as one important step towards more specific guidelines on a number of central issues. Therefore **GEODE's** comments will focus on a limited number of issues, which need to be addressed in the Guidelines.

I. Role of Balancing

However efficiently shippers purchase and trade gas, imbalances arise, often because demand is higher or lower than expected, deliveries are higher or lower than expected, or both. Addressing this problem, gas balancing ensures the efficiency and security of the gas transportation system and could provide incentives to all affected market participants to guarantee both.

Still the different gas balancing positions fragment the competitive market. Penalties applied for imbalance and different time periods in measuring imbalance distort trade not only between Member States, but already between different balancing regimes. This affects active market participants and could hold off new participants. Unified gas balancing arrangements strongly support the development of a competitive market. **GEODE** therefore welcomes the enhancement of the role of gas balancing. **GEODE** also honors the approach of ERGEG to impel the proceeding of the gas balancing principles by pointing out the importance and by summarizing ways and means of balancing in a clear and comprehensible way.

II. Balancing fees/ ex-post-trading (Question 2)

GEODE supports cost-oriented balancing fees. The principle of cost orientation ensures non-discriminatory and fair balancing charges, without risking the safety and efficiency of the system. According to Art. 7 of the recently adopted Regulation on access to gas transmission networks imbalance charges shall therefore be cost-reflective to the possible extent, whilst providing appropriate incentives on shippers to balance their input and off-take of gas. **GEODE** would like to emphasize that the idea of such an appropriate incentive for network users must not be used as an argument to restrict the application of the principle of cost orientation. Such a restriction would only be justified, if the principle of cost orientation would not be compatible with incentives for the shippers to take corrective actions. Cost-orientation itself will not keep shippers from balancing because even cost-oriented balancing charges are structurally higher than cost-oriented transportation fees, due to the extra-work for the network operator (use of storage or LNG facilities, etc.). Additionally, if balancing charges were penalizing, they would bear two major risks. First, shippers faced with the need of balancing could pass their additional expenses on to their customers and second, the inability to face the risk of miscalculation could hold new participants off the market.

The natural monopoly of the TSOs, concerning the network itself as well as the access to balancing tools, also poses a structural barrier to effective competition. This could be diminished by allowing ex-post-trading of imbalances between different shippers. A secondary market for imbalances would allow shippers with not sufficient gas in the system to balance their portfolio without any interference by the TSO. A large number of imbalances could be balanced without any extra-charges. Because the main interest of the network operator lies in the balance of input and off-take, which therefore could be reached without additional efforts by the TSO, this trading would be an asset for them, too. The issue of cost-orientation would then apply only to a limited number of cases, i.e. to cases where the trading of imbalances is not possible.

III. Hourly or daily balancing, information flows (Question 3, 4)

GEODE considers the duration of balancing periods a central question for shippers, in particular for new market participants: The shorter the balancing period, the more imbalances arise. An hourly balancing period would lead automatically to an increase in the number of imbalances without any actual increase in the potential risk for the system. For **GEODE** the central principle should always be to enhance efficient competition on the internal gas market. Increasing the number of market participants corresponds to this principle. Hourly balancing periods would lead to an increase of imbalances and therefore significantly produce more balancing-costs for all market participants, striking new market participants



empirically harder, whereas daily balancing periods would considerably ease the pressure of such potential charges.

The necessity to provide and receive information every hour would also lead to unnecessary additional costs and administrative expenditure due to this extension of the information flow between the shipper and the TSO. **GEODE** therefore considers daily balancing periods an appropriate compromise between the interests of shippers and TSOs.

Additionally, the practice of daily balancing periods, in particular in the context of vertically integrated companies, shows that daily balancing periods do not contradict the safety of the system. Sufficient, well-timed and reliable information can be provided for a daily balancing period without any risks for the safe operation of the system. Different balancing periods would then again require the introduction of Operational Balancing Agreements. Such agreements would have to be regulated as they have the potential to unnecessarily distort the free flow of gas. The confusing complexity created by a number of different agreements would also bear the risk to keep new market participants away. These issues exemplify the need for clear, transparent and unified rules for balancing.

GEODE therefore strongly supports the general application of daily balancing periods.

IV. Linepack, tolerance levels (Question 5, 6)

GEODE supports the use of linepack in order to enhance flexibility. However linepack should not be offered as a separate service available on a non-discriminatory basis. It is, as a matter of principle, at the network operators' discretion how to manage its network. The line between linepack and the managing of the network would be hard to draw in practice. Regulated third party access to linepack would therefore lead to a considerable number of uncertainties and disputed cases. Such disputes may not generally be an argument against the regulation of third party access.

However regarding the issue of linepack, **GEODE** would like to emphasize that the desired results in terms of flexibility for the shipper could as well be achieved by an increased steering tolerance. The network operator would then have to use linepack to ensure this flexibility and the shipper would not face legal disputes about the question whether or not access to linepack was denied on a discriminatory basis. **GEODE** therefore rejects the reduction of these tolerance levels. Though these levels refer first of all to different technical

capabilities of the transmission system and to differently optimized information flows in different networks, reducing the levels would impose these risks on the shippers' side only. That could possibly hold new participants off the market, if they are not able to foresee and bear these risks. Therefore **GEODE** only agrees with the suggestion that tolerance levels should be reflecting actual technical capabilities of the transmission system. **GEODE** suggests to adjust these tolerance levels on an unitary European standard, oriented on the current best practice level.

V. Cross-border Balancing Zones (Question 7)

GEODE would welcome the implementation of the largest balancing zones possible. As in a larger zone more input and off-take will occur, the probability of self-balancing in the system will increase with the enlargement. That way the number of cases where the network operator will have to provide balancing services could be considerably reduced. That would decrease extra-costs for all market participants. Balancing zones must therefore not be restricted to the network of just one TSO. This is common practice within a number of Member States. Such practice contradicts the basic idea of entry-exit-systems which are currently implemented. For the same reason balancing zones must not be restricted to the territory of just one Member State or to ownership aspects. An Internal Gas Market can only develop if merely technical arguments, i.e. arguments only concerning the actual gas flow, remain relevant for the definition of balancing zones and if these zones overlap different networks.

VI. Transit /Transportation Systems (Question 8, 9)

GEODE strongly emphasizes that the different treatment of transit and transportation flows contradicts the principle of non-discrimination. In particular the Directive 2003/55/EC and the Regulation on access to gas transmission networks do not treat such networks separately. Article 1 (31) of the Directive 2003/55/EC states explicitly that measures should be taken to ensure homogeneous and non-discriminatory access regimes for transmission, including cross-border flows of gas between Member States also in the case of transit. Different rules for transit and transportation flows have the potential of discrimination and are not justified by technical necessities. The arguments given are not convincing. Fluctuation in temperature affects national transportation as well as transiting gas, being conducted through the affected area. Imbalances resulting from reduction of import volume do affect the pressure of both, national and transit transportation, too. Balancing rules should therefore be consistent between such networks. This argument is supported by the need to otherwise introduce



Operational Balancing Agreements. Such extra-regulation is not necessary and can be avoided by clear, transparent and unified balancing requirements.

VII. Liquefied Natural Gas

Finally **GEODE** would like to illustrate a threat to the potential role of LNG as a source of production swing. According to Art. 22 of Directive 2003/55/EC new LNG-facilities will be exempted from the rules on third party access. In Practice, access is already restricted to operating LNG-facilities. Only the non-discriminatory access, i.e. including third party access, to such facilities can assure the efficient use in the context of balancing.

VIII. Conclusion

GEODE considers the discussion paper generally to meet the requirements of the major importance of unified balancing rules. The mentioned issues, especially cost-oriented balancing fees, ex-post trading between shippers, daily balancing periods and enlarged balancing zones, would from **GEODE's** prospective help the intended guidelines to constitute an acceptable compromise for all gas market participants.

GEODE agrees that further steps are strongly necessary and supports the development of such guidelines for good practice for gas balancing. **GEODE** would be fond of collaborating in verbalizing these guidelines and would appreciate their implementation in forthcoming legislation.

Berlin / Barcelona September 2005