

ERGEG Discussion Paper on Gas Balancing ENEL Contribute

Key questions for stakeholders

Question (1): Are there other features that should be reflected in a gas balancing regime to help ensure efficiency and to maintain safety and security of the system?

No other features have been identified in addition to those indicated in Figure 4 of the discussion paper.

Regarding the above features, as explained in answer to question 5, it is doubtful that disaggregation of system linepack among the operators will lead to efficient outcomes. It should be preferred the TSO to continue to manage system imbalance using linepack in bundled way.

Question (2): Should the incentives to balance become stronger the further away a shipper is from being in balance or are there other ways of ensuring that shippers have appropriate incentives to minimise their imbalance positions? Should shippers be allowed to trade their imbalance positions on an ex-post basis as a way of improving overall efficiency?

The principle of penalising imbalances is based on the evidence that system imbalances, in aggregate, produce costs for the system.

Individual imbalances could potentially cause costs for the overall system. However the actual costs produced depend on the aggregate behaviour of system users.

On the other hand imbalances are an inevitable condition of shipping gas since inflows and offtakes are subject to uncertainties that cannot be wholly eliminated, including measurement errors. As a consequence tolerance bands should be in place.

Potentially, the larger is the imbalance the larger is the possible cost for the system. Then in principle larger imbalances should be penalised more. However it should be avoided that as a consequence is produced an excessively complicated mechanism, thus penalising the transparency of actual price of imbalance. It will be generally preferable to use a single imbalance charge (or maximum two) with some tolerance levels.

It is considered very important that shippers be allowed to trade ex-post their imbalances, as only aggregate imbalances cause a cost to the system. This mechanism would reduce the cost of individual shipper to manage its own imbalance. The possibility of using ex-post pooling is more important for new entrants and small operators which are more vulnerable to the imbalances. The result of ex-post trading mechanism is an enhancement of competition and a lower gas cost for all the system.

Question (3): Does hourly balancing create any barriers to the development of competition?

Hourly balancing can create significant barriers to the development of competition. It is quite unlikely that the information flow can be updated so timely to provide the necessary information for shippers to

correct their hourly imbalance or that shippers, even if they were timely informed, have enough time to intervene to correct in time their imbalances.

As a consequence under hourly balancing regimes, shippers have to cope with the additional burden caused by uncertainties on their balancing position that may cause additional costs in term of imbalance penalties, thus causing small operators and new entrants (more exposed to imbalances) to leave the market.

Moreover use of hourly balancing in some of EU network, when most EU countries use daily balancing, become cumbersome during the day by day operation and costly for operators, in particular new entrants or small operators, moving cross-border gas (including gas transiting transits through networks having hourly balancing).

Question (4): What information is required to ensure that gas balancing regimes operate effectively and efficiently and how often should this be provided? What is the best way of ensuring that this information is provided to all parties on a non-discriminatory basis?

Shippers need information in real time on their own balance position and aggregate balance information. They need also information on the flexibility instruments available on the system to manage imbalances. Information will include actual and forecast entry and exit flows, line-pack status, pressures at critical points.

The time frame for updating of this information shall be such to allow shippers, within the imbalance time-frame, to take the necessary action to avoid imbalances.

At the moment, the best way for providing, close to real time, this information to all parties is through the IT. Attention should be paid to adopt the most friendly and user-oriented information platform available avoiding discrimination.

Question (5): Should linepack (where technically feasible) be made available to shippers on a non-discriminatory basis to improve access to flexibility? Are there any other steps that could be taken to improve access to flexibility that would not impinge on the safety and security of the system?

In principle the increase of the number of flexibility instruments available to network users on a non-discriminatory basis will reduce the cost of management of the imbalances. However make available a fraction of line pack to individual operators could be complex and not efficient at system level. As also said as comment to Principle 8, we consider that it might be more efficient whether TSO could use system linepack in bundled way on behalf of all system users to minimise overall residual balancing costs. This uses should be subject to Regulator control.

Question (6): Do differences between (neighbouring) gas balancing regimes distort the incentives provided to market participants? If so, what degree of consistency would be appropriate to overcome these problems? Would there be any disadvantages from introducing more consistency in features of (neighbouring) gas balancing regimes? How could this consistency be facilitated – for example would legislation be required or could it be achieved through better co-operation between regulators and TSOs in different Member States?

Differences in neighbouring gas balancing regimes could have an impact in gas trade and also on transit of gas through a network having a different balancing regime.

As has been shown in the past, different balancing periods could significantly hamper gas trade and large differences in cashout prices could have the effect to move gas to manage cashout exposure rather than to meet customers demand.

Moreover there is the risk that flexible regimes are put under stress to compensate for the lack of flexibility in the balancing regime of neighbouring countries.

Even small differences in the balancing system procedures due to technical differences of the neighbouring transmission system imply additional costs to the shippers that have to gather the necessary information to operate under different regimes and to manage the differences during the normal operation. This may cause barriers to entry the market.

An efficient single EU market of gas requires the balancing regimes to be harmonised as far as possible Therefore a greater effort is needed in order to achieve consistency between Member States.

The balancing regimes should be compatible also in term of allowing for the adoption of corrective measures and/or the use of flexibility instruments in the other country.

A voluntary approach, which foresees co-operation between regulators, TSOs and system users, would be preferable to reach an harmonised balancing regime. However the concern is the time necessary to accomplish a result. A parallel study on balancing regime interaction would be very useful. Decision for adopting binding measures could be taken after the results of this study and the monitoring of the first results of the voluntary approach.

Even if a legislative framework could be beneficial for an harmonisation, attention should be taken that different interpretations of the same legislation do not imply the factual implementation of different balancing regimes.

Question (7): Would cross-border (or international) balancing zones help facilitate the development of competition in gas across Europe? What technical, legal and practical issues would need to be overcome if cross-border balancing zones were introduced? What impact could crossborder balancing zones have on the development of hub based trading and regionalmarkets (see for example the recent ERGEG document on regional markets in electricity)?

Of course international balancing zones will go in the direction to facilitate the development of competition when compared to the present situation of national balancing zones. However there is much greater cross-border trade in gas than in electricity therefore the principles of regional market used in the electricity would be more difficult to be applied in gas.

An effort should be made to reach a single European market adopting as much is possible a single balancing regime and, where for the network where demonstrable technical reason that is not possible, adopting compatible balancing regimes, with OBA in place in order to simplify the day by day operation of the shippers. The harmonisation of different balancing regimes should have the goal to maintain the flexibility of the most advanced balancing regimes.

Question (8): Would it be appropriate to increase the level of consistency between balancing rules for transit and transportation systems?

We consider important that the same balancing regime is used for transportation and transit because the network will be affected in the same way by the imbalances.

Question (9): Would the introduction of Operational Balancing Agreements (OBAs) between transit and transportation systems improve transparency on how the balancing regimes interact? If so, what should be included in the OBAs?

As said in answer to question 8 it is important that same regime applies to both transportation and transit. Therefore OBA is not necessary.

Comment on ERGEG suggested changes to the previous gas balancing principles

Principle 1 Balancing responsibilities

Enel shares the suggested change which clarifies the responsibilities

Principle 2 General requirements for balancing rules

Enel supports the suggested change and welcomes the acknowledge of the need of an appropriate consultation with market participation in developing or changing the balancing rules and of the need of to facilitate effective competition avoiding undue barriers to new entrants.

Principle 3 Frequency of balance

The proposal correctly adds the need that the balancing design should take into consideration the interactions between connected systems to ensure no undue barrier to cross border trade. Because most of EU Member states are strongly dependent on gas import it is very important that all connected systems used to transit the same gas have the same balancing period. A stronger statement in this sense would be better.

We think that access to line-pack to the shippers would add complexity and could increase the cost.

We support the other changes in particular the need that balancing periods should be compatible with the availability of imbalances information in order to take balancing actions.

Principle 4 Balancing Costs

Enel supports the spirit of the change in particular the aim to point-out the need to rely where possible on market mechanisms, although the proposal seems too detailed for a principle.

Principle 4b Charges for imbalances

Enel agrees with the changes proposed, in particular the clarification that imbalance charges should not result in a distortion of competition, shall be cost reflective and the method for calculating them shall be made public.

Principle 4c Trading of Imbalance positions

Enel shares the point that ex-post pooling of imbalances should be permitted without any restriction. This measure enhances flexibility of the operators, and at the same time will not create additional cost to the system given that this depends on the aggregate imbalance and not on the individual imbalance. The possibility of using ex-post pooling is more important for new entrants and small operators which are more vulnerable to imbalances. The result is enhancement of competition and a lower gas cost for all the system.

In Enel opinion the net advantages (operator flexibility) will remain even when a liquid within day market will be reached.

Thus the introduction of the statement “at least as interim measure until the development of liquid within day markets” is not supported.

The other amendments correctly refer to the need for TSO to have a system in place for the trading of imbalances.

Principle 5 Tolerance services

Tolerance levels are important and we generally support the changes to set this tolerance.

Although the possibility of adoption of different market mechanisms would in principle increase the flexibility and reduce the gas cost, we think that secondary tolerance trading could add complexity to the process coupled with trading of imbalance. Ex-post trading of imbalance, set by Principle 4c, is considered very important and its adoption already can use the tolerance levels, such it is not necessary a different mechanism of tolerance trading.

In the second paragraph the words “in the case of non-market based balancing systems mechanism” should be deleted, because the recommendation to set tolerance levels is always valid.

Principle 6 Information and transparency

ERGEG amendment is acceptable. The amendment underlines the crucial link between provision of information and a correct management of imbalances. Network users need clear and timely information on their imbalance status in order to correct their imbalance position in time. Otherwise they are forced to adopt a precautionary behaviour, taking decision under a strong uncertainty.

Obviously balancing time period should thus be consistent with the time frame of the information flow regarding imbalance position.

We agree that delay in the allocation process will negatively affect the shippers, however the proposal of using provisional allocations to calculate the imbalancing charges does not seems satisfactory if changes to the charges once definitive allocations can affect negatively the shippers. This could be acceptable only in the condition that change in the charges could be possible only on the direction of reducing shipper's charges.

It is important that TSO provides timely information on the status of the system in aggregate and not only individual shipper positions.

Principle 7 Harmonisation of balancing rules

ERGEG amendment is welcome.

New Principle 8 Provision of flexibility

Although in principle the increase of number of flexibility instruments could help to reduce the cost of individual shippers to manage their imbalance position, it is not evident that the availability of linepack not needed for system security directly to the shippers would be a simple and efficient mean which will reduce system cost. The mechanism could be complex and bring to inefficiencies. We consider that it

might be more efficient whether TSO could use system linepack in aggregate on behalf of all system users to minimise overall residual balancing costs, subject to Regulator control.