

## 1<sup>st</sup> Meeting of Ad-Hoc Expert Group for Gas Balancing

15-04-2010 from 10:00 to 16:00 hours

[Ofgem, 9 Millbank, London, SW1P 3GE]

### DRAFT MINUTES (V 1)

Participants
Alberto GONZALEZ
Christian HEWICKER
Stephen ROSE
Steinar SOLHEIM
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Fiona STRACHAN
Christian THOLE
Jan VAN DIJK
Harald WÜSTRICH
Giovanni ZACCO
Nigel SISMAN (ENTSOG)
Ruud VAN DER MEER (ENTSOG)
Alexandre SOROKO (ERGEG)
Andrea HEHNKE (ERGEG)
Ulrike ABERT (ERGEG)
Wolfgang WEILGUNY (ERGEG)
Lorenzo MONTEROSSO (ERGEG)
Pamela TAYLOR (ERGEG, Chair)
Lisa MARTIN (ERGEG)
Erik SLEUTJES (ERGEG)
Konrad KEYSERLINGK (ERGEG)
Tim COLLINS (ERGEG)
Martin CROUCH (ERGEG)

## **1. Opening**

### **1.1 Introduction and rules of procedure**

Members were made aware that Chatham House rules will apply to Expert Group meetings. Chatham House rules mean that members shall agree that information and documents will be kept confidential and that whilst members are allowed to report about the discussions within the Expert Group, they should not reveal who said what during the discussions.

Christophe Pardieu sent his apologies in advance of the meeting and submitted written comments on the subject.

### **1.2 Approval of the agenda**

The Agenda was approved without changes.

### **1.3 Pilot Framework Guideline process**

According to the 3<sup>rd</sup> Package provisions, the Agency for the Cooperation of Energy Regulators (ACER) will submit to the EC Framework Guidelines setting out clear and objective principles for the development of network codes by ENTSOG. It is anticipated that a gas balancing network code will be drafted during 2011.

In the interim period (until ACER is fully operational), ERGEG will prepare Framework Guidelines, one of which will cover Gas Balancing.

### **1.4 Role of ad-hoc Expert Group**

The general role of the Expert Group is to provide support to ERGEG with regard to the Framework Guideline by delivering expert advice on specific questions. Members were asked to focus on the substance rather than the process of the Framework Guideline.

The Expert Group was asked to use this meeting as a preliminary discussion about high level objectives, with further meetings to advise on more detailed proposals and a consultation document in due course.

## **2. Part I – Problem identification and policy objectives**

### **2.1 Problem identification**

The five problems identified by ERGEG were put to members:

- High imbalance charges hamper new entry; low imbalance charges do not incentivise shipper balancing
- Limited use of market based procurement of residual balancing gas / products by TSOs
- Fragmentation of balancing zones, different balancing periods and gas days
- Shippers have insufficient information to balance their portfolios
- Shippers have limited access to flexibility to balance their portfolios

Members noted a recent report by KEMA which identified limited use of market based balancing across Europe. The KEMA report also noted the need for harmonisation and the development of effective incentives on balancing.

Members also commented on the lack of available flexible gas and storage in some Member States' markets and noted that this was an important precondition for market based balancing, but

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not within the scope of this Framework Guideline. Members also commented on the prevalence of high penalties for being out of balance in some Member States.

Members noted that Framework Guidelines on balancing must not assume that equal preconditions are in place in all Member States.

Members agreed that access to live information about flows in transmission systems was an important tool in achieving efficient and effective balancing although some members felt that demand algorithms could be used in substitution of real time information.

## 2.2 Policy objectives- general

The policy objectives identified by ERGEG were put to members:

- Main objective: move towards greater EU market integration, i.e. enhancing TSO cooperation, harmonising balancing regimes where necessary,
- Additional objective: move towards market based balancing regimes, i.e. market participants balance their portfolios, cost reflective imbalance charges, market based procurement of residual balancing by TSOs, TSOs take residual balancing action and balance locational constraints.

Some members stated that both these objectives were equally important and that there was not a hierarchy between them.

Some members said that harmonised balancing rules could play a significant role in facilitating cross border exchanges and trade. Others noted the need to improve the exchange and timing of information across borders, taking account of e.g. differences in balancing periods across Europe.

Members generally felt that facilitating cross border trades should be prioritised over furthering TSO cooperation.

There was a general consensus that shippers should be required to balance their own position, with TSOs intervening only to perform residual balancing services. One member stated that whilst they agreed with this principle, this may be less straightforward to implement as there are different views on where the boundary lies between shipper and TSO balancing, especially as shippers need information. Interim steps to take account of liquidity may be needed.

## 2.3. Preconditions for policy objectives

Members noted that it would be helpful to define the preconditions required to achieve the policy objectives for gas balancing.

Members felt that transparency, increased access for shippers to flexibility and real time information were important preconditions.

## 2.4 Target model

Members agreed that a target model needed to be realistic but suitably ambitious. The target model should not be unduly compromised but regional differences needed to be borne in mind.

Some members felt that market based balancing ought to be the target model for Europe to aim for. Others felt that the boundary of balancing responsibilities between shippers and TSOs should depend on the extent to which a relevant market provides shippers with the tools they need to balance (e.g. liquidity, access to storage).

Members generally accepted the principle of striving for a common balancing model whilst allowing for interim steps / tolerances in recognition of the different conditions in Member States.

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Some members supported the principle of a single European balancing zone as a long term aspiration, but there was no support for a top down approach to achieve this. Other members supported the merging of balancing zones at a regional level as a first step towards market integration, with mergers of zones being determined according to economic criteria. Some members also felt that increasing trade between zones should be prioritised over the merging of balancing zones, and that the number of zones was not in itself important. Members noted that merging of balancing zones may increase the role of TSOs in balancing / managing constraints. Some members noted that physical constraints on transmission systems across Europe mean that the practical difficulties arising from a single balancing zone will be significant. One member summed it up as the larger the zone, the more commercially attractive it is, but more constraint management by the TSO may be needed. There was also a question as to whether we should assume that by developing market based balancing, integration would come from cross border trade, or whether zones should be merged.

## **2.5 Presentation on the roles of TSOs**

A presentation was given to members to demonstrate the different roles of TSOs across Europe, with some Member States playing a significant role as a transit country for other European markets, which has implications for the size and scope of the TSO's role.

## **3. Part II – Assessment of options and proposed Framework Guideline**

### **3.1 Core areas to be addressed**

The five core areas to be addressed by the proposed Framework Guideline are:

- TSO procurement of system balancing services
- Charges for system users
- Information made available to system users
- Periods for the settlement of imbalances, gas days
- TSO cooperation towards integration of European gas markets – cross border balancing services

### **3.2 Other areas for consideration**

Members also suggested that the following areas might be considered in addition to the five areas mentioned in 3.1:

- Access to flexibility by shippers
- Actions open to shippers within the rules framework
- Cooperation between balancing zones within and between Member States
- Incentivising TSOs to take efficient balancing action
- Cross border hub functionalities
- Whether TSO procurement of balancing gas goes beyond the scope of the Regulation

### **3.3. Discussion on TSO procurement of balancing services**

One member stated that system balancing was beyond scope of the FG and only TSO procurement of residual balancing should be covered. Most others stated that this division was difficult to define and that all balancing gas should be procured in a similar manner. Most parties

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agreed that balancing gas should be procured through the wholesale markets. However, it was also noted that this may not be possible in all markets and therefore stand-alone balancing platforms, periodic tenders or regulated contracts may be needed as interim steps. Some members stated that procurement through negotiated contracts should not be included as an option, as it is not market based or cost reflective. They considered that if there is only one source of flexibility in a Member State then it should be provided on a regulated contract. There was also a short discussion on how to move Member States towards market based balancing. Some members suggested a time limit to transitional steps; others suggested regulatory incentives.

#### **3.4. Discussion on imbalance charges**

One member stated that as a principle no imbalance charge should be incurred if the TSO takes no balancing action. Members stated that charges should reflect costs, but that some balancing costs needed to be socialised (which could include a locational dimension). However, another member pointed out that if imbalances are cumulative (i.e. cash out only occurs when TSO takes balancing action) it is more difficult to target imbalance charges on those that caused them. Another member raised the issue of whether imbalance charges should be two-priced and reflect situations when some shipper's imbalances may help the system overall.

Members agreed that imbalance charges should include an incentive for shippers to balance, but no penalty if they do not. One member suggested to use revenues from imbalance charges to address requirements for investment in infrastructure.

#### **3.5. Discussion on balancing periods**

Members discussed differences in balancing periods (e.g. hourly, daily) across Europe. Some members stated that balancing periods did not need to be harmonised in a top down approach. They argued that there was a trade off between encouraging market trading through longer balancing periods and system compatibility.

It was suggested to define criteria which would determine the appropriate length of balancing periods. Some members were in favour of daily balancing where the system is capable.

One member noted that hourly balancing may be problematic for new entrants, whilst other members noted that information provision becomes more important with hourly balancing.

Some members noted that TSOs still need to conduct within day balancing even if shippers have balanced their positions over 24 hours. This means that some elements of balancing costs are likely to be socialised among market players. However, others noted that if shippers are required to balance over shorter periods (reducing the need for within period balancing by the TSO), this can create inflexibility in the market and act as an entry barrier.

It was noted that it is crucial to achieve consistency between the length of balancing periods and the provision of information.

### **4. Concluding comments on questions addressed and way forward**

Members acknowledged that the meeting had been a useful discussion, but had not yet produced firm proposals.

Members agreed that a second meeting should take place without a draft Framework Guideline consultation document. However, a summary of the first meeting (this meeting) should be prepared in advance of the second meeting.

The second meeting would be followed by a third meeting that would be used to discuss the details of the draft Framework Guideline consultation document. A draft document would be circulated among members prior to the third meeting.

## **5. Next meeting**

A provisional date of Tuesday 18 May 2010 was agreed with details (e.g. time and location) to be confirmed. This was subsequently changed to 17 May 2010.