

Re: ERGEG Guidelines for Good Practice for Gas Balancing

We refer to your Conclusions document and your consultation paper on the above subject of April 2006. Firstly we would like to apologise for the delay in responding to you, but hope that you are still able to take our comment into consideration. This note builds upon the verbal comments we submitted at the Madrid Forum in May in response to your presentation of the proposals.

Eurogas welcomes the focus on Balancing matters that this paper brings. However, in designing successful Guidelines it must be remembered that the intention is to create a Balancing Market between Users of a network and other trading parties, with the TSO only having a residual responsibility for the activity. Therefore users comments are as valid as those of TSOs. It should also be recognised that we should not confuse the technical balancing of the network by the TSO and the commercial balancing by users that can and often does operate to a different time-frame.

Turning to specific comments, we would offer the following thoughts:

- a) We believe the implementation date of 1st January 2007 should be adhered to by all TSOs. It is not acceptable for TSOs to merely notify the relevant regulatory body that they cannot achieve this date.
- b) Para 1.22 – we believe that information release should be consistent between all TSOs, and welcome ERGEG's recognition of the need for transparency.
- c) Eurogas notes the preference for daily balancing and the recognition that other balancing periods currently exist. In requiring technical/operational justification for any other balancing periods it needs to be remembered that rules/periods for commercial balancing by users will normally be different from those used physically by TSOs, and that shorter balancing periods can only be acceptable when a full suite of balancing tools necessary to enable users to balance their own supply and demand are available at appropriate prices in the market.
- d) Harmonisation of Balancing Rules – since we consider that differences in neighbouring networks do impact on the development of competition and impose costs on connected markets we welcome the suggestion of harmonisation and look forward to its inclusion in the RMI.
- e) Penalty Charges – we agree that users should be incentivised to balance their own inputs and offtakes from a network. These must be set in a co-ordinated manner with reference to the costs such imbalances create and to avoid any distortion of incentives on TSOs or Users through the reallocation of any such monies.
- f) Balancing for TSO – we are unsure why a TSO should not be allowed to trade gas for balancing purposes as long as this activity is clearly separated and is linked to a wider prohibition of general trading of gas.
- g) Tolerance Levels – we accept that in the early stages of market development it may be appropriate for tolerances to be allowed. However, these should only be a transition arrangement until such time as the tools necessary to allow Shippers to balance their own position are fully available to the market.
- h) Pooling and Trading of Imbalances – this area is less clear cut and needs greater definition before it can be supported. It needs to be ensured that incentives to balance are not eroded, nor that dominant players are able to extract value from their position by abusing their position vis-à-vis smaller players or new entrants.

Ultimately the Balancing regime must support the development of a competitive market for balancing services and competition in the supply of gas. The rules must also reflect the Balancing Regime adopted by the TSO and the level of market development.

Successful Guidelines are an important element of the Regional Markets Initiatives and Eurogas looks forward to working with the lead regulators in each Region to pursue that project.

Should you have any queries on our response please do not hesitate to contact us.