



Framework Guideline on Gas Balancing Public Consultation Evaluation of Responses

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INFORMATION PAGE

Abstract

The gas markets in Europe are fragmented, with several balancing zones across the European Union (EU) and different balancing arrangements applying in neighbouring markets. This entrenches the market power of incumbents and increases the barriers to new entry into the EU gas markets. In many Member States, network users do not yet have regular information during the balancing period on whether their portfolio is in balance, or have access to liquid wholesale markets to trade flexible gas. This impedes new entrants' ability to balance their portfolios and increases their exposure to imbalance charges. It also means that Transmission System Operators (TSOs) undertake most of the network balancing and as such, hold options to significant amounts of flexible gas via long-term contracts which could otherwise be traded in the wholesale market. In many balancing regimes, imbalance charges do not reflect the cost of the TSO balancing the gas networks. This can result in incentives for inefficient behaviour and cross-subsidies between network users which could be considered discriminatory.

On 6 August 2010 the Commission invited ERGEG to draft a pilot Framework Guideline on gas balancing rules in gas transmission networks. In the context of the pilot project, ERGEG declared its readiness to assume the role assigned to the Agency under Article 6 (2) of Regulation (EC) 715/2009 ("Gas Regulation") and to submit a non-binding Framework Guideline within 6 months of receipt of the Commission's notification.

ERGEG published a draft pilot Framework Guideline (the "Framework Guideline") on 12 August 2010 for public consultation. The consultation closed on 29 October 2010. ERGEG has considered the responses received in revisions made to the Framework Guideline.

Respondents to ERGEG's consultation on a gas balancing draft framework guideline and initial impact assessment¹ shared this assessment. A majority of respondents encouraged ERGEG to introduce a market-based balancing regime, where TSOs' roles are minimised and cost-reflective imbalance charges incentivise network users to balance their portfolios. Where TSOs currently hold long-term contracts to obtain flexible gas, a balancing regime that encourages TSOs to procure flexible gas on a short-term basis would allow flexible gas to be released to the wholesale market, which may enhance competition and trading in markets that currently lack liquidity.

The framework guideline sets out ERGEG's goal for a European gas balancing regime, which is market based and enables network users to trade gas efficiently, including across borders. This vision requires cost-reflective imbalance charges to the extent possible, set on the basis of the marginal price, to incentivise network users to balance their portfolio efficiently. Network users shall receive up to date information on their own balancing position as well as the system's balancing status during the balancing period to enable them to do this. This will minimise the TSO's role in the balancing regime and increase that of market participants if flexible gas is released and wholesale markets, which allow for the trade of flexible gas between network users either bilaterally or via an exchange are developed in

¹ Gas Balancing Rules on European Gas Transmission Networks, Draft Framework Guidelines - Initial Impact assessment- Ref E10-GNM-13-04, 18 August 2010.

parallel.

This document describes the issues raised by respondents during the consultation process and explains how we took them into account.

Target Audience

Respondents to the public consultation. energy suppliers, traders, gas/electricity customers, gas/electricity industry, consumer representative groups, network operators, Member States, academics and other interested parties.

Related Documents

- Final ERGEG Framework Guideline on Gas Balancing in transmission systems, ERGEG, March 2011, Ref. E10-GNM-13-03, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/GAS/Framework%20guideline%20on%20gas%20balancing/CD/E10-GNM-13-03_FG-Gas%20Balancing_2%20March%202011_final.pdf
- Gas Balancing Rules on European Gas Transmission Networks: Draft Pilot Framework Guideline, ERGEG, August 2010, Ref. E10-GNM-13-03, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/GAS/Framework%20guideline%20on%20gas%20balancing/CD/E10-GNM-13-03_FG-Balancing_18-Aug-2010.pdf
- Pilot Framework Guideline on gas balancing rules: Instructions for responding to the public consultation, ERGEG, Ref. E10-GNM-13-03b, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/GAS/Framework%20guideline%20on%20gas%20balancing/CD/E10-GNM-13-03_FG-Balancing_Instr_18-Aug-2010.pdf
- Gas Balancing Rules on European Gas Transmission Networks: Initial Impact Assessment, ERGEG, August 2010, Ref. E10-GNM-13-04, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/GAS/Framework%20guideline%20on%20gas%20balancing/CD/E10-GNM-13-04_FG-Balancing_IIA_18-Aug-2010.pdf

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1 Introduction

Gas balancing in Europe

Gas markets in Europe are fragmented in several balancing zones across the European Union (EU) and different balancing arrangements applying in neighbouring markets. This entrenches the market power of incumbents and increases the barriers to new entry into the EU gas markets. In many Member States, network users do not yet have regular information during the balancing period on whether their portfolio is in balance or have access to liquid wholesale markets to trade flexible gas. This impedes new entrants' ability to balance their portfolios and increases their exposure to imbalance charges. It also means that Transmission System Operators (TSOs) undertake most of the network balancing and as such, hold options to significant amounts of flexible gas via long-term contracts which could otherwise be traded in the wholesale market. In many balancing regimes, imbalance charges do not reflect the cost of the TSO balancing the gas networks. This can result in incentives for inefficient behaviour and cross-subsidies between network users which could be considered discriminatory.

Developing a pilot Framework Guideline on gas balancing

On request of the European Commission, the European Energy Regulators agreed to use the so-called interim period until the Agency for Cooperation of Energy Regulators (ACER) becomes fully operational to simulate the development of Framework Guidelines according to the provisions of the 3rd Energy Package. At the January 2010 Madrid Forum, it was agreed that ERGEG would produce a pilot Framework Guideline on gas balancing ("Framework Guideline"). The Framework Guideline will eventually be adopted by ACER and used by the European Network of Transmission System Operators for Gas (ENTSOG) for the preparation of the Network Code.

The goal of the Framework Guideline on gas balancing and the subsequent Network Code is to create balancing rules including network-related rules on nominations procedures, rules for imbalance charges and rules for operational balancing between TSOs' systems as required by Article 8(6)(i) of the Gas Regulation 715/2009.

The final version of the Framework Guideline sets out our vision for a European gas balancing regime, which is market based and enables network users to trade gas efficiently, including across borders. This vision requires cost-reflective imbalance charges to the extent possible, set on the basis of the marginal price, to incentivise network users to balance their portfolio efficiently. Network users shall receive up to date information on their own balancing position as well as the system's balancing status during the balancing period to enable them to do this. This will minimise the TSO's role in the balancing regime and increase that of market participants. This requires flexible gas to be released and wholesale markets to exist, which allow for the trade of flexible gas between network users either bilaterally or via an exchange. This Framework Guideline aims to contribute to the achievement of these requirements. Access to infrastructures' capacity, considered the Framework Guideline for Capacity Allocation Mechanisms, is also a prerequisite.

Stakeholder involvement and the public consultation

Throughout our work on gas balancing, we have benefitted from stakeholder involvement. This was done through Expert Groups where different kinds of stakeholders were represented, including network users, ENTSO-G, TSOs and gas consumers. The Expert Groups were held on 15 April in London, 17 May and 7 June 2010 in Brussels.

On 18 August 2010, we launched a public consultation on the draft Framework Guideline. The draft was published alongside an Initial Impact Assessment and consultation questions.

Written responses were submitted by the following stakeholders:

- AEP
- AGCS
- BDEW
- BNE
- BP
- CEDEC
- Centrica
- CEPSA
- E.ON
- EDP
- EDF
- EDF Energy
- Edison
- EFET
- EnBW
- Endesa
- Energie Nederland
- ENI
- ENTSO-G
- Eurelectric
- Eurogas
- EuroPEX
- EWE Netz
- ExxonMobil
- Gas Natural Fenosa
- Gaslink
- GasTerra
- GDF Suez
- GTS
- IFIEC and CEFIC
- Interconnector UK
- Mutual Energy
- National Grid
- OGP
- PGNIG
- RWE Supply & Trading
- Shell
- SPE Luminus
- Statoil

There was one confidential response. The non-confidential responses are published on the website of the Council of European Energy Regulators².

We presented our work at the XVIII Madrid Forum in September 2010 and held a public workshop in Brussels on 12 October 2010 which was attended by more than 100 stakeholders.

² http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/GAS/Framework%20guideline%20on%20gas%20balancing/RR

We have also held numerous bilateral and trilateral meetings with stakeholders since receiving the responses to our consultation. These were held on the following dates:

2010

17 September	ENTSO-G	(Brussels)
15 November	ENTSO-G	(Brussels)
17 November	ENTSO-G	(Brussels)
29 November	European Commission	(Brussels)
29 November	ENTSO-G	(Brussels)
30 November	EFET and Eurogas	(Brussels)

2011

19 January	EFET and Eurogas	(Brussels)
19 January	ENTSO-G	(Brussels)
10 February	Eurogas	(London)

Overview of this document

This Evaluation of Comments addresses respondents' main issues and concerns after considering our draft Framework Guideline and initial impact assessment. The document summarises the responses received to each of the chapters of the draft Framework Guideline. After each summary section we provide our views and how we have taken into account stakeholders' comments in developing the final version of the Framework Guideline.

Where it has been relevant and practical to do so, we have provided the number of respondents that agreed or disagreed with ERGEG's proposals in the Framework Guideline or consultation questions:

e.g. *"18 respondents agreed with the proposed interim steps."*

It should be noted that in this example, we do not mean that the remaining respondents disagreed with the proposal, unless this is otherwise stated. Respondents may have chosen not to respond, or may have commented instead.

2 Detailed Responses

2.1 Problem identification, scope, definitions, purpose, policy objectives and compliance

Problem identification

32 respondents expressed agreement with the problem identification as set out in the Framework Guideline. Additional suggestions for the problem identification section included: specific guidelines on nomination and renomination procedures the interaction with emergency arrangements, the interaction with electricity markets, gas quality, consistency of units and currencies, TSOs' ability to recover implementation costs and the DSOs' role in information provision.

Scope and objectives

25 respondents agreed with our proposed scope and objectives. Respondents asked whether the scope should extend to interconnectors and DSOs. Seven respondents said that the Framework Guideline should be more specific with regards to harmonising nomination procedures, while seven were against this as they thought it could erect barriers to trade and competition. Some stakeholders asked for access to infrastructure to be included in the scope. One respondent asked for cross-border balancing and emergency arrangements to be excluded from the scope. Two respondents criticised our consultation document because they considered that it tacitly and incorrectly implied that the most important objective is harmonisation. Furthermore they proposed to include in the objectives security of supply and system safety.

23 respondents thought that national balancing rule changes would be inevitable or highly likely as a result of the Network Code. Ten of these stated that the NC should only provide principles and not detailed solutions for national codes. Several respondents said that a "one-size-fits-all" solution was unlikely to exist. Others argued that particularly those sections that impose obligations on TSOs needed to be more prescriptive.

Target model and interim steps

26 respondents supported the approach of defining a target model and interim steps, though there were calls from some respondents for clarity around the criteria under which interim steps are applicable. It was highlighted that interim steps should only exist if they mark progress towards the standards in the Framework Guideline and are an improvement on existing arrangements. 12 respondents said that we should add more interim steps and define compliance measures as a path towards achieving the target model as soon as possible. After the consultation closed, we received one comment that the "target model" terminology would lead to confusion with our ongoing work on a "Conceptual model for a European gas market".

Compliance

Respondents stated that 12 months may not be enough time to implement the Network Code. Almost half of respondents did not think a timescale should be defined as different lengths of time would be needed in different markets.

Other

There were suggestions to add to the definitions provided in the Framework Guideline to ensure that these were clearly understood. These suggestions included references to the distinction of “shipper” and “system imbalance”, “liquidity”, “roles of DSOs” and “market area”.

ERGEG’s view**Problem identification**

We are glad that most stakeholders confirmed that we have tried to address the right problems. In light of consultation responses we have, during the revision process, considered the interactions with electricity markets and the role of DSOs. We consider that TSO recovery of implementation cost is a national issue and have therefore not addressed this in the Framework Guideline. We have not addressed gas quality and consistency of units in this Framework Guideline because we considered that this sat better elsewhere (for example, in the Framework Guideline on interoperability rules according to Gas Regulation 715/2009, Article 8(6)e).

Scope and objectives

We continue to believe that, in line with the Gas Regulation, the Network Code should apply to all TSOs. We have reviewed the document to ensure the Network Code will also be appropriate for small transmission systems, such as interconnectors. For example, this was also one of the considerations behind the inclusion of an option for within-day obligations (as set out in chapter 2.4 of this document).

We have considered the role of the DSO in the revision process, and have made provisions for DSOs to cooperate with TSOs in the information provision section.

We have made provisions for the Network Code to set out criteria for nomination and renomination procedures to be harmonised, which may be necessary to enable network users to balance their positions during the gas day (this is addressed in chapter 6 of the Framework Guideline). However, to ensure consistency with other legislative requirements, we clarified that this shall only be the case if not covered by other legal obligations.

We have clarified that, in the case of an emergency (as defined in the Security of Supply Regulation), additional balancing rules can be implemented. However, we did not consider that these should be defined in this Framework Guideline, as they can be better addressed elsewhere (for example in the Framework Guideline on operational procedures in an emergency (as set out in Gas Regulation 715/2009, Article 8(6)(f)).

Target model and interim steps

We removed some interim steps which did not necessarily represent a step that led to the implementation of the target model. We added justifications on why particular interim steps were in the document and provided more guiding criteria that NRAs can use to decide whether or not interim steps should be applied. Where interim steps are implemented, we have provided for TSOs to report every 12 months to NRAs and ACER on the progress towards their removal (set out in chapter 10 of the Framework Guideline). We have moved away from the “target model” terminology to avoid confusion with the “Conceptual model for a European gas market” project, which is colloquially referred to as the “Gas Target Model”.

Compliance

We think it is important that the benefits from the 3rd Energy Package are realised as soon as possible, but we appreciate that some systems may take longer than others to fully adopt the Framework Guideline. However we do not consider that this merits removing or lengthening the implementation timescale. We acknowledge that the 12 months timeline poses a significant challenge to some TSOs, but we consider that the inclusion of interim steps makes timely implementation achievable in all parts of Europe. We therefore continue to consider that, following its adoption, the Network Code can be implemented within 12 months and have retained this timescale in the Framework Guideline. We have also provided for NRAs to allow an additional 12 months for TSOs to implement the Framework Guideline, provided that they are not implementing any of the requirements set out as interim steps. In order to achieve these timelines, we expect TSOs to undertake preparatory implementation work before the adoption of the Network Code.

In response to questions by stakeholders to be more prescriptive on how the Framework Guideline could be implemented (and the use of interim steps could be minimised), we have included a provision whereby TSOs that choose to implement interim steps are obliged to annually consult on and publish a roadmap setting out how these can be progressed towards the requirements in the Framework Guideline. This roadmap needs to be approved by the relevant NRA, taking into account ACER's opinion.

Other

We note that some respondents asked for further definitions to improve the document's clarity. We have made changes to the definitions including adding definitions for marginal buy and marginal sell prices, liquidity, and editing the definition of cross-border balancing and transmission system. We did not consider it necessary to define the term market area as it is not used in the Framework Guideline. We did not include additional definitions for shipper and TSO imbalances but we made clear throughout the document which of these we refer to.

2.2 The role of network users and TSOs

24 respondents supported harmonising the approach taken to the role of network users and TSOs, whereas five respondents thought that this was not necessarily appropriate. Three respondents asked about the DSOs' role and responsibility in gas balancing. Several respondents did not think that such harmonisation would be possible in the short run. One respondent did not think that harmonisation would be possible for independent interconnectors. The main argument in favour of such harmonisation was that it would facilitate cross-border trade. There were a number of comments regarding within-day obligations, which are summarised and addressed in the section on balancing periods (chapter 2.4 of this document).

The role of network users and TSOs

31 respondents agreed that the provisions in the Framework Guideline should reduce the need for the TSO to undertake balancing activities. The main argument in support of this was that network users were in a better position to balance their portfolios efficiently. Six respondents said that our proposals may not necessarily result in a smaller role for the TSO. 12 respondents thought that there should be some preconditions to meet the provisions in

the Framework Guideline, such as sufficient access arrangements and infrastructure investment.

Pre-determined offtake profiles

16 respondents supported the use of pre-determined off-take profiles as an interim step. 5 respondents consider that this concept should be included in the target model. Several respondents said that there is no alternative for the use of profiles when no real time or daily information exists. One respondent stated that the use of off-take profiles would continue as long as non-daily metered customers exist. Four respondents consider this idea not to be workable as either an interim step or part of the target model, one reason being that this may unduly increase the TSO's role. One respondent set out that such a system was successfully in use in Germany. One respondent said that this concept was good for competition as it would help small competitors. One party pointed out that the difference between pre-determined and actual offtake profile should be managed through an efficient and non discriminatory reconciliation process.

Provision of free tolerances

15 respondents stated that providing free tolerances would be useful as an interim step. 5 respondents asked us to include free tolerances not only in interim steps. Five further respondents did not support tolerances at all, as they considered tolerances would reduce the incentives on network users to balance.

Commercial linepack product

Respondents were split on the option to offer linepack as a commercial product: eleven supported this concept as an efficient way to allocate system flexibility, nine did not since they considered that linepack should be made available to all users in the market, not only for those which are able to pay more. There were calls for the TSO to remain cost neutral, and to consider the security of the system before allowing linepack to be sold. Some respondents highlighted the importance of avoiding a situation where the system could be “contractually tight”, where flexibility has been sold by TSOs as commercial products. The main argument in favour of a commercial linepack product is that it could result in a more efficient use of the transmission system.

ERGEG's view

We have considered the role of DSOs in providing off-take information to TSOs. As a result we have made provisions for the cooperation of DSOs with TSOs in the information provision chapter of the revised Framework Guideline.

The role of network users and TSOs

We continue to support the principle of minimising the TSO's role by ensuring that network users are incentivised to take primary responsibility for matching their inputs to the system against their off-takes from the system through cost-reflective imbalance charges.

Provision of free tolerances

Tolerances which are free of imbalance charges reduce the need for network users to exactly match their inputs and off-takes to and from the gas transmission system. We agree

with stakeholders that tolerances can help reduce costs and risks faced by network users who may not have access to sufficiently developed balancing markets. However, clearly the provision of free tolerances reduces the incentive on network users to balance their portfolio. Tolerances have therefore been retained as an interim step only in the Framework Guideline. These may only apply where network users do not have access to a liquid wholesale gas market or to sources of flexible gas (including the associated infrastructure) to trade in order to be in a position to balance their portfolios. The level of tolerances shall be approved by the relevant NRA and designed so as not to create discrimination, particularly against network users with smaller gas portfolios.

Pre-determined offtake profiles

We have removed the use of pre-determined off-take amounts from the interim steps as we found that pre-determined and deemed information are often the industry standard for practical reconciliation purposes.

Commercial linepack product

We consider a commercial linepack product a potentially useful tool to enable network users to use the transmission system more efficiently. We acknowledge that there may be concerns with security of supply in some systems and a downside is that some users may be in a stronger position in the market which allows them to be more able to pay for this service. We have therefore retained NRAs' role in approving the design and amounts of commercial linepack products. The NRAs' decisions will be based on objective criteria to safeguard the security of the system. To this end, we have added a criterion for NRAs to assess whether the linepack product would be a more efficient use of the transmission system.

2.3 TSO obligations on information provision

General

Stakeholders commented that the frequency with which network users received information from the TSO needed to be proportional to their balancing obligations. Some responded that, if network users were expected to balance their portfolio by the end of the balancing period, then they would need to know their own and the system's balancing positions during the balancing period.

When asked if there were any additional information requirements that should be included, four respondents suggested also publishing the intra-day consumption of metered customers and information on predicted end of day imbalance charges. 2 respondents thought that it was important for DSOs to be included in the information provision arrangements.

Respondents asked for information to be provided in both the national language and in English, and to consider security when distributing information regarding national infrastructure.

In general, respondents recognise the existence of a cost for TSOs when providing users with additional information in the intra-day, although they acknowledge that its calculation may be difficult and costs are likely to be outweighed by benefits.

System information

19 respondents considered the publication of system information to benefit users by enabling them to understand the balance between supply and demand. Five of these respondents considered that TSOs' balancing actions would reduce as a result. Respondents considered that the other benefits from providing system information would be increased liquidity from improved confidence and trading, and increased transparency which could facilitate market entry. There were specific requests for forecasts of end of day system volumes.

Six respondents were concerned that system information carried a risk of market abuse. One respondent said that the technical capability of the system could be reduced if network users reacted to information at the same time. Most respondents considered the benefits from the provision of system information to exceed its costs.

User specific information and its cost

Respondents said that they supported an obligation on TSOs to provide network users with information on their balancing positions to enable them to take appropriate balancing actions. One of these said that providing this may incur considerable costs, but that the result would be a more competitive and integrated market for flexible gas. This respondent opined that the costs of providing information to systems with a shorter than daily balancing period would be even larger. Most respondents considered the benefits from information provision to exceed the costs of providing it. Six respondents thought that TSOs would already have access to this information, and therefore they considered costs to TSOs to be small.

ERGEG's view**General**

We consider that network users should have both system information (where there is no risk for abuse of the system) and network-user specific information so that they can manage their risks, their portfolio and participate efficiently in balancing markets on a level playing field. We have added a requirement for DSOs to cooperate with TSOs in this regard.

In response to comments from stakeholders in the public consultation and in subsequent meetings, where information is not metered during the daily balancing period, we have included an obligation on TSOs to provide forecast off-take volumes for such customers day ahead, and at least twice during the balancing period unless network users are able to fulfil their balancing obligations with the day-ahead information, e.g. they are cashed out against day-ahead offtake forecasts. In our view, this will help small network users, particularly small and new competitors, to manage their portfolio and will increase competition, particularly in retail markets.

System information

TSOs are required to publish system information in accordance with Chapter 3 of Annex 1 to Regulation (EC) No 715/2009. We agree with respondents' views on the benefits of this legislation, including the NRAs' option to exempt TSOs where there is a risk of market abuse. We have not identified requirements on the supply of system information beyond those proposed in the new Annex to the Regulation (Chapter 3 of Annex 1 to Regulation (EC) No 715/2009).

User specific information

We have proposed obligations on TSOs to provide, free of charge, to each network user the available information regarding its inputs on to the system and offtakes from the system at appropriate intervals during the balancing period so that network users can balance their portfolios. “Appropriate intervals” shall be at least twice a day or more frequently if necessary to allow network users to comply with any within day obligations.

2.4 Balancing periods

Harmonisation of balancing period

27 respondents thought that it was necessary to harmonise the timing of balancing periods as this would facilitate cross-border trade and increase market liquidity. Three of these respondents did not believe complete harmonisation was necessary, one on the basis that the existing Operational Balancing Accounts (OBAs) between TSOs allows trading between the different balancing zones.

29 respondents supported one day for the length of the balancing period. They considered that it offered flexibility and was least complex. Three respondents supported using shorter balancing periods as they considered it to be less administratively burdensome, and would provide better access to flexible gas. Another respondent thought that the Framework Guideline should allow for both cumulative and daily options to allow for system differences.

Seven respondents thought that we should consider a cumulative balancing regime (often referred to as the Dutch system) as either an additional policy option or interim step. Two respondents said that the cumulative and hourly balancing regimes were too complex, a potential barrier to market entry and (in the case of the cumulative regime) unproven. Other parties argued that the cumulative system was less administratively burdensome than a daily balancing regime. 1 party argued that a daily balancing regime was not appropriate for interconnectors.

Many respondents thought that implementation costs of a daily balancing regime would be small. One party said that large costs would be incurred in Austria. Some TSOs stated that, to implement a daily balancing regime, they are likely to have to invest in new IT infrastructure. One party said that this cost could go into the tens of millions.

Within-day obligations

There was mixed opinion as to whether the Network Code should allow TSOs to place obligations on network users’ balancing position during the balancing period: 10 respondents supported this and nine did not. One respondent said that it was important for the Framework Guideline to assign clear responsibilities on within-day obligations. The main argument in favour of within-day obligations was that it helps minimise the TSO’s role and that it may result in more efficient behaviour of network users. The main arguments against within-day obligations were that they may reduce liquidity, increase complexity and, at the extreme, introduce barriers to cross-border trade. Four respondents thought that within-day obligations should only be used to ensure system safety, and 3 saw them as useful interim steps only. Some respondents asked for a more clear definition of the cases where hourly restrictions are required. Where within-day obligations are in place, stakeholders expressed support for them to be placed consistently on all network users (as opposed to groups of network users) and for them to be market based so that locational and temporal system needs are met as efficiently as possible.

EREG's view

Harmonisation of balancing period

We acknowledge that the majority of stakeholders consider that the timing of the balancing period should be harmonised and that its appropriate length is one day. We agree that one day provides the right balance between commercial freedom for network users which benefits liquidity and rules that enable TSOs to balance the system efficiently. We also recognise that such harmonisation would reduce market fragmentation and have initially recommended that the period is to be standardised (based on a daily capacity product's duration) from 5:00 to 5:00 UTC/GMT³ or any other time period harmonized across the EU as agreed by ENTSO-G.

Within-day obligations

In a daily balancing regime individual imbalance charges are determined based on the network users' position at the end of the day. This may mean that the TSO needs to take balancing actions to address imbalances during the day. Where this is the case, it will do so on the wholesale market, as set out in chapter 5 of the Framework Guideline. Where this results in significant costs, such a regime could result in undue smearing across all network users. In those circumstances, to ensure that the balancing regime is market based, i.e. encourages network users to balance their portfolios rather than leaving it to the TSO, it may be appropriate to aim to target these costs at the network users who cause them. As such, certain obligations may need to be placed on network users regarding their balancing position during the day.

We have therefore retained in chapter 7 of the Framework Guideline the option for within-day obligations to be applied on network users, subject to public consultation and NRA approval. In deciding whether or not to approve arrangements for within-day obligations, we have provided for the NRA to consider the benefits in terms of the economic and efficient operation of the system against any potentially negative impacts. We have also provided some criteria which within-day obligations need to meet and proposed for the Network Code to rule out those within-day obligations which could pose barriers to new entrants or cross-border trade. The Framework Guideline has also been changed to allow for charges to be applied to network users failing to meet these obligations, but for these to be cost reflective to the extent possible and subject to NRA approval.

2.5 TSO buying and selling of flexible gas and balancing services

TSO procurement on the wholesale market

30 respondents agreed with our assessment of the policy options in the Initial Impact Assessment. 29 respondents agreed or broadly agreed with the concept of the TSO buying and selling gas on the wholesale market. Respondents commented that the benefits of this principle include increasing competition for balancing gas, increasing market liquidity,

³ 5.00 to 5.00 UTC/GMT means 6.00 to 6.00 CET - Central European Time.

increasing transparency of TSO balancing actions and ensuring non-discrimination.

Many stakeholders acknowledged that implementing this principle immediately may not be realistic in all energy markets and asked us to develop clear and objective criteria to determine the way in which balancing services products are procured in each market. However, all stakeholders responding to this question considered this principle to be achievable in the long run. Some TSOs commented that it was essential for TSOs and market parties to gain confidence in the functioning of wholesale markets for this principle to work.

Most stakeholders commented that the benefits of this policy (TSO procurement on wholesale markets) would outweigh its costs. However, two respondents disagreed and no respondent was able to provide a reliable estimate of implementation costs.

Two respondents asked for a clarification whether the Network Code was going to allow TSOs to procure balancing services in wholesale markets outside its own system.

Balancing platforms

25 respondents believed that balancing platforms should only serve as an interim step, only five commented that balancing platforms should be a permanent feature of balancing regimes. The main arguments against the use of balancing platforms were that they may exclude some providers of flexibility and are not as open and transparent as wholesale markets. The main arguments in favour of the use of balancing platforms were that they may be the only source for the procurement of temporal and locational balancing services and the most market based viable option for transmission systems with insufficient access to a liquid wholesale market.

Other options

Two respondents proposed that TSOs should reserve additional balancing gas in storage facilities. Ten respondents supported allowing TSOs to buy and sell gas through bilateral long-term contracts, but most only supported this where there is a technical reason to do so, and only as an interim step. Respondents believed that TSOs could reduce reliance on long-term contracts through implementing changes to increase liquidity and competition in the market. Some stakeholders commented that such measures would not be market based and should not be included in the Framework Guideline.

One stakeholder asked for the Framework Guideline to set out how DSOs should procure balancing products.

ERGEG's view

TSO procurement on the wholesale market

Stakeholders supported the concept for TSOs to buy and sell balancing services on the wholesale market and considered that this was achievable in the long run. We agree that this will help develop liquidity in wholesale markets and increase transparency of TSO actions. We have therefore retained this key principle. We believe that this wholesale market need not necessarily be in the TSO's own system.

Balancing platforms

Balancing platforms can foster the development of liquid wholesale markets by initiating transparent trading of balancing gas. However, we agree with stakeholders that the use of balancing platforms carries disadvantages compared to TSO procurement on wholesale markets. We have therefore decided that balancing platforms should be an interim step only where wholesale markets are insufficiently liquid for the TSO to procure balancing gas. We have added a definition of liquidity to the Framework Guideline to provide some guidance and transparency for the application of this interim step.

We have also added a provision for neighbouring balancing zones to consider the use of a joint balancing platform where there is sufficient interconnection to increase products available to TSOs and increase cross-border trading.

Other options

We have included the potential for NRAs to exempt TSOs from the requirement to implement a balancing platform and use bilateral contracts instead, where an insufficient level of interconnection would mean that this interim step would not increase liquidity in the market for balancing services. Such bilateral contracts would be subject to NRA approval whose decision would need to be notified to ACER.

In response to stakeholder comments and in line with the KEMA⁴ study we have introduced a requirement for TSOs to define some standardised short-term products for balancing services. TSOs will be required to coordinate with neighbouring markets the design of any additional products for balancing services which may be needed to meet balancing needs that are specific to one system, such as temporal or locational. We have not ruled out the use of long-term products, but we have asked for TSOs to minimise their use and to maximise the use of standardised products. NRAs may design incentives to achieve this. Where bilateral long-term contracts for options for balancing services are in place, we are proposing the introduction of arrangements for the TSO to release back to the market any gas it does not require for balancing purposes and to reduce the volumes of these contracts.

2.6 Imbalance charges

Principles for Imbalance charges in the Framework Guideline

22 respondents agreed that we had accurately assessed the policy options. The majority of respondents agreed that imbalance charges should be harmonised, but some respondents were supportive of only harmonising high level principles across balancing zones.

A large number of respondents (28) supported the notion of imbalance charges to be based on the marginal price where the TSO has taken a balancing action. Two respondents suggested using the system average price where markets are not sufficiently developed. Three respondents did not agree with basing imbalance charges on the marginal price. Two

⁴KEMA report: Study of Methodologies for Gas Transmission Network Tariffs and Gas Balancing Fees in Europe
http://ec.europa.eu/energy/gas_electricity/studies/doc/gas/2009_12_gas_transmission_and_balancing.pdf

commented that the imbalance charges should not be penal. One respondent thought that the marginal price would make balancing energy too expensive for participants.

16 respondents thought that imbalance charges should be applied when the TSO has not had to take a balancing action as they considered that this would provide an incentive for network users to balance. These respondents stated that in this situation, imbalance charges should be based on the price for gas on wholesale markets. Five respondents disagreed and stated that no charges should apply in this case.

12 respondents agreed with the suggested interim step to base the imbalance charge on a proxy where gas market liquidity is insufficient. Respondents in favour of this said that this price should not deter new entry and should be approved by the NRA. Two respondents did not agree with this interim step and warned that it could lead to unduly high or low charges and may deviate from the costs incurred by the TSO to balance the system. There was one request to ensure interim steps were time limited.

Other comments

Respondents asked us to consider how TSO procurement of locational or temporal balancing gas is fed into cash-out prices. One respondent also asked whether imbalance charges would apply to users connected to distribution systems. One respondent asked for DSOs' imbalance charging methodologies to be considered as well.

Respondents suggested for us to consider other options such as capping imbalance charges or using an NRA approved, administered imbalance charge.

There was confusion regarding the meaning of dual priced cash-out charges. Some commented that this could conflict with the commercial incentive to balance individual portfolios.

Most of the parties responding to the relevant question pointed out the efficiency benefits of harmonised principles for imbalance charges and implied that implementation costs were likely to be low and outweighed by the benefits.

ERGEG's view

Principles for Imbalance charges in the Framework Guideline

We consider that the Framework Guideline should provide for common principles for the methodology used for setting imbalance charges. We do not believe that complete harmonisation of imbalance charges or their methodologies will result in the right solutions, given differences in market development, levels of interconnection and types of systems.

Given the support for the use of marginal prices and the mixed feedback on dual imbalance charges, we have decided to retain and better explain our policy proposals. We do not consider that the marginal price will be penal where the TSO is buying gas on an equal footing with other network users. We have allowed for tolerances as interim steps in chapter 4 of the Framework Guideline. This will reduce risk exposure for network users in less developed markets.

In general, respondents were supportive of an imbalance charge to be applied even where the TSO has taken no balancing action. We agree that this creates appropriate incentives for network users to balance. We agree with respondents in that the charge in this instance should be based on the price for gas on wholesale markets.

Our proposed interim step now reflects stakeholders' comments that, where wholesale markets are insufficiently liquid (and therefore the TSO's actions do not generate appropriate price signals) the imbalance charge can be based on an administered price, regulated by the NRA. We have made clear that this cost should not deter market entry and provide appropriate incentives for network users to balance their portfolios. We have addressed the comment on a time limit for interim steps in the compliance section (chapter 10 of the Framework Guideline), where, rather than giving one deadline for the removal of interim steps, we are proposing an obligation on TSOs to consult on and publish a roadmap towards the removal of interim step which needs to be approved by NRAs.

Other comments

Regarding locational and temporal balancing actions, we have now clarified that these are excluded from the determination of imbalance charges. It will be up to NRAs to ensure that TSOs can recover the full cost of their balancing activities. We consider that where TSOs wish to use within-day obligations, costs may be targeted to those users who fail to comply with such obligations as set out in chapter 6 of the Framework Guideline, subject to public consultation and approval by the relevant NRA.

2.7 Cross-border cooperation

ERGEG's proposed policy options

21 respondents agreed or broadly agreed with our assessment of policy options, although four of these considered that it may be too early to establish detailed rules on cooperation in cross-border balancing in the Framework Guideline. Six respondents disagreed with our assessment of policy options. One respondent suggested that cross-border cooperation should be tackled in smaller balancing zones first. Three highlighted a risk that the availability of commercial transmission capacity would be reduced as TSOs would book interconnection capacity purely for balancing purposes. Others commented that many of our proposed policy options would increase the TSO's role beyond residual balancing.

Merging balancing zones

There were calls for any merging of balancing zones to not be rushed. We were asked to conduct a thorough impact assessment before merging any balancing zones. Some doubted whether balancing zones could merge because of the interconnection costs involved, One questioned whether multiple balancing zones was a problem at all. One respondent commented that it may not be efficient to have one single European balancing zone. On the other hand, some respondents are in favour of larger balancing zones, extending them beyond national borders.

Additional options

Two respondents said that the Framework Guideline had not considered cross-border cooperation whereby network users transport gas between balancing zones according to the price spread between these zones. When asked if there were any other relevant policy

options on cross-border cooperation, three respondents noted that TSOs should be responsible for developing new cross-border interconnections, while two preferred shipper-led cross-border trade. Two respondents said that the Framework Guideline should also address the merits of implicit auctions.

Operational Balancing Accounts (OBAs)

17 respondents supported the notion of Operational Balancing Accounts (OBAs) to address steering differences. Respondents were split on whether OBAs should be mandatory though. One respondent suggested that TSOs define what “steering differences” are before this decision is made, as there was resistance to TSOs moving large amounts of balancing gas between zones.

ERGEG’s view

ERGEG’s proposed policy options

Stakeholders set out that it may be too early to establish detailed rules on cross-border balancing arrangements. This is one of the reasons why this section of the Framework Guideline emphasises TSOs’ role in exploring options for cross-border cooperation rather than a defining a prescriptive model. We continue to believe that TSOs could explore proposals which would make balancing across borders more efficient, particularly where they need to take balancing actions. This is what our proposed policy options are meant to achieve. The Framework Guideline therefore suggests for TSOs to make and assess such proposals. To ensure that the proposals are in line with market based balancing arrangements as set out in the Framework Guideline, have no adverse impact on cross-border trade and do not result in inefficient use of capacity, they will be subject to NRA approval taking into account ACER’s opinion.

Merging balancing zones

We agree that the merging of balancing zones should be considered carefully. In light of ERGEG’s work on a “Conceptual model for a European gas market”, we have clarified that TSOs’ proposals should integrate markets, which may include merging or coupling markets. Given that several balancing zones in Europe have recently merged, we believe that it is important for TSOs to explore opportunities to do so and assess their economic and physical feasibility.

Additional policy options

Some stakeholders pointed out that network users are best placed to buy electricity from where it is valued least and deliver it to where it is valued most. Throughout this Framework Guideline the principle remains for cost-reflective imbalance charges to incentivise network users to balance their own portfolio. We expect network users to procure balancing gas where it is cheapest to do so, including across borders. We have not set this out as an additional policy option in this section, but this should be clear from the section on TSO and shipper roles and responsibilities (chapter 4 of the Framework Guideline). We do not propose for TSOs to compete with this activity.

We have included as an additional option joint balancing platforms between TSOs in neighbouring balancing zones to buy and sell gas where this is efficient. In light of stakeholders’ comments, we have added a reference to implicit auctions which may be an

alternative or complement to merging balancing zones. To reflect some comments which we received on chapter 5 of the Framework Guideline (“TSO procurement”) and the KEMA report, we have introduced requirements for TSOs to consult on the harmonisation of some balancing products which should also be beneficial to cross-border cooperation. We do not consider that financing new interconnection capacity is within the scope of this Framework Guideline.

Operational Balancing Accounts (OBAs)

We have retained the provision for OBAs as an efficient way for TSOs to address steering differences. We do not envisage significant amounts of balancing gas to be moved through these arrangements.

Annex 1 – ERGEG

The European Regulators for Electricity and Gas (ERGEG) was set up by the European Commission in 2003 as its advisory group on internal energy market issues. Its members are the energy regulatory authorities of Europe. The work of the CEER and ERGEG is structured according to a number of working groups, composed of staff members of the national energy regulatory authorities. These working groups deal with different topics, according to their members' fields of expertise.

This report was prepared by the Gas Balancing Workstream of the Gas Working Group.

Annex 2 – List of abbreviations

Term	Definition
ACER	Agency for the Cooperation of Energy Regulators
CEER	Council of European Energy Regulators
DSO	Distribution System Operator
EC	European Commission
ENTSOG	European Network of Transmission System Operators for Gas
EREGG	European Regulators Group for Electricity and Gas
EU	European Union
GGP	Guidelines of Good Practice
NRA	National Regulatory Authority
OBA	Operational Balancing Accounts
TSO	Transmission System Operator