

2nd November 2010

Draft ENI response to the ERGEG consultation on FG Balancing

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

Question 1: Do you agree that the problems identified in the problem identification chapter are the main ones? Are there additional problems that should be addressed within the gas balancing pilot framework guideline?

The chapter on problem identification provides a good description of what are the main issues relating to the balancing of gas transmission networks in the EU.

However some additional issues should be addressed:

- the need to ensure that TSOs are able to obtain the information they need from gas systems connected to the transmission system they operate, in particular from distribution networks ;
- the need to establish a standardised procedure for nomination and renomination in order to provide for a coordinated interaction between different energy markets.

Question 2: Do you agree with the scope (section 1) and objectives (section 3) of this pilot framework guideline? Are there policy issues that should, but are not currently addressed by the draft document?

Eni supports the scope and the objectives of this pilot framework guideline. We believe that harmonisation of different balancing regimes within EU borders will facilitate gas trade and support the development of competition.

Indeed, shippers must rely on “a fair, non-discriminatory and transparent system” based on market criteria and needs . Shippers also need to have at their disposal timely and reliable data on their balancing status. For this reason ERGEG must consider how TSOs and DSOs cooperate in order to provide shippers with the information they need.

Question 3: In your view, should the European network code for gas balancing lead to an amendment of national balancing rules? If so, how detailed should the European target model be?

In Eni's view the European network code should lead to amendments of national balancing rules in order to improve harmonization between different balancing regimes. At the same time it should be sufficiently flexible in application, for example by taking account of different technical characteristics of existing network infrastructure.

Question 4: Do you agree with the approach of defining a target model for the network code and allowing interim steps subject to NRA approval?

Yes, we do. Interim steps are the best way to guarantee flexibility and graduality in the implementation of target model.

Question 5: What timescale is needed to implement the provisions in the target model outlined in Part II after the network code is adopted? Is 12 months (as in section 10) appropriate or should it be shorter or longer?

Introducing a fixed timescale would not be an appropriate choice giving the different starting point of each TSOs.

The implementation process of the target model, that suits balancing regime different needs, imply that NRAs carry out a regular review of the progress of each TSO's implementation. They should ensure that the TSO moves through any interim steps towards each element of the target model as soon as is reasonably practicable.

Question 6: Should the pilot framework guideline be more specific regarding the purpose and policy objectives for network codes (section 3), in particular areas including nomination procedures?

In Eni's opinion nomination procedures need to be more specified, even if FG Balancing is not necessarily the best location for this.

Question 7: With reference to section 3 (proposed policy objectives), do you have comments on how Article 21 of the Gas Regulation 715/2009 should be reflected in the gas balancing network code?

Eni believes that the FG Balancing is largely consistent with Article 21 of the Gas Regulation 715/2009.

The role of network users and TSOs

Question 8: Is it necessary to have a harmonised approach to the network user and TSO roles regarding gas balancing?

We strongly support a harmonised approach to the network users and TSOs roles that encourage and facilitate trade across Member States whilst safeguarding security of supply and the safe operation of the network, by taking into account different features of EU balancing regimes.

Question 9: What are your views on the proposals for the target model to be reducing the need for TSOs to undertake balancing activities?

Eni supports the idea that in a harmonised and market oriented balancing system, TSOs will minimize its balancing actions (*residual role*). This would be the result of a system in which network users have the only responsibility and the right incentives to balance their own gas inputs and off-takes.

In this connection we express some concerns, about this interim step: "*where long term contracts for the procurement of flexible gas are already in place, the network codes shall provide for TSOs to release back to the market any surplus gas which is not required for its balancing purposes in any given balancing period, in order that network users have access to greater volumes of flexible gas*". In fact if TSOs assumed a commercial profile, as it would seem, the liberalization principles would not be respected.

Question 10: Is it appropriate for the target model to impose within-day constraints on network users? If so, should such constraints be imposed on all network users or only on certain groups of network users? If within-day constraints should only be imposed on certain groups of network users, which ones are these? How could this be justified?

Eni believes that it is not appropriate for the target model to impose within-day constraints on network-users. We support the exclusive application of a pure daily balancing system without hourly or within day penalties, with the payment at the end of the gas day. On the other hand we welcome any additional information within day that would allow for a better management of individual network users balancing portfolio.

Question 11: Is balancing against a pre-determined off-take profile a useful interim step?

Eni deems necessary further explanation on pre-determined off-take profile.

Question 12: Should TSOs have the option to sell flexibility provided by the gas transmission pipelines system (*linepack*) subject to the NRAs' approval? If so, should this be mandatory?

Given that the linepack management is a technical task of TSOs, we believe that this theme is not of high priority since a harmonised balancing framework guideline is not yet implemented.

Question 13: Should the target model enable TSOs to provide tolerances to market participants for free or should this be an interim step?

Tolerances could be part of an interim step. In particular they could be introduced for customers connected to distribution networks since their meter readings are not frequent enough to allow for optimal balancing management.

TSO obligations on information provision

Question 14: Are there any additional information requirements that you believe should be included? In particular, should the pilot framework guideline oblige TSOs to provide information beyond the requirements set out in the revised Article 21 and Chapter 3 of Annex 1 to Regulation (EC) No 715/2009 (as recently approved through comitology)? If so, please provide details?

We don't think that the pilot framework guideline should oblige TSOs to provide information beyond the requirements set out in the revised Article 21 and Chapter 3 of Annex 1 to Regulation (EC) No 715/2009.

Question 15: What are the benefits and disadvantages of TSOs providing network users with system information?

The more TSOs can provide well-timed and sufficiently comprehensive information about both the system status and the individual user's own status (confidentially), the more the network users can optimally manage their balancing portfolio. As a result of this, there will obtain the minimization of the TSOs role and the overall cost of balancing. All the information

should be published in the national language as well as, at the same time, the translation into English.

Question 16: What are the costs of TSOs providing network users with system information? How do these compare against the benefits and/ or disadvantages?

This question should be answered by TSOs.

Balancing periods

Question 17: What are your views on our assessment of the policy options?

In our view the IIA (Initial impact assessment) provides a comprehensive analysis of the three policy options: a hourly system; a daily system and a cumulative system.

Question 18: Are there relevant additional policy options on balancing periods which have not been considered in this section? Should these be considered going forward?

Eni believes that the main policy options have been highlighted.

Question 19: Is it necessary to harmonise balancing periods? If so, what are the benefits of a regional or pan-European harmonised balancing period? If not, why is it not necessary? Please explain your answer.

Eni believes that the harmonisation of balancing period is urgently needed. In fact the fragmentation of balancing periods hinders the creation of one single European gas market.

Question 20: If you agree with a harmonised balancing period, what do you consider is the appropriate length of the balancing period?

As explained in answer 10, Eni supports the application of a pure daily balancing system without hourly or within-day penalties.

Question 21: Do you agree with the target model? (Please explain your answer).

Eni believes the target model should be daily balancing, with individual shipper imbalances being cashed out at the end of the day. This would mean that shippers only incur into imbalance charges according to their individual portfolio position at the end of the day.

Question 22: What would be the costs of implementing the target model in (and beyond) your Member State or balancing zones(s) (as the case may be)?

In order to guarantee a successful implementation of a target model which harmonises different balancing regimes across the EU, a set of proper interim steps minimizing the overall cost should be introduced. We believe that a consistent balancing model throughout Europe can be better achieved if the interim steps are tailor made on all existing different balancing systems.

TSO buying and selling of flexible gas and balancing services

Question 23: Do you agree with our assessment of the policy options?

Question 24: Do you agree with the target model? (Please give reasons). If so, what do you consider are the benefits and disadvantages of the target model?

Policy options are well described in the IIA. Eni supports the idea of market based methods, to be applied by TSOs to procure energy for the residual balancing of the system.

In particular TSOs should procure balancing gas in a transparent and open manner from a centrally cleared within-day trading market, which can be used also by network users to manage their individual imbalances. As an interim step a dedicated balancing platform may be used to procure gas.

Question 25: What are the costs of implementing the target model in your Member State?

Question 26: What interim steps, if any, may be needed in your Member State or balancing zone(s)?

As answered before a gradual and tailor made approach to the implementation of the target model should avoid excessive costs for Member States.

In any case we believe that should be better exploited the potential of storage for balancing purpose, preserving the commercial freedom to develop merchant storages.

Question 27: Is it appropriate for balancing platforms to be part of the target model subject to NRA approval, even where markets are sufficiently liquid to enable TSO procurement on wholesale markets?

We think that balancing platforms could be considered an interim step toward the target model in which wholesale market is the proper location where procuring balancing gas.

Question 28: Is it appropriate for TSOs to procure balancing services on the wholesale market and/or is it appropriate for these to be procured on the balancing platform? Should TSOs be permitted to reserve long-term contracts for flexible gas and/ or associated capacity for this purpose?

Giving that in a market oriented balancing system TSOs have an active role just for the residual balancing of the system, they should procure services on the same wholesale market where network users are simultaneously procuring/selling gas for their own portfolios. As an interim step we think that TSOs may use balancing platform for flexible gas, by avoiding actions that could set out a commercial profile.

Question 29: In your view is it possible in your market to reduce TSOs' reliance on long-term products? If so, how may this be best achieved?

Eni believes that effective implementation of the 3rd Package should facilitate an improvement in wholesale market liquidity which would enable most TSOs to reduce reliance on long-term products to a minimum.

Imbalance charges

Question 30: Do you agree with our assessment of the policy options?

Question 31: Do you agree that methods for calculating imbalance charges should be harmonised? If so please explain what the benefits may be. If not, please explain why not.

Eni broadly agrees with the assessment of the policy options.

Imbalance charges should be based on objective criteria meeting the standards of fairness and non-discrimination. Besides, in order to be compliant with the cost reflective principle, we have a preference for imbalance charges being based on marginal prices. We believe that this system can provide for adequate incentives for shippers to balance their balancing portfolio.

Question 32: What are your views of the target model? In particular, please provide your views on:

- **Whether an imbalance charge should be applied when TSOs do not take balancing actions;**
- **What the imbalance charge should be based on, if it is applied when the TSO has not taken a balancing action, whether imbalance charges should be dual or single priced;**
- **Whether imbalance charges should be based on the marginal price.**

Eni agrees with the target model, in particular for imbalance charges to be based on the marginal price. Besides in an end of day cash out model, an imbalance charge will need to be applied even if the TSO has not take balancing actions.

Question 33: What would be the costs and benefits of implementing your preferred options in your Member State?

Question 34: What are your views on the interim steps in the document?

In our view a marginal price approach to imbalance charges would best fit the needs of current balancing system. In addition we agree that the option of applying interim steps will be needed in several markets and welcomes the inclusion of this in the document.

Cross-border cooperation

Question 35: Are there any other relevant policy options on cross-border cooperation that should have been included in this section?

Question 36: Do you agree with our assessment of the policy options in this section?

The main purpose of the FG on balancing is to move towards a greater market integration. This will result, as a long term objective, in a merger of balancing zones across Member States. Eni broadly agrees with this aim where this will be “*technically feasible and economically reasonable*”. However, it may be premature to establish detailed rules on convergence through the Network Code, as suggested in paragraphs 9.4 and 9.5.

Question 37: Are Operational Balancing Accounts (OBAs) useful to deal with steering differences? Should the network code make it mandatory on TSOs to put in place OBAs?

Eni needs further clarification about OBAs.