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Response to Draft Pilot Framework Guideline – IIA - E10-GNM-13-04

Dear Fay,

This document provides ENTSG's high level feedback to the above consultation. More detailed comments are supplied in the appendices to this letter.

Introduction

Gas transmission systems require an approximate match between inputs and offtakes to ensure the integrity of the system and the reliable delivery of gas to offtakes, whether they be consumers or adjacent system operators. Managing the implications is a 24 hour a day, 365 day a year activity and therefore it is essential that the interactions between the commercial model seen by market players, and the activities of TSOs in their residual and system management roles, ensure the continued integrity of the European grid.

It is therefore of the utmost importance that ENTSG, ERGEG/ACER and wider stakeholders work closely together to achieve progress towards balancing regime design that better promotes functioning of the European energy market. ENTSG will facilitate balancing developments and will continue to interact with all stakeholders. ENTSG's aspiration is to be a fair partner to all and to deliver progress in a timely and efficient manner to enable, wherever possible, progress towards a European energy market.

The framework guideline must provide principles and sufficient guidance to enable timely progress

in the network code development phase. Key elements of the balancing regime must be locked in at this stage to enable development of the network code within the time period defined by the third package process.

Content

ENTSOG welcomes ERGEG's framework guideline document since it starts to provide clarity about the preferred approach to network code development. The proposed balancing model is based on a market based balancing concept, in which the market is used, primarily by properly incentivised system users, and secondarily, by TSOs to buy or sell gas to maintain system integrity. Wherever and whenever possible TSOs should transact in the wholesale market. The wholesale market should enable access to physical products although the TSO may also require direct access to physical tools. Whilst recognising that a simple, user friendly commercial framework is an aspiration for most actors a simple commoditised daily balancing regime would, on its own, be unlikely to deliver flow rates and input/offtake patterns that will be within acceptable operational envelopes for many of the transmission systems. Probably the most challenging of the framework guideline and resultant network code will be how to address this underlying complexity. One of the key aspects of balancing is the distribution of the respective roles and responsibilities between system users and TSOs. An EU-wide common model which accommodates the wide range of TSOs from simple single pipelines to complex meshed networks with multiple connection points is preferred. Therefore implementation approaches may be different from system to system reflecting local infrastructure (which determines system capability) and market environment (particularly liquidity and market confidence) and therefore implying different levels of activity/cost distribution between TSOs and network users.

ENTSOG believes that there is a risk that the aspiration to keep commercial regime simple may increase TSO role rather than devolve responsibility and improve competition. The trade-offs need careful consideration to avoid unintended consequences.

The framework guideline proposal does not provide any guidance about the criteria that might be used to establish whether within-day constraints should be applied to network users and if so whether anything other than a within-day gas cash-out regime can be used to deliver appropriate incentives to system users. This is probably the most critical element of the framework guideline and must be addressed prior to code development.

New roles defined by the balancing framework guideline might require major evolution of systems, operational practices and information requirements. Communications between system users and connected system operators will change. The framework guideline should enhance the role of TSOs as info gatherers, user and provider. Therefore it is essential that the cooperation of end-users, DSOs and other connected system operators as necessary is ensured.

ENTSOG welcomes the introduction of possible intermediate steps towards the target model. The framework guideline implies fundamental changes for many system users and TSOs. As we move towards new rules embracing market based approaches it will be essential that confidence is

established for system users and TSOs; a single transition step towards the target model might therefore not be sufficient. A stepwise approach should be envisaged to enable orderly progress with objective criteria used to inform decision to move to the next step.

TSOs have traditionally held long term gas flexibility services and TSOs could seek to reduce such service usage and to offer any surplus flexibility into the market to enhance liquidity where system users assume a greater role and TSOs increase reliance on balancing platforms and/or wholesale market. However it is essential that TSOs are enabled to have access to balancing service arrangements until liquidity and confidence in the wholesale market and/or balancing platforms indicates that longer term balancing service arrangements are no longer essential.

ENTSOG believes that there is too much emphasis on merger of balancing zones. While larger zones may enhance trading opportunities they may detract from physical system operational efficiency. Additionally mergers may create additional revenue and tariff implications. Therefore priority should be to introduce market based balancing concepts that allow market players to deliver flexibility cross-border, and by doing so, to converge price differentials and better integrate markets.

It is unlikely that any balancing regime will be able to precisely target costs to those system users that are causing those costs. The financial incentives on system users should seek to apportion costs fairly. However ENTSOG advocates that net cash flows associated with the TSO's residual system balancing activity and other system user financial credits and charges should be the subject to a financial neutrality concept where any net cost or credit is distributed across all system users. This concept should be recognised in the framework guideline.

The balancing regime, as addressed in the framework guideline, should be applicable under "normal circumstances". Other arrangements are expected to apply under emergency situations and therefore framework guideline should acknowledge this.

The viability of market based balancing depends crucially on having multiple suppliers and/or purchasers to induce competitive behaviours and the resultant efficiencies. Network access rules (including balancing and capacity) may not be sufficient to achieve this; enhanced access to associated infrastructures (particularly storage and LNG facilities) may be essential to deliver the required competitive environment.

Process points

The development of a framework guideline and network code must be considered as a single process. A high quality framework guideline to provide sufficient clarity and guidance to focus network code development activity will be an essential deliverable for the overall project. Stakeholder involvement will be critical in the first part of the code development process; a high quality draft code for public consultation will be essential around half way through the maximum allowed twelve month development period. Fundamental rewrite after this point in time would not be achievable.

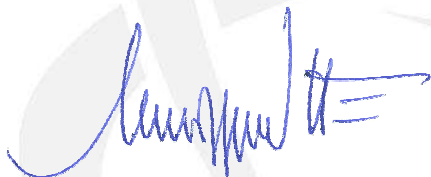
The third package pilot experience demonstrates high levels of co-operation between Commission, ERGEG/ACER, ENTSOG will be necessary throughout this process (and to ensure coherence with other work e.g. interactions with capacity code and guidelines). ENTSOG propose regular tri-partite meetings to ensure high quality of framework guideline and the network code. ENTSOG does not believe that it is credible that ERGEG can deliver sufficient quality in the finalised framework guideline without further iteration and interaction with ENTSOG.

Next steps

ENTSOG/TSOs will act as facilitators to deliver consumer benefit. TSOs cannot take the costs for the benefit without being fairly rewarded. Positive incentives that reward timely deliver are to be encouraged. Greater certainty of regulatory processes is essential to achieve timely implementation. ENTSOG must be a partner in the evolution of the proposed framework guideline and therefore ENTSOG propose to interact with ERGEG during the refinement process so that we have a much better understanding of the proposal under consultation and the rationale, and intent of any changes made in ERGEG's finalised proposal. This requested partnership will ensure robustness in the final proposal ensuring that the necessary framework guideline revisions safeguard against the introduction of unanticipated and adverse consequences.

ENTSOG also propose to make regular checks on progress throughout the network code process with ERGEG during our period of leadership of the network code development process to ensure that risks of misinterpretations and misunderstandings between ENTSOG and ERGEG are minimised.

Additionally we will be pleased to meet and discuss any aspect of the balancing developments with any stakeholder.

A handwritten signature in blue ink, appearing to read "Vittorio Musazzi". The signature is fluid and cursive, with a long horizontal stroke at the end.

Vittorio Musazzi

ENTSOG General Manager

Appendices:

1. ENTSOG General Response to Initial Impact Assessment (E10-GNM-13-4)
2. ENTSOG Specific Response to Questions raised in E10-GNM-13-03b