

Gaslink's response to "Gas Balancing Rules on European Gas Transmission Networks Draft Pilot Framework Guidelines"

27th October 2010

Gaslink welcomes this opportunity to respond to the 'Gas Balancing Rules on European Gas Transmission Networks Draft Pilot Framework Guidelines' as published by ERGEG on the 18th of August 2010.

Moffat is the interconnection point between Ireland and Great Britain. Approximately 96% of gas for the Irish market is sourced at this point. There are extensive arrangements in place between Irish and GB Shippers regarding trading of gas at this interconnection point. Therefore, Irish Shippers have access to a large liquid wholesale market in Great Britain.

Condition 4 – TSO Information Provision Obligations

Gaslink welcomes Condition 4.4 of the target model which is consistent with how Gaslink currently operates. With regard to Condition 4.5 of the target model, Gaslink questions the extent to which TSO's can be responsible for providing accurate forecasts relating to either the forecast amount of gas in the transmission system at any given time or the forecast aggregate end of day imbalance position of all network users. Gaslink seeks further clarification from ERGEG on the process and methodology to be used in order to produce accurate forecasts.

With regard to the requirement for TSO's to produce updated hourly balancing information, as outlined in Condition 4.5, Gaslink's view is that this is expensive, unrealistic and impractical given the fact that a daily balancing regime is to be implemented across Europe.

Finally, of the requirement for TSO's to publish 'the amount of gas in the transmission system at the start of each day and the forecast amount of gas in the transmission system at the end of each day', as set out in Condition 4.5, Gaslink is concerned that this requirement could lead to potential abuse by network users resulting in TSO's and End Users paying higher prices for balancing gas and gas respectively. Gaslink would also question how a National Regulatory Authority would satisfy itself that the provision of this information could give room to potential abuse by network users?

While Gaslink is cognisant that Condition 4.5 above is a direct replica of Condition 3.4 (5) in Chapter 3 of Annex 1, Regulation (EC) 715/2009, Gaslink reiterates its concerns regarding the scope for potential abuse of this condition by network users.

Condition 5 – Network User and TSO Roles & Responsibilities

Gaslink is pleased by the target model emphasis that is placed on network users under Condition 5.5 to take ‘primary responsibility for matching their inputs into and off-takes from the system’ and to reduce the TSO’s role in residual balancing as much as possible.

With regard to Condition 5.6 within the target model, Gaslink would like a number of clarifications in respect of the proposed text. As per this condition ‘network users shall have access to a liquid short-term market’. Given this requirement, who is responsible for providing access to a liquid short-term wholesale market? Also, this condition does not stipulate that this wholesale market must be located within the same country as the TSO. Therefore, Gaslink seeks clarification as to whether the wholesale market must be confined by domestic borders in respect of the entire Framework Guideline. As mentioned earlier, the Irish market has access to a neighbouring liquid wholesale market in Great Britain and we consider that this meets the Framework Guideline requirements. We seek clarification on whether this access would meet the requirements of the balancing framework guidelines.

With regard to the interim steps proposed under the same condition, further clarification is required as to what is meant by a ‘forecast off-take profile’ and how an imbalance charge can be calculated using this parameter?

With regard to Condition 5.9 and the provision of ‘tolerances level’ to network users, Gaslink is keen to understand how this could be implemented in a non-discriminatory basis. Therefore Gaslink proposes that if tolerances are to be offered to market participants, they should be based on a defined customer category or type.

Condition 6 – Balancing Period

Gaslink is pleased with the introduction of daily balancing regime throughout Europe as described in Condition 6.3. Furthermore, Gaslink is pleased to see that the framework guidelines continue to facilitate ‘after day trading’ by Shippers as outlined in Condition 6.1.

TSOs are responsible for the operational security and safety of the system and thus wish to maintain discretion in applying within-day restrictions with respect to network users. Within-day restrictions on network users are not necessarily just a balancing issue.

Condition 7 – Imbalance Charges

With regard to the target model outlined in Condition 7.6, and detailed more specifically in Condition 7.7, the balancing framework guidelines seem to work on the assumption that balancing

actions are taken on a daily basis and that balancing actions are linked to a Shippers daily imbalance position. This assumption is not correct. For example, balancing actions may be required as a result of a long period of accumulated daily system imbalances. We would therefore enquire how the TSO would attribute the costs of a balancing action directly to network users that “contribute to the overall imbalance of the system”. We are unclear as to both the requirements, and practical application, of Conditions 7.6 and 7.7 and therefore Gaslink would be grateful of further clarification of both these Conditions.

With regard to Condition 7.8, clarifications are sought as to the manner in which the ‘price on the wholesale market’ is calculated. Is it based on the system average price or the system marginal price?

Condition 8 – Buying and Selling of flexible gas and balancing services by TSO’s

With regard to the target model outlined in Condition 7.6, and detailed more specifically in Condition 7.7, the balancing framework guidelines seem to work on the assumption that balancing actions are taken on a daily basis and that balancing actions are linked to a Shippers daily imbalance position. This assumption is not correct. For example, balancing actions may be required as a result of a long period of accumulated daily system imbalances. We would therefore enquire how the TSO would attribute the costs of a balancing action directly to network users that “contribute to the overall imbalance of the system”. Further, we believe that it would be inefficient and costly for TSO’s to take balancing actions on a daily basis where it is not necessary. Where balancing actions are taken on a daily basis, we are concerned that this may have a disproportionate effect on new and smaller network users (Shippers). We are unclear as to both the requirements, and practical application, of Conditions 7.6 and 7.7 and therefore Gaslink would be grateful of further clarification of both these Conditions.

Condition 9 – Cross border co-operation

Gaslink welcomes the cross-border provisions contained within Condition 9 of the framework guidelines for balancing. However this requirement may be complex to implement.

Consultation Questions

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?

Please refer to the ENTSOG response for further comment.

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?

Please refer to the ENTSOG response for further comment.

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?

Please refer to the ENTSOG response for further comment.

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?

Please refer to the ENTSOG response for further comment.

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?

Please refer to the ENTSOG response for further comment.

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?

Please refer to the ENTSOG response for further comment.

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?

Please refer to the ENTSOG response for further comment.

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

Gaslink agrees with a harmonised approach for network users and TSO's. However Gaslink is cognisant that a single harmonised approach may not be feasible throughout Europe given the operational differences between systems. Gaslink advocates flexibility within the balancing framework guidelines to accommodate these differences.

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

Gaslink welcomes ERGEG's proposals to reduce the TSO's role in residual balancing.

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?

Gaslink welcomes the provision of within-day restrictions within the balancing framework guidelines. These within-day restrictions will prove particularly useful to TSO's in emergency scenarios.

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

Gaslink would like further clarification from ERGEG as to what is meant by an '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?

Gaslink does not object to the option of TSO's selling linepack, subject to NRA approval. Gaslink is of the opinion that this should not be mandatory.

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

Gaslink seek clarification from ERGEG as to what 'tolerances' are, in addition to what 'free tolerances' are? Gaslink is hesitant to promote 'free tolerances' as this concept could potentially reduce the requirement on Shippers to take primary responsibility for balancing their portfolio.

Gaslink would be pleased to endorse a model of tolerances whereby Shippers would be charged/credited with a market price for imbalances within a particular threshold. When Shippers imbalances would deviate outside of this threshold, Shippers would be charged/credited a System Marginal Price.

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?

Gaslink has outlined its concerns relating to the provision of information earlier in this document.

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

Gaslink has a number of concerns regarding the 'TSO obligation on information provision' contained within the balancing framework guidelines. These have been addressed earlier in this response.

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

At this stage it would be premature to predict the costs associated with providing network users with the system information outlined in the balancing framework guidelines. Gaslink would however like to stress that costs associated with the provision of information to network users are often significant.

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

Gaslink welcomes a daily balancing regime with an end of day settlement of imbalances.

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?

No.

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.

As outlined in the KEMA report harmonisation of balancing periods is not essential. However harmonisation of balancing period does have some benefits, which include integrating markets throughout Europe, and increasing market liquidity.

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

See answer to Question 19.

Question 21 - Do you agree with the target model?

Yes.

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)?

At this stage it would be premature to predict the costs of implementing the target model.

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

Please see ENTSOG response.

Question 24 – Do you agree with the target model ?

Gaslink has a number of concerns relating to the target model for ‘TSO buying and selling of flexible gas and balancing services’. These have been outlined earlier in this document.

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

At this stage it would be premature to predict the costs of implementing the target model.

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

Consistent with ENTSOG, Gaslink is of the opinion that interim steps will be necessary for both TSO’s and network users to gain confidence in the evolution of the system before the goal of the target model can be achieved. TSO’s may need to gain experience of using both balancing platforms and the wholesale market in order to gain the necessary confidence in market based balancing procurement of gas.

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?

Gaslink advocates the use of balancing platforms as a method for TSO’s to procure balancing gas.

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

Where markets are insufficiently liquid, Gaslink would advocate the use of long-term contracts for the procurement of flexible gas. Long term contracts (i.e. One year in length) should be offering via a competitive tendering process in an open and non-discriminatory manner.

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?

To reduce a TSO's reliance on long term products, the TSO would either have to use the wholesale market or a balancing platform, and would have to do so 'on an equal footing' with all network users. However, please see our earlier concern outlined in our response to Condition 8.

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

Gaslink would like clarification from ERGEG as to how TSO's are expected to recoup costs associated with system balancing?

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.

Gaslink does not object to harmonised methods for calculating imbalance charges. Imbalance charges should place appropriate incentives on network users to balance their portfolios. Harmonised methods for calculating imbalance charges will lead to increased market integration throughout Europe.

Question 32 - What are your views of the target model?

With regard to the target model outlined in Condition 7.6, and detailed more specifically in Condition 7.7, the balancing framework guidelines seem to work on the assumption that balancing actions are taken on a daily basis and that balancing actions are linked to a Shippers daily imbalance position. This assumption is not correct. For example, balancing actions may be required as a result of a long period of accumulated daily system imbalances. We would therefore enquire how the TSO would attribute the costs of a balancing action directly to network users that "contribute to the overall imbalance of the system". Further, we believe that it would be inefficient and costly for TSO's to take balancing actions on a daily basis where it is not necessary. Where balancing actions are taken on a daily basis, we are concerned that this may have a disproportionate effect on new and smaller network users (Shippers). We are unclear as to both the requirements, and practical application, of Conditions 7.6 and 7.7 and therefore Gaslink would be grateful of further clarification of both these Conditions.

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

At this stage it would be premature to predict the costs of implementing the target model.

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

Gaslink agrees with the interim steps outlined in the balancing framework guidelines

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

Please refer to ENTSOG response for further comment.

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

Please refer to ENTSOG response for further comment.

**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?**

Please refer to ENTSOG response for further comment.