

**2<sup>nd</sup> Meeting of Ad-hoc Expert Group for Gas Balancing**

17-05-2010 from 10:30 to 16:00 hours

(CEER Premises, Brussels)

**DRAFT MINUTES (V 1)**

<b>Participants</b>
Alberto GONZALEZ
Christophe PARDIEU
Stephen ROSE
Steinar SOLHEIM
Gunnar STECK
Fiona STRACHAN
Christian THOLE
Jan VAN DIJK
Giovanni ZACCO
Ruud VAN DER MEER (ENTSOG)
Alexandre SOROKO (ERGEG)
Ulrike ABERT (ERGEG)
Wolfgang WEILGUNY (ERGEG)
Lorenzo MONTEROSSO
Pamela TAYLOR (ERGEG, Chair)
Pavanjit DHESI (ERGEG)
Erik SLEUTJES (ERGEG)
Ester TUCEKOVA (ERGEG)

## **1. Opening**

### **1.1. Approval of the agenda**

The Agenda was approved without changes.

### **1.2. Approval of the minutes**

The minutes were approved without changes.

### **1.2. Today's objectives**

Ms Taylor opened the meeting and recalled the current status of the work on the FG and timeline. The approval of the consultation document by the ERGEG General Assembly is foreseen for 6 July. The intention is for the draft framework guideline to go out for consultation from July to September. A public workshop will be held in the autumn.

The date of the next expert group was suggested for 7<sup>th</sup> June, in CEER Premises in Brussels.

The priorities of this meeting were to discuss issues of cross border cooperation, the role of TSOs versus role of the shippers and balancing periods.

## **2. Policy objectives and preconditions**

ERGEG reminded the group of the policy objectives agreed at the last expert's meeting:

- Move towards greater EU market integration
- Move towards market-based balancing regimes
- Shippers to have the primary responsibility for balancing their portfolio, with TSOs playing a residual balancing role,
- Focus on reducing the number of zones or encouraging cross border trade across zones

The preconditions to achieve these policy objectives are transparent information provision and access to sources of flexible gas for shippers.

## **3. Assessment of the options and proposed framework guideline**

### **3.1 Role of TSOs versus role of shippers**

The key issue is what does shipper balancing and TSO residual balancing mean in practice. One suggestion was that the target model should be that shippers are enabled to balance their portfolios and not rely on a 'no worries' service by the TSO. In some balancing regimes, shippers balance against regularly provided information on their offtakes to ensure that they are in balance at the end of the balancing period. In other balancing regimes, shippers balance against a predefined demand profile. In the latter case, the TSO's role is increased because it needs to deal with any deviations of offtakes from their predefined profile. The costs of this balancing may need to be shared among users.

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Members expressed their view that shippers should primarily be responsible for balancing. TSOs should be responsible for residual balancing and have a minimal role. It was noted that in order to fulfil shipper balancing obligations, shippers need reliable information to update their profiles and access to liquid market. While markets are developing, as an interim measure, some Members thought the TSO could offer profiling services.

There was a discussion on whether shippers should have an obligation to balance or whether the trade off between the imbalance charge and the market price should incentivise shippers to balance their portfolios. There was a discussion on how the system should be balanced intra-day and whether this meant that a shorter balancing period was needed or whether intra-day constraints should be imposed. Some were concerned that if there were no obligations or constraints shippers would flow flat and leave it to the end of the day to balance leaving it to the TSO to take more balancing actions within the day. One member pointed out that even with a daily balancing regime, shippers would have an incentive to balance within day and not wait until the end of the day, as if the system is short of gas and the TSO has to go to the market, the market price will rise. A number of members stated that they would prefer to see in the FG no obligation for the shippers to physically balance their portfolio.

One member noted that shippers would need to be able to re-nominate their flows intra-day if they were to be more active in balancing. One member asked whether shipper re-nominations would be restricted under the Congestion Management rules and suggested that if so, this would impact on shipper balancing.

There was a discussion about whether the roles of shippers and TSOs could be harmonised in the FGs. Some were in favour of a harmonised role. One member pointed out that the roles would depend upon the degree of development of the gas market and that it was better to agree a target model and interim steps. There was general agreement that the roles of TSOs and shippers roles should be clearly set out in the FG.

### **3.2. Flexibility Tools**

The key issue was how to provide shippers with the means in order to balance. There was a suggestion that TSOs providing shippers with indirect access to flexibility could be an interim step where the wholesale market is illiquid or there is no access to storage. The key issue is how to remove the TSOs rights to exclusive access to storage. A proposal was made for there to be steps: in a first instance TSOs provide shippers with tolerances (i.e. ranges within which shippers need to balance) the cost of this service could be shared among network users, a second step is for shippers to pay the TSO for flexibility services and the costs of this are paid for the shippers using the service and a third step is for shippers to have direct access to flexibility sources (such as storage) via market-based procedures, such as auctions. However, another member was not in favour of regulatory access to flexibility services.

### **3.3. TSO procurement on balancing services**

Members discussed the TSO procurement on balancing services. While the target model was to use liquid markets, given the difference in the liquidity of Member States, a pragmatic approach would be to take progressive interim steps, such as balancing platforms or tendering processes. It was pointed out that in all markets the TSO purchases gas through tendering processes at least for things like compressor failure. Therefore, it was suggested that we need to consider what types of

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balancing actions TSOs should procure short term and for which may it need long-term products. Another proposal was to require TSOs to move along the interim steps: firstly by requiring TSOs procurement of balancing gas to be transparent, secondly requiring TSOs to use one-sided markets or platforms to procure flexibility and then thirdly requiring the TSO to procure gas on the wholesale market. The FG should set out the road-map towards achieving this. One member thought that TSOs procuring on the market would contribute to market liquidity.

### **3.4. Imbalance charges and cash-out regime**

Members discussed the calculation of imbalance charges. Many preferred the imbalance charge to be based on the TSOs efficiently incurred costs and not on proxies. It was generally agreed that this should be the target model.

Most Members agreed on TSO neutrality and that TSOs should not earn money from balancing. Others felt that TSOs could be incentive by the NRA to procure efficiently by exposing the TSO to the risks of the balancing costs.

In terms of the balancing period, there was a preference among many members for a daily cash-out regime. Many considered that market liquidity would be limited in an hourly regime. Others thought that hourly constraints may be needed but considered that if there were markets for physical or temporal products then hourly constraints could be avoided. Another member pointed out that an important consideration was the cost of moving from hourly to daily regimes or vice-versa. There was also a suggestion that TSOs could put pre-booked liquidity back onto the market. One member observed that hourly regimes were more targeted and from an economic perspective may be fairer as in a daily regime shippers often get a certain amount of line pack for free.

### **3.5. Cross border cooperation**

The policy options for the cross border cooperation were identified by ERGEG as follows:

1. Shipper-led cross border balancing (this includes netting positions between different zones and pooling positions with different shippers)
2. Implicit coupling
3. TSO to TSO cross-border balancing (neighbouring TSOs exchange bids and offers for balancing services)
4. Operational Balancing Accounts (OBAs)
5. Full merging of cross-border balancing zones (merge zones such that balancing zones reflect physical and economic characteristics of the system). This could ultimately result in one European balancing zone.
6. Regional platforms for the procurement of balancing gas

Members discussed whether the cross border cooperation should be defined in the framework guideline or whether the focus should be on introducing market-based solutions in existing market areas, which could then lead to more cross-border trade and to price convergence. Some members were of the view that it is difficult to decide which market should merge with which and that any top-down approach to market merging was difficult. Others thought that if there are no physical constraints then market areas, particularly smaller ones with low levels of liquidity should be merged and regional markets should be created. Some thought that the full merging of balancing zones may be very costly and physical constraints would first need to be analysed; in the event of cross-border congestion market areas will remain separate.

One member pointed out that Operational Balancing Accounts (OBAs) are not cross-border balancing mechanisms but mechanisms for controlling flows and therefore, were not relevant to cross-border balancing

The key question was whether cross-border cooperation should take the form of finding means for shippers to increase cross-border trade closer to real-time or whether TSOs should act as an intermediary for cross-border trade in flexible gas closer to real time. Some members thought that shippers should do the cross-border trading and not TSOs and were less in favour of TSO- to – TSO cross-border balancing. They thought that the key was to focus on harmonising balancing periods and ensuring that cross-border capacity was made available. Others thought that TSOs should be able to procure balancing gas from neighbouring market areas, if it was more economic and that TSO-to-TSO balancing was an idea worth exploring. One member suggested that TSO-to-TSO balancing could be explored in the future and perhaps evolves into an implicit auction arrangement, where the capacity is coupled with the flows of gas.

#### **4. Next meeting**

The next meeting will be held on 7 June. Initial comments on the issues discussed are welcome by 4<sup>th</sup> June. The draft FG will be circulated to the participants of the meeting 10 days before the 3<sup>rd</sup> meeting.