



Fay Geitona
European Regulators Group for Electricity and Gas

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Via e-mail: fg_gasbalancing@ergreg.org

Gas Balancing Rules European Gas Transmission Networks – Draft Pilot Framework Guideline

Thank you for the opportunity to respond to this second consultation. The following comments are offered on behalf of Shell Energy Europe Ltd. Headquartered in London, Shell Energy Europe Limited coordinates Shell's European gas, power and CO2 marketing and trading business across 14 offices around Europe.

Answers to the specific questions raised in the consultation document are contained in Appendix 1. Please note: this response is not confidential and may be placed on your website.

We support ERGEG's moves towards a pan-European harmonisation of market-based balancing regimes. Our preference is of daily balancing, where, utilising a number of different flexibility sources, the primary balancing responsibility lies with shippers. The TSO should only ever have, in normal circumstances, a residual balancing role carried out via the market. Broadly speaking, our views are largely in line with those contained in the target model.

We also agree with ERGEG's proposal for the use of interim arrangements, ie. effectively a phased move towards such a regime. This is a welcome recognition of the reality of the nature of some markets and networks, along with the fact that some TSOs need to familiarise themselves with the operation of market based regimes. Clearly, however, an area of concern would be if the move towards the target model stalled at the interim stage.

I trust that you find these comments useful. In the interim, please do not hesitate to contact me should you need clarification regarding any aspect of our response.

Yours sincerely

A handwritten signature in purple ink, appearing to read 'Amrik Bal', is located below the text 'Yours sincerely'.

Amrik Bal
NW Europe Regulatory and Commercial Affairs Manager, Shell Energy Europe Ltd

Appendix 1

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?

It is not immediately clear that there are other obvious major problems and certainly the need to create a market based balancing regime has been correctly identified. As such, we are content with the problems and issues identified in the consultation document.

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?

We do not see any additional policy issues.

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?

The merits of a pan-European balancing regime are clear. In moving to harmonised gas balancing arrangements via the development of a Network Code to apply at interconnection points, it is not obvious how in this area there will not be a cross-over into the corresponding national arrangements.

The degree of harmonisation, however, depends on the scale of ambition on the part of regulators and market participants. For instance, the degree of detail could go as far as harmonising aspects of TSO revenue incentives that relate to balancing activities.

In reality, such a move might be impractical at this point, especially given the differing nature of some networks, markets and the relevant regulatory regime. As such, we would advocate that the level of detail in the European Network Codes places great emphasis on a clear, unambiguous, acceptable and enforceable definition of market based balancing and what constitutes a residual TSO balancing function.

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?

This is a useful way forward. It is clear that some TSOs are either unfamiliar or uncertain of their role and behaviour in a market-based balancing regime, especially against the backdrop of the nature of their respective networks. If the use of interim steps allows TSOs to adapt to and familiarise themselves with a very different set of market arrangements, we support the process proposed by ERGEG.

However, ERGEG will be aware of the possibility that interim arrangements become permanent ones. It is therefore crucial that ERGEG makes clear how it will enforce a move to the ultimate 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?

We see no reason nor have any evidence to suggest that the twelve month period is not appropriate. However, it is important that the process to move from the interim to the target model is clearly laid out and monitored by the NRAs and ACER.

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?

The current degree of detail is clear enough and appropriate, including the area of nomination procedures.

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?

We have no further comments to make other than those contained in this response.

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

It is difficult to consider why there should not be a harmonised approach in relation to both roles. For instance, in each and every network, we would imagine that shippers will have primary responsibility for balancing the network (through the interaction of portfolio supply and demand), while TSOs should only have a residual balancing role.

Equally, TSOs should offer linepack services in a consistent manner (unless system characteristics determine otherwise). A common allocation mechanism would also be another harmonised service.

However, the above assumes that the target model has been reached. Therefore, there may be a degree of divergence between TSOs in the interim period; the less the degree of divergence, the better. However, it might be unrealistic to assume that all TSOs will (be able to) make the journey to the target model at the same speed.

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

Ultimately, in a competitive market, the TSO should only ever have a residual balancing role. Involvement by the monopoly in such an activity is unhelpful in several respects, ranging from its potential effects on competition to the monitoring of TSO performance under various parts of its price control settlement.

Therefore, while there may be varying degrees (from TSO to TSO) of what constitutes 'residual' in the interim arrangements, we support an ultimate target model that ascribes the least possible degree of activity to the TSO.

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?

It would appear that this proposal effectively seeks to operate a quasi sub-daily balancing regime within a broader or overarching daily balancing set of arrangements. If this view is correct, it is not clear how such a proposal would work if it resulted in within-day imbalance charges?

It is certainly not unusual for a TSO to impose flow rate change or scheduling provisions at large exit points for the purposes of system safety and stability. However, such requirements should be justified and the user is normally allowed the option of paying for investment to overcome such restrictions.

In the absence of transparency on the first point, ie. the basis on which the restrictions are required, there are monitoring issues for the NRA. One such concern relates to potential issues of discrimination, while the other relates to the potential for imposing excessive within-day constraint conditions to help underpin a TSO's normal system management activities at the expense of system and/or end users.

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

Yes, on the assumption of there being insufficient information on individual portfolio balance status.

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?

We would support the provision of such a service, although it may be difficult, due to system characteristics, to make it mandatory in the interim period.

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

In a developed market where users have access to intraday flexibility, system information flows, an up-to-date picture of their portfolio balance and access to traded platforms, there should be no need for tolerances.

As such, we would view free tolerances as an interim step only.

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 do not anything to add other than the frequency of the information should be consistent with the requirements of the balancing period.

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

Information of this type is fundamental to price formation. Without it, it is difficult to assess system supply/demand conditions and therefore the need to buy and sell gas. The logical consequence is that shippers will find it difficult to balance their portfolios, thus moving TSOs away from their proposed (in the target model) residual balancing role.

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

It is not possible to give a quantitative answer to this question. However, while the costs of provision of this information may be considerable in their own right, it would seem a reasonable assumption that the end result to consumers, ie. competitive wholesale markets, will provide a bigger benefit.

In any event, whatever TSOs' estimates of the likely costs, there is likely to be merit in subjecting them to independent analysis.

Balancing periods

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

We remain of the view that the preferred balancing period should be daily. We believe that this is also the preferred choice of the majority of market participants and ERGEG itself. However, as presented in the consultation document, it not obvious that the proposals have enough clarity to avoid unduly hampering efforts to harmonise pan-European balancing arrangements based on daily balancing.

For instance, daily balancing should mean just that and nothing else. Certainly, there should be no suggestion that the target model can consist of market based daily and sub-daily regimes existing on the same network.

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?

We will not be the only respondent to point to the Dutch GTS model scheduled for implementation in 2011. ERGEG will be aware of the criticisms of the mismatch between the imbalance period and the ability of market participants to respond.

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.

Ultimately, harmonisation of this type would be ideal. For system users the reduction in operational costs would be significant. However, a degree of realism has to be acknowledged in allowing some TSOs and market participants to become comfortable with a daily balanced regime (see Q4), along with the need for possible system reinforcement.

We would therefore suggest that a move harmonise arrangements should be a two phase process. The first stage should be based on ensuring the development of a market based balancing regime in each market, while the second part of the process should be the harmonisation of the balancing period.

In fairness to ERGEG, the proposals are not that different.

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

As we say elsewhere, our preferred balancing period is daily.

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

We agree with a target model of daily balancing. While we understand the need for interim steps along the way to achieving this aim, the discretion for NRAs to depart from the target model in several respects, eg. within-day constraints, if not carefully framed and limited may be unhelpful.

ENTSOG should be given clear and unambiguous task of ensuring that any interim measures are temporary in nature and that the pan-European target model remains a market-based daily balancing period.

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)?

Ultimately, this is a question for TSOs. However, as a broad comment, the existence of a daily balancing regime in most of the large markets would suggest that most costs (of whatever level) will result in some of the smaller, liberalising markets.

TSO buying and selling of flexible gas and balancing services

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

We do not have any substantive comments to make; the policy options have been broadly assessed correctly. A comment we would make is that the basis on which TSOs are allowed or required to contract should not inadvertently discriminate or effectively exclude some categories or sources of balancing services by virtue of size or service description.

Other than that, we would agree with the view that the need for a balancing platform should be seen in the context of market liquidity; in the longer run as liquidity develops, TSOs should access services from the wholesale market.

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?

We support the target model and the requirement that TSOs should access balancing gas from liquid wholesale/traded markets (once these have been developed). The benefits include:

- a) an increase in within-day trading; and
- b) more accurate price signals that will incentivise both shipper balancing and new entry.

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

From a shipper perspective, we would imagine that any costs of systems development would be outweighed by the benefits of market development. TSOs are better placed to comment on their costs.

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

As indicated elsewhere in this response, the potential lack of immediately available liquid traded markets may require the use of balancing platforms as an interim step. Alternatively, there could be recourse to the use of tenders.

Whatever interim steps are allowed, NRAs need to ensure that they are not structured in such a way that effectively forecloses the ability of TSOs accessing traded markets for balancing services. For instance, the length of a bilateral contract may be an issue.

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?

Not as long as there are physical / locational products offered in the wholesale market.

Question 28: Is it appropriate for TSOs to procure balancing services on the wholesale market and/or or is 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?

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?

Please refer to our answers to Q24 and Q26 respectively.

Imbalance Charges

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

Generally speaking, the assessment of the policy options is correct.

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.

Yes, the calculation of imbalance charges should be harmonised; the document has already identified the main reasons why this should be the case. In the absence of harmonisation, the full benefits of a pan-European balancing regime in relation to price formation and signals may not be recognised.

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?

If the TSO undertakes no balancing actions, no imbalance charge should be enforced. Rather, some derivation of average system pricing should apply.

What the imbalance charge should be based on, if it is applied when the TSO has not taken a balancing action

As above.

Whether imbalance charges should be dual or single priced

To a large degree, this depends on whether it is a daily or sub-daily regime. In the case of the latter, it is difficult to consider how a dual cash-out regime could work; in these circumstances, we would opt for a single price.

Whether imbalance charges should be based on the marginal price

In theory, marginal pricing is the preferred option as it would most accurately incentivise shipper balancing behaviour. However, one practical issue might be the issue of shipper credit with TSOs that could act as a barrier to entry.

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

As indicated above, a potential issue might be the one of credit. Other than that, there are no immediate costs associated with implementation that we can identify at this stage.

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

The proposed interim steps are reasonable.

Cross-border cooperation

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

The main policy options have been identified. Any other options will essentially be variants on those already discussed, so there is little that we could usefully add at this point.

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

It would appear that some consideration is being given to a role for TSOs in booking interconnection capacity and trading flexible gas for the purposes of cross-border portfolio balancing. If this interpretation is correct, such a proposal would run contrary to the vision of a residual TSO balancing role and would make regulatory monitoring and separation of a TSO's monopoly activities potentially more difficult.

Moreover, such a role could be expected to 'crowd out' more efficient overall shipper-led system balancing.

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?

OBAs seem a reasonable measure to deal with operational issues resulting from inter-TSO gas flows. On the basis that they remain used for this purpose only, we see no reason why they should not be used. It should, however, be left to the TSOs concerned to ascertain whether or not such an agreement needs to be signed.