



ERGEG Discussion Paper on Gas Balancing Comments from the European Federation of Energy Traders

Key questions for stakeholders

Question (1):

Are there other features that should be reflected in a gas balancing regime to help ensure efficiency and to maintain safety and security of the system?

We agree that TSOs should use non-discriminatory market based procedures to procure gas it uses for system balancing, backed up by a mechanism to incentivise the TSO to minimise the costs it incurs in carrying out its balancing function.

We believe that the incurred costs should be transparent explicitly efficiently incurred costs.

We view the allocation and/or sale of system linepack as a complex mechanism to be put in place and probably not resulting in an efficient use of linepack flexibility. It may also reduce the TSO's ability to act in an efficient manner when some shippers may use their linepack allocation for a different purpose than balancing their position. Linepack management should remain with the TSO, while the TSO has an obligation to supply linepack forecast data in order to facilitate corrective measures taken by the imbalanced shippers. The buying and selling capacity of the TSO is crucial for the development of a market based balancing mechanism.

Question (2):

Should the incentives to balance become stronger the further away a shipper is from being in balance or are there are other ways of ensuring that shippers have appropriate incentives to minimise their imbalance positions? Should shippers be allowed to trade their imbalance positions on an ex-post basis as a way of improving overall efficiency?

We understand the principle of targeting costs to the shippers which have the greatest imbalance. However, we would have thought that a market based cash-out mechanism would constitute a sufficient incentive to take corrective measures. The sheer volume effect of a large imbalance position should impose sufficient potential economic pressure on the shipper to reduce his position.

Moreover, if imbalanced positions are settled at the marginal cash-out price through a transparent real time process, the deterring factor is significantly increased.

The allocation of individual tolerance bands proportionate to the capabilities of the system to the various shippers offers an additional incentive for shippers to hold a residual position within constrained limits.

Due to co-mingled flows at entry, the allocation to a shipper might not take place until close out, days after the gas day. This is a major factor supporting ex-post trading, as it has no impact on the overall system balance, but it could have a significant one upon individual shipper accounts without ex-post trades.

We believe that while balancing markets are illiquid and shippers do not receive timely information that allows them to take prompt balancing action, then shippers should be allowed to trade their imbalance positions on an ex-post basis. This is a way of not only improving the overall efficiency, but also to reduce overall costs to the shippers community. Once competition is well-established, due consideration could be given to removing this facility.

Question (3):

Does hourly balancing create any barriers to the development of competition?

EFET clearly promotes harmonisation of European balancing periods and believes that daily balancing should be achievable across the board.

Hourly balancing creates significant barriers to the development of competition. In conjunction with penal cash-out mechanism it creates a high level of risk and cost to new entrants and small shippers.

The cost of management and operations for shippers and TSOs to respect an hourly balancing regime are significant and not justified, deterring small shippers or new entrants. It may not be justified. Furthermore, in an hourly balanced regime, the availability of timely and correct information about the shipper's position becomes crucial.

Hourly balancing in a country bordering another one that has adopted a daily balancing regime creates distortions on cross-border flows and hampers further European harmonisation of gas markets.

The main issue about hourly balancing is noticeable on existing hourly balanced markets. On those markets, there is no liquid contract naturally developed by participants that is actually offered to manage and trade hourly supply of gas (e.g peak/off-peak, baseload). Contractual hourly flexibility is currently held by incumbents mainly through legacy long-term contracts. The capacity markets do not generally offer hourly booking possibilities. Long-term contracts from fields are also daily balanced and don't offer the possibility to supply hourly profiles.

TSOs have the ability to regulate an hourly flow through linepack management, which is not available to shippers, even through most of their long-term sales agreements.

The result is that hourly flexibility is usually in the hands of TSOs or incumbents and this maintains the incumbents' competitive edge in an opening market.

(Cf. comments on amendment to principle 3)

Question (4):

What information is required to ensure that gas balancing regimes operate effectively and efficiently and how often should this be provided? What is the best way of ensuring that this information is provided to all parties on a non-discriminatory basis?

We believe that the provision of transparent, accurate and timely information to all shippers on a non-discriminatory basis is an essential element to ensure the effective and efficient operation of gas balancing regimes.

The information provided by TSOs could be communicated at two different levels. The aggregate information would be available to all shippers whereas individual information would be provided to each shipper in a confidential manner. The individual information provided to each shipper should be strictly identical in its nature, accuracy, frequency and provided in real time.

The Aggregate information would include real-time linepack, predicted opening and closing linepack for the day. The closing predicted linepack would be updated regularly during the gas day. Information on daily demand and comparison to a relevant statistical benchmark (day average for a similar period and temperature) would be provided, as well as the actual and forecasted flows (on an aggregate level) into the gas system for the current day and the following days, and the flows/levels of storage. Cash-out price and market price should also be published. Information on emergency arrangements made by the TSO would also significantly benefit to the operation of the gas network.

The Individual information would include all details relevant to the shippers' current status in view of the TSO. Such information would include individual balance, supply and demand, recorded trades, as well as the TSO's view of the imbalance per shipper.

It is of the utmost importance that position data and linepack information are made available within day in order for users to take corrective action.

Question (5):

Should linepack (where technically feasible) be made available to shippers on a non-discriminatory basis to improve access to flexibility? Are there any other steps that could be taken to improve access to flexibility that would not impinge on the safety and security of the system?

EFET does not believe that linepack needs to be made available to shippers, in a daily balancing regime. The efficient management of all sources of flexibility available is essential to ensure the efficiency of a balancing regime, but we believe that it is the TSO, rather than the shippers, who is in the best position to handle the use of the network linepack.

The flexibility given by the system enables TSOs to handle large hourly and cumulative imbalances in the system, without hampering the efficiency and the safety of the network in any way. Linepack-generated flexibility should therefore be granted to shippers through bundled access rights.

Appropriate tolerance levels should be in line with the actual technical capabilities of the transmission system. As long as tolerance levels are set in accordance with the flexibility that is available in the system, EFET does not believe that the use of tolerance by shippers generates any additional costs neither to the TSO itself, nor at any aggregate level.

TSOs should have the right to contract storage services and emergency agreements in addition to the linepack flexibility, in order to play their residual balancing role on the market.

EFET promotes the implementation of daily balancing where flexibility in the network is sufficient to allow it. If TSOs insist on an hourly balancing regime, then it is essential that they make available suitable hourly flexibility services including linepack. If, however, a TSO offers a daily balancing regime, then it is more reasonable that they should retain access to the tools to manage this, including a necessary amount of linepack, with any extra linepack being offered to the market.

Other steps aimed at improving access to flexibility would include increased interconnections between networks, the use of a bespoke IT system as well as cross-system alerts automatically sent to all parties.

Question (6):

Do differences between (neighbouring) gas balancing regimes distort or the incentives provided to market participants? If so, what degree of consistency would be appropriate to overcome these problems? Would there be any disadvantages from introducing more consistency in features of (neighbouring) gas balancing regimes? How could this consistency be facilitated – for example would legislation be required or could it be achieved through better co-operation between regulators and TSOs in different Member States?

EFET believes that differences between neighbouring gas balancing regimes distort the incentives provided to market participants. The use of similar balancing regimes should be fostered to improve the availability and the efficiency of cross-border flows.

However, EFET certainly recognises that the particular design of each member state's gas system justifies operational differences between neighbouring systems. Such specificities could be handled, for instance, through the use of different tolerance levels, but *within the same balancing regime*.

It is important that a greater level of consistency is facilitated through an appropriate and efficient process. In order to achieve that goal, EFET would promote a greater level of cooperation between regulators rather than the use of more legislation.

Regional harmonisation of balancing regimes may eventually contribute to reducing cross-border barriers.

Question (7):

Would cross-border (or international) balancing zones help facilitate the development of competition in gas across Europe? What technical, legal and practical issues would need to be overcome if cross-border balancing zones were introduced? What impact could cross-border balancing zones have on the development of hub based trading and regional markets (see for example the recent ERGEG document on regional markets in electricity)?

EFET supports the promotion of regional market development provided it contributes rapidly to an increased simplicity and the improvement of liquidity.

Although cross-border balancing zones may facilitate the development of competition in gas markets across Europe, EFET believes that a significant number of technical, legal and practical issues would have to be overcome before such cross-border balancing zones can be introduced. Some of the issues involved would include the compatibility and efficiency of neighbouring balancing regimes, as well as the clear definition of the responsibilities of each Member State's regulator in charge for electricity and gas markets.

Harmonisation of balancing regimes (in particular, the generalisation of daily balancing regimes) between member states is a pre-condition to the development of regional balancing zones. The contrasted development of Eurohub gives an interesting example of the difficulties that may be encountered during the development of cross-border balancing zones.

Question (8):

Would it be appropriate to increase the level of consistency between balancing rules for transit and transportation systems?

A greater level of consistency between balancing rules for transit and transportation systems would improve the competition in Gas market and remove significant barriers faced by new entrants.

Balancing regimes should be similar between neighbouring networks, although different tolerance levels could be applied.

As stated in ERGEG discussion paper for public consultation (p23), the physical characteristics of the transportation system and the nature of deviations from nominated flows are all key elements to understand the differences between transit and transportation. However, EFET believes that such differences should be handled through different tolerance levels, not through the use of different balancing regimes.

Question (9):

Would the introduction of Operational Balancing Agreements (OBAs) between transit and transportation systems improve transparency on how the balancing regimes interact? If so, what should be included in the OBAs?

The introduction of Standard Operational Balancing Agreements between transit and transportation systems would improve the transparency of balancing regimes, but it would also foster competition and significantly increase the volumes of cross-border flows.

Standard OBAs may include annexes defining the particularities of each network, on a technical and commercial level. Technical annexes would provide the agreed arrangements or standards with respect to units, temperature, pressure, and quality. Commercial annexes would be driven by the aim of establishing a level playing field, and facilitate exchange of information.

Suggested changes to the existing CEER gas balancing principles

Principle 3

EFET supports all the proposed changes to article 3. Given the remaining inconsistencies between the balancing periods applied in different Member States, EFET would also support the suggestion of a **daily** balancing regime for all Gas systems. This would improve the efficiency of the harmonisation process and ensure the future consistency between balancing regimes.

Apart from the necessity of making neighbouring balancing regimes consistent with each other, there is a number of objective reasons explaining why Daily balancing is preferable to Hourly balancing, including the following:

- Field production contracts and the traded markets are daily.
- Historical upstream contracts and allocation regimes in particular are designed on a daily basis.
- The market for hour-to-day balancing products is controlled by TSOs and their supply affiliates.
- Capacity services and capacity markets are at mostly daily.
- In markets where there is hourly balancing, the majority of the entry is flat gas or very high load factor customers, and relies on flexibility being available from the incumbents. This creates a significant barrier for any effective competition to develop.

Principle 4a

To ensure the security and the efficiency of the balancing market, it is important the TSO has an active role on the balancing market. EFET would not support the view that the TSO could “not be permitted” to accept bids and offers for balancing gas.

Principle 4b

EFET supports all suggested changes to principle 4b except that as explained in answering question 2, we do not see the need to apply varying charges depending on the extent of imbalance of a shipper. We also believe that “cross-subsidisation” between network users should not be tolerated.

Principle 5

EFET support the implementation of tolerances to replace linepack allocation. Instead of trading tolerances on the secondary market, shippers may just trade their daily imbalance position.

Principle 8

Our understanding is that principle 8 assumes implicitly that linepack is allocated between shippers. The allocation of system linepack to shippers would lead to significant losses of efficiency in the use of flexibility available. The increased complexity of operations and the large additional costs born by both the TSO and the shippers would argue against the disaggregation of system linepack. The TSO is in the best position to handle variations in system linepack on behalf of all system users. As expressed in our answer to question 5, the best option in terms of efficiency and security is that the TSO manages system linepack completely, and this should not be jeopardised by the current version of Principle 8.

EFET does not fully understand the purpose of this amendment.