



## ERGEG Consultation on Gas Balancing Rules on European Gas Transmission Networks Draft Pilot Framework Guidelines

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### Who we are

EDF SA is a French corporation involved in the generation of electricity and the supply of electricity, gas and associated services to nearly 28 million customers in France. In 2009, it generated €34 billion sales, representing 400.4 TWh of electricity and 18.5 TWh of natural gas. With an installed capacity of 98.7 GW, mainly nuclear and hydro, EDF SA is the leading provider of efficient and low-carbon energy solutions, with an average 40.8 g of CO<sub>2</sub> per kWh generated.

EDF SA is a new entrant on the French gas market. In addition to its gas supply activity, EDF is currently developing infrastructures projects in France and all over Europe: new storage facilities and LNG terminals. EDF is also involved in the development of new combined cycle gas turbine (CCGT) and is thus interested in any EU guidelines concerning storage and balancing.

### Introduction

EDF welcomes the opportunity given by ERGEG to comment on these draft Framework Guidelines (FG) on gas balancing, thereby anticipating the application of the 3rd Energy Package. Framework Guidelines and the coming Network Codes are building the top-down approach defined in the 3rd Energy Package for harmonizing and achieving the European internal energy market and also ensuring security of supply. The very practical result of these should be to set efficient, cost-effective, fair, non-discriminatory and transparent rules across Europe.

Indeed, gas balancing on natural gas transmission networks is of crucial importance since the related rules should facilitate trade in general, especially the activities of new entrants, and should not be a barrier to trade. The target model and interim steps outlined in the draft FG propose a potentially suitable approach towards the harmonisation of the different balancing regimes currently existing across and within EU Member States. However, we would like to highlight the following points:

- The target gas balancing market regime should be implemented coherently with the electricity balancing market regime;
- The target model should be further explained. EDF considers that the documentation provided by ERGEG does not enable a complete understanding of the targeted balancing market-based rules;
- Harmonising the balancing regimes of the market zones across Europe should only be targeted if it is a cost effective solution. Some systems have sufficient storage, linepack and other flexible supplies to support a daily balancing regime whereas other networks don't. If



the investments (i.e. network upgrades / reinforcements) required for a daily balancing regime cannot be made in a cost effective manner, then an intra-day balancing regime may be more appropriate. TSOs should be in a position to deliver the balancing services required by a market-based model, but in some gas balancing zones there can be insufficient trading liquidity to be able to provide those in a daily and/or an intra-day balancing regime. This constraint should be considered when interim steps are determined.

According to EDF, the targeted market-based model rules should require the TSOs to make all the available flexibility sources (whether storage, linepack, etc.) available to network users but within both the limits of the network security requirements and the contractual commitments.

In this context, the market-based model rules should be:

- **coherent**: if the TSOs are not in a position to sell the available flexibility requested by network users, the rules should provide for tolerance to market participants;
- **appropriate to local situations**: a dialogue between the local market participants and the NRA is required;
- **fully designed** : intra-day and day-ahead flexibility shortage situations should be dealt with;
- **non discriminatory** : no differences between network users (especially regarding CCGTs);
- **transparent** : the quality and quantity of information provided by TSOs should be improved;
- **economically balanced**: they should reflect the true value of the network constraints.

## 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 with the gas balancing pilot framework guideline?
- Question 2* Do you agree with the scope and objectives on this pilot framework guideline? Are there policy issues that should, but are not currently addressed by the draft document?
- 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 should be?
- 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?
- Question 6* Should the pilot framework guideline be more specific regarding the purpose and the policy objectives for network codes, in particular areas including nomination procedures?
- Question 7* With reference to section 3, do you have comments on how Article 21 of the Gas Regulation 715/2009 should be reflected in the gas balancing network?

EDF agrees with the scope and objectives of the draft pilot Framework Guideline. EDF considers that most of the balancing rules, that will be nationally applied, must remain defined by Member States and national regulators as there are too many differences in the structure and the state of the networks, the number of infrastructures able to provide flexibility and the needs of network users within each Member State. These differences will have a direct influence on the ability to create a liquid gas balancing market. For this reason, EDF suggests that:

- The Network Code be clear on the principles but not too detailed. Article 21 of the Gas Regulation 715/2009 should be reflected, on the one hand, with the clarification of the main principles of the balancing model (i.e. TSOs and network users' roles and responsibilities, TSOs obligations on information provision, imbalance charges ...). On the other hand, according to the subsidiarity principle, the Network Code should leave explicitly enough space for a dialogue between the NRA and the market players regarding the implementation (i.e. list of mandatory information, nature of incentives for market participants to keep their portfolios in balance, imbalance charges mechanism, etc...);
- Interim steps be allowed as long as they are steps that progress toward the target model. These interim steps will have to be defined with national market players and approved by national regulators;
- The target model and the interim steps would need more than 12 months to be implemented after the publication of the Network Code. Any implementation of new rules concerning the gas balancing regime will at least require a consultation of national market players, an adaptation of the operational system and even, in some circumstances, new investments in the national gas infrastructures. These investments could be, in some countries, a prerequisite for the TSO to be able to provide the balancing services required by a market-based model.

EDF is not expecting the Framework Guideline to address other problems than those in the proposed draft. Thus, EDF is not in favour of including rules related to the nomination procedures in the Framework Guideline.

## 2. The roles of network users and TSOs

- Question 8*            *Is it necessary to have a harmonised approach to the network user and TSO roles regarding gas balancing?*
- Question 9*            *What are your views on the proposals of the target model to be reducing the need of TSOs to undertake balancing activities?*
- 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 users, which ones are these? How could this be justified?*
- Question 11*           *Is balancing against a pre-determined off-take profile a useful interim step?*
- 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?*
- Question 13*           *Should the target model enable TSOs to provide tolerances to market participants for free or should this be an interim step?*

EDF agrees with the fact that, in the target model, market participants should balance their portfolio before asking the TSO to take any balancing action, which is compliant with a market-based model.



EDF considers that the target model should not impose any within-day constraints on network users except in case of emergency. EDF does not consider either, that it would be appropriate to impose constraints on certain groups of network users, especially in case of flexibility shortage. Such a regime will be inequitable and discriminatory. This issue raises also the question of how to define such a group of network users: distribution operator(s) and industrial customers vs. gas fired generating units? Intensive vs. low network users? Historical vs. new network users? In a market-based regime, the price signal should be the rule to deal with constraints linked to flexibility shortage. As a principle, gas fired generating units should be entitled to have access and to use flexibility as other network users. As regards this issue, EDF would like to highlight that making flow programs announcements by network users compulsory and restricting within-day re-nomination to minimum lead-times or certain percentages will not be enough to solve shortage situations. Therefore, market rules should also deal with day-ahead shortages for the following day.

EDF considers that TSOs should make all possible flexibility sources available. In this context, TSOs should have the option to sell flexibility provided by the gas transmission pipelines system.

Finally, EDF's position is that the target model should provide a certain degree of tolerance as long as TSOs have sufficient flexibility available that they cannot sell. Then, imbalance charges should be calculated, within the range of the tolerance, with reference to the price of gas on the wholesale market. Beyond the tolerance, network users should in addition trigger penalties. In general, imbalance charges should incentivise market participants to balance their positions and any imbalance charges should not be too onerous to prevent *bona fide* new market participants from entering the market.

### 3. TSO obligations on information provision

- 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?*
- Question 15*      *What are the benefits and disadvantages of TSOs providing network users with system information?*
- Question 16*      *What are the costs of TSOs providing network users with system information? How do these compare against the benefits and/or disadvantages?*

EDF agrees with the principle set up by the target model, i.e.:

- Providing network users, free of charge, with information regarding their inputs and off takes from the system and,
- Publishing all the information listed in each balancing zone.

Nevertheless, EDF would like to stress that, in addition to this information, it would also be very useful to publish, by balancing zone, information on the intra-day consumption of final customers benefiting from remote reading meter or, at least, those connected to the transmission network and information on the balancing market price associated to imbalances. Shippers may also be interested to have information on the quality of the day-ahead allocations.



On the other side, it may be helpful for TSOs to have information on the quality of the nominations made by shippers as well as tools to measure the state of the network on an intra-day basis (e.g. tension of the network indicator).

EDF would also like to point out that the provision of intra-day system information by TSOs to network users should be continually scrutinised to avoid/identify the potential abuse of position deriving from the use of this information. In order to avoid it, EDF suggests that intra-day system information should not be published in an aggregated form. However, *ex post* aggregated information could be useful to estimate the global flexibility needs.

#### 4. Balancing periods

- 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?*
- 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 it is not necessary? Please explain your answer.*
- Question 20*      *If you agree with a harmonised balancing period, what do you consider is the appropriate length of the balancing period?*
- Question 21*      *Do you agree with the target model?*
- Question 22*      *What would be the costs of implementing the target model in (and) your Member State or balancing zones (as the case may be)?*

EDF considers that a daily balancing period could be a relevant target model in most cases. However, the definition of the balancing period should take into account the situations of flexibility shortage. In such a context, there are circumstances in which it could be more efficient to have hourly incentives. Indeed, an hourly evaluation period may better show the true value of the due investments whereas the daily evaluation period may, sometimes, lead to inefficient investments. In this context, we recommend that a study of the costs and advantages of both regimes (daily and hourly) with respect to the specificities of the national markets be conducted before taking any decision on this topic.

#### 5. TSO buying and selling of flexible gas and balancing services

- Question 23*      *Do you agree with our assessment of the policy options?*
- Question 24*      *Do you agree with the target model? If so, what do you consider are the benefits and disadvantages of the target model?*
- Question 25*      *What are the costs of implementing the target model in your Member State?*
- Question 26*      *What interim steps, if any, may be needed in your Member State or balancing zone(s)?*
- Question 27*      *Is it appropriate for balancing platforms to be part of the target model subject to NRA approval, even where the markets are sufficiently liquid to enable the TSO procurement on the wholesale markets?*



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

EDF agrees with the target of TSOs' procurement on the wholesale market to balance the system. This regime has already been implemented in France and has proven to favour the liquidity of the existing wholesale market. However, the implementation of this target model implies:

- a merger of national balancing zones in order to enhance the liquidity of the wholesale market;
- an improvement of the quality and quantity of information provided by TSOs (see above # 3);
- a release from TSOs of the storage capacities currently held in regimes balanced by storage.

EDF does not necessarily think that balancing platforms need to coexist with a liquid wholesale market unless the balancing platform offers specific products that are not offered on the wholesale market.

## 6. Imbalance charges

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

*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.*

*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*
- *what the imbalance charge should be based on, if it is applied when the TSO has not taken a balancing action, whether imbalance charges should be dual or single priced*
- *whether imbalance charges should be based on the marginal price*

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

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

EDF agrees with the pilot Framework Guideline proposals on imbalance charges and in particular with the fact that shippers should bear the imbalance charges even when TSOs do not take balancing actions provided they are well identified and charged separately from other transmission charges already included in the network tariffs. The issue is then how to calculate the amount of imbalance charges when TSOs do not undertake balancing actions. In such a case, we would recommend a market-based reference such as the wholesale market price at the closing. If imbalance charges recouped by TSOs are in excess of the costs incurred in balancing the system, then, this should be passed back to users using a mechanism defined in conjunction with national market players and approved by national regulators.



In general, when a TSO takes an action to balance the network, the marginal price should not be taken as a reference to determine the amount of imbalance charges. Moreover, imbalance charges should be levelled adequately to incentivise market participants to balance their positions but should not be too onerous to prevent *bona fide* new market participants from entering the market.

## 7. Cross-border cooperation

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

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

*Question 37*      *Are Operational Balancing Accounts (OBAs) useful to deal with steering differences? Should the network code make it mandatory on the TSOs to put in place OBAs?*

EDF agrees with the target of implementing and strengthening cross-border cooperation. However, before considering any cross-border merger of balancing zones, EDF is of the opinion that Member States, and notably France, should first focus on the merger of national balancing zones into a single gas balancing zone. This is a matter of consistence with the electricity market due to the convergence of both markets. This is also a matter of enhancing the development of competition for new entrants.

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