

RE: Statoil response to Gas Balancing Rules on European Gas Transmission Networks - Draft Pilot Framework Guideline

Dear Sir / Madam

Please find Statoil (UK) Ltd's (STUK) response to the questions posed in the ERGEG public consultation paper.

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?

STUK concurs with the identified problems of maintaining the physical balance of the system, with multiple network users, and the commercial incentives, which need to be put in place to facilitate that balance in the most cost effective and efficient manner.

Market liquidity can be a major obstacle and will have an impact on whether or not the commercial arrangements proposed in these Framework Guidelines will be allowed to work properly and it is with this in mind that the balancing guidelines must include measures, which facilitate a more liquid trading market.

A more liquid within day market, with an end of day balancing regime, would allow market participants to alleviate short term problems in other member states, hence improving market response to balancing signals.

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?

STUK broadly agrees with the scope and policy objectives. Where interim steps are deemed necessary, it may be prudent for these to be annexed to, rather than embedded within, the network codes, stipulating a maximum timeline within which to phase out the transitional arrangements.

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?

It is only by amendment of the national balancing rules that these Guidelines will succeed in their overarching objective of encouraging and facilitating gas trade across systems and support the development of competition within the EU.

The target model should take account of the differing physical characteristics of individual networks but not at the cost of a fragmented European market. For this reason, STUK supports a sufficiently robust, detailed target model.

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?

The target model acts as a benchmark, by which all member states can measure their progress towards establishing a more harmonised European balancing market. We accept, however, that some member states are closer to reaching the target model than others and so interim steps may be required, whilst the necessary changes are implemented to reach the 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?

As we have stated above, different member states are closer to reaching the target model than others and so the timescales for implementation may need to be tailored to meet the requirements of each member state. It may, however, be prudent to set a maximum number of years, to ensure that implementation is not delayed arbitrarily.

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 level of detail at which the purpose and policy objectives is set, is sufficient. There is a strong case for harmonising nomination procedures, to the extent that it complements and does not hinder the end of day balancing regime, proposed in the target model.

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?

The conditions of Article 21 of the Gas Regulation 715/2009 should be incorporated in the gas balancing network code, in a manner which is consistent with the principles agreed upon as part of this consultation process.

The role 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?

With a view to establishing a fully integrated, pan European market, the roles of the network user and the TSO should be harmonised, for the balancing regime to work effectively.

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

Placing the primary responsibility on network users to balance the system will have a positive affect on competition and liquidity as users will have an incentive to balance their own position through, for example, trades and investment in sources of flexibility.

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?

We accept that in the case, for example, of very large offtakes, where the rates of offtakes must not exceed a predefined rate, to mitigate the risk of their swing putting the system outside of safe operation limits, intraday obligations may be necessary.

Failure to meet the obligations should not, however, result in additional imbalance charges as this would undermine an end of day balancing regime. Reasonable endeavours obligations may be a route to achieving the same desired outcome.

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

This may be appropriate as an 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?

Given that linepack does not directly impact gas flows onto or off the system, selling linepack should not be considered a balancing tool in the target model but rather a service provided by the TSO, to enable the physical balance of the system.

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

A minimal free tolerance is necessary to account for operational uncertainties but should be capped at a set percentage, for example 5% or less of total input / output nominations, to ensure incentives are not inappropriately diluted. The tolerance might be set wider in the interim period.

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?

Actual linepack and predicted closing linepack, including the calculation for the determination of linepack, should also be made available within day to provide network users with the information to respond to market signals.

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

The key benefit of TSOs providing network users with system information is that it enables the user to manage their portfolio position and take the necessary actions to balance, based on that information, which will have a positive affect on market liquidity and on the balance of the system, overall.

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

The costs will undoubtedly vary, depending on the stage of each market. The TSOs best placed to assess this for their relevant market area.

The costs are minimal, however, in light of the benefits the information provides in delivering a liquid market, with competitive advantages that will ultimately drive down prices.

Balancing periods

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

STUK is in broad agreement with assessment of the policy options and the recommendations proposed.

An area of concern, however, is the option for TSOs to impose imbalance charges for imbalances associated with within day restrictions. This bears the risk that some TSOs may use this as an alternative route to impose a within day balancing regime, undermining the benefits of an end of day, harmonised balancing regime. As part of any consultation, other mechanisms to manage significant within day fluctuations should also be considered. As we have previously noted, reasonable endeavours licence obligations may be one option or enhancing the tools of the TSO to manage physical imbalances, improvements in system information and so forth.

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?

It is STUK's view that this consultation represents a sufficient number of policy options, covering a reasonable range of balancing periods, for consideration.

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.

STUK concurs with ERGEG's assessment of balancing periods to the extent that a disparity in balancing periods may distort gas balancing in daily zones if the balancing costs are not correctly allocated. Moreover, differences between the start of the gas day may hamper cross-border trade, owing to inefficient arbitrage.

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

It is STUK's opinion that settlement of imbalances on a 24 hour basis and for the TSOs to agree on a common gas day is appropriate. A daily balancing regime affords network users sufficient time and flexibility to balance their position and optimise their portfolio, thus facilitating liquidity in the market. Shorter balancing periods would unduly penalise smaller users and new entrants, owing to a lack of flexibility in their portfolio to respond to market signals.

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

STUK is in broad agreement with the target model, with reservations concerning the within day restrictions, as per our response to question 17.

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)?

This depends on the current regime of the member state. The relevant TSO is in the best position to estimate such costs.

Compared with hourly balancing, the costs are minimal as hourly balancing would incur, for instance, additional metering to enable TSOs and network users to accurately measure gas flows and calculate allocations on an hourly basis, an overhaul of IT systems would be required to cope with an increased need for data input, storage and processing requirements. There would also be an increase in complexity and substantial contract renegotiations would be needed. Given that the majority of member states already operate a daily balancing regime or longer¹ these costs would have to be born by a significant proportion of European market.

TSO buying and selling of flexible gas and balancing services

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

STUK is in broad agreement with the assessment of the policy objectives. The risks associated with procurement through periodic tenders may, however, be minimised by standardising the balancing tools available to the TSO. The Framework Guidelines could specify which tools the TSO is able to utilise and under what circumstances, ensuring that harmonised balancing services are procured via a transparent competitive process or market mechanism. Having said this, TSO trading on the wholesale intraday market contributes to increased market liquidity and this should not be undermined by any other process.

In view of the lack of liquidity in some Member States' markets, it may be most appropriate for the TSOs to first and foremost use the intraday market. Incentives could be established to encourage this.

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?

STUK broadly agrees with the target model. Mechanisms whereby the TSO has a daily financial incentive to buy and sell gas at prices close to the average market price would ensure the most economic and efficient outcome.

¹The majority of Member States are shown to have daily or longer, balancing regimes in the KEMA report, p.43: 'Study on Methodologies for Gas Transmission Network Tariffs and Gas Balancing Fees in Europe' Tender No.: TREN/C2/240-241-2008: <file:///F:\Gas%20Balancing%20-%20Kema%20study.pdf>

A linepack incentive may also be appropriate, to ensure the TSO manages daily changes in linepack, to discourage carrying over imbalances from day to day as this would lead to less accurate cost targeting as some users out of balance would not face the costs of TSO actions.

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

The TSOs are best placed to assess the costs associated with implementing the target model in their relevant market.

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

The use of a balancing platform should only be used as an interim step in the absence of sufficient market liquidity. To assist the NRAs in assessing what constitutes market liquidity, it may be helpful for ERGEG to establish guidelines, for use in consultations in individual member states when mechanisms for balancing, other than trading on the intraday wholesale market, are proposed as interim steps.

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?

As we have already stated, Balancing platforms act as a useful interim step, where the market is not sufficiently liquid but they should not form part of the target model as they would hamper the development of liquidity in that market. Should a TSO consider they are unable, in the interim period, to take balancing actions in the spot market, this should be open to public consultation and subject to NRA approval.

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

It is entirely appropriate for TSOs to procure balancing services on the wholesale market as such actions provide signals to network users to respond.

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?

Long-term products are required to underwrite investment but the TSO should not rely on these for balancing purposes. Incentives on the TSO to first and foremost utilise the intraday wholesale market for balancing actions will facilitate market liquidity.

Imbalance Charges

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

STUK is in broad agreement with the 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.

Harmonisation of the calculation of imbalance charges should facilitate liquidity between markets. Where methods for calculating imbalance charges differ between member states, this may lead to inefficient arbitrage and perverse market signals, to the detriment of the overall balance of the system.

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.

To maintain users' incentives to balance their position, imbalance charges should still be applied when TSOs do not take balancing actions. One option might be to use the system average price, which would be the average for each of the preceding 7 days, for the day where no balancing actions have been taken.

The balancing charges should be based on the marginal price, as defined in the consultation. We do not, however, believe that imbalance charges should be differentiated between market participants who have contributed to the system imbalance and those who have helped to reduce the system imbalance. This option is open to manipulation and may serve to distort market signals.

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

As stated in the consultation document, the costs associated with market based mechanisms for charging are likely to be insignificant, compared to the benefits, which appropriate imbalance charges may deliver.

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

The interim steps provide a sensible solution to introducing market based charging mechanisms in member states. As with all interim steps, clear rules need to be put in place to facilitate timely transition to the target model.

Cross-border cooperation

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

STUK is not aware of any.

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

Without having the experience in Europe of cross-border balancing zones or significant levels of cross-border cooperation, it is difficult to accurately assess the policy options. STUK welcomes further work by the TSOs to develop proposals, including cost benefit analysis, to enable stakeholders to assess the advantages and disadvantages of cross-border 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?

As stated in the consultation, OBAs are currently used to settle minor steering differences. Concerns regarding transparency and non-discrimination are valid and, therefore, OBAs should not be extended to allow for trade via the TSOs in flexible gas. Requiring the TSOs to trade in this manner would muddy the waters of the national balancing regime and the signals required to incentives network users to balance their position. Nor would the requirement be in line with the principle of the TSO role as a residual balancer.

Please do not hesitate to contact me, should you have any question relating our response.

Yours faithfully

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