



Vienna, 27<sup>th</sup> October 2005

## Comments on the ERGEG Discussion Paper Gas Balancing (18 July 2005)

As a general remark we would like to state that we work on the assumption, that all references to TSOs in the document are to be construed in relation to Austria to refer mutatis mutandis to the Independent System Operator (AGGM) or a TSO, depending on the assignation of their respective responsibilities in accordance with the Austrian legislation transposing the relevant directives and other European acts. We also assume that any changes proposed for existing balancing regimes or any harmonisation of rules – should the need for that arise at all – will not infringe on the rights of member states to implement their specific model for the gas market as long as it is compatible with European legislation. It should also be borne in mind that not all TSOs are the sole or main providers of flexibility tools in a balancing zone and that networks differ from a technical point of view and correspondingly require different balancing rules.

Balancing has been under intense scrutiny by the regulator and has been the subject of two voluminous studies mandated by the Austrian regulator.

### Answers to Questions in Chapter 3:

#### **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?***

The list of features is complete in our view. Incidentally, we would like to mention that the "*timely and accurate provision of information to shippers on their imbalance position*" is not a viable possibility in the Austrian customer oriented gas model. (see answer to Q(4))

#### **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?***

A well constructed market-driven environment will produce prices for balancing energy that reflect the aggregate level of imbalances. This price tends to be the same for all shippers, regardless of their relative imbalance position. In normal circumstances this uniformity of prices should not create problems, if the system is generally designed to provide incentives to balance (or disincentives for imbalances). Reckless or incompetent shippers should be dealt with by commercial means (e.g. prices charged for balancing energy could depend on the extent of the imbalance).

***Should shippers be allowed to trade their imbalance positions on an ex-post basis as a way of improving overall efficiency?***

This is not strictly necessary, because – as mentioned above – in an efficient market driven system the prices for balancing energy will reflect the net aggregate position only anyway. Long or short positions of individual traders, on the other hand, would not trade for free, whether ex-ante or ex-post. The most likely price at which they would trade is close to the price of avoided balancing costs. Therefore the financial result for traders is very much the same, whether or not they are able to trade these imbalances (and it is not unreasonable to assume they are worse off, when transaction costs are taken into account).

***Question (3):***

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

Any choice of length for balancing periods contains a political decision on the proportion of balancing costs being socialised and on the proportion payable by the entity responsible. The longer the period, the higher the proportion of balancing costs shifted from users that tend to run up large imbalances to users with a balanced (even if volatile) supply-demand profile. That shorter periods put more strain on information systems may be the case. But this affects all market participants in the same way. Lengthening the balancing period to possibly avoid some inconveniences for some market participants at the cost of shifting in many cases considerable costs to those, who can manage their portfolios more efficiently, will in all likelihood contribute little to the development of competition.

It could also be argued that longer balancing periods (e.g. daily balancing) are more likely to create entry barriers because the administration of the balancing regime is more complex, especially for new market participants.

***Question (4):***

***What information is required to ensure that gas balancing regimes operate effectively and efficiently and how often should this be provided?***

In a system based on capacities contracted by shippers, the shipper's current imbalance is presumably the information ensuring effective and efficient information. In a system which allocates capacities directly to end consumers as in Austria this information is not available, because it would be necessary to meter all end consumers on-line. Efficient and effective operation has to be assured through a thorough design of flows of metering information in the market rules.

***What is the best way of ensuring that this information is provided to all parties on a non-discriminatory basis?***

On-line via internet.

***Question (5):***

***Should linepack (where technically feasible) be made available to shippers on a non-discriminatory basis to improve access to flexibility?***

In most systems line-pack is made available indirectly to the community of users in their entirety by the very operation of the balancing system (e.g. tolerance levels, basing the balancing costs on the actual amount of balancing energy injected or withdrawn from the system). Access to line-pack as a user-specific flexibility tool needs to meet the criteria:

technically feasible, no interference with the safe and efficient operation of the system, unambiguously measurable.

***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?***

There are no magical solutions but to provide access to the instruments of flexibility available in a specific network on a non-discriminatory basis.

***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?***

If appropriate rules are in place for the transit of gas through a system (see below answer to Question 8) then gas balancing is necessary only in relation to differences between supply to and demand of end-consumers in that particular gas balancing zone. "Transit" is defined here widely and in relation to balancing zones as accepting gas at an entry-point to a gas balancing zone and handing over an equal volume at an exit point of that same gas balancing zone, or gas emanating from a balancing zone (Storage, production) and an equal volume being passed on to an exit point of that same gas balancing zone, irrespective of whether exit and / or entry point border on a different country. The gas balancing regime has to conform to the principles of the Gas Directive and has to exhibit the features mentioned in Figure 4 of the Discussion paper. If that is the case then differences between gas balancing regimes will mainly reflect technical particularities of the relevant gas balancing zone. The general rules governing gas balancing provide the necessary degree of consistency anyway, whereas the physical conditions as well as differences e.g. in the acceptable level of security of supply determine the rules specific to a particular gas balancing zone. Introducing "features" of other gas balancing systems may jeopardize the internal consistency of the set of rules governing a gas balancing zone or be inappropriate to or incompatible with the technical set-up.

A definite answer to the questions above and in particular regarding the possibility and desirability of harmonized gas balancing rules can, however, be given only in the context of evaluating concrete gas balancing regimes

***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)?***

As above, this question cannot be answered in a general manner. Whether or not extending gas balancing zones would facilitate competition in gas across Europe will depend very much on whether the zones are compatible from a technical point of view. In real life, the Europe-wide gas lake – concept – which seems to lie at the heart of the questions – is a mere legal and, in the best case, commercial construct, in the physical world the concept can be realized only in very limited geographical confines. Balancing zones have to take into account

first and foremost the topographical and technical characteristics of networks and pipe-line-systems.

The bigger a balancing zone the more complex its administration tends to become (e.g. rules for nomination or matching) and the larger the mutual impact. Whether or not major legal issues arise will depend on the constitution and legal systems in the two countries involved and will probably be in the area of harmonisation of laws and systems – including PSOs- and quick enforcement of technical and commercial market rules and financial demands. On a practical level, responsibility for the entire balancing zone should be vested in a single authority.

The impact of cross-border balancing zones on hub-trading and regional markets will probably not be large. If there is no cross border balancing zone, gas which is bought at a hub leaves the balancing zone and the country in which the hub is located and becomes just another delivery into a balancing zone. As such it is not different from e.g. an import or a withdrawal from storage. In the case of a cross – border balancing zone gas leaves the country, but not the balancing zone. In both cases only one set of balancing rules should apply (see above Q.6 and below Q8). Should trading at the hub lead to increased market liquidity then the effect on the market should not markedly differ whether or not a cross border balancing zone is in place.

**Question (8):**

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

As a general rule, transit (as defined above) should be subject primarily to the principle that the volume of gas supplied to or from a gas balancing zone should be passed on (contemporaneously or with a defined delay) to an adjoining gas balancing zone. If that rule applies, no balancing is required by definition. What has to be in place are nomination rules and rules that deal with deviations of nominated and received volumes. Gas balancing is necessary because end-consumers draw gas regardless of supply to the system. In transit, however, the shipper has only the right to receive the volume of gas he has supplied to the system. Because the rule sets governing supply of end-consumers and transit are entirely incompatible, there can be no increase in the level of consistency.

**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?***

If the principles governing transit and delivery to end consumers laid out above are adhered to, there would be no necessity to introduce OBAs.

**Comments on Principles in Chapter 4:**

We are generally comfortable with the rewritten principles. With regard to the following principles, we would like to comment as below:

**Principle 2:**

In the second paragraph of this principle it is suggested that "The arrangements to meet this requirement should be made publicly available." The exact nature of these arrangements is not in the public interest, circumstances may differ wildly from company to company. What is in the public interest, is that these arrangements meet the requirements demanded from them, that is ensuring there is an equality of information between affiliated and third parties. These arrangements should therefore be subject to regulatory scrutiny.

**Principle 6:**

As explained above, this principle is applicable only in the context of specific systems.

**Principle 7:**

The suggested change pre-empts an answer for Q 9.

**Principle 8:**

The last sentence in the new wording heaps unlimited responsibility for investment or expenditure for services on the TSO. In addition, as a corollary to any demand on the TSO to invest or provide services it is necessary to provide for the inclusion of expenditure thus incurred into the cost base of tariffs on an as is basis.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Mock', written in a cursive style.

Mag. Michael Mock  
Managing Director