

**Gas Natural Fenosa comments to ERGEG Public Consultation on PILOT FRAMEWORK
GUIDELINE ON BALANCING RULES**

Gas Natural Fenosa welcomes the opportunity to respond to ERGEG Public consultation on Pilot framework guideline on balancing rules.

A European gas balancing system with common rules among the Member States and harmonized balancing structure is required in order to remove the barriers to new market entrants, especially in those markets where vertically integrated incumbents still exists.

A harmonization of the balancing period on a daily basis and without any hourly restriction is to be implemented in all Member States. Exceptions (hourly restriction) should be technically and operational justified and should be strictly limited in time and should be regularly reviewed by the NRAs. In any case, a code describing all applicable balancing rules and procedures shall be transparent and published.

Questions

1. Problem identification, scope, definitions, purpose, policy objectives and compliance

- 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?
- 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?
- 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?
- Do you agree with the approach of defining a target model for the network code and allowing interim steps subject to NRA approval?
- 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?
- 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?
- 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?

GNF agrees that the problems identified in the consultation documents are the ones that shall be tackled by the Framework Guideline and the subsequent Network Code. The existence of different balancing regimes in different Members States - hampers the development of an integrated gas market.

Different calculation methodology of imbalance charges in adjacent zones, may create arbitrage opportunities for network users, which may take advantage of them to minimize their imbalance costs.

We share ERGEG view that in addition to a better capacity access it is fully necessary a harmonisation of the balancing regime. Otherwise, lack of liquidity in wholesale market will impede gas trade across systems and the development of competition.

In MS with low degree of effective and efficient market functioning and effective competition, vertically integrated companies still own the existing flexibility tools. With such flexibility they can face their imbalance positions better than the other network users.

Besides, GNF also agrees with the scope and objectives of the FG. Nevertheless, regarding the point 1.3 of the scope, we stress that network codes should take into consideration that arrangements for cross-border balancing and the exchange or trade of gas between neighbouring balancing zones requires in some cases not only harmonisation rules but also the development of physical interconnection capacity.

Despite the fact that GNF agrees with the target model with interim steps established in the Draft Pilot FG on balancing, we would like to make two remarks:

- we believe that 12 months to implement the provisions in the target model shall not be sufficient. Therefore we propose a minimum timeframe of 18 months.
- The exceptions to the balancing standard structure should be kept at reasonable minimum level and should be regularly reviewed by the NRAs. In any case, a code describing all applicable balancing rules and procedures shall be transparent and published.

2. The role of network users and TSOs

- Is it necessary to have a harmonised approach to the network user and TSO roles regarding gas balancing?
- What are your views on the proposals for the target model to be reducing the need for TSOs to undertake balancing activities?
- 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?
- Is balancing against a pre-determined off-take profile a useful interim step?
- 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?
- Should the target model enable TSOs to provide tolerances to market participants for free or should this be an interim step?

GNF agrees with the target model presented in the draft of FG on gas balancing. However, as a daily balancing regime is established in the FG, within day balancing obligation for network's users should be removed. Otherwise, it might be a barrier to new entrants into the gas market as they do not have hourly flexibility tools and therefore they might face higher balancing costs.

We believe that tolerance levels should be offered by TSOs for free. We also believe that they shall be not only transitional but definitive measure.

The TSO role should be limited to take balancing actions (buying/selling gas through market-based mechanisms) when the difference between the aggregate inputs and off-takes of network users threaten the safety and reliability of the network.

Therefore daily physical flows at every entry point should be adjusted to the sum of shipper nominations. TSO shouldn't be able to increase/reduce these daily physical flows once they have been recognized as viable after the program or nomination process.

Any local physical restriction should be taken into account when analyzing and before announcing the viability of the sum of shipper's programs/nominations. Once that the TSO has recognized its viability, the TSO shouldn't be allowed to modify the resulting daily physical flows.

3. TSO obligations on information provision

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

Clear, transparent (on the same timescale to all system users) TSOs information is critical to enable shippers to adjust their portfolios and take actions to correct their imbalances.

Nevertheless, we believe that intraday information about network user's positions could involve unnecessary additional costs. Those systems that do not provide information within the time frame of the balancing day should undertake a cost benefit analysis regarding the investment costs needing to provide relevant intraday information and the balancing cost. Even more, we would like to highlight the fact that in some Member States information is currently given with a delay of two days and nevertheless, shippers balancing costs are lower than in other systems with intraday information.

In our opinion, it is much more important information quality than its frequency. Therefore, efforts should be focuses on improving the accuracy of such information in order to minimize differences between this information and the final demand allocation.

Moreover, it is also important that network users receive daily information on the actions being undertaken by TSOs in buying and selling of balancing gas from networks users and/or other TSOs in order to identified the marginal price used to cash-out.

Last but not least, we consider that TSOs information should be published in English and in the official language(s) of the MS at the same time.

4. Balancing periods

- What are your views on our assessment of the policy options?
- Are there relevant additional policy options on balancing periods which have not been considered in this section? Should these be considered going forward?
- 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.
- If you agree with a harmonised balancing period, what do you consider is the appropriate length of the balancing period?
- Do you agree with the target model? (Please explain your answer).
- 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)?

We strongly support daily balancing regimes because:

- i) it provides network users with more time and opportunity to balances their portfolio avoiding imbalances charges and therefore, stimulating new entrants and market liquidity.
- ii) lower operational costs in a daily balancing regime compared to shorter balancing periods.

In this line, we are opposed to hourly balancing restrictions. We think that intra-day imbalance should be managed by the TSO since hourly restrictions are a high barrier for new entrants, especially if they come from daily systems, since:

- i) They need access to local sources of flexibility or even negotiate new supply contracts in order to avoid hourly imbalance.
- ii) They have smaller portfolios which are more exposed to imbalance.

We stresses that if any exception to daily balancing regimes needs to be granted as an interim step, they should be time limited and should be designed so as to allow cross-borders flows between daily and hourly neighbouring markets.

The FG proposal allows TSOs to maintain hourly restrictions if it is “necessary” to manage the system (paragraph 6.4). In our understanding the code should define more clearly those exceptional cases where hourly restrictions are required and/or include any kind of measures to control that hourly restrictions are only applied where it is absolutely required regarding security reasons. In addition, TSOs should provide technical and transparent justification when applying these restrictions. Otherwise, there is a risk that most of the systems which are applying hourly restrictions will maintain them, so little movement from hourly to daily balances and little harmonization will be achieved.

Moreover, in those cases duly justified by security reasons we prefer the ERGEG alternative proposal in page 35 of the Draft Pilot Framework Guideline (which consists of daily regimes with the obligation for network user to announce flow programs and restrict renominations to minimum lead-times or certain percentages on a daily basis) to hourly regimes.

Finally, we consider that a harmonization of balancing period on a daily basis requires a harmonization of the timing of the gas day. Therefore it is necessary TSOs to agree on a common gas day.

5. TSOs buying and selling of flexible gas and balancing services

- Do you agree with our assessment of the policy options?
- 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?
- What are the costs of implementing the target model in your Member State?
- What interim steps, if any, may be needed in your Member State or balancing zone(s)?
- 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?
- 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?
- 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?

GNF agrees with the target model identified in the Draft Pilot FG on gas balancing rules. TSOs shall procure balancing gas on wholesale markets. Where a wholesale market is insufficiently liquid, TSOs shall be entitled to use balancing platforms.

Procurement through long term contracts, as is it established in the Proposal should be exceptional and transitional.

Finally, we do not think that TSOs should be allowed to reserve storage or LNG capacity under no circumstances, even as an interim step for the following reasons:

- TSOs' tools to manage the balancing system and play its residual role are steadily established in the draft Pilot FG.
- Since market participants have primary responsibility of balancing all capacities should be reserved for them.

Therefore, we strongly recommend that in Member States where the TSOs have significant reserve of storage capacity for instance, this capacity should be released to market participants.

6. Imbalance charges

- Do you agree with our assessment of the policy options?
- 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.
- 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.
- What would be the costs and benefits of implementing your preferred options in your Member State?
- What are your views on the interim steps in the document?

GNF highlights that it is crucial that imbalance charges reflects the costs of TSOs undertaking balancing actions, otherwise they may impose inappropriate costs on network users, acting as a barrier to new market entrants.

Likewise, imbalance charges shall be market-based.

7. Cross-border cooperation

- Are there any other relevant policy options on cross-border cooperation that should have been included in this section?
- Do you agree with our assessment of the policy options in this section?
- 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?

Balancing zones should not be constrained by national borders. TSOs should be encouraged to facilitate larger balancing zones. We share's ERGEG view that this may be best rolled out on a regional basis.

Cross border cooperation (points 9.1, 9.2 and 9.3 of the Pilot Framework guideline proposal) is focusing on the harmonization of rules which is needed to create cross-border balancing zones. However, GNF considers that harmonization of rules is not enough where the existence of two adjacent balancing zones is due to the lack of capacity and bottlenecks as well. FG should take into account this fact and include some kind of cooperation between neighbouring TSOs to identify bottlenecks and develop interconnection capacity where it is necessary to merge balancing zones and is technically and economically feasible. Furthermore, the revenues obtained from balancing charges should be used to merge balancing zones where the problem is lack of capacity.