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28 October 2010
Our reference
J 10.014
Subject
Consultation on Framework Guideline on Gas Balancing

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Dear Sir or Madam,

GasTerra welcomes the opportunity to comment on the Draft Pilot Framework Guideline on Gas Balancing.

As a general comment GasTerra would like to put forward that a Framework Guideline on Gas Balancing should focus on ensuring efficient balancing based on a set of robust principles, as opposed to a rigid one-size-fits-all model, which might not be suited to the physical realities of some transportation systems. We believe that daily balancing should not be the only option. In some systems different balancing periods are required in order to ensure a market-based, transparent and objective balancing regime, which reflects genuine system needs. Differences in balancing periods within the EU in our opinion do not necessarily impede trade between gas markets.

Our more detailed responses to the consultation can be found below.

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?

The section on problem identification in the impact assessment document provides a reasonable high level summary of the main issues relating to the balancing of gas transmission networks in the EU. From the perspective of GasTerra the liquidity of the market is much less of an issue than the Assessment implies, but this may be a specific of the Northwest European market region.

A couple of additional issues that should be addressed include:

- the need to ensure that the resulting model for gas balancing works well in coexistence with the electricity markets;

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- the need to ensure that TSOs are able to obtain the information they need from connected gas systems, in particular from the distribution networks.

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?

We note that the scope and objectives defined by ERGEG focus on harmonization and integration, which are seen as the overarching objective. The overall objectives and requirements of Regulation 715/2009 ("the Regulation") are purely repeated in paragraphs 3.4 and 3.5 of draft Framework Guideline, but not discussed further. The document has indeed been drafted with the overarching objective of harmonisation in mind, while the overall objectives have been given a subordinate importance.

GasTerra is a supporter of further integration of the (Northwest) European market and harmonisation, to the extent feasible, of access rules. We are also an active participant at the TTF and the NBP and favour further development of liquid traded markets. At the same time we note that harmonization and integration are not the only objectives of balancing set out in the Regulation and arguably not the most important ones either. While according to article 21.4 of the Regulation Member States should "endeavour" to harmonise balancing regimes, balancing rules "shall" be fair, non-discriminatory and transparent, and also "based on objective criteria" and "reflect[ing] genuine system needs [and] taking into account the resources available to the transmission system operator".

The latter requirements have in our opinion not sufficiently been taken into account in defining the scope and objectives of the Framework Guideline and indeed in the substantive provisions of the Framework Guideline. Where different systems have different needs and physical realities, harmonizing the balancing rules between these systems and thus departing from the above mentioned requirements of the Regulation, should in our opinion not be the automatic solution. While we agree that balancing systems in the EU should be compatible with one another, we are not convinced that there is a one-size-fits-all solution that should be imposed without proper analysis of the costs and benefits.

To summarize, we feel that the Framework Guideline falls short of giving proper weight to the different requirements and policy objectives, that the Regulation sets out for balancing rules.

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?

The European network code should lead to amendments of national balancing rules, where existing rules do not comply with the code. GasTerra however questions the need for a single target model (see our response to Question 4), and prefers the definition of a set of principles on which the European balancing regimes should be based.

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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?

No, we don't. Physical differences between the systems in the different Member States are likely to be such that a uniform Target Model does not lead to maximal application of the underlying principles of the Regulation. For example, the system now under development in the Netherlands (the "Dutch system")¹ allows for balancing by market parties on an hourly level. It is likely that this is not optimal for all balancing systems, given that the dimensions of the transport system is more compatible with daily balancing, implying that the costs of developing an hourly system may be perceived to be unreasonably high. But the same logic also applies vice versa – if the physical characteristics of a system require hourly balancing, daily balancing will imply potentially high investment costs.

There may be several reasons why a system with a different balancing period is to be preferred over daily balancing. First of all, as in the Netherlands, line-pack may be insufficient to facilitate daily balancing, in combination with the vast size of the residential sector (by far the largest in the Netherlands), which render the hour as the natural balancing period in principle. An hourly balancing period allows market participants to use short term flexibility to generate value on shorter time scale, and as such create an intraday market that can be used for balancing actions by market parties. Leaving this to regulated TSOs is not in line with maximizing the role of market parties in balancing their own portfolios. In other words: a balancing regime based on an hourly balancing period in combination with an intraday market is more market-based than a daily balancing regime, where imbalances within the day can only be resolved with the participation of the TSO.

For the future, the role of intermittent energy sources (such as wind) is likely to be such that the need for intraday balancing will increase. If the fluctuations become substantial, the result may be that even for countries where now daily balancing can be facilitated by line-pack in the system, will have to invest in additional flexibility instruments. GasTerra believes that in the framework of the European energy market, decisions about such investments are better taken by market parties than by the TSOs.

As to the use of the phrase 'target model' in the questions below, GasTerra from here on takes the freedom to interpret this phrase to be defined as a consistent set of principles to which all balancing regimes in the EU should adhere in the long run, without prejudice to the choice of the balancing period.

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?

Given the different starting points and challenges for each TSO network it would not be appropriate to set a fixed timescale. A short timescale would be impractical for some, while

¹ For detailed information on the new balancing regime in the Netherlands, please consult the website of GTS: <http://www.gastransportservices.nl/en/markttransition/documents>

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a long timescale that accommodates all networks would not incentivise early implementation by networks with lower hurdles. The emphasis should be placed on the NRA carrying out a regular review of the progress of each TSO's implementation, ensuring that the TSO moves through any interim steps towards each element of the target model soon as is reasonably practicable.

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?

We refer to our response to question 2. As to the nomination procedures, these should be consistent with the balancing model chosen for the particular transmission system and with the set of principles defined by the Framework Guideline. To the extent possible, nomination rules should moreover facilitate trade between market areas.

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?

We refer to our response to question 2.

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?

GasTerra believes that a harmonized approach to the network user's and TSO's roles would facilitate trade between market areas and is therefore desirable.

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

Further to the comments made under question 4, GasTerra does believe that a set of common principles for balancing should entail a reduction of the need for balancing actions by TSOs. In GasTerra's view this is in line with the concept of market based balancing, where the market parties are responsible for balancing their portfolios to the maximum extent possible.

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?

GasTerra believes that daily balancing does not necessarily provide the optimal regime for all market areas (see above). For some areas alternatives with a solution in which the market plays a more prominent role, such as the Dutch model are more appropriate. Within-day

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constraints (falling short of a balancing period which is shorter than 24 hours) are a less favourable option, to the extent they offer less opportunities for market based balancing charges. If constraints were to be imposed, this should be done in a non-discriminatory way, which implies that one should not impose them on certain group of network users, except where there are clear and objectively justifiable reasons to treat a certain category of network users differently.

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

If we understand the question correctly, balancing against a pre-determined off-take profile can be done in two different manners: i) either on the basis of a profile which network users submit on a day ahead basis or ii) where network users do not have sufficient information on their individual portfolio balance, on the basis of a common predetermined offtake profile, possibly related to offtake patterns of relevant final customers. The first option can be useful, not only as an interim step, but also as a more permanent solution. The second option should only be used as an interim step, while the relevant TSO works towards providing more information to market participants on their portfolio (im)balances.

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?

Line-pack should be used by the TSOs for residual balancing, not for selling to market parties as this results in unnecessary tightness for residual balancing.

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

Tolerances could be provided to the market by means of a band-width within which the system could move (like in the Dutch system). In a daily balancing system, tolerances are probably not appropriate.

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?

TSOs should be required to provide to each market participant frequently updated information on its portfolio balance as well as information on the balance situation of the system. Balancing actions taken by the TSO, whether taken on a traded market, a designated balancing platform or otherwise, should also be transparent.

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

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When TSO's provide network users with timely (including near real time where appropriate) and sufficiently comprehensive information about both the system status (to all users) and the individual user's own status (held confidential), users are better able to respond to changes in supply and demand and chose the most cost efficient way of doing this. This thereby helps minimise the role of the TSO and overall cost of balancing.

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 question on the costs is best answered by TSOs and regulators who may be verifying the cost information, but we are confident that the benefits outweigh the costs.

Balancing periods

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

The description of the three policy options gives a reasonable high level summary of the pros and cons of each system. GasTerra however is of the opinion that the description is poised towards favouring the first option, and in particular does not fully appreciate the additional room for market based balancing that in our view is inherent in the cumulative system.

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?

No, there are no additional policy options, which we would suggest for considerations in this section.

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.

Harmonization of balancing periods is often incompatible with the inherent physical differences of the transmission systems across Europe. It is not necessarily required for effective cross-border trading of properly standardized products. GasTerra acknowledges that differences in balancing periods create options for arbitrage between systems, but these could be seen as a means to efficient distribution of flexibility instruments, aligned with the physical needs of the different transmission systems.

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

Not applicable.

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

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GasTerra does agree with the target model to the extent that it is viewed as a set of robust principles, but obviously does not agree with the notion of daily balancing as an only option in that model.

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 question is best answered by TSOs and regulators who may be verifying the cost information.

TSO buying and selling of flexible gas and balancing services

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

GasTerra generally agrees with the descriptions and assessments of the pros and cons of these procurement measures.

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?

GasTerra considers balancing platforms to be the final interim step before moving to TSO trading on the wholesale market.

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

This question is best answered by TSOs, operators of existing platforms and regulators who may be verifying the cost information.

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

A stand-alone balancing market ('bid ladder') would be needed in the introductory phase of the new Dutch balancing regime, with possibly tendered capacity to warrant sufficient availability of capacity.

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?

Yes, this could be an appropriate interim step, but in the long run it is expected that the wholesale market will crowd out such a platform.

Question 28: 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?

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Provided that the wholesale market has sufficient liquidity, TSOs should procure balancing services on that market. A balancing platform could be an alternative, especially where the wholesale spot market is not yet sufficiently liquid.

Reserving long-term contracts for flexible gas should only be allowed when it is necessary for maintaining the integrity of the transmission system

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?

By providing a stimulating environment for investments in intraday flexibility instruments the reliance of the TSOs on long-term contracts can be reduced. Both the balancing platform and a liquid intraday market are key elements in maximizing the value of such investments.

Imbalance charges

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

Yes, and GasTerra believes that imbalance charges should be based on marginal prices in the local balancing market.

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.

Yes, the methods preferably should be based on marginal prices in the local balancing market. This will naturally lead to a degree of harmonisation.

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.*

GasTerra generally agrees with the target model, in particular for imbalance charges to be based on the marginal price. However, there should be no charge if no action is taken by the TSO (other than settling of imbalances over a longer period, possibly on the basis of allocations, against a neutral gas price).

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

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The major benefits will be that balancing is left to the market to the largest extent possible, and that costs of imbalance are generally determined by the market. GasTerra believes this is the most efficient way of safeguarding system balance.

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

GasTerra agrees that the option of applying interim steps will be needed in some markets and welcomes the inclusion of this in the document.

Cross-border cooperation

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

We refer to our response to question 36.

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

GasTerra believes that the main policy options have been highlighted, but considerably more analysis needs to be carried out before detailed mandatory recommendations are included in the Framework Guideline.

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?

Yes, OBAs can be useful in dealing with steering differences.

For more information on GasTerra's position, please contact Gerard Martinus at gerard.martinus@gasterra.nl or Zornica Zafirova at zornica.zafirova@gasterra.nl.

Yours faithfully,



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