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To: ERGEG European Regulator's  
group for electricity and gas

e-mail: fg\_gasbalancing@ergereg.org

Milan, 28th October 2010

**OBJECT: answer to ERGEG public consultation on “Pilot Framework Guideline on gas balancing rules on European gas transmission networks”.**

### WHO WE ARE

Born in 1881, Edison is one of Europe's oldest energy companies. In 2009, it reported sales revenues of 8.867 mln €, and is carrying out an ambitious investment plan in the electricity and gas sectors. Edison had to diversify its business, when the national monopoly on electricity was established in Italy in 1963. Thanks to the first wave of EU Directives in 1996, it could re-focus its business on energy once again, this becoming the largest new entrant on the Italian market.

With 50,3 TWh produced in 2009, it is now Italy's second largest electricity generator. Thanks to 7.000 MW of new highly efficient and low emission plants (CCGT thermo plants, as well as hydro and wind power plants), the Company has now a total installed capacity of 12.500 MW. In the hydrocarbons business, Edison has an integrated presence in the natural gas chain, from production to importation, distribution and selling, with sales of 13.2 billion cubic meters in 2009.

In 2009 the new LNG terminal in Rovigo started to contribute to the diversification of Italy's supply sources with its regasification capacity of 8 bcm of natural gas a year, equal to 10% of Italy's demand for natural gas. The start up of Galsi and ITGI pipelines will further connect Italy to Algeria and Caspian Sea, two areas rich in hydrocarbons.



## GENERAL REMARKS

Edison welcomes the opportunity to provide her comments to the consultation on “*Pilot Framework Guideline on Gas Balancing Rules*”.

The process that, according to what is set by Gas Regulation 715/2009, will lead to the definition of European Network Codes, is going to foster the integration of European gas markets, on the basis of a stronger harmonization of rules and procedures. Edison shares the choice of balancing as a priority issue, being convinced that the adoption of common market-based balancing mechanisms would facilitate gas trading across Europe.

In particular, we appreciate ERGEG approach of defining a common target model that could be adopted following precise interim steps, which will allow to take into due consideration the different characteristics of national gas systems. In such a framework, Edison thinks that NRAs are in the best position to identify which interim steps are needed in their countries and to carry out a regular review of the progress of national implementation.

In the next paragraph we would like to summarize some key points that will be then further developed by answering to the specific questions:

- 1) Given the increasing role played by gas in power generation, it is paramount that both that target model and the interim steps are designed ensuring the **maximum interaction between gas and power markets** (in terms of nomination and re-nomination windows, etc), therefore allowing users to maximise the existing synergies.
- 2) As a consequence of the major balancing responsibility of network users, they should be provided with **frequent within-day re-nomination windows, even close to the end of the gas day**, coupled with the possibility for shippers to be consequently active on the gas market, therefore fully using the flexibility resources available within the system.
- 3) The **introduction of tolerances** (at least as an interim step, but with the possibility for NRAs to evaluate case by case the necessity to maintain of a low physiological level also within the target model) is crucial to cope with the scarcity of flexibility,



which could be worsened by the low liquidity of wholesale gas markets. In any case, tolerances should be set equitably across all network off-takes.

- 4) The adoption of a **daily imbalance charging structure giving strong pricing signals to encourage users to minimize their infra-day imbalance** would be more market-based and therefore **preferable than the introduction of within-day constraints**<sup>1</sup>.

With particular reference to within-day constraints, we recommend that in any case their application shall not be limited to specific categories of customers, thus representing a possible discriminatory element and creating barriers to new entrants.

- 5) The **provision of information to network users** is essential for a market-based balancing mechanism to work efficiently. Therefore, Edison recommends the introduction of high quality service standards with which TSOs, as well as DSOs, should comply. Having access to timely and reliable data on the system and on their portfolios, network users will have all the tools to carry out an accurate forecast, making balancing against pre-defined off-take profiles unnecessary.

Finally, with a specific reference to the Italian case, we would like to highlight the importance of implementing access and operational rules to LNG terminals that allows to re-schedule the send-out (also during the gas-day) according to users' needs, in order to ensure the maximisation of the available flexibility, though respecting the operational constraints of the terminals.

## COMMENTS TO THE QUESTIONS

### **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?*

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<sup>1</sup> The introduction of flow rates on certain points (on the basis of what already applied in France and UK), aimed at reducing the costs incurred by TSOs to ensure infra-day modulation, could also be explored as a preferable and less costly alternative to the imposition of within-day constraints.



Edison agrees that the problems identified by ERGEG are the main criticalities faced by European shippers with reference to balancing rules. In particular, given the increasing responsibility for balancing placed on network users, we regard as crucial for them having a fair access to the main sources of flexibility (storage, LNG, etc) and to the relevant information on their inputs and off-takes.

Another important issue that should be dealt with by the FG is the interaction between gas and power markets. The increasing rate of gas generated electricity within national power portfolios and the awareness that in the next years power generated from CCGTs will have to flexibly back-up the foreseen growth of intermittent renewable generation, should lead to the design of a balancing regime that provides a fair treatment to shippers serving a wide base of power customers.

Finally, FG should foresee measures to improve cooperation among TSOs and DSOs, aimed at providing TSOs (and consequently users) with the information they need on connected distribution networks and downstream markets.

*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?*

As concerns the scope, we particularly welcome the clarification at Art. 1.4, stating that “*the methodologies establishing the terms and conditions for the provisions of gas balancing services that regulatory authorities shall fix or approve under the provisions of Article 41.6. (b) of Gas directive 2009/73/EC shall be consistent with the network code of gas balancing*”. We indeed believe that this will foster the harmonization of balancing rules across Europe, by removing the main obstacles for network users to operate on foreign gas markets.

With reference to the policy objectives, we agree both with the over-arching objective to encourage and facilitate gas trade across systems and support the development of competition and with the specific objective to create balancing rules including network-related rules on nominations procedures, rules for imbalance charges and rules for operational balancing.

Finally, Edison supports the decision to define interim steps towards the achievement of a common target model. Interim steps will indeed help the transition towards market-based balancing, taking into account the different stages of development of national systems. In



facts, any consideration on balancing requirements cannot avoid dealing, at the beginning of its implementation, with the wide range of circumstances which contributes to the design of each national gas system, both on the supply and the demand side. This means that interim steps should depend not only on the characteristics of the transportation infrastructures and on the availability of flexibility resources (namely, indigenous production, underground storage facilities, linepack, etc), but also on the type of demand which characterizes the system (see the need of interaction with power markets at Q.1).

*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?*

We believe that the existence of a clear set of European harmonized rules on gas balancing represents a key element to achieve a real integration of European gas markets, whereas the persistence of fragmented balancing systems is an obstacle for network users wishing to operate in different markets. For the above mentioned reasons, Edison thinks that the European Network Code on Gas Balancing should lead to an amendment of national balancing rules towards the direction of market-based balancing.

With this aim, the target model should set sufficiently detailed key principles, in order to avoid any ambiguity for TSOs in their implementation. Nonetheless, it should be left to NRAs enough flexibility to decide during the interim period if and how to implement possible different measures, which are needed to cope with national peculiarities.

*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?*

As stated in Q.2, though sharing the final objective of adopting a target model common to all Member States, the different stages of development characterizing national gas systems call for the application of interim steps that can make a stepwise transition towards market-based balancing regime possible. In such a framework, Edison believes that NRAs are in the best position to assess the status of each national gas system and to consequently evaluate which interim steps would better suit the transition towards 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?*

First of all, we recall that irrespective of the timescale set for TSOs to comply with the new provision, network users shall also be ensured (as well as TSOs) a “transition period” when, after the definition of clear rules and implementative steps, shippers can adapt their systems (namely, IT and internal procedures) to the new mechanisms, being only gradually exposed to economic risks.

As concerns the proposed timescale to implement the target model, Edison believes that 12 months could be enough for national TSOs to implement the rules included within the Network Codes, at least the ones concerning interim steps. Nonetheless, we are aware that the possibility of meeting this deadline will highly depend on the starting point of each system and on the willingness to cooperate of all stakeholders involved in the implementation process.

Finally, we agree with ERGEG (FG 10, “Compliance”) that it could be appropriate assigning to NRAs a supervisory role in order to detect if market conditions allow TSOs and network users to comply with the new mechanisms.

*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?*

With reference to nomination procedures, Edison thinks that Pilot FG should include within their policy objectives the provision of maximum flexibility, in order to allow network users to fully use the balancing resources which are available into the system, both in order to balance their own position and to make them available to the system.

This target will mainly be achieved by introducing frequent within-day re-nomination windows, even close to the end of the gas day, coupled with the possibility for shippers to be consequently active on the gas market. The application of flow rates to certain relevant points (as already introduced in France and UK) could be a valuable tool to ensure a safe within-day operation of the network, when allowing the maximum flexibility for shippers.



*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?*

Article 21 of Regulation 715/2009 calls for balancing rules which are:

- fair, non-discriminatory and transparent,
- market-based,
- based on objective criteria.

Moreover, it states that TSOs shall provide sufficient, well-timed and reliable on-line based information on the balancing status of network users. Finally, according to Art. 21, imbalance charges shall be cost-reflective to the extent possible, whilst providing appropriate incentives on network users to balance their input and off-take of gas.

Edison believes that ERGEG target model largely reflects the obligations of Article 21, but any introduction of within-day constraints on certain categories of customers would imply a possible discrimination among different market segments and should therefore be avoided.

### **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?*

A clear understanding and a harmonised approach to the roles of network users and TSOs regarding gas balancing is fundamental for the development of a common EU target model. Edison agrees with ERGEG in assigning primary responsibility to shippers and reducing TSO's role in balancing activities as much as possible.

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

In principle, Edison agrees that in the target model the balancing role of TSOs should be reduced to the minimum, whereas network users should be the main responsible for the balance of their positions.



Nonetheless, as better explained in the answer to the following Q.10, in order to avoid any discrimination among different kinds of network users that could arise with the introduction of within-day constraints on specific types of customer, in a daily balancing system it should be left to TSOs the duty to manage within-day imbalances, ensuring them the possibility to access to dedicated sources of flexibility. It is clear that the amount of flexibility which should be reserved to TSOs for intra-day balancing purposes should be carefully assessed by NRAs in order not to hinder the development of liquid balancing markets.

These transitional arrangements could be put in place until investments aimed at improving the flexibility of the network will not have been completed.

*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?*

Within-day constraints shall not be part of the target model, in particular if their imposition is restricted only on certain groups of network users.

This kind of solution would indeed:

- imply a possible discrimination of certain categories of customers,
- making cross-border balancing more complicated, due to the fact that the level of within-day constraints should differ among systems, reflecting the flexibility of the network,
- represent a barrier to entry for small operators.

Edison therefore believes that a daily imbalance charging structure giving strong pricing signals to encourage users to minimize their infra-day imbalance would be preferable and more market-based.

Nonetheless, in case the introduction of within-day constraints was necessary as interim step to ensure a safe operation of the network, they should be equally imposed on all network users, in order not to discriminate among shippers serving different kinds of final customers. Yet, the essentiality of applying such measures should be carefully assessed by NRAs



As stated in the answer to Q.9, a possible solution to avoid the introduction of within-day constraints could be the conferral of a certain share of flexibility to TSOs in order to make them able to cope with infra-day fluctuations. This will mean keeping a higher involvement of network operators, but on the other hand, it will avoid discrimination among different types of customers and the generation of systemic costs originated from a balancing mechanism which is substantially hourly, not being this arrangement justified in all Member States by the existence of high risks for the integrity of the system.

As already suggested, these transitional arrangements could be put in place until investments aimed at improving the flexibility of the network will not have been completed.

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

We understand ERGEG proposal as aimed at limiting balancing against a pre-determined off-take profile to non-daily metered customers' consumptions. If Edison understood it correctly, we think that balancing against a pre-determined off-take profile would have as main consequence the exclusion of certain categories of customers from all the risks connected to the forecasting activity.

Moreover, in case this solution was applied to non-daily metered off-takes, it would result in the exclusion from these risks of the categories of customers whose consumptions are the less predictable and therefore the main cause of imbalance.

Furthermore, the introduction of pre-determined off-take profiles to manage the balance of domestic customers could determine, in our opinion, a transfer of costs across different market segments. In fact, if the TSO provides network users serving domestic customer with a predefined day-ahead profile of their forecast and is responsible for the residual balancing activities, it means that if shippers serving these types of customers have access to enough flexibility to balance their consumptions, they will not face any further risk. In case the forecast is not correct, the costs faced by the TSO to balance domestic customers will be socialized and paid also by shippers serving larger customers, who are already bearing the cost of balancing their customers on a market base.

A possible alternative is the design of a system of prizes and penalties to incentivise network users to carry out precise forecasts, since the forecasting activity is one of the core businesses of shippers and should therefore be left under their responsibility.



On the basis of the abovementioned considerations, we recommend that since the beginning of the interim period, the same balancing mechanisms be equally applied to the entire market consumptions, with no distinction according to the type of portfolio, in order to avoid any market distortion.

*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?*

In order to provide additional flexibility to the market, TSOs could be authorized to sell the part of linepack which exceeds the amount of linepack they need to support their balancing responsibilities during the gas day (see answer to Q.9 and Q.10).

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

Tolerances are a necessary interim step, in order to allow network users to get familiar with the new mechanisms and also to cope with the scarcity of flexibility, which could be worsen by the low liquidity of wholesale gas markets. In case any tolerance range be introduced, it should be set equitably across all network off-takes and between classes of network off-takes.

That said over the importance of providing tolerances at least during the initial period of implementation of the new mechanisms, FG could then design a process of progressive reduction of tolerances, which should be defined and monitored as a function of the decreasing exposure of network users to balancing costs.

This without prejudice to the possibility for NRAs to maintain a low physiological tolerance band, where it could contribute to avoid shippers' exposure to minimum fluctuations, without compromising their commitment to keep their portfolios balanced.

### **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?*

The information requirements set out in the revised Art. 21 and Chapter 3 of Annex 1 to Regulation 715/2009 represent a good improvement if compared to the previous situation. In our opinion, the introduction of appropriate quality standards (and associated penalties/incentives) for TSOs and DSOs as concerns the provision of timely and reliable information would contribute to improve the service offered by network operators.

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

The provision of accurate, timely and reliable information on in-takes and off-takes is essential for network users to efficiently manage their nomination and re-nomination process. For this reason, TSOs should provide shippers not only with general information on system in-takes and off-takes, but also with data related to each entry and supply point belonging to a shipper's portfolio (held confidential), in order for users to carry out accurate forecasts.

Following these considerations, Edison recalls that no reforms of balancing mechanisms could be effective without a parallel improvement of metering activities, aimed at solving current physiological criticalities with the availability of metering data, both concerning daily and non-daily metered customers.

In particular, we recognize the existence of different problems and consequent objectives:

- daily metered supply points (city gates, large direct customers, etc): the immediate objective should be the within-day provision of the data related to these supply points,
- non-daily metered supply points: we recommend the implementation of the following measures:
  - the first objective should be the provision to shippers of already available information (type of consumption, etc), which are particularly important where network users (responsible for balancing) are not the same users of distribution networks,



- then, it should come the identification of efficient load profiling mechanisms,
- finally, after a careful evaluation of the trade-off between costs and benefits, metering of final residential customers should be improved in terms of timeliness and precision, thanks to the future development of smart metering.

A key step towards the improvement of the quality of information provided to network users would be represented by the introduction into future Network Codes of specific measures aimed at fostering cooperation among TSOs and DSOs, even through the creation of an incentive scheme to reward an efficient management of metering activity on final customers.

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

In our opinion NRAs are in the best position to evaluate which are the information that should be provided by TSOs and if their provision could be for free or would generate additional costs that should be included into transportation tariffs.

Moreover, Edison would like to restate once again that, due to the fact that this information is crucial for the proper functioning of a market-based balancing mechanism, it is paramount that TSOs commit to provide a high quality service, even thanks to the introduction of a system of penalties/incentives to punish/reward the compliance with set standards.

### **Balancing periods**

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

ERGEG carried out a very detailed assessment of the different policy options regarding the choice of the target balancing period.

Edison shares in particular ERGEG considerations on the fact that a daily balancing period would allow market participants more time to access sources of flexibility or to trade out any imbalances in their portfolios.

Moreover, it should be said that daily balancing is:



- less complex to manage,
- less expensive from an operational point of view,
- consistent with existing long term supply contracts, which usually refer to daily delivery and have no hourly delivery constraints. On the contrary, moving to hourly balancing or imposing within-day constraints would probably require adapting and re-negotiating existing supply contracts. In some balancing areas that are geographically far from production sites the introduction of hourly modulation on these contracts could result to be very complex and costly. This is particularly true when considering long-term import contracts from non-EU countries, that would hardly adapt to the new European regulatory framework (harmonization of gas day, daylight saving time, etc)

As concerns hourly balancing, we think that cost implications deriving from the introduction of hourly regimes should be further explored. In fact, it could be that the sum of the high costs faced by single shippers to manage their position on a hourly basis (i.e. fixed costs to organize their company structure to manage hourly balancing, etc) results to be higher than the total cost faced by the system to be hourly balanced within a daily regime. Eventually, the costs of adapting to a hourly regime could result in barriers to entry for new market players.

On the basis of these considerations, we agree that a longer (than hourly) balancing period would be particularly important for new entrants in markets with low levels of flexibility.

*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, we do not see any additional policy option, as we believe that the three presented options can exhaustively represent the balancing models currently existing in the majority of EU Member States.

*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.*



The harmonisation of balancing periods is an essential step towards the final aim of integrating national gas markets. The existence of different balancing periods, as well as different gas days, can be currently identified as one of the main obstacle for operators willing to enter new gas markets. The existence of a regional or pan-European harmonised balancing period would:

- reduce transactional costs for network users,
- reduce the possibility of speculative arbitrage among different systems/countries, therefore contributing to the creation of a well-functioning and non distort internal market,
- be the natural consequence of the development of integrated and fully interconnected gas markets.

Nonetheless, Edison understands that, given the presence of physical constraints, the process of adopting a harmonised balancing period (in our opinion, daily) should be stepwise.

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

As explained in the answers to previous questions, Edison supports the adoption of a daily balancing regime as reference balancing period of the target model. That said, we share ERGEG proposal to foresee a different balancing period as an interim step, in case it was required due to physical constrains of the system.

As concerns the harmonisation of the gas day across Europe, we recommend harmonizing the starting time and ending time following the EASEE-gas standard, according to which the gas day runs from 6am to 6am CET. It should be also investigated the possibility to adopt a harmonised approach towards the introduction of the daylight saving time.

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

Edison agrees with the adoption of a daily balancing regime, nonetheless strongly contests the introduction of within-day restrictions on network users. As already explained in answer to Q.10, within-day constrains should not be part of the target model, in particular if they are imposed only on a restricted group of network users.



Nonetheless, in case their introduction was necessary as interim step to ensure a safe operation of the network, within-day constraints should be equally imposed on all network users, in order not to discriminate among shippers serving different kind of final customers.

*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)?*

The Italian balancing system is currently under reform and the impression that came out from the first consultation issued by the Regulator is that the gas day will be adopted as balancing period, without imposing any within-day constraints on large inputs or off-take points. Therefore, the implementation of daily balancing with no infra-day restrictions would not cause any additional cost.

On the contrary, given the peculiarity of the Italian power generation portfolio (where a considerable share of electricity is produced via CCGTs), the imposition of within-day restrictions on large off-takes (e.g. power plants, etc) will expose them to the balancing market risks and possibly increase the final cost of electricity for final customers. Such a market structure requires the possibility for users to constantly re-nominate during the gas day, in order to exploit the synergies existing between power and gas and the flexibility resources present on both markets.

### **TSO buying and selling of flexible gas and balancing services**

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

Edison shares the assessment of the policy options carried out by ERGEG and though supporting the procurement of balancing gas through the gas wholesale market, we agree with ERGEG that existing barriers to access flexible sources of gas and a low level of liquidity on short term gas markets may delay the implementation of this option, making interim steps necessary in some systems.

*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?*



In the long run, provided that TSOs shall give priority to the use of their own flexibility resources (i.e., linepack and dedicated storage), the ideal option foresees that TSOs procure gas for balancing purposes on the wholesale market. This would ensure the full cost-reflectivity of imbalance charges, that will be linked to the cost of the commodity registered on the market.

That said, the implementation of the target model should be stepwise, taking into consideration the different level of liquidity and maturity of gas markets. Therefore, as correctly identified by ERGEG, in less mature markets, the introduction of stand-alone balancing platforms could represent a valuable initial step. Where liquidity is scarce and market concentrated, it could be explored by NRAs and on a national basis, the introduction of an obligation to offer all the available balancing resources on this platform, in order to ensure an appropriate level of liquidity.

An important element which should be specified by the FG is that any balancing platform should be managed by a third party (i.e., distinct from the TSO) that assures a transparent management of transactions and the anonymity of market participants.

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

As already explained, the balancing system is currently under reform in Italy and the path designed by the Italian Regulator is, under many aspects, compliant with ERGEG proposals. Therefore, we think that the implementation of the target model would not imply any additional costs to the ones that will be generated with the reform proposed by the Italian Regulator.

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

The absence of a liquid and mature wholesale market in Italy makes it necessary the introduction of a stand-alone balancing platform, coupled with an initial obligation to offer on it all the available balancing resources, in order to ensure an appropriate level of liquidity. Another feasible solution to increase the liquidity of balancing platforms could be the definition of specific and short sessions where the TSO procures balancing gas, following



the example of what happens in France<sup>2</sup>. This would also limit TSO's discretionary power and ensure that, given the limited duration of the window, the choice will be taken following a merit order. In any case, as already stated, users shall have the possibility to act on the gas wholesale market/balancing platform in coordination with the re-nomination windows.

Furthermore, given the crucial role played in our national system by the access to storage withdrawal/injection capacity, Edison suggests the introduction of a well functioning secondary market of storage capacity that will provide network users with an additional balancing instrument. In our opinion, the creation of storage secondary capacity markets, to be associated to gas wholesale markets or balancing platforms, could represent an effective balancing tool in areas where storage is scarce and access to it is limited/regulated by the existence of PSOs. For the abovementioned reasons, we support ERGEG proposals to amend GGPSOs on Storage CAM&CMP aiming to foster the creation of secondary markets of storage capacity and we recommend that users' balancing needs are taken into due consideration when designing those amendments.

Finally, Edison thinks that there is no need of initially introducing competitive tenders.

*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?*

We do believe that the English and French cases could represent a good example of the evolution that could be followed by balancing mechanisms. They show that when markets are liquid enough, the procurement actions of TSOs could take place on the wholesale market.

*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?*

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<sup>2</sup> In France, GRTgaz is allowed to procure balancing gas on Pownext Gas Spot during two tight daily windows:

- 15:45 – 16:00 for within-day products,
- 16:30 – 16:45 for day-ahead and week-end products.



TSOs' procurement of balancing services should be transparent and non-discriminatory. Therefore, the use of the wholesale market and/or of a balancing platform, in case market is not liquid enough, is the most appropriate option.

Under the approval of NRAs, TSOs' reservation of long-term contracts for flexible gas and associated capacity could be explored as an interim step, if:

- a daily balancing regime is adopted and reserved flexibility is initially necessary for TSOs to handle with infra-day fluctuations, without imposing within-day constraints on certain categories of customers,
- the reserved quantity is tailored on TSOs' requirements to cope with infra-day variations and does not exceed it.

*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?*

Edison thinks that TSOs' procurement through long-term contracts will not be necessary on the Italian market.

### **Imbalance Charges**

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

We agree with both the possible options identified by ERGEG and their assessment.

*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.*

We believe that the harmonization of the methods for calculating imbalance charges should be a direct consequence of the harmonization of balancing regimes across different Member States. As ERGEG correctly stated in its assessment, the absence of harmonization of calculating methods could lead to market participants speculating and exporting their imbalance to the system that is least expensive.

Nonetheless, in our opinion, the debate on this issue could be postponed when there will be a real infrastructural integration that would realistically allow network users to take advantage of these speculative behaviours.



*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.*

In our opinion, especially during the first time of implementation of the new mechanisms, it is unlikely that TSOs do not take balancing actions. Nonetheless, in these cases, Edison believes that it could be evaluated the possibility to introduce an imbalance charge that reflects the average cost registered on the gas wholesale market/balancing platforms on a defined time interval (week/month ahead) with a penalization which should be smaller than the one applied when the TSO has to take balancing actions.

As concerns the calculation of imbalance charges, we agree that marginal price could be assumed as reference price in systems with liquid wholesale markets. On the contrary, where the evolution of gas markets/balancing platforms is less mature and market structure is such that flexibility resources are concentrated, it should be assigned to NRAs a monitoring role, coupled with the possibility to transitionally adopt the average price as reference or to introduce an initial cap on imbalance charges. This could contribute to avoid excessive imbalance charges (and related system costs) that would artificially derive from contingent reasons.

Finally, in Edison opinion, where imbalance charges are simple, well-designed and fully cost-reflective, there is no need of introducing any additional penalties, such as for instance scheduling charges.

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

See Q.32 concerning possible solutions to avoid problems arising from the existing structure of Italian gas market.



Once market will be ready, marginal price should be adopted as reference for the definition of imbalance charges, whilst it could be further investigated how to remunerate flexibility offers.

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

As ERGEG suggested, the adoption of a proxy could be useful where liquidity is scarce on gas wholesale markets or balancing platforms. As suggested in answer to Q.32, it could be further explored the possibility for NRAs to introduce a cap on imbalance charges where they could result to be excessively high due to the presence of an inefficient market structure.

As soon as markets/platforms get a sufficient level of liquidity, the choice of a cost-reflective charge should be adopted.

#### **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?*

We agree with the assessment carried out by ERGEG, but in Edison's opinion the issue of cross-border cooperation could be firstly tackled on smaller balancing zones and then enlarged under a regional perspective.

Evidently, a concrete evolution towards regional balancing, which is a crucial step for the integration of the European market, has as a pre-requisite the physical integration of national networks and a non discriminatory access to cross-border transport capacity.

Attention should be paid to the inclusion of transit gas within the FG. In our opinion, there should be no charges and no involvement/operational impacts on network users related to the management of transit gas balancing, that should be left to TSOs cooperation.

*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?*



An increasing level of TSOs cooperation on balancing issues is appreciable and, within this framework, OBAs could represent a useful instrument that should be further investigated.