

Appendix 2:

ENTSOG Specific Response to Questions raised in E10-GNM-13-03b

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?*

See section 1.1 of the first appendix for an answer to this question.

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?*

The purpose of the framework guideline is to give clear and objective principles for the development of network codes. Network codes shall then be developed for cross-border issues in line with the framework guideline. The scope for the balancing network code, and as a result also for the framework guideline, is given in the regulation to include nomination procedures, rules for imbalance charges and for operational balancing between transmission systems. ENTSOG thinks the section on scope gives rise to some confusion and can be improved to better reflect the requirements of the regulation.

ENTSOG fully agrees with the over-arching principle that the network code is to encourage and facilitate gas trade across systems and support the development of competition within the EU, both between Member States and within each Member State, and thereby moving towards greater market integration.

ENTSOG agrees that the network code should have regards to the requirements in Article 21 of the Regulation 715/2009 and would like to note that this includes the requirement that balancing rules shall reflect genuine system needs.

Information provision is crucial and ENTSOG agrees that the TSO should provide sufficient, well-timed and reliable on-line based information on the balancing status of network users, reflecting the level of information available to the TSO.

The responsibility for developing the network code lies with ENTSOG, contrary to what is suggested under point 3.7

The target model is part of the framework guidelines and as such should give principles for the development of the network code. The network code will then be implemented.

ENTSOG believes that

1. there is inadequate consideration to the manner in which the underlying complexities of the balancing regime should be structured beyond the concept of simple commoditised daily balancing
2. the framework guideline requires a financial neutrality principle to apply to the balancing regime so that TSOs are financially neutral to relevant TSO balancing activities.

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?*

ENTSOG believes that the network code could lead to changes in national balancing rules, to keep a consistent balancing regime in all Member States. The target model should limit itself to clear and high level principles to allow for national balancing regimes to implement a model reflecting genuine system needs and taking into account the resources available. ENTSOG believes that a set of clear principles can be defined that can be implemented and contribute to the over-arching objective to encourage and facilitate gas trade.

Special consideration may need to be given to interconnectors.

Question 4: *Do you agree with the approach of defining a target model for the network code and allowing interim steps subject to NRA approval?*

The use of a target model is an ambitious step and can be useful in addition to and clarifying principles. Interim steps will be essential for TSOs to gain experience and get confidence in market based mechanisms. Further articulation of our views has already been included in the first appendix to the response.

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?*

The changes in many national systems resulting from the network code will be significant. In many countries several transitional steps may be necessary to build confidence of network users and TSO; markets take time to develop and mature. A predetermined period of 12 months for implementation following the adoption of the network code, which we understand to be the conclusion of the relevant comitology process, may be unrealistic given the extent of implementation activity and necessary preparatory activities for both TSOs and system users.

The key is to accept the concept that different TSOs will be able to progress towards the target model at different rates. This may involve a number of interim steps with the requirement that each interim step must first be successfully demonstrated and objective criteria used to inform the decision that the regime progresses to the next step towards the target model. ENTSOG and its members will work with ACER/NRAs respectively to ensure that all steps are taken to enable implementation of transitional steps and/or target model at the earliest possible opportunity.

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?*

No, nomination procedures will follow from the principles already given.

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?*

In addition ENTSOG will have to develop network codes that are in line with Regulation 715/2009, specifically article 21.

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?*

Yes, it is in so far a single model would apply. Implementations of a single model may vary to take account of local circumstances. The rationale for this is explained in Appendix 1 of our response and ENTSOG would encourage dialogue with ERGEG to ensure that a common understanding of this is achieved before the framework guideline is finalized

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

ENTSOG welcomes the objective of the framework guideline to reduce as much as possible the need for the TSO to undertake balancing activities. Wherever practical, and economically reasonable, systems users should be properly incentivised to deliver inputs and offtakes to the system within the acceptable operational envelope. However, ENTSOG would like to draw the attention on the fact that this objective is in contradiction with some other objectives expressed in the framework guideline. Daily balancing and merger of balancing zones are two objectives that would create such a contradiction.

Daily balancing: if a simple daily commoditized regime is applied and the resultant flows are not within the operational envelope then if the TSO is responsible for managing the flows its role may increase beyond current activity levels.

Merger of balancing zones: the larger the balancing zones, the more locational balancing actions may have to be taken by TSO's if the balancing rules applicable network users do not deliver acceptable flow patterns over the bigger balancing zone.

As the genuine system needs and available flexibility do not change a more liberal balancing regime with less financial incentives on network users to provide flows on and off the system that are within the operational envelope will consequently increase the role of TSO balancing in establishing these flows. ENTSOG believes that a balanced choice between the role of TSO balancing on the one hand and intraday restrictions is required. Intraday restrictions may be defined, for example, in respect of

the intraday balancing position of a network user and/or as requirements on flow rates and changes to flow rates at individual entry/exit points. This choice will provide guidance on the development of a network code that both facilitates the development of liquidity and integration of markets and allows the TSOs to manage its transmission system in a way that meets genuine system needs and takes account of the flexibility available to the TSO.

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 are used in many systems to ensure the integrity of the system.

The critical issue is whether the TSO should manage the issues or whether the balancing rules should be designed in such a way that network users have either obligations or incentives to manage their affairs in such a way that flows are within, or at least close to, the operational envelope, leaving an acceptably small residual role with the TSOs. Leaving the responsibility for establishing flows within the operation envelope to the TSO will in some systems require the TSO to take small and infrequent balancing actions, whereas in other systems genuine system needs would require the TSO to take large and frequent actions to establish these flows.

In the later situation the costs of complexity associated with defining within-day constraints might be less than the benefits arising from the competition between systems users in the provision and purchase of flexible gas thereby favouring a model with within-day obligations and/or incentives on system users.

There are many ways that within-day constraints can be formulated in a balancing regime. Two possible options include:

- Restrictions on within-day variations on specific entry and exit points¹. These restrictions can be expressed
 - Through a restriction of renomination rights on entry points or on exit points to neighbouring systems (this system apply in balancing regimes with daily nominations)
 - Through a maximum increase or decrease rate of gas flows at entry/exit points

¹ In the UK, this type of restriction is seen as independent from the balancing regime. The limitation of flow variation is a local physical requirement, which is imposed on the end-consumer or on the operator of the entry/exit point; not on the shipper.

- Through a possibility for the TSO to forbid certain flow patterns at some large entry or exit points (this comes along with an obligation for the shippers and/or large end consumers to provide daily flow pattern to the TSO, even in daily balancing regimes)
- Within-day restrictions on imbalance position of shippers. These restrictions can be applied to
 - Hourly imbalance of a shipper portfolio (difference between sum of hourly input and sum of hourly offtake of shipper portfolio)
 - Cumulated imbalance of a shipper portfolio (i.e.: cumulation of hourly imbalance of shipper portfolio)

In the design of a network code different types of within-day restrictions might be required depending on the local circumstances. From the view of equal conditions for all network users ENTSOG believes that any restrictions on intraday imbalance positions will have to apply to all network users and might need to be subject to the availability of information needed to efficiently manage the risks associated with the within-day constraints. Restrictions on intraday variations of flows could be specific to the entry/exit points, depending for example on the local topology of the network, vicinity and availability of flexibility sources and type of customers (e.g. storage, power generator, cross border exit).

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

Balancing against a pre-determined off-take profile can be one of the ways to implement intra-day restrictions.

The way ENTSOG interprets this balancing against a pre-determined off-take profile is for the network user and TSO to agree on an off-take profile, the network user is then to provide an input profile derived from the off-take profile. TSO will be responsible for managing the deviation between the pre-determined and the actual off-take and for the residual task of balancing when the network user does not manage to provide the required input profile. A prerequisite for this way of balancing is that the off-take profiles are fairly predictable. This could be the case for residential users on exits to distribution system. The pre-determined off-take profile could be based on an annual off-take profile scaled for temperature forecast for use for individual days. In this way, balancing against a pre-determined off-take profile may

- provide an opportunity to focus liquidity around the time demand forecasts are produced
- be a useful interim step to ensure a better market access to smaller market parties (who don't have the competitive advantage to have a large pool of imbalance).
- help system safety, in systems where the profiling of entries is required, and where a profiling of entry gas flows is required for the system safety,

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?*

Linepack services can have different forms. Where there are intra-day constraints linepack is most of the times offered in the form of tolerances to these intra-day constraints. In a daily balancing regime linepack can be offered to network users to carry part of their end-of-day imbalance forward to the next day. It will be necessary to limit the amount offered for such services to a level that leaves the TSO with sufficient linepack to perform its task of operating the transmission network and keeping it within the acceptable operational envelope (if the TSO were to sell linepack that might subsequently be needed for operating the system then other gas flexibility would need to be used; this would be economically inefficient if the flexibility cost was more than the revenue from the sale of linepack.

ENTSOG requests interaction with ERGEG to better ensure understanding of the related issues before the framework guideline is finalised.

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

It is unlikely that any system will be able to accommodate all patterns of potential inputs and off takes that satisfy the commercial requirement for close to a match over the commercial balancing period. As the balancing rules should reflect genuine system needs taking into account the resources available to the TSO (Art. 21 Reg. 715/2009) some management of input and off take flows may be necessary for most transmission systems. Thus some form of intra-day restrictions possibly with tolerances on these restrictions may be necessary. Intra-day restrictions can be imposed on a portfolio level, putting constraints on the intra-day imbalance of a portfolio, and/or on individual entry/exit points, limiting ramp rates and maximum hourly inputs and off-takes.

In addition one could ask if tolerances should be provided on end-of-day positions and whether this tolerance should be free of charge; question 13 can then be interpreted as:

"The provision of free tolerances to market participants: should it be part of the target model or should it be only an interim step?"

The answer to that question is that in a liquid market, with sufficient access to flexible gas for all market participants, there is less need for free end of day tolerances since each shipper has the tools to manage the risks and opportunities associated to its imbalance position at the end of the gas day. However, if the market is not liquid or where there is no access to flexible gas for some market participants the end-of-day cash-out could be a significant risk for some market participants that cannot be sufficiently mitigated. Even if the market is liquid, shippers cannot control 100% of their imbalance position (due to the unpredictability of the demand). Therefore, ENTSOG believes that free end of day tolerances could be part of the interim steps. In the target model, there could be a possibility for TSO's to provide a very small amount of free tolerances, to cover the unpredictability of the demand. The level of tolerance offered could be adapted to the quality of information

provided by the TSO and the market liquidity, which both have an impact on the risks network users face from the cash-out regime and cash-out price.

The issue of tolerances is one of the most critical areas in the framework guideline and requires further articulation. The various options to address the within-day issue must be explored as a matter of urgency so that common understandings can inform the framework guideline formulation.

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?*

As already stated, ENTISOG strongly believes that the fundamental principle should be that all actors, TSOs and network users, should have appropriate information to manage their individual risks and opportunities and therefore information provision needs to be considered in parallel to the development of the wider balancing rules. It is an integral part of the regime and cannot be considered in isolation. ENTISOG envisages that much wider information requirements for both TSOs and network users will be identified as part of the network code development and that these may well influence the definition of transitional steps.

The proposition of the framework guideline on the information provision obligation, more specifically, to provide “available information regarding its inputs on to the system and off takes from the system at appropriate intervals during the balancing period in order for network users to be able to balance their portfolios” (FG §4.4), seems a reasonable starting point.

Concerning the obligation for the TSO to provide system information (FG §4.5): see question 15 here below.

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

The benefits of providing system information to the market are multiple:

- If imbalance charges of TSO’s are dependent on the system requirement (as formulated in §7.2), market participants can anticipate the TSO’s demand and help the system remain in balance. This reduces the need for the TSO to take balancing actions
- Increased transparency that should increase system efficiency: if system is short, the market will be informed and the prices of gas should increase.

The disadvantages are:

- Costs incurred for providing this information

- In markets where liquidity has not developed sufficiently there is the risks that specific network users will use that information to “game” with the rules in adapting their offers on the exchange platform to the TSO published needs.

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

This has already been explored in our letter and the first appendix. Costs related to the provision of information can be significant (IT infrastructure, metering, maintenance of systems, administrative costs, etc.). Even though there should not be a specific tariff for information provision (as stated in § 4.4 of proposed framework guideline), NRAs must ensure that the costs related to the information provision can be recovered through the general transportation services tariffs.

Balancing periods

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

ENTSOG agrees that an end of day settlement of imbalances is an appropriate choice. As argued in the first appendix to the letter of the response most underlying transmission systems have genuine system needs that impose locational and/or temporal restrictions on the flows onto and off the system. These requirements have to be taken into account when giving guidance on the network code development.

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?*

Clear guidance is needed on how to attribute the responsibilities for intra-day requirements that stem from genuine system needs; in fact ENTSOG believes assigning these responsibilities is one of the main issues to be addressed in framework guideline and network code.

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.*

ENTSOG agrees to the observations made by KEMA, harmonization of balancing period is not crucial, but will help increase liquidity and integrate markets across Europe. ENTSOG believes a daily commoditised balancing regime, with an end of day cash out of imbalances, is feasible in larger parts of Europe provided appropriate rules for system user balancing are established and the TSO has sufficient tools and sufficient confidence in these tools to get flow rates and input/offtake patterns that will be within acceptable operational envelopes where/when the daily regime will not deliver these.

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

See answer to question 19.

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

ENTSOG supports the target model but requires that further definition of the “within-day restrictions” options are explored with ENTSOG to enable framework guideline finalization.

The only balancing charge recognized by the target model is the imbalance charge, the financial settlement of imbalances at the end of the balancing period. A daily balancing regime is unlikely to deliver flow rates and input/offtake patterns that will be within acceptable operational envelopes for many of the transmission systems. Therefore there is an urgent requirement to consider how the underlying complexity, and risks, will be addressed in this circumstance. The framework guideline must address this underlying complexity and define the basis of the split of responsibility between market players and the TSOs, including the financial incentives and rules that come with this. ENTSOG sees an urgent need to work with regulators to further explore this topic. Therefore elements of options 1, 2 and 3 might be expected in some systems.

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)?*

See section 1.5 Cost of implementation in the first appendix to the response.

TSO buying and selling of flexible gas and balancing services

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

The assessment of option 1 against the criteria is fair, but seems to limit itself to trading of end-of-day products. As argued before most transmission systems have locational and/or temporal requirements that have to be met for the system to stay within safe operational limits. The extent to which these requirements can be met by the TSO trading either end-of-day products or locational/temporal products will vary between systems. As the market for locational and temporal product will be less liquid than the market for end-of-day products experience gained during transition will learn whether, where and when these products can best be procured on the wholesale market, on a balancing platform or whether balancing services, procured on a balancing platform or through a tender process, can have a good contribution to ensure system integrity.

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?*

ENTSOG approach is to work towards more market based arrangements. This includes the TSOs to procure the gas they need to ensure the system is kept within acceptable operational limits on the

wholesale market where the TSO has confidence that transacting on the wholesale market will trigger the right flow rates and input/offtake patterns to achieve that. Where this confidence is not there or not there yet the TSO should be able to fall back on a balancing platform or a set of balancing services. The framework guideline should set out clear and objective principles on these choices.

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

See answer to question 22.

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

Interim steps may be necessary for both the TSO and the market to get used to and gain confidence in market based balancing mechanisms.

Interim steps may be necessary for both TSOs and network users to gain confidence in the evolution of the system before the goal of the target model can be attained.

In some systems TSOs will need to gain experience of using both the wholesale market and balancing platforms to gain the necessary confidence that sufficient gas will be available to enable the TSO to assure the integrity of the system. To accelerate progress TSOs may contemplate the use of both wholesale market and balancing platform or it may be that until significant network user to network user trades are visible in the wholesale market, and physical products are introduced, that the TSO would start with a balancing platform based approach as a complement to its own balancing services. Once confidence in a balancing platform starts to grow then longer term TSO procurement of balancing service could be reduced. Other developments and initiatives might then encourage TSO utilisation of the wholesale market.

For network users it may be essential that the commercial framework evolves in a stepwise manner too. For example the first step might use pre-determined (perhaps day ahead) demand projections as the demand for imbalance quantity determination but as better quality portfolio demand projection information becomes available that the imbalance calculation can move to an actual demand. Similarly network users might require balancing tolerances to shield against the uncertainties of market price exposures in early phase of evolution but progressively these can be reduced and possibly even eliminated. Additionally as confidence and liquidity evolves so cash-out price derivation could progressively evolve to a local market based pricing arrangement.

The critical point is that there will be complex arrangements of interrelated incentives between TSOs and network users and that therefore it will be prudent to plan on a series of steps for the evolution of the balancing regime for some systems that are new to market based balancing approaches.

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?*

Preferably TSOs should trade in the wholesale market, both in end-of-day products and physical and temporal product. A balancing platform might be needed as part of the target model, although

ideally seldom used, for the TSO to procure balancing services and maybe physical products that are not likely to reach a certain minimum level of liquidity and sufficient confidence for the wholesale market to provide. Clear and objective criteria should be provided for using the balancing platform instead of the wholesale market. The task of the NRA would be to check that the TSO applies these criteria in a fair manner.

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?*

The aim should be for the TSO to use the wholesale market wherever and whenever possible. At the moment some TSOs may see a need for procuring balancing service to be sure it can realize flows that will bring/keep the system within acceptable limits. Although these uses may reduce with growing experience and confidence in wholesale markets, ENTSOG believes that clear and objective criteria can be developed under which a TSO should be allowed to procure and use long term balancing services where sufficient confidence in physical and/or locational products on the wholesale market cannot be gained.

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?*

ENTSOG believes that in most markets the reliance on TSO's long term balancing services can be reduced. The best way to try to do this is to allow the TSO and wider system users time to get confidence and experience in trading in the wholesale market and on any necessary balancing platform and to chart out a roadmap as part of the transition.

Imbalance charges

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

The definition of imbalance charges given in the target model is very limited and only refers to the end of day settlement, thereby obscuring the issue of recovering costs for meeting locational/temporal needs within the balancing period. The policy options and their assessment are incomplete. Guidance is required about how the costs/revenues for gas delivered within the day and/or at specific locations be recovered. Options could include via the end of day settlement or through separate balancing charges. There are no easy answers to any of the challenges. These issues should be further explored between ERGEG and ENTSOG to explore the relative merits of the different proposals so that a balanced assessment can be made before the framework guideline is finalized.

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.*

It is our view that the harmonisation of imbalance charges will be encouraged through the adoption of high-level principles (e.g. reflective of costs, giving appropriate incentive).

The target model also indicates that network user imbalance charges that reflect the balancing actions taken by the TSO and which may reflect whether the network user's imbalance contributes to the overall imbalance on the system or helps to reduce the overall system imbalance. This may have some merit as an interim step but we do not believe that this is the most economic and efficient solution, as the over-arching principle of imbalance charges is that they should incentivise network users to balance and rewarding any fortuitous imbalance is not productive in this regard. Indeed, to reward such behaviour could be seen as impeding the development of a liquid traded market.

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.

It is important that the imbalance charge gives an appropriate incentive for network users to balance their end of day position. The use of marginal prices looks to give the better incentive and also when the TSO is not taking a balancing action a certain spread between buy and sell prices might give a better incentive than for example using an average price. The differentials need not be large to be sufficient to ensure that network users take reasonable efforts to manage their imbalance exposures and need to be considered in the context of overall regime cash-flows and the mechanisms used to achieve overall financial neutrality of balancing.

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

The benefits are to be sought in delivering efficient balancing regimes that better integrate European energy markets. Market based regimes are to be the preferred approach; a measure of success might be the reduction of TSO balancing actions, thereby reducing the overall costs of TSO balancing which should be accompanied by increasing liquidity in the market from increased system user to system user trading (see also answer to question 31).

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

In many systems more than one interim step will be necessary. Transition will require some step changes in the rules and these might be expected to impact both TSOs and system users.

Cross-border cooperation

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

TSOs suggest to focus on the specific merits of implicit auctions for short-term allocations, according to Art. 12 (2) of the European Network Access Regulation 715/2009.

In order to set out clear and objective principles according to Art. 6 (2) of Regulation 715/2009 the TSOs suggest to first clearly identify when markets are considered to be integrated. In analogy to the power sector one could think of the following criterion: two adjacent markets are considered integrated if arbitrage opportunities between both markets exist only during periods where there is a physical congestion between the two areas. Or, equivalently, if there is no physical congestion, then in that period there are no arbitrage opportunities. In a first step then it can be identified to what extent the harmonization of balancing mechanisms can contribute to a better integration of European gas markets. In a second step an evaluation of implicit auctions should assess the suitability of this instrument for achieving a convergence of price differentials. A potential merger of balancing zone shall be preceded by a thorough impact assessment which shall identify whether the incremental benefits compared to implicit auctions outweigh the costs of merging of balancing zones.

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

The description of the issues that cross-border cooperation shall cope with require additional clarification. In particular, it is not clear to what extent the multiplicity of balancing zone is considered as an issue or the existence of several market areas. Consequently, we express severe doubts that a merging of balancing zones is key to tackle the issues mentioned.

One priority should be to introduce market based balancing concepts that allow market players to deliver flexibility cross-border to converge prices and that way better integrate markets. The TSOs assert that the framework guideline put too much emphasis on merger of balancing zones. We note the risk that although larger zones might increase liquidity this may detract from physical system operational efficiency and prevent market based solutions on handling situations of physical congestion. Merging zones is a heavy tool, that has serious consequences and that could even be counterproductive in achieving a transparent internal market for energy. Balancing zones shall be designed such that the balancing regime creates incentives to keep the network in balance. However, a merge of balancing zones can create obstacles to ensure system integrity by the TSO and increase opacity on physical congestion. Usually, balancing gas may be needed (or excessive) within a particular network. By creating a large balancing area that covers several networks, the provision of balancing gas cannot be targeted to the location where is needed – unless the market for balancing services introduces a locational dimension to the marketed products. This, in turn, would create submarkets within a balancing zone without efficiency gain. Further, on the cost side, costs would be averaged and allocated to users in the entire balancing zone rather than targeted to the users who are causing the need for balancing services.

The underlying intuition of the framework guideline is that the market will balance more efficiently than a single monopoly agent. ENTSOG proposes that the primary focus should be to ensure access to capacity and balancing roles that enable the market to deploy cross-border flexibility as much as possible. A further need is to consider the roles market players have under very different system designs, which exist for good reasons, throughout Europe. Merging of balancing zones might then come later once the wider implications (particularly tariff) are better understood.

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?*

OBAs constitute agreements between TSOs which are designed to cope with steering differences. They mainly have an operational dimension. Therefore they are only of limited use for balancing purposes where network users are involved. Rather their benefit is to reduce the complexity of settlements among TSOs and to facilitate the equivalence of nominated and allocated quantity of network users. OBAs are put in place when network operators agree that they are necessary to operate an interconnection point. Thus, we suggest the framework guideline to support OBAs according to system needs without a legal obligation.