

Oldenburg, 28.10.2010

**Comments to the Consultation paper:
Gas Balancing Rules on European Gas Transmission Networks
Draft Pilot Framework Guideline (Ref: E10-GNM-13-03) of 18 August 2010**

1 Introduction

EWE NETZ is one of the largest German regional gas grid operators. We would like to make in particular comments on and confined to the part „Network Users and TSO Roles & Responsibilities“ of the draft guideline by introducing into a special balancing model.

In 2007/2008, EWE NETZ as then balancing market area coordinator developed and successfully tested a new balancing system, the Forecast Balancing Model (“F-B-M”). We analyzed this model from a top-down perspective in practice for almost a year with a new medium-sized shipper in our grids. Both the EWE NETZ and the shipper made very good experience with the F-B-M.

The special advantage of this model is that it combines the TSO’s vital interests in stable network operations with his information advantage on line pack and total consumption with shipper interests for inexpensive and simple trade operations. Under the F-B-M balancing is simplified significantly especially for small and medium-sized shippers which means removal of massive gas market entry barriers. We introduced this model to our National Regulatory Authority (BNetzA) and discussed it in detail with the regulator and other market partners. We consider the F-B-M is applicable both on the European level as well as on the national or regional level. Hence, we would like to give a brief overview over the F-B-M and assess the advantages of the model and possible special cases for the affected parties.

Background of the F-B-M

Current balancing regimes above all are quite demanding and complex, especially for small and medium-sized shippers. In order to enter the gas market, a shipper has to bear high operational and financial expenses. This means both high fixed block costs and high variable costs, which facilitate high market entry barriers especially for smaller market partners. Assuming that in a gas market with low market entry barriers more than 90% of all shippers would in total have a share of less than 5% in total gas sales, the vast majority of shippers would benefit from simplified balancing and accounting principles.

Both for TSO and Shippers this can mean significant competitive advantages, as operations are simplified, penalty risks are minimized and investment in IT and staff may be drastically reduced. Eventually, any market party can then focus on really necessary procedures and interfaces and hence improve security of supply. Furthermore, current balancing regimes do not always set the right incentives for shippers and grid operators. Free-rider problems and arbitrage do exist and need to be addressed.

2 Description of the F-B-M procedures

The F-B-M implies some assumptions. First, there should be a daily balancing period as in Germany. Second, physical inputs should be possible as daily flat instead of profiles for any final consumer Group. Third, TSO (or other institution designated by grid operators) generates output forecasts as binding input forecasts for shippers’ Entry nominations.

2.1 The F-B-M process in detail:

- On the day D-1, TSO generates as a service for shippers a binding output forecast for the day D for all non daily-metered and daily metered exit points in the respective balancing account. TSO submits this binding forecast to the shipper as a target value for a physical Entry nomination until a certain time (Germany: 12:00 hours).
- Between 12.00 and 14.00 hours on D-1, shipper clears the commodity procurement in accordance with the binding output forecast and submits a corresponding transport Entry nomination to the TSO. If shipper's Entry nomination equals the TSO's output forecast, the "forecast balance" by definition is poised for the Shipper.
Advantages: Shippers need not any more generate their own separate forecasts and do not any more bear the risk from deviating forecasts or lack of information on actual consumption. Furthermore, shippers benefit from the fact that TSO oversees and may optimize simultaneous load effects in the network or market area.
- Only in case, the shipper does not use the TSO output forecast for his Entry nominations, TSO shall charge significant penalty, e.g. a factor on a certain spot market price.
- The Shipper has no further obligations to monitor or poise his balancing group for the rest of the current gas day D. Only the TSO monitors the total of all contracts. However, the TSO has an incentive, to first use line pack exhaustively and only thereafter to use externally procured steering energy (here: only flexibility services procured in the market)
- On the day D+1, the TSO for each balancing account settles the actual differences for each balancing account from actual inputs vs. actual outputs. The difference shall not be invoiced in € but instead be carried forward in kind (kWh) to the following day. This difference shall be added as compensation in kind to the forecast for shipper's input nomination for the new following day.
- Hence, any kind of accounting in € or sanctioning in € is not necessary, as there is a timely maximized offset in kind from regular trade portfolios
- In the worst case there is a time lag of two days between offtake and supply. Also the use of physical steering energy is limited to these two days.
- The flexibility costs incurring from this model are pooled and shall be borne pro rata by the shippers. However, there may be a discharge from avoided other cost savings.
- Furthermore, disincentives for shippers to optimize their trade portfolios at the expense of grid steering or balancing energy are eliminated. By contrast, TSO has a vital interest to keep its grid in balance for technical steering purposes and to minimize supply disruptions for liability reasons. Hence, the shipper has an extremely high certainty that the TSO generates the Forecast Balance as good as possible and guarantees the security of supply.

2.2 F-B-M's adaptability for special cases

- Upon agreement between the affected grid operators and shippers, the daily Forecast Balance could also be generated by a central entity, e.g. the market area coordinator, or single grids or grid cooperations. The separate figures were just to be aggregated by a central entity, which then passes the figures as binding Forecast Balance to the shippers.
- For large-scale consumers with atypical load (e.g. peak-load natural gas power stations), the F-B-M could be supplemented by inexpensive special devices for a real-time input steering, such as Online Flow Control. This minimizes also risks for large-scale consumers from very quick and high load changes under the daily balancing regime.

3 Description of the F-B-M from the shippers' point of view

Under current balancing regimes especially small and medium sized shippers bear higher risks in operating smaller portfolios to balance load fluctuations for only a few consumers. Hence, penalty risks are increasing disproportionately. Those risks can not really be compensated by granting higher balancing tolerance levels. Eventually, most of potential new entrants may tend to avoid respective high investments in IT and staff at that risk level.

By contrast, if there are conditions, which allow market entry at low cost and low risk especially for small and medium sized shippers, they may expand business step by step, and will be enabled to participate in the whole gas business later on. The F-B-M enables the shipper to enter the gas market easily and independent without any staff requirements for 24/7 shift operation or extensive IT-Investments.

3.1 Shippers' advantages under the F-B-M:

- Easy and independent operation of smaller gas portfolios, especially for new entrants
- Simple and clear procedures with a minimum of interfaces
- Minimized communication, data-exchange and data-management
- After Entry Nomination, Balancing account needs not be monitored any more on the day D
 - Minimized costs for staff (no staff for 24/7 shift operation necessary)
 - Minimized investment and running costs for IT-infrastructure
 - No risks of high balancing charges and penalties
- Significantly simplified gas procurement

4 Description of the F-B-M from the TSO's point of view

The F-B-M enables TSO's to reduce the number of operational interface transactions, the related data volume and the needs for data management to a reasonable minimum. Hence, TSO can focus the essential interfaces and processes of gas management and system operations.

4.1 Grid operators' advantages under the F-B-M:

- Simple and clear procedures with a minimum of interfaces
- Minimized Communication, data-exchange and data-management
- Minimized costs for staff for communication and data-management
- Minimized investment and running costs for IT-infrastructure
- Minimized risks of high deviations of gas inputs versus expectations
- Optimal financial accounting procedures with minimized financial transactions

5 Summary

The F-B-M means a significant simplification of operations for small and large shippers as well as for grid operators. Especially for small-sized trade portfolios, the F-B-M means a simplified approach to enter the gas market independently at minimized transaction costs and minimized risk level.

In 2007/2008, EWE NETZ tested the F-B-M as a pilot project successfully for almost a year in its natural gas grids. In 2008, the participating medium-sized shipper insisted with the German Federal Regulator (BNetzA) to take the F-B-M into account when issuing binding national rules for balancing in the German gas market. The shipper wanted to apply the F-B-M in all German market areas. However, BNetzA adopted only parts of the F-B-M into its "GABi Gas"-Ruling (e.g. daily flat balancing period, grid operator's output forecast for NDM consumers)