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Dear Fay

**Interconnector (UK) Limited response to ERGEG Consultation: Gas Balancing Rules on European Gas Transmission Networks, Draft Framework Guideline (E10-GNM-13-03)**

Interconnector (UK) Limited ("IUK") welcomes the opportunity to respond to the Draft Framework Guideline on Gas Balancing. This response focuses on gas balancing from the perspective of IUK. ENTSOG is submitting a detailed response which looks at gas balancing from a broader perspective and IUK supports the work that ENTSOG has undertaken in establishing a common view. However, IUK is very different from the majority of TSOs who are members of ENTSOG and this response, therefore, is particular to the IUK situation.

**Introduction**

IUK owns and operates the bi-directional gas pipeline between Bacton in the UK and Zeebrugge in Belgium and associated terminal and compression facilities (the "Interconnector"). The Interconnector provides a key strategic link between the gas markets of the United Kingdom and continental Europe, and since start-up in October 1998 it has been a major catalyst in the liberalisation of European energy markets. Compression facilities at both Bacton and Zeebrugge mean that the system is physically capable of transporting in excess of 600 GWh/day from the UK to Belgium and in excess of 750 GWh/day from Belgium to the UK. All of the capacity in the Interconnector has been sold to third parties (network users) and the contractual arrangements governing nominations and allocations have been specifically designed and developed to enable the users of the Interconnector to respond rapidly to changing market requirements.

The Framework Guideline and resulting Network Code must be appropriate to all Transmission System Operators ("TSOs"). As a single merchant pipeline that is not underwritten by regulated tariffs, the Interconnector is physically and commercially very different to national grid systems. The Interconnector does not have any end-users and competes in the flexibility market with storage facilities, LNG imports and Norwegian gas supplies. IUK has always been independent from network users and the current gas balancing rules mean that IUK does not normally act in the gas market, buying and selling gas. Network users are far better placed to trade in gas markets and IUK believes that maintaining such independence from gas markets (and focussing on the core business of transporting gas on behalf of network users) will result in a more efficient and cost effective balancing regime.

In IUK's system, linepack is apportioned to network users who are required to ensure overall system balance by maintaining their share of linepack within certain prescribed limits. In effect, IUK hands over what system flexibility there is to network users, who are entitled to use their share of such flexibility as a balancing tool. The fact that there are no sources of demand connected to the Interconnector means that network users are able to balance their inputs and off-takes with certainty. As a result, IUK does not impose any imbalance charges on network users, who can freely adjust their inputs and off-takes to or from the connected systems to maintain their share of linepack within their allowable limits. Under normal circumstances, the balancing rules do not allow a network user to move outside their allowable limits. If this did occur and the network user refused to correct the position, IUK can buy or sell gas in order to correct the imbalance position, with the resultant costs or revenues passed on to the relevant network user.

The definition of "Transmission system" (or "system") does not cater for IUK as the Interconnector is not confined to a single member state. The Interconnector falls within both the United Kingdom and Belgium and IUK has compression facilities and off-take points in both member states.

### **Purpose & Policy Objectives**

IUK fully agrees with the over-arching objective of the network code 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 move towards greater market integration." IUK's core business is enabling physical gas flows, and hence gas trades, between two Member States.

In terms of the specific requirements of article 21 of the Gas Regulation 715/2009, the current balancing regime within the Interconnector pipeline:

- provides hourly, reliable actual and forecast information to network users regarding their balancing status;
- incentivises network users to balance their inputs and offtakes; and
- facilitates gas trade between two fundamentally different regimes in the UK (daily nominations and balancing, UKT Gas Day, no OBA) and Belgium (hourly nominations and balancing, CET Gas Day, OBA in place).

The business rules governing use of the Interconnector, which include balancing, have largely developed to enable unhindered flow gas between the National Grid and Fluxys regimes, in response to market requirements.

### **Network Users and TSOs Roles and Responsibilities**

IUK's approach is to provide all necessary and available information to network users to allow them to take effective balancing actions and thereby minimise the need for TSO intervention. Therefore, IUK agrees with the aim that network users "collectively balance their portfolios so as to minimise the need for TSOs balancing actions". The IUK approach to gas balancing, which incentivises network users to remain within certain limits and which provides the information and the tools needed to do so, has successfully been applied for over 10 years. IUK has been required to buy/sell gas for system balancing on only two occasions in that time.

The target model states that "network users shall have access to a liquid short-term wholesale gas market". The Interconnector pipeline connects the NBP market with the Zeebrugge market. Whilst network users can trade gas within the Interconnector pipeline, this is not a market which has

developed any real liquidity, and IUK does not believe that development of such a market is likely or required, given the proximity to the NBP and Zeebrugge markets.

### **Balancing Periods**

Due to the small physical size of the Interconnector and the fact that it is designed to flow gas between the UK and Belgium a system emergency could develop within 60 minutes at high flow rates. Therefore, any daily balancing regime would require within day restrictions on network users in order to be effective. Under a daily balancing regime with no restrictions it is likely that IUK would be required to take several balancing actions, both purchases and sales of gas, within a single daily period. As IUK does not have access to any sources of flexibility within the Interconnector in order to prevent this, avoiding imbalance and/or emergency situations would require IUK to incur significant and unnecessary costs on behalf of its network users through having to buy balancing gas and grid capacity in an adjacent system. The approach that has been taken is to properly incentivise system users to take the necessary balancing action, ensuring that IUK network users are able to manage their inputs and off-takes such that there should be no requirement for IUK to impose imbalance charges.

Network users will face differing incentives dependent on their portfolio and other factors. As such, a change to a daily balancing regime (with IUK operating a cash-out mechanism at end-of-day) would risk providing an opportunity for 'gaming' by network users. As IUK is required to publish actual and forecast linepack, network users will know when IUK is required to take balancing actions in the gas market, creating a regime within which network users could force an imbalance position and/or an emergency situation in order to extract a commercial advantage in an adjacent market versus other network users. Within the Interconnector, it would be possible for a single network user to unintentionally or intentionally create an emergency situation very quickly, potentially within a couple of hours.

In general, a daily balancing period has the potential to allow network users to go out of balance during the day for commercial gain (e.g. to force a balancing action) whilst returning to balance by the end of the daily period. As a gas network is required to be within safe operational limits at all times, the TSO will have no choice but to take a balancing action in order to maintain system integrity.

### **Nominations**

IUK provides massive flexibility in enabling network users to respond to changing market conditions. Subject to capacity constraints, there are no restrictions to renominations, even if they require a physical change in flow direction of the Interconnector. Network users can and do regularly change their Interconnector nominations with only two hours notice. For example, Interconnector flows on several occasions responded within hours to the intermittent supply issues the UK experienced during the first half January 2010.

Balancing should not be considered in isolation from the nomination and renomination regime as providing flexibility within the nomination regime does not lend itself to daily balancing. Reducing nomination and renomination flexibility could reduce the need for the TSO to take balancing actions under a daily balancing regime. In IUK's view, the ability to be able to physically transport gas at capacity in either direction at short notice and having a nomination, allocation and gas balancing regime that enables network users to respond to changes in the within day markets and furthermore to system events is of fundamental importance to the efficient functioning of the European gas market and provides security of supply to both the UK and continental Europe.

## **Buying and Selling of Flexible Gas**

IUK disagrees that in order for "TSOs to ensure that the system is kept within safe operational limits, they need to be able to buy and sell gas" is applicable to all TSOs. The balancing rules governing the Interconnector pipeline have resulted in the system being kept within safe operational limits without the need for IUK to buy or sell gas. If IUK was required to access balancing gas from a neighbouring hub this would result in significant additional cost that is currently not present and is not borne by IUK's non-TSO competitors.

## **Cross-Border Cooperation**

IUK supports cross border co-operation between TSOs; in fact, it is at the core of what we do. However, in our case, it is difficult to see how balancing zones can be merged. If inventory is too high in one system, and low in a second system, the low level of inventory in the second system does not alleviate the too high level of inventory in the first system.

IUK fully supports the use of Operational Balancing Accounts ("OBAs") to manage steering differences between TSOs. However, OBAs should not be used for balancing between TSOs as this requires one TSO to take a position in the other TSOs system.

## **Conclusion**

IUK believes that the current gas balancing regime within the Interconnector meets the over-arching objectives of the Balancing Framework Guidelines. It fully ensures that network users can balance their portfolios within the Interconnector and the flexibility within the Interconnector, which is limited to linepack, is made available to network users. For the reasons noted above, we believe that the balancing network code needs to be broad enough to encompass a TSO such as IUK in addition to the monopoly national transporters.

Any change to the balancing regime of a TSO is likely to require fundamental commercial, operational and potentially physical changes which will be challenging to implement for both TSOs and network users. This needs to be considered when planning the implementation of the network codes.

This response is not confidential.

Yours sincerely

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