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European Regulators Group for Electricity & Gas
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B-1000 Bruxelles

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fg_gasbalancing@ergeg.org

ExxonMobil's Response to ERGEG on the gas balancing rules in European gas transmission networks draft pilot framework guidelines.

Dear Sir/Madam,

ExxonMobil is a longstanding participant in the European Gas and Power business involved across the supply value chain including upstream production, storage and processing, LNG receiving terminals and marketing. As such we were keenly interested in the ERGEG consultation published on 19th August 2010 concerning draft framework guidelines for gas balancing rules on European gas transmission networks.

ExxonMobil welcomes initiatives that improve the functioning of the European gas market and promote further gas market integration, efficiency of network operations, and increased market liquidity. We support measures which are market based and ensure a level playing field for all market players and aim at the harmonization of gas regulations across the EU.

General Comments

The development of the draft pilot framework guidelines on balancing has some dependencies or assumptions around specific topics (e.g. access to network capacity and storage) that are to be addressed within separate pilot framework guidelines. ExxonMobil is concerned and interested to understand better how the staggered development of pilot framework guidelines, and subsequent network codes, will achieve a coherent and integrated end solution. In addition we feel there are areas which still should be addressed in the context of European emergency response mechanisms and security of supply regulation.

ExxonMobil supports a daily balancing regime with market based cost reflective imbalance charges which provide incentives to networks users to balance their positions. TSO's should provide information to network users as outlined in Article 21(2) and Annex I chapter 3 of Regulation (EC) No 715/2009, however further clarity is required on the frequency at which this information will be provided. Information provided to network users on their individual balancing status and the balancing status of the system should be as near to real time as possible. In addition network users should be provided with non-discriminatory and cost reflective access to flexibility services to aid them with balancing their position to the extent technically possible, within the capabilities of the transmission system.

National regulatory authorities and TSO's should endeavour to harmonise (and at least make compatible) balancing regimes to facilitate trade between member states recognizing a transitional period should be allowed given the different levels of liquidity across the European gas market. Sanctity of contract should also be considered and honored as part of any transition to a harmonized balancing regime across the EU.

Please also find attached specific responses to some of the questions raised within the consultation.

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?*

We believe the consultation outlines the main issues but note that in some circumstances the issues raised (access to storage and capacity) are expected to be addressed outside of the pilot framework guidelines on balancing. In these cases, coordination between the parallel development of pilot framework guidelines is called for. In addition it is unclear how these guidelines would apply in relation to emergency response mechanisms/security of supply regulation.

Question 2: *Do you agree with the scope (section 1) and objectives (section 3) of this pilot framework guideline? Are there policy issues that should, but are not currently addressed by the draft document?*

We agree with the scope outlined in section 1 and objectives in section 3 but once again note the linkage, especially in relation to cross border balancing arrangements, with the parallel development of pilot framework guideline on CAM.

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?*

National balancing rules should be amended where there is significant misalignment with the European target model but only to the extent this misalignment hinders the development and liquidity of the market.

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?*

Given the different stages of development of market liquidity, we believe it is appropriate to recognize and allow for interim steps toward a common target model. Checks and measures should however be taken to ensure any interim plans are appropriate and justified so as not to unduly delay progress 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?*

We believe indications on timing for implementation and compliance would best be provided by TSO's.

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?*

The pilot framework guidelines should outline the policy objectives with the detail behind these objectives worked by ENTSOG as part of the network code development process. ENTSOG should then closely consult with stakeholders during the network code development process.

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?*

Answers to how balancing rules and imbalance charges should be implemented in the network code can be seen below, and in particular see answer to question 31 around imbalance charges.

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?*

We believe a harmonized approach between the TSO and network users will lead to a more efficient system, where network users have primary responsibility for balancing their positions and the TSO has its primary responsibility to residually balance the system. Clearly this assumes a liquid market and availability of timely information as outlined in Article 21(2) and Annex I chapter 3 of Regulation (EC) No 715/2009.

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

See answer to question 8.

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?*

Any within day constraints should be justified and applied in a non discriminatory way across all network users, once all other measures available to TSO's to remove those constraints have been utilised.

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

Where no meter reading is available then balancing of a pre-determined off-take profile is a useful interim step.

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?*

The TSO should ensure network users are provided with non-discriminatory and cost reflective access to flexibility services to aid network users to balance their position to the extent technically possible, within the capabilities of the transmission system. For the avoidance of doubt the above comments relate to flexibility services owned/operated by the TSO and should not be interpreted as forcing availability of commercially owned flexibility assets to market participants at cost.

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

Tolerance levels should reflect the actual technical capabilities of the transmission system and capabilities of network users to balance their positions. Any charges for tolerance should be cost reflective.

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?*

We agree with the information requirements as laid out in Article 21 and Chapter 3 of Annex 1 to Regulation (EC) No 715/2009. For the avoidance of doubt, TSO's should provide network users with actual information on their balancing status, and the overall system balancing status.

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

The benefits of providing network users with system information is that it provides transparency of operation and a level playing field, however disadvantages can arise depending on the level and frequency of information provided which may create uncertainty. In addition there are costs associated with information provision and so unnecessary provision of information can lead to excessive cost.

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 question is best answered by TSOs.

Balancing periods

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

We believe the main policy options have been considered.

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?*

We believe the main policy options have been considered.

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.*

We agree it would be beneficial to harmonise balancing periods on a pan European basis, as this would help facilitate better integration and liquidity across Europe and improve network operation efficiency. However we believe some flexibility is required during the interim period to recognize the current differences and time required to address those differences.

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

Daily balancing.

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

We agree with the target model proposal of daily balancing as this regime affords network users sufficient time and flexibility to balance their position and optimise their portfolio, thus facilitating liquidity within thin market.

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)?*

Member states to provide a response.

TSO buying and selling of flexible gas and balancing services

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

We believe the main policy options have been considered. However we believe it is important to highlight that in the case of balancing platforms or competitive tendering process as options for the procurement of balancing gas this still relies on sufficient competition being place.

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?*

The target model considers a balancing platform in the case of insufficient liquidity, however we believe the target model should focus on achieving a fully liquid market, and the use of a balancing platform as an interim measure whilst market liquidity is addressed.

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

Member states to provide a response.

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

Member states to provide a response.

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? Please see answer to question 24.*

Question 28: *Is it appropriate for TSOs to procure balancing services on the wholesale market and/or is it 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?*

Please see answer to question 24.

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?*

We believe it should be possible to reduce TSOs reliance on long term products where sufficient liquidity and competition exists in the market.

Imbalance Charges

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

We believe the main policy options have been considered.

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 agree it would be beneficial to harmonise the calculation of imbalance charges on a pan European basis, as this would help facilitate better integration and liquidity across Europe. However we believe some flexibility is required during the interim period to recognize the current differences and time required to address those differences.

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.*

We agree with the target model using the TSO marginal price as basis for imbalance charges. If there has been no TSO balancing action then we believe a charge is still payable and could be based on the daily system average price i.e. a reasonable estimate of what the TSO might have bought/sold at on that day if action had been taken.

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

Member states to provide a response.

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

We agree with the interim steps to use a proxy based price in the absence of a liquid wholesale market or balancing platform, as long as the charge does not deter new market entry and is approved by the relevant national regulatory authority.

Cross-border cooperation

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

We believe the main policy options have been considered.

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

We agree with the assessment of the policy options laid out.

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?*

Would appreciate the views of TSO's on this question, but in principle we are in favour of transparent mechanisms that facilitate better cross border trade and improve regional cooperation.

We hope the foregoing comments prove useful in the development of ERGEG's final position on gas balancing rules in European gas transmission networks pilot framework guidelines. For further information, or if you wish to discuss the above, please contact Barry Shackleton (+44 1372 22 2715 barry.j.shackleton@exxonmobil.com).

Kind Regards,

Barry Shackleton
Associate Regulatory Analyst