

ERGEG Draft Pilot Framework Guideline on "Gas Balancing Rules on European Gas Transmission Networks"

A EURELECTRIC Response Paper



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EURELECTRIC Response to ERGEG Draft Pilot Framework Guideline on "Gas Balancing Rules on European Gas Transmission Networks"

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INTRODUCTORY AND GENERAL REMARKS

EURELECTRIC welcomes ERGEG’s work on this very topical subject and is pleased to submit the following response. In general, we believe that the Pilot Framework Guideline should aim at establishing a **market-based European gas balancing regime** which should set an **appropriate, fair, non-discriminatory and transparent system** across Europe.

Whilst recognising that the **ultimate aim of the balancing regime should be system security and stability**, EURELECTRIC – which represents some of the biggest consumers of natural gas and users of gas transmission networks – calls on Regulators (ERGEG/ACER and NRAs) and Transmission System Operators (TSOs) to set **rules that encourage and facilitate trade within and across Member States**.

EURELECTRIC believes that **the target model with interim steps identified in the consultation documents represents a suitable approach towards the harmonisation of the different balancing regimes currently existing across and within EU member states**. However, EURELECTRIC calls on ERGEG to set the appropriate interim steps from the very beginning, thus requiring TSOs to implement the EU-wide standard structure as soon as reasonably possible. Besides, EURELECTRIC would have preferred the inclusion of nomination and renomination procedures in the Pilot Framework Guideline.

For EURELECTRIC, it is of the utmost importance to design a balancing regime that allows power station operators to receive the gas they need when they need it. In doing so, NRAs and TSOs should keep in mind that **power stations represent special customers that need significant but varying amount of gas under different circumstances**. This situation will become even more evident and challenging in the next few years, when power generated from gas-fired stations will have to flexibly back-up the foreseen growth of intermittent renewable generation, namely wind and solar energy.

Gas-fired generating units will need to adapt their behaviour to the weather conditions (which only to a limited extent are linked to seasonal patterns, i.e. cold and warm periods) and to power system conditions and constraints, varying their load up and down (i.e. producing more or less electricity) to follow intermittent RES production and/or changes in consumption and or system constraints. It thus becomes clear that **power stations should be granted access to flexibility instruments such as gas storage, LNG or linepack (where these are available) and should be entitled to use system flexibility as other network users** in order to be able to adjust their portfolios. If this flexibility is sold by means of service by TSOs, it shall be done in a transparent and non-discriminatory manner so as to allow power generators to bid for it.

As a last general remark, EURELECTRIC points out that if sufficient capacity between adjacent transmission systems is not constrained, the harmonisation of the balancing regimes across the two zones is more easily achievable as flexibility can be exported from one market area to another. It goes without saying that the more the interactions between the different zones, the more the convergence of gas price between them and thus the more the benefits for network users and customers.

1. Problem identification, scope, definitions, purpose, policy objectives and compliance

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

EURELECTRIC agrees that the problems identified in the consultation documents are the ones that shall be tackled by the Framework Guideline and the subsequent Network Code. The existence of different balancing regimes in different Member States - and in some cases within Member States - hampers the development of an integrated gas market and we believe that the balancing rules to be set-up in accordance with Regulation 715/2009 should promote market liquidity and trading across different systems. Network users, including power companies, have a clear and important role to play in making those balancing rules work. EURELECTRIC also agrees with the scope and objectives of the FG.

The target model with interim steps presented in the Pilot FG represents a good compromise towards the creation of a more integrated EU gas market as well as a market-based balancing regime. However, the Pilot FG should stipulate more clearly that its ultimate aim is the creation of an EU-wide balancing standard structure without exceptions or, where those exceptions still exist, they are kept at reasonable minimum level and are regularly reviewed by the NRAs.

In particular, we believe that the NRAs shall determine a time from when any exception expires and ensure that TSOs take the measures necessary to implement the EU-wide standard structure as soon as reasonably possible. This is preferable to setting an arbitrary 12 months deadline as different Member States will have differing amounts of work to do to implement the target model, but 12 months is a worthy aspiration.

Regarding the timescale needed to implement the provisions in the target model, EURELECTRIC ascertains that the timeframe identified in section 10 of the Pilot FG, i.e. 12 months, is too short and it does conflict with the idea of allowing interim steps where it is not immediately possible to move quickly towards the implementation of the target model provisions.

As already mentioned in the introductory remarks, EURELECTRIC would favour a Pilot FG detailing nomination and renomination procedures (also referred to as 'transportation programmes'), so as to give more clarity to this issue. Further, power companies would particularly appreciate nomination rules that allow for a coordinated interaction between gas and electricity markets.

2. The role of network users and TSOs

- *Is it necessary to have a harmonised approach to the network user and TSO roles regarding gas balancing?*
- *What are your views on the proposals for the target model to be reducing the need for TSOs to undertake balancing activities?*
- *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?*
- *Is balancing against a pre-determined off-take profile a useful interim step?*
- *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?*
- *Should the target model enable TSOs to provide tolerances to market participants for free or should this be an interim step?*

EURELECTRIC agrees with the target model described in sections 5.4 and 5.5 of the Pilot FG. However, it should better stress that it is TSOs primary responsibility to keep the system residually in balance, i.e. ensure that security and stability of transmission networks are kept at any time. Indeed, this does not mean that network users should not cooperate with TSOs in balancing their own inputs and off-takes.

Whilst it is clear that imbalance charges should incentivise market participants to keep their portfolios in balance, thus reducing the need for TSOs to undertake balancing actions, they should be set in a way to ensure that they are non-discriminatory and do not put undue costs on network users, i.e. reflect the cost to the TSO of undertaking residual balancing actions in the balancing market (including capacity cost) appropriate to the market area.

For this situation to become reality, it is essential that:

1. network users are duly informed about their imbalance position and the prices associated with such imbalance as appropriate, i.e. balancing regimes are kept as transparent as possible; and
2. network users, especially new entrants are allowed to access flexible gas and network capacity.

As regards tolerance levels, EURELECTRIC takes the view that they may be an appropriate transitional measure and, if used, they should be set equitably across all network off-takes and between classes of network off-takes.

3. TSO obligations on information provision

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

EURELECTRIC stresses that if we are to effectively liberalise and harmonise European gas markets, transparency plays a critical role. Without clear, reliable, close to real time ("*timely*", in the wording of the Pilot FG) information, network users cannot adjust their portfolios and may incur imbalance charges that might have been avoided if proper information were provided upfront. Furthermore, information on the balancing market price associated to imbalances shall be also made available to network users, so that they may take actions to mitigate any imbalance exposure they face. These requirements shall equally apply to a user's individual balancing status and to the aggregate status of the system.

Moreover, it is also important that network users receive information on the actions being undertaken by TSOs in buying and selling of balancing gas from networks users and/or other TSOs. This would allow, for instance, power stations to submit bids and offers to buy and sell gas on the balancing markets used by the TSO to balance the network.

We would also appreciate if the information published in the national languages were published in English at the same time. This would ensure that a greater understanding of the balancing actions is attained.

The target model presented in the Pilot FG would, in EURELECTRIC's opinion, allow for a consistent implementation of the mentioned rules. We appreciate the fact that the text elaborated by Regulator emphasises the need to provide this information free of any charge, as also stressed by Regulation 715/2009 itself.

Although EURELECTRIC generally agrees with what is written in point 4.5 of the Pilot FG - namely that TSOs shall publish the amount of gas in the transmission systems at the start of each gas day and the forecast of the amount of gas in the transmission systems at the end of the gas day, updating it on an hourly basis throughout the gas day - it stresses that this should not lead to within-day imbalance charges associated to the hourly update.

A possible disadvantage of TSOs providing network users with system information is the disclosure of commercially sensitive information of single network users. Acting in liberalised markets, EURELECTRIC members would prefer seeing some degree of protection of their commercial information. This may be achieved, for instance, by giving to each network user the information described above (so as to empower them to check their portfolios and undertake any corrective actions) and by disclosing aggregate information (and not single users information) per balancing zone to all network users of that particular zone.

4. Balancing periods

- *What are your views on our assessment of the policy options?*
- *Are there relevant additional policy options on balancing periods which have not been considered in this section? Should these be considered going forward?*
- *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.*
- *If you agree with a harmonised balancing period, what do you consider is the appropriate length of the balancing period?*
- *Do you agree with the target model? (Please explain your answer).*
- *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)?*

As far as power stations are concerned, EURELECTRIC remarks that they represent major off-taking points that need to balance their positions should unexpected situations arise. These may include trips – that may require a sudden ramping-down of the power station’s load, thus bringing down gas consumption too – or steep load increases – particularly in the case of sudden ramping up of the load of CCGTs due to the need to provide flexible back-up capacity to non-dispatchable (i.e. intermittent) production of renewable generating facilities.

EURELECTRIC strongly recommends the harmonisation of balancing periods on a daily basis because such a regime is less complex to manage, less expensive from an operational viewpoint and it does enable the development of hub trading. Furthermore, an hourly regime might discourage new entrants in the markets, particularly those who do not have access to flexible gas to compensate the imbalanced positions. The idea behind this, as correctly identified in the impact assessment, is that network users may better adjust their imbalance positions on a daily basis, using both trading and flexibility instruments. This would in turn allow for the development of liquidity in the wholesale markets and would also stimulate new entry. We also recommend that if exceptions are to be granted as an interim step, this should be ideally time limited and should in any case be designed so as to accommodate the flow of gas from adjacent market areas that may have daily regimes.

Although we regard the daily regime chosen as target model as the best way to achieve balancing regimes’ harmonisation, we do not agree with the idea exposed in paragraph 6.4 of the Pilot FG. In fact, if TSOs are still allowed to implement within-day restrictions on network users, this could discourage (rather than encourage) network users to take the appropriate corrective measures they need to balance their portfolios on the wholesale markets. To the extent that within-day restrictions impose costs of users who are out of balance, or who do not flow gas in accordance with a particular profile defeat, they counteract the purpose and benefit of a daily balancing regime. If within-day restrictions are deemed unavoidable they should take the form of incentives designed to reward users for flowing gas in a particular manner rather than penalties for not.

Furthermore, setting-up a standard gas day across Europe, opening and closing simultaneously across different gas systems, would favour the harmonisation of balancing regimes with the ultimate aim of providing for a EU-wide standardised structure.

5. TSOs buying and selling of flexible gas and balancing services

- *Do you agree with our assessment of the policy options?*
- *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?*
- *What are the costs of implementing the target model in your Member State?*
- *What interim steps, if any, may be needed in your Member State or balancing zone(s)?*

- *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?*
- *Is it appropriate for TSOs to procure balancing services on the wholesale market and/or 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?*
- *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?*

EURELECTRIC regards positively the target model identified in the Pilot FG. We do think that TSOs should engage in residual balancing actions if the network users have failed to balance their positions, and this shall happen through market-based instruments.

As already reported above in section 2, we stress that TSOs shall be procuring balancing gas in a transparent and open manner, ideally on wholesale markets. Besides, EURELECTRIC points out that balancing markets shall ideally be screen based intra-day markets. Where this is not immediately possible because of a lack of market liquidity, TSOs shall be entitled to use balancing platforms in the transitional period. We also stress that TSOs shall not trade for profit, i.e. they shall buy and sell balancing gas only to keep the gas pressure in the pipelines within safe limits – thus ensuring system security and stability – and to keep the costs associated with such actions to a minimum.

EURELECTRIC stresses that it is important that there are no restrictions on which parties can make bids to take and offers to provide flexible gas. We believe that generators shall be treated as other network users and shall thus be entitled to submit bids and offers to buy and sell gas on the balancing market used by the TSO to balance the network, either physically at the power station off-take point or at a virtual point. In EURELECTRIC's view, this right shall apply equally to power stations connected to transmission and distribution networks, provided they are individually nominated and have telemetry installed.

With regards to procurement through long term contracts, EURELECTRIC takes the view that even if they may be easier and less costly to implement, they will inevitably result in a lack of transparency and competition among different market players. Having recognised this, we acknowledge that interim measures may take the form of TSO procuring gas to balance the system through, e.g. day ahead tender or longer procurement agreements.

6. Imbalance charges

- *Do you agree with our assessment of the policy options?*
- *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.*

- *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.*
- *What would be the costs and benefits of implementing your preferred options in your Member State?*
- *What are your views on the interim steps in the document?*

EURELECTRIC points out that imbalance charges represent a topical issue because if not well designed, they may impose inappropriate costs on network users and may act as hindrances to new entry into the gas markets. The current situation in many parts of Europe sees non-market based imbalance charges being imposed on network users, i.e. charges are not based on the costs to the TSO in procuring additional gas or selling excess gas. This is not in line with Regulation 715/2009 and EURELECTRIC calls on Regulators and TSOs to implement article 21.3 in a consistent manner.

Before digging in the issue of imbalance charges, EURELECTRIC would like to point out that imbalances should be calculated per balancing group and not per any single off take point on the grid. In the particular case of power stations, we believe that they shall be included within a balancing group, such that their inputs and off takes are pooled into single imbalance incorporating inputs into the system and other sources of offtake. This balancing group shall be managed by a balancing responsible party, which can either be the power station operator or a third party and there shall be no restrictions on how balancing groups are managed.

Having said that, EURELECTRIC stresses again (see also section 2 above) that prices for cashing out the imbalances of balancing group operators shall be market-based and shall reflect costs to the TSOs of undertaking residual balancing actions in the balancing market appropriate to the market area. As already stressed in section 5 above, TSOs shall not be trading balancing gas for the sake of trading and/or to make profits.

The marginal market price, namely the highest price the TSO has paid for procuring a unit of balancing gas (or, vice versa, the lowest price the TSO has received for selling a unit of surplus gas), may represent the best way to give adequate incentives for network users to balance inputs and offtakes on a continuous basis, even when the TSO has not taken balancing actions. Besides, the daily balancing regime described in the target model, should not include additional within-day charges (see also section 4 above).

7. Cross-border cooperation

- *Are there any other relevant policy options on cross-border cooperation that should have been included in this section?*
- *Do you agree with our assessment of the policy options in this section?*
- *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?*

In EURELECTRIC's view, balancing zones should not be constrained by national borders, i.e. the larger they are the better for network users provided that operational and balancing rules are fully harmonised within the balancing zone.

TSOs should be encouraged to facilitate larger balancing zones within market areas and across adjacent market areas through cross-border balancing agreements.



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