



**Answer to
ACER public consultation paper on
Draft Framework Guidelines on Gas Balancing in Transmission
Systems
(DFGC-2011-G-002)**

**Gas Committee
European Federation of Energy Traders (EFET)¹
12th June, 2011**

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.



The European Federation of Energy Traders (EFET) appreciates the considerable work and stakeholder dialogue that has gone into drafting the Framework Guidelines on Balancing. In general, we consider it to be an excellent document, as:

- We share the Framework Guidelines' assumption that information provision is key to enabling network users to balance and markets to develop.
- We also share the view that TSOs should procure balancing services on the wholesale trading markets as soon as possible. Examples in the UK, Germany and France have shown that this facilitates remarkably the development of liquid spot and intraday markets.
- We welcome particularly the Framework Guidelines' clear decision for a European-wide 24-hour balancing period with one single end-of-day cash out.

The general approach of the Framework Guidelines towards implementation - defining a target model, but at the same time allowing for clearly defined interim steps if this is deemed appropriate by the relevant National Regulatory Authorities (NRAs) - will provide the market with sufficient regulatory certainty, while also allowing for the flexibility the still diverse levels of market development throughout the EU command.

The following section refers in detail to the provisions set out in ACER's consultation paper.

1.2 Scope

The best way to promote market integration and market liquidity is to differentiate between the merger of balancing zones and the exchange or trade of flexible gas between neighbouring balancing zones. Balancing zones should merge until they reach their economic limit, i.e. until the costs of removing bottlenecks between them exceed the benefits of an increased market depth and/or width. If stakeholders jointly decide that this limit has been reached, balancing should be restricted to the respective zones. Neither should TSOs exchange gas across zones, nor should network users be able to net off long or short positions across zones. Both would depend on available transport capacity between zones, which should be made available to network users in the first place, instead of being administered by a 'benevolent' TSO.

2.1 Roles and responsibilities - general provisions: allocating line pack

The objective of the Framework Guidelines is to establish a 24-hour balancing period. This means that network users are obliged to balance their daily inputs, i.e. in the course of 24 hours, with their respective off-takes. Line pack is then used to balance inconsistencies during this 24-hour period. The concept of allocating line pack *ex ante* to network users on the basis of, for example, their household costumer portfolio or their willingness to pay is inappropriate. Line pack should be used by TSOs for the collective benefit of all network users to prevent TSOs from engaging in balancing actions. Allocating line pack makes sense only if applied to imbalances occurring at the end of this period (i.e. *ex post*) and whilst individual NRAs may consider this appropriate, it is not essential for the development of liquid markets.



3. Balancing services

Balancing markets are crucial for the development of robust intraday markets. Since the intraday supply and demand balance is essential for the price formation, TSOs should indeed strive for procuring all the flexibility they need when they need it, without disturbing the fundamentals determining the price through the long-term reservation of flexible gas.

To complement the TSO obligation to provide peak shaving gas and to provide for balancing areas as large as economically beneficial, temporal or physical products are likely to be needed in most transmission systems. However, they should also be sufficient to guarantee safe and reliable operations of the network.

The Dutch model of 'continuous balancing' is based upon the concept of cash-outs triggered by TSOs' balancing actions. It rewards network users who contribute to minimising the extent to which the TSO has to take action and penalises network users who have contributed to the need for the TSO to take action. Hence, it is a truly cost-reflective balancing regime. Although it requires considerable investment in real-time information on portfolio and system balancing status and although it restricts within-day markets to hourly products, it should be given room in the Framework Guidelines, at least as an interim measure.

3.1 Balancing services and flexible gas products

Standardised balancing products should only include long-term products in an interim period for the reasons mentioned above (see 3).

To complement the TSO obligation to provide for peak shaving gas and balancing areas as large as economically beneficial, temporal or physical products are needed in most transmission systems. However, they are also sufficient to guarantee safe and reliable operations of the network, so 'balancing services', as defined in 1.4, are not needed. They should not be part of the target model as they would represent a reservation of sources of flexible gas that would distort price formation (see above 3).

4.1 Balancing period: within-day obligations

The Framework Guidelines on Balancing should not give ENTSOG the discretion – or rather the burden – of having to find consensus among its membership on possible within-day obligations. As written, the resulting Network Code could be detrimental to the efficient operation of the single market as it could lead to substantial differences in each individual market design and could unfairly compromise the position of individual shippers and traders. For the success of this pivotal part of a future European gas market design, it is important that ACER includes an exclusive list of possible within-day restrictions into the Framework Guidelines. At least, there should be a general rule that no within-day restriction that is not complemented by a timely supply of information on each network user's individual balancing status should be eligible.

Example: an obligation to match individual inputs and off-takes on an hourly basis, even within a certain tolerance bandwidth, must be accompanied by at least hourly information on the individual balancing status of each network user. Additionally, this information would have to be provided sufficiently well in advance to enable the respective network user to adjust inputs and off-takes accordingly to avoid any charges.



Example: an obligation to not exceed a certain tolerance of cumulative hourly deviations between inputs and off-takes within the day requires frequent information about the individual network user's balancing status to be provided well in advance of any potential breach of set tolerance levels.

In addition to this general rule, ACER should exclude any within-day obligations on network users that do not take into account the actual system needs at the specific point of time or which unduly discriminate in favour or against a certain class of system points or network users.

Example: The network code on gas balancing shall prohibit within-day obligations which would pose an obligation to match hourly inputs and off-takes irrespective of the overall system balancing status, i.e. charging network users for being long when the system is short and vice versa.

4.2 Nomination procedures

Re-nomination lead times should not exceed two hours as this has proven to be operationally manageable for TSOs.

5.1 Balancing charges: cost reflectivity

The concept of 'directly attributable' needs has to be clarified, given the fact that peak shaving costs are not attributable to end-of-day positions.

5.1 Balancing charges: SMP sell/ buy

Basing imbalance charges on the marginal sell/ buy price of TSOs' balancing actions provides both a strong incentive for network users to balance their portfolios and a robust basis for within-day market prices.

6. Information provision: obligation to provide available information

To restrict the obligation on information provision to already 'available' information seems to be insufficient. The Framework Guidelines define exhaustively the information that is necessary for network users to balance their portfolio. But consequently, it should oblige TSOs to provide this information and charge network users for potentially necessary investments. Availability should not be the determining factor.

7. Cross-border cooperation

Market Coupling, at least as it is used in the power sector and currently discussed in the gas sector, is a congestion management mechanism deployed and effective purely on the day-ahead stage. It seems strangely misplaced when included in Framework Guidelines on Gas Balancing. Furthermore, the Framework Guidelines should set the frame for directly applicable Network Codes. Hence, an obligation to explore the costs and benefits of implementing additional mechanisms in the future (let alone capacity allocation mechanisms) does not contribute to the purpose of this Framework Guidelines.



Subject to one crucial change – the provision of a list of eligible within-day obligations or at least a clearer guidance on what ENTSOG may define as eligible – and subject to a few less important changes, the present draft Framework Guidelines on Gas Balancing will be an important building block on the way to achieving an integrated and liquid European gas market.