

## POSITION PAPER ON GAS BALANCING RULES

### • Introduction

Eurogas considers that well designed gas balancing frameworks are essential for both competition and the secure operation of the EU gas system. Eurogas supports the development of a level of harmonisation of balancing systems across EU transmission networks that supports competitive gas markets and benefits consumers. Eurogas therefore is pleased that balancing has been chosen as a priority topic in the EU code development process.

In addition to preparing response to the ERGEG public consultation on its Pilot Framework Guideline on gas balancing rules, Eurogas has developed this paper setting out its views. The paper first considers the existing EU regulatory framework before addressing some of the key questions in the balancing debate.

### • Existing legislation and guidelines already provides some common guidance on gas balancing

#### **3rd Package – Requirements of Gas Regulation 715/2009**

##### **Article 21:** Balancing rules & imbalances charges

- Balancing rules shall be **fair, non-discriminatory, transparent, market-based** and reflect genuine system needs
- TSOs shall provide **information** on balancing status of users
- Imbalance charges shall be **cost-reflective** & provide **incentives** on users to balance their inputs and off-takes
- Member States to ensure that TSOs endeavour to **harmonise** balancing regimes to facilitate gas trade

##### **Article 8.6(j):** Network codes shall cover the following areas

- balancing rules (including nomination procedures)
- rules for imbalance charges
- rules for operational balancing between systems

The ERGEG GGP Balancing also exists as a voluntary guideline. This sets out a number of requirements including the following on the balancing period:

- Daily is preferred, unless there are technical/operational reasons that mean a different balancing period is necessary to ensure that the system can be balanced and/or for safety and security reasons.
- As an alternative, it is also possible to use a system where there is no pre-defined balancing period. As long as the cumulated imbalance of a network user is kept within specified tolerance levels there is no need for a settlement procedure and therefore balancing period.
- In choosing a balancing period consideration is given to the operational characteristics of the system, avoiding barriers to entry, interaction with electricity balancing, characteristics of consumers off take profile, interaction with balancing periods in connected systems, availability of balancing information to users allowing them to take corrective balancing actions, costs on TSOs and users, nomination procedures etc.

- **What should be the scope and objectives of the gas balancing framework guidelines?**

The FG should cover the TSOs' role in being responsible for the residual balancing of the system, as well as their role in the implementation of and management of balancing rules for network users. The roles and responsibilities of national regulators in approving and overseeing implementation of the balancing regime must also be clear. The scope of the FG should include; the procurement of gas by the TSO for residual balancing, including the definition of market-based balancing; the balancing period; transparency requirements that are not already included in the guidelines annexed to the Gas Regulation; the provision of metering and allocation data; imbalance charges; coordination of TSOs<sup>1</sup> with NNOs (neighbouring network operators); the desired level of harmonisation and the application of transitional measures.

The main objective should be to achieve a level of harmonisation of balancing systems across EU transmission networks that supports the development of competitive gas markets and benefits consumers, whilst at the same time safeguarding security of supply and the safe operation of the network.

To help achieve this, the FG should provide a framework for the creation of balancing systems that are non-discriminatory, avoid any undue barriers to entry and complexity, are transparent, easy to communicate and understand, market based, cost-reflective and that to the extent possible avoid cross-subsidization between users. A well designed balancing regime should generally result in the TSO's balancing actions being minimised, without creating barriers to entry for network users.

- **To what degree do balancing regimes need to be harmonised to support the European gas market?**

The key principles underlying TSOs' balancing regimes should be harmonised to the extent possible, in support of a competitive pan-European gas market. Some allowances may need to be made to allow for the different technical capabilities of individual TSOs' networks and the current level of local market liquidity. Such allowances should be fully justified and also temporary where the TSO can achieve full compliance at a later date e.g. as the local market becomes more liquid.

- **What provisions will be needed to ensure shippers have sufficient information to balance their portfolios?**

In order to be able to manage their balance position efficiently e.g. in making decisions on how to re-nominate within day, shippers need user friendly online access to information on:

- Their own detailed balancing and/or linepack status, near real time (including imbalance status, metering and allocation data etc.).
  - Strictly speaking **"real time"** should mean as soon as the information is available to the TSO. In practice information could be released at specified intervals during the balancing period e.g. every 15 minutes, every hour etc depending on the type of data item and how it is used by the TSO and shippers. The frequency at which the data is released should allow each shipper to manage their position efficiently within day and ensure non-discrimination in data provision.
- The aggregate balancing status of the system, near real time where this information is likely to have an impact on the imbalance price or the within-day cost of gas on the local

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<sup>1</sup> We note that in some systems certain responsibilities may be carried out by Balancing Area Managers on the TSOs' behalf.

market(s). This should include the maximum and minimum limits at which the TSO will take balancing actions.

- There may be cases where this information is not necessarily needed under the FG Balancing i.e. where it does not impact the imbalance cost.
- Information e.g. on the amount of gas in the system is likely to be required under the gas transparency guidelines independent of the FG Balancing.
- Real-time information on the volumes and prices for TSO balancing transactions.
- Shippers need to receive timely and reliable data on the allocation in respect of their non-daily metered customers as part of the data informing them of their balancing status, both real time and ex-post. ERGEG must consider how it will ensure that TSOs and DSOs cooperate in order to provide shippers with the information they need. There appears to be a regulatory gap in this area given that the FG and Network Codes do not apply to DSOs.
- As well as the information the TSO is already obliged to provide under Regulation 715/2009 and its annexes.

The information provided should reflect the level of information currently available to the TSO.

It may not be possible for all TSOs to meet the above information requirements in time for implementation of the ENTSO network code on balancing. An example of this could be where a TSO is relying on neighbouring Distribution System Operators (DSOs) to upgrade their IT systems in order to provide the TSO with the information it needs to give network users real time information on their individual imbalance status. A transition period could be allowed if the TSO can demonstrate to the Regulatory Authority that it cannot provide the required information on time. Where the TSO cannot provide shippers with the information they need to manage their individual portfolios efficiently, adaptations should be made to the balancing regime, such as the provision of tolerances, to ensure that shippers are not disadvantaged.

TSOs will need to be responsible for the timeliness and accuracy of the data they are obliged to deliver to shippers. Unless it relates to data pre-agreed to be an estimate, imbalance charges should be based on the information actually provided by the TSO at the time.

Shippers also require accurate and timely information ex-post. As soon as possible after the close of the balancing period, the TSO must provide each individual shipper with a detailed breakdown of the imbalance costs that shipper has incurred.

Where these requirements are not covered in the transparency guidelines to Regulation 715/2009, they should be included in the FG Balancing.

For the avoidance of doubt, information about a shipper's individual portfolio must be kept confidential by the TSO.

All the information needed (including the within day information) must be published in English on a user friendly system. Information should be published in English at the same time as the same information in the national language(s). All information provided must be reliable and in a form that can be easily understood and processed. Consideration needs to be given as to how such aspects of data quality can be defined and monitored.

- **TSOs should use market based methods for the procurement and sale of gas**

TSOs must use market-based methods to procure energy for the residual balancing of the system.

The long term preference is for the procurement of balancing energy on a centrally cleared within-day trading market which can also be used by network users to manage their individual imbalances. Ideally and as a target model, the TSO should solely procure from this market. For within-day trading markets a pay-as-bid structure<sup>2</sup> is preferable for cost-efficiency and to avoid anti-competitive behaviour. It is recognised that within-day trading markets may not be immediately achievable in several markets and the following transitional measures may be considered.

- The TSO may initially wish to have a separate dedicated balancing market – e.g. due to locational and lead-time requirements and concerns about guaranteeing the supply of physical gas during implementation of the new system. (In this case consideration should be given to creating a mechanism allowing shippers to move gas offered to the TSO, but not taken, to the wider market.) .
- If there is insufficient traded market liquidity, the TSO may need to procure some longer term system balancing energy through a transparent tender process. This should be kept to the minimum possible and reduced over time as short-term liquidity improves.
- In deciding on the need for transitional measures, TSOs should recognise that even in very liquid markets their actions will in many cases prompt a market response where the price of their actions feed into the cash-out of imbalances for the day (or other period).

TSOs should minimise the cost and volume of energy that is procured for residual balancing purposes. An incentive system could be used to reward the TSO for taking the most efficient procurement actions.

#### • **Balancing zones, balancing periods and the gas day**

Balancing zones should be based on as large an area as possible. Where appropriate, Regulatory Authorities in conjunction with TSOs may look at the merging of balancing zones across different neighbouring TSO networks. All the points included in each balancing zone (including the virtual point) should be fully linked to each other and each balancing zone should not have any internal physical limitation.

Eurogas agrees that daily balancing should be the preferred standard structure with permitted flexibilities as appropriate. Under a daily balancing system shippers balance their portfolio at the end of the day. The balancing regime should provide clear financial incentives for shippers to contribute towards maintaining the overall system balance. Where a shipper's portfolio is not in balance at the end of the day, then any daily imbalances are cashed out.

Under the daily balancing model shippers should only incur imbalance charges<sup>3</sup> according to their portfolio position at the end of the day. Whilst respecting this principle there are where necessary a number of ways that the TSO could in addition work with shippers to maintain system balance within-day and avoid undue socialisation or "smearing" of balancing costs e.g.

- Allowing the TSO to accept bids/offers on the within-day market for delivery at a specific location and/or with a specific flow rate.
- Ensuring that the daily imbalance charging structure gives strong pricing signals that will encourage users to minimize their imbalance throughout the day.

<sup>2</sup> "Pay-as-bid" means that shippers bidding in to the balancing market receive the price they submitted for their gas.

<sup>3</sup> "Imbalances charges" are the charges applied by a transmission system operator to network users for financial settlement of the differences between their inputs to and off-takes from the gas transmission system.

- Incentives to reward individual shipper contributions towards a within-day system balance
- Requiring to shippers to provide forecast hourly flow information at relevant points
- Applying flow rates to certain relevant points.

In applying any of these methods, care needs to be taken that they do not create undue discrimination. They should not deprive network users of the flexibility they need for efficient use of the system and must contribute in a positive way to the development and maintenance of the competitive gas market. The FG Balancing should TSOs and National Regulatory Authorities the choice if and precisely which methods are applied, in consultation with market participants and according to system needs.

The preference for daily balancing notwithstanding, Eurogas is of the position that the physical constraints of some transmission systems may mean that daily balancing is impossible in the short term, including for reasons of secure management of the network. In a few transmission systems the physical possibility and/or the cost of implementing daily balancing may also be prohibitive in the long-term.

Where daily balancing is not possible for these reasons, the National Regulatory Authority may approve the use of a shorter period or a rolling period model in consultation with the TSO and network users.

It is intended that such measures should ideally be seen as subsidiary steps that can be used in transition towards an unrestricted daily balancing model. A hybrid model, as already exists in some Member States, which combines within day constraints on users in combination with a daily model may also be used as an interim step in the transition towards full daily balancing. In the case that the hurdles to move to full daily balancing are temporary in nature, the possibility to move to a daily system shall be reassessed on a regular basis.

In making a decision to approve a model other than full daily balancing the Regulator shall ensure that any period and model chosen allows network users to balance their portfolios efficiently vis-à-vis access to information, flexibility and market access rules. The Regulator shall ensure that any shorter period used does not create undue barriers to entry and that shippers are able to manage their cross-border activities efficiently.

In situations where a move to daily balancing is not technically and/or economically viable, the alternative model should be such that effective implementation of other elements of the proposed Framework Guidelines on Balancing have a positive effect on the gas market and cross-border trade.

- **Imbalance charging structures must allow new entry, but also incentivise shipper balancing**

Imbalance charges can be defined as the charges applied by a transmission system operator to network users for financial settlement of the differences between their inputs to and off-takes from the gas transmission system.

TSOs should set out transparent charging procedures, which specify exactly when and under what circumstances shippers will be charged for each imbalance component.

The imbalance charging structure, as well as incentive structure related to balancing, must be approved by the regulatory authority in consultation with market participants.

Imbalance charges will need to be market and cost reflective. Imbalance charges should ideally be based on marginal prices in the local balancing market. To incentivise individual

shipper balancing, imbalance charges should be targeted at shippers who have caused an overall system imbalance and could reward shippers that have contributed to the system balance.

Incentive structures to encourage shippers to balance their own portfolios, such as marginal pricing, can result in over or under recovery of costs by the TSO. Any over or under recovery of costs should be returned to users by a non-discriminatory mechanism. The extent to which this creates any unfair cross-subsidy should be minimised.

Where TSOs are not able to use a within-day trading market to procure balancing energy, a framework must be designed in consultation with stakeholders and approved by the National Regulatory Authority, to ensure that imbalance charges are efficient and cost-reflective to the extent possible, any arbitrary and/or unduly punitive penalties are not levied against network users.

Where, a within-day trading market is not possible, the TSO could use a basket of local day-ahead and/or within-day hub prices. The composition of such basket and the possibility of moving to a within-day trading market should be reconsidered each year.

As noted in the previous section, other incentives and measures may be used by the TSO in cooperation with network users to maintain the system balance.

- **A number of other issues need to be considered around the design process**

A TSO (or national) balancing regime must be approved by the National Regulatory Authority with legally binding rules and regulatory oversight of the regime's operation to ensure it is efficient and supports competition as well as the safe operation of the network.

Users must be consulted by the TSO(s) and regulators on changes to the regime. This should include consultation in English as well as the national language(s).

When considering the detailed design of balancing regimes, consideration should be given towards the link between gas and electricity markets. In particular TSOs and stakeholders should ensure that nominations and re-nominations in the power and gas markets can be coordinated. Where electricity generation could lead to unpredictable swings in gas demand, it may be necessary to allow shippers balancing tolerances at least while adapting to a new regime.

In the design and monitoring of the balancing market and imbalance charging regime, TSOs and national regulators must seek to prevent speculative positions being taken by market participants to provoke predictable corrective actions by the TSO. This may be covered by market abuse regulation and/or good behaviour requirements set out in supplier or shipper license conditions.

Where balancing tolerances are used, account must be taken of the extent to which these may be utilised by network users to offer "balancing gas" or cause balancing costs to be incurred by the TSO that are subsequently socialised.

Users will need to have access to adequate renomination procedures and flexibility tools/services so that they can manage their imbalance positions efficiently, taking into account the relevant characteristics of the local balancing system – in particular the balancing periods and any tolerances used.

Proportional and non-discriminatory credit arrangements shall be applied so as to efficiently securitize shipper and TSO balancing activity. This primarily means that the credit arrangements relating to balancing should protect the TSO and other shippers from a shipper

defaulting on its imbalance charges. Credit arrangements should not create undue barriers to entry.

All balancing regimes shall make use of existing standards (e.g. CBPs of EASEE-GAS) to the greatest possible extent.

Furthermore, Eurogas recommends that a common time zone reference for the definition of a common gas-day around Europe should be adopted as far as possible.

Subject to the lead-times required by the TSO, re-nomination must be possible all day-long to give shippers more flexibilities to balance their portfolios and to develop liquidity in the within-day market.

Ex-post balancing tools should be allowed but should not be a mandatory requirement. The TSO would need to consider how this would work with trading at the virtual point.