



## **Gas balancing**

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11th Madrid Forum, 18-19 May 2006, Madrid

# Background

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- **Gas balancing plays a crucial role in underpinning development of competitive market in gas**
- **Poorly designed mechanisms can:**
  - create barriers to entry
  - have negative consequences for security of supply
  - impose unnecessary costs on consumers
- **DG Competition identified gas balancing as key issue in their preliminary report**
- **ERGEG consulted on gas balancing issues in July 2005**
- **Document proposed changes to existing CEER high level gas balancing principles and development of more detailed guidelines for good practice**
- **16 responses received – non-confidential responses are on ERGEG's website**
- **ERGEG recently published a conclusions document (final version of the high level principles) and an initial draft of the guidelines for consultation**

## Views raised by respondents to the July paper – 1

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- **Balancing period**
  - Majority argued that hourly balancing can create real barriers to entry – particularly when combined with high penalty charges for imbalance and lack of information
- **Provision of linepack**
  - General support for linepack to be provided by TSOs but only as part of a bundled service
- **Pooling & trading of imbalance positions**
  - Significant support from shippers to be allowed to trade imbalance positions to help manage risk. TSOs did not support the proposal – it would create a disincentive to balance

## Views raised by respondents to the July paper – 2

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- **Cross border trade and harmonisation of balancing regimes**
  - Many respondents argued that differences in balancing regimes do impact on cross border trade and competition
- **Transit/transportation**
  - Different treatment of transit and transportation would not be consistent with the Gas Regulation
- **Information provision**
  - Respondents argued that information provision is crucial to effective & efficient operation of balancing mechanisms

# ERGEG View – 1

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- **Balancing period**
  - There is no single answer for the correct balancing period – although daily is preferred unless technical/operational/safety reasons mean shorter period is required
  - Decision must be objectively justified against number of factors – such as the flexibility tools available; the operational characteristics of the network; availability/accuracy of information; costs of IT....etc
- **Provision of linepack**
  - Provision of linepack is one way of providing necessary flexibility to network users to manage their risk – they are others
  - Where it is possible to provide linepack without undermining system security and it is not too complex/costly then it should be considered to improve flexibility

## ERGEG view – 2

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- **Pooling & trading of imbalance positions**
  - Balancing regime must provide appropriate balance of risk/incentive (and also necessary information)
  - Where direct access to flexibility tools is not sufficient other mechanisms should be introduced to allow market participants to manage risk – these can include:
    - Ex-ante trading, pooling of imbalance positions and ex-post trading
- **Tolerance levels mitigate risk but also weaken incentives to balance which can lead to higher costs**
- **Tolerance levels should only be used where access to flexibility too/services is not sufficient – this may particularly be the case in less developed markets**
- **Over time as markets develop an access to flexibility improves tolerance levels should be reduced (and minimised)**

## ERGEG view – 3

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- **Cross-border trade and harmonisation of balancing regimes**
  - Gas Regulation requires that...”Member States shall ensure that TSOs endeavour to harmonise balancing regimes and streamline structures...”
  - One way of doing this is through Operational Balancing Agreements (OBAs) and Interoperability Agreements (IAs).
  - ERGEG welcomes the work GIE has initiated on looking at convergence criteria for balancing regimes
- **Transit/transportation**
  - The Gas Regulation does not make a distinction between transit/transportation – therefore they should not be treated differently for the guidelines.

## ERGEG view – 4

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- **This does not mean that they should be the same – rather that the same principles should be used and any differences justified on a objective basis**
- **Information provision**
  - Information and transparency is crucial. The guidelines will require that TSOs and NRAs develop an information template in consultation with network users

## **ERGEG guidelines for good practice**

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- **Initial draft of guidelines has now been published for consultation – based on the high level gas balancing principles reflecting ERGEG’s views above**
- **Guidelines provide guidance to regulators and TSOs in the design of gas balancing mechanisms**
- **ERGEG welcomes views of all stakeholders (written comments by 20 June)**
- **Following consideration of responses a final version of the guidelines will be published**
- **This will represent ERGEG’s formal advice to the European Commission on its interpretation of Article 7 of the Gas Regulation**