

RECOMMENDATIONS ON GUIDELINES FOR GOOD PRACTICE IN RELATION TO TPA SERVICES, TARIFICATION, BALANCING ETC.

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for adoption by the 5th meeting of the European Gas Regulatory Forum, Madrid 7-8 February 2002.

1. Background.

The 3rd meeting of the European Gas Regulatory Forum (the Madrid Forum) held in Madrid on 26-27 October 2000 requested the joint working group of representatives of the Commission, the CEER and interested Member States to:

"...consider the development of recommendations on guidelines for good practice regarding all necessary TPA services, including tariff structures and derivation, balancing and imbalancing charges and the role of market based mechanisms such as secondary capacity trading markets to facilitate the efficient use of the network."

Draft Recommendations for Guidelines were discussed during the 4th meeting of the Madrid Forum, which instructed the Joint Working Group to finalise the draft Recommendations for Guidelines for adoption by the 5th meeting of the Madrid Forum.

The 4th meeting of the Madrid Forum also *"...stressed the need for definition of clear roles and responsibilities of the different parties and requested proposals to be made in this respect for the next meeting of the Forum."*

These Recommendations for Guidelines have been prepared in consultation with the gas industry with a view to meet the above requests of the Madrid Forum.

The recommendations are aimed at (i) clarifying the roles and responsibilities of the main parties in gas transportation; (ii) ensuring the application of the principle of non-discrimination, (iii) facilitating cross-border trade and customer choice through competition in the internal market, and (iv) avoiding distortions to trade.

While these recommendations on guidelines for good practice are not legally binding they are intended to contribute in the short and medium term to achieving a fully operational internal market for gas.

It is important that progress in implementing the guidelines and compliance with them is monitored regularly by the Madrid Forum. GTE is invited to contribute actively to this monitoring process.

2. Main roles and responsibilities of Transmission System Operators (TSOs) and network users

Within the new regulatory and market environment of the internal market for gas characterised by a multitude of market players and unbundling of integrated gas companies, security of supply can no longer be assumed to be the responsibility of one single party.

A new chain of responsibilities with regard to security of supply and infrastructure planning between public authorities and the different market players including shippers and TSOs therefore needs to be enshrined in order to ensure certainty in this respect. Obligations must be allocated clearly to different players and appropriate to their role.

In this respect Member States will have a role in defining security of supply output standards within a public policy framework. Within this framework it may be left to the market and industry to develop the most efficient solutions to meet the agreed outputs.

The main roles and responsibilities, which TSOs and network users are expected to play in this new context may be summarised as follows:

2.1 Main roles and responsibilities of TSOs

1. TSOs, be they separate entities or unbundled transmission functions of integrated companies, are responsible for the provision of technical transmission capacity and the technical integrity and safety of network operations.
2. The minimum role of the TSO would involve the maintenance, operation and development of its network including sufficient long-term investment planning; provision of non-discriminatory access to its network moving any network users' natural gas within its system in fulfilment of a contract (see section 3 on TPA services); co-operation with other TSOs to ensure interoperability between different systems and efficient and non-discriminatory procedures facilitating trade and allowing network users to transport natural gas throughout the EU transmission network; maintain physical system balance (residual balancing role).

2.2 Main roles and responsibilities of network users

1. A network user is a customer of a TSO and would enter into contracts with TSOs for shipping of gas. End-use customers, producers, suppliers and traders may choose to be shippers.
2. Network users make nominations at each entry and exit point and are responsible for commercial balancing of gas in-put and off-take from the system in accordance with prevailing technical system specifications and agreed procedures.

3. Recommendations on guidelines for good practice regarding necessary TPA services:

In order to ensure non-discrimination between related undertakings and third parties, avoid potential distortions to trade, and facilitate cross-border trade, TSOs should:

1. Offer unbundled TPA services for access to pipelines, storage and LNG facilities as well as all necessary ancillary services to the extent that such facilities are operated by the TSO. Ancillary services include allocation, blending, quality monitoring and conversion, metering, flow control, linepack and balancing;
2. Offer the same range of services on the same conditions according to the principle of non-discrimination to any eligible third party within the EU as to marketing affiliates;
3. Publish in English on the Internet the main conditions of all services, including tariffs and imbalance charges and maps of their network identifying all major entry and exit points;
4. For the services provided, publish physical and available capacities on the Internet on a regular/rolling basis and in a user-friendly manner;

5. Co-operate with other TSO's on interoperability issues to develop Interconnection Agreements (IAs) and inter-TSO operation and balancing agreements (OBAs) and actively pursue harmonisation or convergence to facilitate interoperability e.g. with regard to gas quality specifications. TSOs will support the establishment of EASEE-Gas aimed at streamlining gas transportation and trading procedures across the EU;
6. Offer both firm and short-term, interruptible services on demand (flexible duration and starting date of service);
7. Develop TPA services and access rules so that facilities and ancillary services can be used to meet obligations in neighbouring regimes;
8. Design capacity services to facilitate trading and reutilisation of capacity and in a way, which would not hamper release;
9. Standardise nomination procedures and units of measurement and develop information systems and electronic communication means to provide adequate data to network users and simplify transactions (such as nominations, capacity booking etc.). Formalised request procedures and response times should be harmonised among European TSOs according to best industry practice. TSOs should also co-operate in co-ordinating the maintenance of their respective networks in order to minimise any disruption of transmission services to shippers and publish the corresponding operational information;
10. Implement non-discriminatory and transparent capacity allocation mechanisms and congestion management procedures, which should be subject to certification/audit and monitoring by the relevant authorities;
11. In case difficulties in meeting contractual delivery obligations should arise due to short term congestion, notify network users which might potentially be affected and seek a non-discriminatory solution without delay;
12. In order to avoid conflicts of interest, the providers of infrastructure services should be sufficiently functionally independent from the supply business of vertically integrated companies. For example, the provision of storage services should be separate from gas supply.

4. Recommendations on guidelines for good practice regarding tariff structure and derivation:

1. In order to ensure transparent, objective and non-discriminatory tariffs, TSOs should publish reasonably and sufficiently detailed information on tariff derivation and tariff structure, including at least:
 - General methodology (cost based, international benchmarking etc.);
 - Definition of the cost base (asset valuation and depreciation principles applied);
 - Tariff structure (point-to-point, entry/exit, zonal or nodal system, postage stamp);

- Functional allocation and capacity/commodity allocation principles;
 - Detailed tariff design (tariff elements) including charges for capacity overrun and their derivation;
 - Indexation of tariffs (if any), or principles for tariff variations;
 - Specific tariffs or rules applied to backhaul transportation or specific services;
 - Regulatory involvement in tariff setting.
2. Whenever reasonable, TSOs should pursue convergence of charging principles and tariff structures. Tariff structures should facilitate comparisons between countries and operators.

5. Recommendations on guidelines for good practice regarding balancing, imbalancing charges and settlement processes:

In order to ensure non-discrimination between related undertakings and third parties, avoid potential distortions to trade, and facilitate cross-border trade, TSOs should:

1. Ensure that the same rules (including the same charges for flexibility services) are applied to own commercial operations of vertically integrated companies as to third parties on a formal and verifiable basis;
2. Ensure that balancing charges are non-discriminatory, cost reflective (i.e. cost-neutral for the TSO) and published hence providing appropriate incentives to balance in-put and off-take of gas;
3. Apply fair and non-discriminatory balancing methods e.g. in relation to issues such as tolerance levels, instantaneous balancing, balancing requirements in heat content units etc. This should be based on objective criteria. Differences in tolerance levels in different Member States/TSO regimes should not unnecessarily hamper cross-border trade and these should converge as far as possible;
4. Where justified, ensure convergence of balancing regimes (tolerances, imbalance charges etc.) in order to facilitate cross-border gas trade. Where it is justified that balancing regimes (tolerances, imbalance charges, balancing periods etc.) remain different between interconnected networks, agreements between TSOs should be put in place in order to facilitate cross-border gas trade;
5. Design balancing regimes in a way, which would not hamper the development of competition in the provision of balancing services;
6. Facilitate pooling and trading of imbalances between different system users;
7. Provide transparency with regard to system resources dedicated to balancing;
8. Market participants shall be provided with sufficient, well-timed and reliable information about their balancing status and imbalance charges;
9. Before it is accepted that hourly balancing is appropriate, TSOs should demonstrate that it reflects genuine system needs and is reasonably necessary on the basis of the system and flexibility resources available to them.

6. Recommendations on guidelines for good practice regarding the role of market based mechanisms such as secondary capacity trading markets:

In order to ensure non-discrimination and promote liquidity in the gas market, TSOs should:

1. Allow TPA capacity rights to be freely tradable in a secondary market;
2. Provide transparency of the degree of capacity utilisation and actively seek to apply the principle of "use-it-or-lose-it" for un-used capacity;
3. Allow eligible customers and traders in a secondary trading market to balance out their imbalances.