



## Guidelines for Good Practice as supported by GTE

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### **1. Background**

The 5<sup>th</sup> meeting of the European Gas Regulatory Forum (the Madrid Forum) on 7-8 February 2002 adopted a set of Recommendations on Guidelines for Good Practice in relation to TPA Services, Tarification, Balancing etc. These recommendations 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 the recommendations on guidelines for good practice have not been legally binding they have been intended to contribute in the short and medium term to achieving a fully operational internal market for gas.

The 5<sup>th</sup> meeting of the Madrid Forum stressed the importance of actively monitoring on a regular basis the extent to which gas TSOs meet the high standards outlined in the guidelines. The Forum also stressed the need to benchmark actively the adopted guidelines and invited the Commission, in close collaboration with all relevant stakeholders, to keep the guidelines under review with the objective of their regular updating.

The Commission presented a first overview report on the compliance with the Guidelines for Good Practice in October 2002. While the report demonstrated considerable progress in implementing the Guidelines it also revealed a significant lack of compliance as well as uncertainty and differences in compliance. On this basis, the report recommended, in order to avoid ambiguity in the interpretation of the Guidelines for Good Practice and in order to ensure a level playing field and to raise standards at least to levels which are already industry practice in Europe when providing third party access to the gas system, that the Guidelines for Good Practice should be clarified and reinforced.

The revised Guidelines for Good Practice set out below represent the first updated version of the initial Guidelines.

### **2. Main roles and responsibilities of Transmission System Operators 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 network users and TSOs therefore needs to be enshrined in order to ensure certainty in this respect. Obligations must be allocated clearly to the different players and be appropriate to their role.



In this respect Member States have an important role in monitoring, consulting on and defining security of supply output standards and the role and responsibilities of the different market players within a public policy framework. Within this framework it should be left to the market players to develop the most efficient solutions to meet the defined output standards and to fulfil their obligations in this respect.

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 operating, ensuring the maintenance of, and, if necessary, developing the transmission system, and to ensure the long-term ability of the system to meet reasonable demands for the transportation of gas.
2. The minimum role of the TSO would involve the maintenance, operation and development of its network including sufficient long-term investment planning based on contractual commitments from network users, on proper indication of potential system users and, if any, on guidelines by national authorities; provision of non-discriminatory access to its network moving or processing any network users' natural gas within its system in fulfilment of a contract or network code (see section 3 on TPA services); co-operation with other TSOs and operators of other connected systems (including LNG and storage facilities and distribution networks) to pursue 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 short-term system balance (residual balancing role) and the non-discriminatory provision to all network users of the information they need for efficient access to the network.
3. TSOs shall be equipped, either through ownership control of assets and gas or through formal contracts or agreements, with sufficient system resources including natural gas necessary for carrying out their functions as transmission system operators including notably its residual balancing role. The system resources available to the TSO in this respect shall be available to the relevant public Authorities, subject to the national legislation.

#### 2.2 Main roles and responsibilities of network users:

1. A network user is a customer of a TSO which would sign the relevant network code and/or enter into other types of transmission contracts with TSOs for shipping of gas. Eligible end-use customers, producers, suppliers, TSO's, traders may choose to be network users, subject to the relevant national legal framework.
2. As one of the most important market participants, network users have their roles and responsibilities which need to be defined and described. Amongst others, network users are responsible for physical balancing of their gas in-put and off-take from the system in accordance with prevailing contractual balancing rules set by the TSOs according to the principles as described in section 7.

### 3. Necessary TPA Services

In order to ensure non-discrimination between related undertakings and third parties, avoid potential distortions to trade as far as possible, and facilitate gas trade, TSOs should:

1. Offer unbundled TPA services for access to pipelines and LNG facilities as well as all necessary ancillary services to the extent that such facilities are operated and can be made available by the TSO. Ancillary services may include inter alia, allocation, blending, quality monitoring and conversion, metering, flow control and load 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 on a formal and verifiable basis subject to, if asked for by TSO's, appropriate guarantees from the network users in



- respect of creditworthiness of such network users. Offer these services on non-discriminatory contractual basis to all network users, either using standard contracts or a common network code;
3. Co-operate with other TSO's and, where relevant, other system operators, on all relevant interoperability issues to develop Interconnection Agreements (IAs) and inter-TSO operational balancing agreements (OBAs) on a standardised and transparent basis. IAs and OBAs must be designed to facilitate competition and the services offered under these agreements must be offered on a non-discriminatory basis. Such agreements should be standardised as far as reasonably achievable taking into account the specificities of the systems involved;
  4. Actively pursue harmonisation or convergence to facilitate interoperability e.g. with regard to gas quality specifications where practical and economic. TSOs will actively support the activities of EASEE-Gas aimed at streamlining gas transportation across the EU;
  5. Offer both long-term and short-term firm services including capacity services down to a minimum period of one month. Offer interruptible services down to a minimum period of one day where requested by the market, practically reasonable and when firm capacity is not available and no liquid secondary market exists;
  6. Develop TPA services and access rules so that facilities and ancillary services can be used to meet obligations in neighbouring regimes on a non-discriminatory basis, subject to availability of such facilities and services, to public service obligations and to technical, economical and operational feasibility;
  7. Design transmission services to facilitate trading and re-utilisation of capacity and in a way, which would not hamper capacity release;
  8. Endeavour to develop - in close consultation with EASEE-Gas - standardised nomination procedures and units of measurement and propose 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 TSOs according to standard industry practice as far as reasonably practical and economically feasible taking into account national legislation and national market needs with the aim of minimising response times and providing for on-line screen-based capacity booking and confirmation systems, nominations and re-nominations. The procedures shall be applied on a non-discriminatory basis to all network users including affiliates;
  9. Co-ordinate themselves with other TSOs for the maintenance of their respective networks in order to minimise any disruption of transmission services to network users and to ensure equal benefits with respect to security of supply including in relation to transit. TSOs should inform the relevant network users at least once a year about all planned maintenance periods that might affect their rights from transmission contracts and the corresponding operational information with adequate advance notice.

#### **4. Capacity allocation and Congestion Management**

1. TSOs should implement and publish non-discriminatory and transparent capacity allocation mechanisms and, when applicable, congestion management procedures, which should
  - (i) facilitate the development of competition and trading of capacity while at the same time ensuring the firm transmission rights in support of security of supply and the overall efficiency of the system;
  - (ii) provide appropriate economic signals for efficient and maximum use of technical capacity and facilitate investment in new infrastructure;
  - (iii) avoid discrimination for new entrants; and
  - (iv) be compatible with the market mechanisms including spot markets and trading hubs, while being flexible and capable of adapting to evolving market circumstances.



Revenue from congestion management systems should not create disincentives to reduce congestion.

2. Network users, notably those who may be interrupted, shall be informed about the type of circumstances (in general) that could affect the availability of contracted capacity, such information being indicative.

In case difficulties in meeting contractual delivery obligations should arise, TSOs should notify network users which might potentially be affected and seek a non-discriminatory solution without delay.

## 5. **Transparency Requirements**

1. TSO should publish in national language(s) and English on the Internet the main conditions of all services, including tariffs and imbalance charges and maps of their network indicating the major cross-border points interconnecting its system. TSOs shall publish at least the following information about their system and services:

- a) detailed and comprehensive information about all services offered and the charges for these;

- b) the different types of contracts available for the services offered;

- c) the flexibility and tolerance levels included in transportation and other services without separate charge and as well as any flexibility offered in addition to this and the corresponding charges;

- d) a description of the gas system of the TSO indicating the major connection points with other cross-border systems;

- e) as applicable, the network code and/or the main standard conditions outlining the rights and responsibilities for all users of the gas system of the TSO;

- f) the capacity allocation, congestion management and if any anti-hoarding and re-utilisation provisions;

- g) standard documents and procedures in relation to the use of the gas system of the TSO including definitions of key terms;

- h) the rules regarding the notification to the TSO of the new owners of the transmission rights;

- i) the rules applicable for connection to the system operated by the TSO;

- j) gas quality and pressure requirements.

2. For the different services provided, TSO should publish physical, booked and available capacities for monthly periods at major cross-border points including LNG terminals on the Internet on a regular/rolling basis and in a user-friendly standardised manner. Where feasible, capacities for entering or exiting the system in reverse flow shall also be published. When a TSO considers it is not entitled for confidentiality reasons to publish such data, it should publish quantitative information through the traffic light system. It should also provide the relevant national Authority with substantiation for not publishing data.

TSOs shall publish at least the following information about the capacity situation of their systems at major cross-border points including LNG terminals:

- a) the maximum technical capacity;



- b) the total contracted firm and non-firm capacities subject to confidentiality reasons as provided here above;
- c) the available firm capacities;
- d) user-friendly instruments for calculating tariffs for a specific service (e.g. a tariff "calculator");

TSOs shall publish regular up-dates of short-term capacity availability (at least month-ahead) based, inter alia, on prevailing contractual commitments. TSO shall publish regular long-term forecasts of available capacities on an annual basis for up to 10 years for all major cross-border points.

Available capacities in the medium term shall be published for a period of 18 months ahead and shall be updated at least every month or more frequently if significant new information becomes available.

The publication of available capacities may be indicative and subject to confirmation each time a shipper makes a request, provided such confirmation is given according to section 3.8.

The calculation of available capacities shall be based on network modelling and flow simulations taking account of all relevant operational parameters for an efficient and safe operation of the system. A methodology for calculating available capacities based on standardised units shall be proposed by GTE to the Forum no later than 1 July 2003.

Historical maximum and minimum capacity utilisation rates and annual average flows at the above points shall be published every year for the past year, starting from 1 July 2003.

TSOs shall keep effective records of all capacity contracts and all other relevant information in relation to calculating and providing access to available capacities. If necessary, the relevant national authorities shall, according to the national legislation, have access to such records in relation to complaints about refusal of access due to lack of capacity.

3. All network information shall always be disclosed in a meaningful, quantitatively clear and easily accessible way and on a non-discriminatory basis. As the general rule, information and transparency shall be provided via the Internet and shall not be charged for separately. However charges may be used for customer specific information.

## **6. Tariff structure and derivation**

1. TSOs shall design tariff structures according to the following four key principles. Tariffs should:
  - (i) reflect incurred costs, including appropriate return on investment; alternatively reflect international tariff benchmarks taking into account national specificities; however tariffs should be market based if effective competition exist for the same service, in order not to distort the market;
  - (ii) facilitate gas trade while at the same time avoiding cross-subsidies between network users, and not endangering the continuity of supply for final customers and the operability of the system and;
  - (iii) promote efficient use of the network;
  - (iv) provide appropriate incentives on new investments necessary to remove capacity constraints and to facilitate market development.

The tariff structure should be reviewed on a regular basis to ensure that it continues to support these four principles, as the market develops. In any way tariff structure and derivation should be stable, clear and transparent in order to provide a long-term visibility of the business necessary for the network users and TSO's to plan their activities;



2. In order to ensure transparent, objective and non-discriminatory tariffs and facilitate efficient utilisation of the gas network, TSOs or relevant national Authorities should publish reasonably and sufficiently detailed information on tariff derivation and tariff structure, including at least:
  - Tariff methodology and derivation;
  - Tariff structure;
  - Where applicable and in accordance with national legislation, the definition of the cost base underlying tariff setting taking into account asset valuation and depreciation principles;
  - Capacity/commodity allocation principles;
  - Detailed tariff design (tariff elements) including charges for capacity overrun and their derivation;
  - Where applicable, indexation of tariffs, or principles for tariff variations;
  - Specific tariffs or rules applied to backhaul transportation or specific services if any;
  - Regulatory involvement in tariff setting.
3. TSOs, in accordance with national authorities and relevant legislation should not adopt any charging principles and/or tariff structures that in any way would either hamper or distort trade across borders of different TSO systems or hamper system enhancements and integrity. In case differences in tariff structures or balancing mechanisms would hamper cross-border trade, TSOs should actively pursue convergence of tariff structures and charging principles including in relation to balancing (see section 7).

#### **7. Balancing, imbalance charges and settlement processes**

1. Design fair, non-discriminatory and transparent contractual balancing rules (e.g. in relation to issues such as tolerance levels, balancing period, balancing requirements in heat units etc.) that are based on objective criteria, and are reasonably necessary on the basis of genuine system requirements, i.e. including the actual technical capabilities of the transmission system. Provide information to the relevant regulatory authorities with regard to the system resources (including related assets, contracts, costs etc.) at the disposal of the TSO dedicated to system operations including residual balancing.
2. Ensure that the same rules (including the same charges for flexibility services provided by the TSO) are applied to own commercial operations of vertically integrated companies as to third parties on a formal and verifiable basis.
3. Ensure that balancing charges are non-discriminatory, broadly cost-neutral to the TSOs and published whilst avoiding cross-subsidisation between network users and competing energy markets and providing appropriate incentives on network users to balance in-put and off-take of gas and not to endanger the system neither to create a risk of disruption of gas supply. Penalties collected by TSOs, over and above the actual efficiently incurred balancing costs, from system users being out of balance shall be redistributed back to the system users on a non-discriminatory basis;
4. Ensure in accordance to national legislation compatibility of balancing regimes (tolerances, imbalance charges etc.) in order to facilitate gas trade across borders of different TSO systems. European TSOs shall endeavour to harmonise balancing regimes in order to facilitate trade and to respect the needs of domestic use. Where balancing regimes (tolerances, imbalance charges, balancing periods etc.) are different between interconnected networks, agreements and procedures between TSOs should be put in place in order to facilitate gas trade. Where applicable and subject to the national legal framework, such arrangements shall be published and notified to the relevant regulatory authority;



5. Design balancing regimes in a way, which would not hamper the development of competition in the provision of ex ante balancing services;
  6. Facilitate pooling and ex ante trading of imbalance services between different system users in a non-discriminatory and cost-reflective manner according to national legislation;
  7. Market participants shall be provided with sufficient, well-timed and reliable information about their balancing status and imbalance charges to be updated on regular basis and in function of the balancing period applied, where such information can be provided at reasonable costs. Information on imbalance positions shall allow system users to take timely corrective actions if TSO's do have all information available to do so and if such information can be provided at reasonable costs.
- 8. Market based mechanisms such as secondary market**
1. Allow and facilitate TPA capacity rights to be freely tradable in a secondary market without any undue obstacles, taking into account the need for TSO to make sure that all contractual obligations are reasonably guaranteed. Develop standardised contracts and procedures on the primary market to facilitate secondary trade of capacity. Where requested and paid for by network users, provide cost-reflective services (such as an electronic platform or bulletin board) to facilitate secondary capacity trading and associated transfer of capacity rights between network users;
  2. According to national Authorities rules and indications, actively endeavour to discourage capacity hoarding and facilitate reutilisation of un-used capacity. TSO's shall facilitate trading of unused capacity at least on an interruptible basis. The basis for a possible interruption must be clearly set out.

**Definitions**

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| "Technical capacity"                 | the maximum firm capacity that the transmission, or LNG undertaking can offer to the system users, taking account of the system integrity and the operational requirements of the transmission network.   |
| "Firm capacity"                      | gas transmission, or LNG capacity contractually guaranteed by the transmission, or LNG undertaking.   |
| "Non-firm or interruptible capacity" | gas transmission, or LNG capacity that can be interrupted by the transmission, or LNG undertakings according to the conditions stipulated in the access contract. The contract may specify the permitted duration, frequency and timing of the interruptions. It may also specify the previous notice required and possibly a fee related to the duration of the interruptions. |
| "Available firm capacity"            | the part of the technical capacity that is not allocated and is still available to the system users at that moment.   |
| "Primary market"                     | market of the capacity traded directly by the TSO.  |
| "Secondary market"                   | market of the capacity traded otherwise than on the primary market.   |
| "Contractual congestion"             | situation where the level of firm capacity demand exceeds the technical capacity (all technical capacity is booked as firm).  |
| "Physical congestion"                | situation where the level of demand for actual deliveries exceeds the technical capacity at some point in time.   |
| "Congestion management"              | management of the capacity portfolio of the transmission undertaking with a view to optimal and maximum use of the technical capacity and the timely detection of future congestion and saturation points.  |
| "Capacity"                           | the maximum flow, expressed in normal cubic meters per time unit or in energy unit per time unit, to which the system user is entitled in accordance with the provisions of the transmission contract.  |
| "Nomination"                         | the prior reporting by the system user to the transmission undertaking of the actual flow that he wishes to inject into or withdraw from the system.  |
| "Re-nomination"                      | the reporting of a corrected nomination.  |
| "Nominated flow"                     | the flow that the system user has previously reported to the transmission undertaking as actual flow that he wishes to inject into or withdraw from the system.   |
| "Balancing period"                   | the period within which the off-take of an amount of natural gas, expressed in units of energy, must be offset by every system user by means of the injection of the same amount of natural gas into the transmission network in accordance with the contract or the network code.  |
| "System integrity"                   | any situation in respect of a transmission network or a transmission facility in which the pressure and the quality of the natural gas remain within the minimum and maximum limits laid down by the transmission undertaking, so that the transmission of natural gas is guaranteed from a technical standpoint.   |