

Dear Mr, Mrs,

Recently you published the Guidelines for Good Practice for Gas Balancing. I would like to thank you for the opportunity given to market parties to respond to these Guidelines. Below you'll find APX response. APX operates gas exchanges in the United Kingdom, the Netherlands and Belgium. Our response is based on the experience we gathered in these markets, which range from being very well developed market to being not developed at all.

As you say in 3.2 and 4.1, starting point for every balancing regime should be that network users are primarily responsible for balancing their portfolio and that TSO's have responsibility for balancing the grid. In order to motivate and enable the network users to balance their own inputs and offtakes, so that the TSO can focus on balancing the grid:

- * an accurate information system should be in place;
- * a well functioning balancing market should be established;
- * a proper incentive scheme would be in place.

Below I'll focus and elaborate somewhat more on the first two conditions.

An accurate information system should be in place

A network user should have access to accurate information about his position at any given moment, or at least at a moment allowing him to take appropriate action in case of imbalance. The availability of this kind of information is very important for a network user in order to balance it's own portfolio, but also for the development of a competing market. The availability of this kind of steer information isn't guaranteed by the Guidelines. But more important, it seems that this lack is compensated by introducing the "pooling of imbalance positions (section 1.18)". Pooling of imbalance positions is a serious threat to the development of a well functioning within day market, because it removes every incentive for network users to balance their own position upfront and for the regional grid operators to provide the steer information (without which markets won't pick up). Therefore we strongly recommend you to reconsider section 1.18 seriously. We think section 1.18 should be removed.

A well functioning balancing market should be established

Network users should have sufficient tools to balance their inputs and offtakes upfront, to prevent them of becoming out of balance. Therefore a well functioning spot market is a prerequisite. A well function spot market enables market parties to balance their position upfront at any given moment. The Guidelines do not really support the development of such a market since, based on the Guidelines, TSO's have to offer several instruments to allow market parties to be out of balance (tolerance levels and tolerance services) or to trade their imbalances afterwards. These services remove any incentive for the network users to seriously balance themselves upfront. We have seen in the United Kingdom, that the Within Day market really kicked off when the tolerances had been lowered to 2 percent. Currently there's a 0 tolerance level and a well functioning within day market. In the Netherlands we have a tolerance level of more than 30% and there have been 0 trades on the APX within day market since it started in April 2005. APX acknowledges that

tolerance services are needed as long as the market doesn't function properly. However these should be limited and should be reduced during a certain period. Therefore APX recommends to limit the tolerance services and to remove section 1.18.

Please contact me if you have any questions with regard to the above.

Kind regards,

Yvonne Neef