

EREGEG Letter to storage users

Monitoring of the implementation of the Guidelines for Good Practice for Gas Storage System Operators (GGPSSO)

Introduction

The Guidelines for Good TPA Practice for Storage System Operators (GGPSSO) set out the minimum requirements for the provision of fair and non-discriminatory access to gas storage (in accordance to the Gas Directive¹). Monitoring implementation of the GGPSSO is therefore important in understanding how access to gas storage is being provided.

The European Commission requested the European Regulators Group for Electricity and Gas (EREGEG) to monitor the implementation of the Guidelines and report back to the next Madrid Forum on their findings.

This paper seeks views from storage users – be they actual storage users or potential storage users - on how the GGPSSO have been implemented by storage system operators (SSOs).

Invitation to comment

EREGEG is committed to open and transparent consultation. The GGPSSO were developed through consultation over a number of months. EREGEG has already sent out questionnaires in order to collect information from EU Storage System Operators (SSOs) and National Regulatory Authorities (NRAs). These questionnaires are published on the EREGEG website. Please note that responses to the questionnaires will also be published on the EREGEG web site at the end of June.

At this stage of the process, EREGEG would like to consult users, since they are actively participating in the storage market and therefore should provide the best insight as to whether and how the GGPSSO have been implemented or its provisions circumvented. Accordingly, EREGEG has prepared a list of questions for users.

The results from the monitoring process will be crucial in identifying the effectiveness of TPA to storage and areas where the GGPSSO may be improved. Your response to this questionnaire is therefore important to the development of the EU regulatory framework.

¹ Directive 2003/55/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC

Any responses should be received by **25 July 2005**. They should be sent to:

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To help ensure transparency, responses to the questionnaire and other documents associated with the GGPSSO will be published by placing them on the ERGEG website (<http://www.ereg.org>). **EREGEG will take into account any requests to keep information confidential. ERGEG encourages you to separate confidential information from information you are willing to be made public.**

Any questions on this document should in the first instance be directed to Pierre-Marie Cussagnet and/or Rosita Carnevalini (see addresses/email above).

EREGEG intends to publish an initial report on the implementation of the GGPSSO in September 2005, and it expects to present these findings at the next Madrid Forum – therefore, ERGEG intends to issue a final report on implementation after it has an opportunity to consider responses to its initial report and the views of delegates at Madrid.

Section1: open background questions

*The objective of the monitoring of the GGPSSO is to find out whether and how the GGPSSO have been implemented. Questions addressing the actual compliance with the GGPSSO are presented in Section 2. However, the monitoring should also provide an overall view of the effectiveness of the GGPSSO. Therefore, the questions presented in Section 1 are designed to assess **how** the GGPSSO have been implemented and in particular whether the GGPSSO could be improved.*

- 1.1 Do you believe implementation of the GGPSSO by SSOs has been effective?

Yes

- 1.2 Apart from storage services, do you have sufficient access to other sources of flexibility in order to meet your commercial needs (e.g. hubs, production flexibility, import flexibility, long-term contracts, balancing market)? Can these other sources of flexibility be considered as effective substitutes to storage?

We have access to cross-border capacities of limited flexibility. There are no settlement HUB's yet. The balancing market only has flexibility within one day, there is no seasonal flexibility. The flexibility of long-term contracts cannot apply, owing to lack of border capacity on the Ukrainian side. The limited access to HAG (Hungarian-Austrian Gas pipeline) capacities hinders market competition. We have no access to production, owing to the regulatory environment this is used outside the market.

- 1.3 Please indicate if the adoption of the GGPSSO has had a positive impact on TPA services (GGPSSO requirements on "Necessary TPA services", chapter 3)?

Yes (appearance of interruptible capacity, virtual capacity between the TPAs)

- 1.4 Please indicate if the adoption of the GGPSSO has had a positive impact on storage capacity allocation/congestion management procedures (GGPSSO requirements on "Storage capacity allocation and congestion management", chapter 4)?

The regulation level of the process did not change.

- 1.5 Please indicate if the adoption of the GGPSSO has had a positive impact on transparency. Would you say that as a user, you are provided with sufficient and timely information in order to gain effective and efficient access to storage facilities? What data would you like to see published? Why would you need this additional information (GGPSSO requirements on "Transparency", chapter 6)?

Yes, the information is publicly available, the publication of the data takes place on an occasional rather than a daily basis, therefore their validity is not clear. Expected information: daily level free capacity (mobile, injection and deliver, virtual and interruptible). Sold interruptible capacity, interruptible capacity offered and sold in the previous periods. Tariff calculator.

- 1.6 In nTPA, if the main commercial conditions including the prices for standard services are published, is there consistency between your contract and these published conditions (GGPSSO requirements on “Tariff structure and derivation”, chapter 7)?

Yes.

- 1.7 Please indicate if the adoption of the GGPSSO has had a positive impact on secondary trade of storage capacity (GGPSSO requirements on “Secondary market”, chapter 9)

No. There is no secondary trade of storage capacities.

- 1.8 Do you believe that there is a conflict between the requirements of the GGPSSO and national legislation that will materially affect either your interests or your ability to comply with the GGPSSO (GGPSSO Scope and Objective)? Please specify the nature of such conflict

Yes.

The secondary market: it is only permitted at law level, the decrees and sector level statutes necessary for practical operation have not been issued. ÜKSZ (NC) only accepts the option of repurchase (not obligatory as a TPA)

The priority of public service operators (PSO) fully eliminates the access necessary for liquid competition.

In the regulations the sanctions are incomplete, the imposition of sanctions is only an opportunity. The control of implementation is incomplete.

The penalties induce such an over-secured capacity reservation system that is not justified. These penalties should only be applied near the technical limit values.

- 1.9 If you have entered into a new storage contract after the adoption of the GGPSSO (18 March 2005), do you believe that there is a conflict between the requirements of the GGPSSO and certain clauses of your contract (e.g. publication of certain data, day-ahead release of non-nominated injectability and deliverability)? Please specify the nature of such conflict

There is no conflict.

- 1.10 Do you believe there are gaps in the GGPSSO? How could the effectiveness of third party access to storage be improved?

Market acquisition of the technological gas quantities used by the SSOs and their provision by the storage providers.

Base and interruptible capacity offers coordinated with the related system operators.

2 Section 2: monitoring of the implementation of the Guidelines for Good Practice for Gas Storage System Operators (GGPSSO)

These questions are designed to monitor implementation of the GGPSSO requirements due to be implemented from 1 April 2005.

If you are a customer/potential customers of several SSOs, the questionnaire should ideally be completed for each SSO

General

2.1 Business name of respondent: EMFESZ Kft

2.2 Please specify if you are (several answers possible):

	<i>tick</i>
(a) a production company	<input type="checkbox"/>
(b) a supply undertaking	<input type="checkbox"/>
(c) a wholesale customer	<input type="checkbox"/>
(d) a trader	<input checked="" type="checkbox"/>
(e) a TSO	<input type="checkbox"/>
(f) a DSO	<input type="checkbox"/>
(g) a final customer	<input type="checkbox"/>
(h) other (e.g. local utility, distribution company, retailer including public services)	<input type="checkbox"/>

2.3 Please specify if you are:

	<i>tick</i>
(a) part of the same vertically integrated undertaking as to the SSO to which this questionnaire applies	<input type="checkbox"/>
(b) a company with no relationship whatsoever with the SSO	<input checked="" type="checkbox"/>

- 2.4 If you have ticked the box for question 2.3 (a), can you confirm that there is a document setting out all the terms and conditions relating to storage use by the affiliate company and that this document is used (GGPSSO 1.3)?

	yes	no
	<input type="checkbox"/>	<input type="checkbox"/>

- 2.5 Please provide the name/country of the SSO you are a customer of and to which this questionnaire applies

MOL Földgáztároló Rt. (Hungary)

- 2.6 Do you own storage capacity rights in this storage system (date of reference: 1 April 2005)

	yes	no
	<input checked="" type="checkbox"/>	<input type="checkbox"/>

- 2.7 Please specify if you experienced any refusal of access in this storage system:

	yes	no
(a) before 1 April 2005	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(b) after 1 April 2005	<input checked="" type="checkbox"/>	<input type="checkbox"/>

- 2.8 If the answer is “yes”, what were the reasons for the refusal of access?

According to the information provided, they did not have available capacities. Owing to the regulation, only the returned capacities can be provided, but the return did not take place.
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- 2.9 For the SSO you are a customer of, please indicate if:

	tick
(a) you have signed the relevant storage code	<input type="checkbox"/>
(b) you have entered into a contract based on a standard storage contract	<input checked="" type="checkbox"/>
(c) you have entered into a contract in the absence of a standard storage contract , or in another sort of arrangement	<input type="checkbox"/>

Roles and responsibilities of Storage System Operators

- 2.10 Please provide details on whether and how you were consulted by the SSO in developing a standard storage contract/storage code (GGPSSO 1.2.b)

Yes. It helped with selecting the optimal template for the storage contract.
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2.11 Please provide details on the guarantees you were asked to provide with respect to creditworthiness (GGPSSO 1.2.h)

About 50% of the annual storage fee must be paid in advance. The national regulation ensures a capped fee and a prepayment option. SSO is not bound to reduce the allowed maximum tariff by either regulatory, or market pressure.

Necessary TPA services

2.12 Are you obliged through a PSO to book storage capacity?

	yes	no
	<input type="checkbox"/>	<input checked="" type="checkbox"/>

2.13 Would you say that the menu of services offered on the primary market meets your needs, as far as the following criteria are concerned (GGPSSO 3.3, 3.5, 3.7, 3.8):

	yes	no
(a) size of standard bundled units (SBUs) appropriate	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(b) no undue restrictions on the starting date and the prevailing physical flows	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(c) duration of contracts	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(d) price	<input type="checkbox"/>	<input checked="" type="checkbox"/>

2.14 If any of these criteria (question 2.13 (a) – (d)) is not met, please state why. Which improvements would be necessary to meet your demand?

(b) The storage system operator gives a contractual opportunity for counter flow in injection or delivery in operating time only. The initial day for storage utilization can only be applied when the storage start minimum has been reached. The transfer of capacities follow the movement of market players with difficulties, it is practically impossible to change on any other day than the initial day.

(d) The storage price is too high, because owing to the congestion of imported capacities and the applicable regulations, the market players are forced for excess storage. Excess storage causes lack of capacities, which further increases the price. The technical gas utilization (cushion gas) of the storage is not purchased subject to market conditions, this also increases the price.

2.15 Is there an additional charge if you inject or withdraw at a time of the year when the prevailing physical flows are in the other direction (GGPSSO 3.7)?

	yes	no
	<input checked="" type="checkbox"/>	<input type="checkbox"/>

2.16 If the answer is “yes”, is the additional cost “unjustified” or “justified” in your opinion (GGPSSO 3.7)? Please provide details

not justified. Storage contrary to the prevailing physical flow results in optimized operation and savings on technical costs for the storage operator. Only administrative type costs (transaction number) may be incurred.

2.17 What is the timeframe for solving capacity booking requests (based on your experience) (GGPSSO 3.9)?

1 week

2.18 What is the timeframe for solving other requests (please specify) (GGPSSO 3.9)?

1 week (if other provisions of the contract are modified)

2.19 Does the SSO respond in a time frame compatible with your reasonable commercial needs (GGPSSO 3.9)?

	yes	no
(a) capacity booking requests?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(b) other requests?	<input type="checkbox"/>	<input checked="" type="checkbox"/>

2.20 If the answer is “no”, please provide details (GGPSSO 3.9)

No on-line answer is available regarding operative questions. The returned capacities are not available. The allocation data are only available with delay. (1 month)

Storage capacity allocation and congestion management

2.21 Does the storage capacity allocation mechanism applied by the SSO meet all the requirements below (GGPSSO 4.1):

	tick
(a) it facilitates the development of competition and liquid trading of storage capacity (GGPSSO 4.1.a)	<input type="checkbox"/>
(b) it is compatible with market mechanisms including spot markets and trading hubs (GGPSSO 4.1.a)	<input type="checkbox"/>
(c) it does not create undue barriers to market entry (GGPSSO 4.1.c)	<input type="checkbox"/>
(d) it does not prevent new market entrants and companies with a small market share from competing effectively (GGPSSO 4.1.c)	<input checked="" type="checkbox"/>
(e) it does not prevent customers from changing suppliers at any time of the year (GGPSSO 4.3)	<input type="checkbox"/>

2.22 If any of these criteria (question 2.21 (a) – (e)) is not met, please explain why (GGPSSO 4.1)

<p>(a) there is no liquid storage capacity market</p> <p>(b) there is no spot market and trading HUB</p> <p>(c) Cannot be qualified for lack of capacity, there is no practical experience.</p> <p>(e) Storage is only feasible for a storage cycle. For lack of capacity there is no automatic opportunity to change suppliers.</p>
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2.23 Do the congestion management procedures applied by the SSO meet all the requirements below (GGPSSO 4.2):

	<i>tick</i>
(a) they facilitate the development of competition and liquid trading of storage capacity (GGPSSO 4.1.a)	<input type="checkbox"/>
(b) they are compatible with market mechanisms including spot markets and trading hubs (GGPSSO 4.1.a)	<input type="checkbox"/>
(c) they do not create undue barriers to market entry (GGPSSO 4.1.c)	<input type="checkbox"/>
(d) they do not prevent new market entrants and companies with a small market share from competing effectively (GGPSSO 4.1.c)	<input checked="" type="checkbox"/>
(e) they do not prevent customers from changing suppliers at any time of the year (GGPSSO 4.3)	<input type="checkbox"/>

2.24 If any of these criteria (question 2.23 (a) – (e)) is not met, please explain why (GGPSSO 4.2)

<p>(a) there is no liquid storage capacity market</p> <p>(b) there is no spot market and trading HUB</p> <p>(c) Owing to the national regulation, the transfer of capacities is delayed, which significantly hinders the operation of the market and market entry.</p> <p>(e) Storage is only feasible for a storage cycle. For lack of capacity there is no automatic opportunity to change suppliers.</p>

Transparency requirements

2.25 Does the SSO provide you with sufficient and timely information in order to gain effective and efficient access to storage (GGPSSO 6.5)?

	<i>yes</i>	<i>no</i>
	<input type="checkbox"/>	<input checked="" type="checkbox"/>

2.26 If the answer is “no”, please explain why (GGPSSO 6.5)

The validity of the published information is not clear, therefore is uncertain. The virtual and interruptible capacities are only available through negotiations, which significantly reduces applicability.

On the replacement of the technological gas and cushion gas.

2.27 Have you ever made a request to the SSO not to publish some information (please specify which data), because it would harm your commercial interests (GGPSSO 6.2)?²

[confidential]

Tariff structure and derivation

Where regulated

2.28 Do you think that the tariff structure of the SSO promotes efficient commercialisation and use of storage (GGPSSO 7.1.d)?

	yes	no
	<input type="checkbox"/>	<input checked="" type="checkbox"/>

2.29 If the answer is “no”, please explain why (GGPSSO 7.1.d-f)

The tariff follows actual utilization only partially. The used peak is not necessarily simultaneous with the actual peak operation of the storage facility. In such cases the storage operator does not charge the actual costs on the users. The charges of storage are high compared to the administered retail prices. The storage fees are increased constantly, but the opportunity to increase the officially administered gas prices is limited. The outstanding balance between the purchase prices increased by system utilization charges and the retail prices constantly decreases (or turns into negative), and this significantly reduces the feasibility of market processes .

Where negotiated

² answers to this question will be treated as confidential

2.30 Charges (GGPSSO 7.2):

	<i>tick</i>
(a) do not restrict market liquidity of storage capacity (GGPSSO 7.2)	<input checked="" type="checkbox"/>
(b) do not create undue barriers to market for new entrants (GGPSSO 7.2)	<input checked="" type="checkbox"/>
(c) promote efficiency and facilitates competition in the use of storage services (GGPSSO 7.2.b)	<input type="checkbox"/>

2.31 If any of these criteria (question 2.30 (a) – (c)) is not met, please explain why (GGPSSO 7.2)

The tariff follows actual utilization only partially. In the utilization of peak storage cross-financing exists among the customers authorized to access.

2.32 Are charges negotiated in a time frame compatible with your reasonable commercial needs (GGPSSO 7.2.d)?

	<i>yes</i>	<i>no</i>
	<input checked="" type="checkbox"/>	<input type="checkbox"/>

2.33 If the answer is “no”, please explain why (GGPSSO 7.2.d)

Storage penalties

2.34 Where they are established, storage penalties (GGPSSO 8.2)

	<i>tick</i>
(a) are proportionate	<input checked="" type="checkbox"/>
(b) do not hamper the entry of new participants into the market	<input checked="" type="checkbox"/>
(c) are cost-reflective, to the extent possible, whilst providing incentives for the appropriate use of storage capacity	<input type="checkbox"/>

2.35 If any of these criteria (question 2.34 (a) – (c)) is not met, please explain why (GGPSSO 8.2)

The penalty system is defined based on the lost revenues of the SSO, as opposed to its costs. The capacity surpass penalties are so high (1.5 times the annual charge), that the users are encouraged to reserve over-secured needs, further decreasing the available capacities.

Secondary market

2.36 What kind of services can be traded on the secondary market (GGPSSO 9.1) ?

	yes	no
(a) standard bundled units (SBUs)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(b) unbundled services	<input type="checkbox"/>	<input checked="" type="checkbox"/>

2.37 Do you trade storage capacity on the secondary market (GGPSSO 9)?

	yes	no
	<input type="checkbox"/>	<input checked="" type="checkbox"/>

2.38 If not, please state why (GGPSSO 9) ?

	tick
(a) not possible	<input checked="" type="checkbox"/>
(b) possible but difficult in practice	<input type="checkbox"/>
(c) not interested in secondary trading of storage capacity	<input type="checkbox"/>
(d) other (please specify)	<input type="checkbox"/>

2.39 Please provide details on how secondary trading of storage capacity is facilitated by the SSO (GGPSSO 9.1)

Not allowed by the regulation.

Interoperability

2.40 Does your SSO ensure interoperability between the storage system and the transmission system (GGPSSO 10.1)?

	<i>tick</i>
(a) services offered are consistent with those offered by the adjacent TSO	<input checked="" type="checkbox"/>
(b) operational procedures, such as nominations, are compatible with those of the adjacent TSO	<input type="checkbox"/>
(c) re-nomination procedures meet market participants' requirements	<input type="checkbox"/>
(d) relevant storage arrangements are matched in consistency with the balancing requirements of the adjacent transmission system	<input type="checkbox"/>
(e) other	<input type="checkbox"/>

2.41 If any of this item (question 2.40 (a) – (e)) is not met, please provide comments based on your experience (GGPSSO 10.1)

(b) nominations are based on m3, but they have to be adjusted owing to the different energy contents

(c) there is no re-nomination within period

(d) the storage contract does not contain balancing options.