

EFET response to ERGEG Letter to storage users

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

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?

EFET has seen limited evidence of implementation by SSOs on the Continent. Several SSOs have made mention of the GGPSSO on their websites, and some SSOs have made changes e.g. BEB and Centrica Storage Limited (CSL) are now publishing prices for standard units under a negotiated access regime. However, the extent of implementation throughout the major EU energy markets unclear. In particular the effectiveness of the guidelines where separation is less strict remains seriously in doubt.

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?

Access to sufficient production flexibility only occurs when it makes economic sense for producers to turn down production. This rarely occurs as it requires:

- a) a sufficient differential between winter and summer gas prices and
- b) gas prices are not so high that producers feel that their best option is to take the money now.

It should also be recognised that the physical operation of storage for anything up to 30 days a year, and more in some parts of Europe is never going to be matched by production operations. During the winter months all production is likely to be at the physical maximum.

Long-term contracts only offer limited flexibility for the same economic reasons as production.

Lack of access to capacity on the Continent means that flexibility to the UK is not available as imports.

The "On the Day Commodity Market" (OCM) in the UK provides short-term flexibility in which large consumers can also bid in to reduce demand. This is possible due to the existence of a hub and the existence of a liquid wholesale market.

Liquid wholesale markets with summer-winter price differentials do not exist on the Continent. Instead, Gas Prices remain unduly influenced by the oil price due to long-term contractual linkages. The absence of liquid wholesale markets, difficulty in obtaining transportation capacity and in particular a lack of short-term services, mean that access to alternative sources of flexibility are either very limited or where they do exist they are not a sufficient substitute for storage to meet suppliers' and traders' needs.

Access to both storage and alternative flexibility on a competitive basis remains a real barrier to entry in most Continental markets.

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)?

Whilst cosmetically there appear to have been some changes to access to necessary TPA services, EFET observes that in practice it remains extremely difficult for new entrants to access storage on the Continent.

In the UK the GGPSSO has not led to any substantive change because those service providers already meet most of the requirements of the GGPSSO. Those SSOs that previously provided a good range of services e.g. Scottish and Southern, continue to do so but for those Continental storage services where capacity is booked out for several years there is no real practical change.

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)?

On the Continent, storage remains heavily booked through existing arrangements. Some storage operators still claim to be 100% sold out for many years, in at least one case for more than the next 20 years! It is not known if these arrangements are in any way compliant with the GGPSSO.

Overall there appears to EFET that there has been very little allocation of capacity to new entrants. Due to lack of transparency it is very difficult to judge and perhaps this is something that could be investigated by the Regulators or the EU Commission.

The ‘less than 3 shipper’ rule is very unhelpful and appears to be used to avoid information on storage capacity being made available.

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)?

Information transparency has improved in several areas, but user confidence in the accuracy and validity of information is low. There is a paucity of historical information about which there is concern that this gives an inherent advantage to bundled incumbents.

EFET is pleased that some capacity information has been placed on storage operators’ websites, but unfortunately this is often very high-level information and we do not know how often this information is validated or updated. There are examples of SSOs stating that information is not being given because they do not have more than 3 storage users, whereas the guidelines emphasise that information must always be provided if there are 3 or more shippers.

A certain level of Information Transparency is important for all storage facilities. All storage operators whether operating under regulated or negotiated TPA, and even those exempted from TPA, should all be encouraged to provide aggregate information in line with the needs of the developing market.

Once a daily traded market exists then user-friendly and non-discriminatory access to accurate short-term information (daily and within-day) becomes essential.

Further information requirements can be properly assessed once the existing guidelines are fully met.

- 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)?**

EFET estimates that well over half of the Continental Storage Operators appear to provide standard contracts on line, but there are indications that the final terms may vary between different storage users.

In the UK, Scottish & Southern, Transco LNG and CSL all provide standard contracts with published conditions. However Scottish & Southern do not publish prices.

- 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)**

EFET is not aware of any improvement, but this is probably more to do with market conditions than the actions taken by SSOs. For example despite the good will of SSOs, several of which have published bulletin boards for secondary trading, difficulty in access to transmission capacity or access to the market in general prevents the effective development of secondary capacity trading.

- 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**

In our view there should be no conflict, however the interpretation of some national requirements in practice are preventing TPA e.g. by limiting access to market participants with retail supply contracts.

- 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**

Standard products offered by SSOs tend to be based on the optimum technical operation of storage facilities and inevitably vary considerably from what storage users need. Several SSOs allow storage users to match their requirements through negotiating changes or additions to the standard arrangements rather than through secondary markets or provision of unbundled services, neither of which are well established yet.

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

A specific obligation to provide daily information, or at least the same level of information as is provided by the connected TSO, and elimination of the less than 3 shipper rule are two essential improvements.

Proper enforcement of the GGPSSO remains a serious issue.