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ERGEG Consultation on Assessment of Capacity Allocation Mechanisms and Congestion Management Procedures for effective Access to Storage and Proposals for the Amendment of the GGPSSO (# E10-GST-09-06)

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Dear Ladies and Gentlemen, dear Mrs Geitona,

EnBW appreciates the opportunity to comment on ERGEG's consultation on its "Assessment of Capacity Allocation Mechanisms and Congestion Management Procedures for effective Access to Storage and Proposals for the Amendment of the GGPSSO". While the necessity remains to specify certain aspects of the previous GGPSSO, the guidelines must reflect the fact that the storage access regime will have to differ somewhat between Member States due in particular to the differences in storage availability and especially in the availability of flexibility alternatives as a whole. A "one-size-fits-all" approach can only harmonize rules up to a certain level without neglecting the historically grown differences e.g. due to geographical constraints in the gas market structure of each individual Member State. In other words the guidelines will have to respect the differences in the national gas markets if the principle of proportionality is taken into account.

Essentially the guidelines should reflect the fact that whilst storage remains an essential flexibility tool in some Member States, storage is simply one of numerous of flexibility instruments that a gas company uses to manage fluctuating demand in other Member States.

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Vorstand:
Hans-Peter Villis (Vorsitzender)
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Public Consultation questions

Question 1: To what extent do you agree that auction is the best allocation mechanism for storage and what will be the implications?

When it comes to the right approach on capacity allocation we believe that a differentiation should be made between unallocated primary (held by the SSO) and already allocated primary capacities (held by the SSO customer becoming secondary capacities when remarketed). Depending on the respective perspective, different allocation approaches should be possible.

In the case of primary capacities different allocation mechanisms can be considered as adequate depending on whether capacity is scarce or not. In the absence of congestion any allocation mechanism is non-discriminatory and should be possible, including first come first serve, pro rata etc. In cases of bottlenecks, predominantly in countries with less storage opportunities, auctions may be a good allocation alternative.

Considering secondary capacities, capacity holders should principally be free in choosing their allocation mechanisms to make them available on the market.

Question 2: In your opinion, what are the most important aspects regarding transparency that should minimally be addressed by SSOs for both CAM and CMP?

Any information necessary for an efficient access to the storage facility should be disclosed in a transparent, non-discriminatory and easily accessible manner. This applies in particular to the information on technically available and long-term contracted capacity as well as historical data reflecting maximum and minimum fill levels.

Question 3: In your opinion, what is most important when designing UIOLI (including products and contracts) as to leave a storage user the flexibility to use its storage capacity when needed?

As a general rule capacity holders should be free in the optimisation of their capacity subscriptions. Therefore we reject the principle of UIOLI in markets with significant commercial storage volumes and those with a wide range of flexibility alternatives to storage. In this case UIOLI would contradict the aim of storages as flexibility tool per se.

Question 4: In your opinion, to what extent should offered services and terms & conditions on secondary markets be standardised as to improve secondary trade of storage capacity? Is standardisation a way forward to enhance liquidity of secondary markets? What aspects of

secondary markets (products, contracts, etc.) are the priorities to be harmonised?

We see the necessity for minimum requirements for contracts between SSOs and primary capacity users containing standardised items such as specific rights and obligations referring to transfers and assignments as well as subletting. In particular assignments of all or parts of any long term subscription to another credible market participant should not be subject to subjective reasoning by the SSO but subject to objective pre-defined terms and conditions to be met by transferees and transferors. On the other hand primary capacity holders should be entitled to choose between the various marketing options mentioned above.

Question 5: To what extent do you agree that (next to probability of interruption) pay-as-used can be applied as a pricing strategy for storage prices that are not regulated and what other pricing strategies would be suitable? How can pricing strategies incentivise new investment in storage and efficient use of storage?

As a general rule, in the case of negotiated storage access, it should be left to the market to select the adequate products and to find the right prices for them in order to fulfill the needs of the market including new investments and efficient use of storage.

The offer of interruptible services by the SSOs might make more sense in markets with only few flexibility alternatives. The pricing strategy of these interruptible services could be pay-as-used.

In order to avoid misunderstanding we want to differentiate between pay-as-used as a pricing strategy for interruptible capacities as mentioned in the previous paragraph on one hand and for firm capacities on the other hand. A tariff system for firm capacities primarily based on actual storage use would be counterproductive with regard to the objective to incentivise new investment in storage as it cannot ensure sustainable revenues and a reliable planning basis for the SSO.

Question 6: In your opinion, to what extent do you consider that combined products (i.e. storage services offered at virtual hubs) of storage and transport capacities are a useful and efficient service?

One essential precondition for the combination of storage and transport capacities in general (for the creation of combined products or the individual combination by market participants) is the provision of sufficient entry/exit capacities between storages and transmission networks by the TSO's. After these foundations have been laid the design of combined products should be left to the market.

Question 7: In your opinion, what market mechanism (incentive) should be in place to stimulate a storage user to offer any unused capacity on the secondary market?

In our opinion there are no direct incentives needed where a liquid and well functioning storage capacity market exists due to rational behaviour inherent in the market. Therefore capacity users will naturally try to transfer or sublet non-used capacities. However as we have already pointed out above potential obstacles established by SSOs restricting assignments or even subletting should principally be precluded by setting up minimum requirements for contracts between SSOs and primary capacity users. Otherwise the capacity holders could not meet their optimisation requirements. Having a sufficiently large number of independent players being active in the German storage market, capacity hoarding would not be market rational as it would limit revenues. We also have to acknowledge that in the case of the German market, storage capacities are only one among a number of means of flexibility.

Question 8: In your opinion, to what extent is the (cross-border) offering of storage products/combined transport-storage products useful to market parties and what should these products (e.g. minimum requirements) look like?

A main precondition for the cross-border-trade in general is the significant improvement by the NRAs of the coordination and interoperability between different entry-exit-zones in Europe. A harmonised grid access system including nomination and balancing rules is fundamental for using storage facilities in one country to satisfy demand in another one. It goes without saying that the development of hubs in all market zones of the EU is essential for storage users.

The design of (combined) cross-border products should rest on the market. Cross-border-capacities should not be primarily reserved for these products.

Question 9: To what extent do you consider the proposals will facilitate allocation and congestion management of storage capacity? What other measures should be in place?

(9.1) In particular, what possibilities do you see to enhance efficient use of storage, reserved for public service obligations like e.g. strategic storage or other reserved storage? Under which conditions would additional use of such storage as (interruptible) short-term product or remarketing on secondary market be acceptable? Could you give examples from your day-day experience?

(9.2) In particular, what best practice for CAM and CMP should be in place for specific cases when parts of LNG terminal facilities potentially function as storage capacity? Could you give examples from your day-day experience?

9.1 The majority of storages in Germany have been created and reserved by market participants for predominantly commercial use which is in line with the con-

cept of a liberalised European gas market. The development and/or subscription of storage capacities by governmental interventions due to strategic purposes e.g. for supply security reasons would compromise the proper functioning of a liberalised gas and flexibility market. In any event if future regulation foresaw such interventions, transparent rules would have to be laid down to predict the actual requirements for strategic storage capacities, allocation mechanisms and payment obligations as well as compensation systems.

9.2 As stated in Art. 33 para. 2 of the Gas Directive 2009/73/EC the rules regarding the access to storage do not apply to ancillary services and temporary storage that are related to LNG facilities and are necessary for the re-gasification process and subsequent delivery to the transmission system. Therefore capacity allocation mechanisms or congestion management procedures are not applicable.

Question 10: To what extent would you agree NRAs should be endowed with additional competences in developing CAM and CMP?

From our viewpoint NRA's have principally sufficient competences to develop and monitor CAM and CMP. Nevertheless we see the need for further harmonisation and coordination between the regulatory bodies (e.g. in respect of balancing rules) particularly with regard to cross border connections to improve the accessibility of storage facilities.

EnBW hopes that its comments contribute to ERGEG's consultation on its "Assessment of Capacity Allocation Mechanisms and Congestion Management Procedures for effective Access to Storage and Proposals for the Amendment of the GGPSSO".

We remain at your disposal should you have any further enquiries.

Kind regards.

Yours sincerely

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