

ERGEG PILOT FRAMEWORK GUIDELINES ON CAPACITY ALLOCATION ON EUROPEAN GAS TRANSMISSION NETWORKS

A EURELECTRIC Response Paper

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EURELECTRIC RESPONSE TO ERGEG PILOT FRAMEWORK GUIDELINES ON "CAPACITY ALLOCATION ON EUROPEAN GAS TRANSMISSION NETWORKS"

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EURELECTRIC response paper to the ERGEG Pilot Framework Guidelines on “Capacity Allocation on European Gas Transmission Networks”

Introductory remarks

EURELECTRIC welcomes and supports ERGEG’s work on this very topical subject. The presentation of the Pilot Framework Guidelines on Capacity Allocation at last Madrid Forum proved to be successful. Acting today as they were tomorrow’s Agency for the Cooperation of Energy Regulators (ACER), the Regulators demonstrated their commitment to the objective of the liberalization of European gas markets. We recognize the efforts made by ERGEG in preparing the guidelines and appreciate the fact that the procedures set out in the Third Energy Package are already being applied as if the Third Package had already entered into force.

In general, we stress that the target model eventually chosen represents the right approach. This model is based on a long term vision and would allow for a progressive implementation of the new rules, bringing new benefits and ultimately enhancing the internal gas market.

We believe that more efficient capacity utilisations, an increased liquidity and competition in the gas markets, as well as more transparency are both beneficial and necessary for the power sector.

We emphasize that new entrants in the gas markets should be treated in a fair way and they should not experience disadvantages when booking capacity, e.g. any behaviour aiming at blocking the market should be discouraged.

We also stress that some of the rules and procedures used in the electricity markets could be inspiration for similar solutions in the gas markets.

We understand that the Capacity Allocation Framework Guidelines will be the basis for the development of the Network Code developed by the European Network of Transmission System Operators for Gas (ENTSOG). This network code will then be brought to comitology so as to make it legally binding. Since the overall process would require some time, we think it would add value if ERGEG could define and publish a proper implementation schedule for the Capacity Allocation mechanisms.

1. General Rules and Scope of the Arrangements

- *What are your main views of the proposed measures? Do you think Network codes based on these guidelines can achieve non-discriminatory and transparent capacity allocation and the fulfilment of the capacity allocation principles set out in the Third Package of Energy legislation?*
- *What are your views of the implications if each for the measures for sector in which you operate? In particular, we are interested to understand the nature of the implications in a qualitative way (and, if available, any quantitative evidence on costs and benefits would be extremely welcome).*
- *Do you support the scope of the draft framework guidelines proposed?*

EURELECTRIC supports the scope of the draft Framework Guidelines as proposed by ERGEG. We believe that these guidelines, in conjunction with congestion management procedures, should encourage greater trading liquidity and greater competition in gas supply to power stations.

However, we are disappointed that the Framework Guidelines do not specifically state that firm capacity shall be financially firm as we believe that adopting this principle at all cross-border interconnection points will give network users greater confidence that they will be appropriately compensated in the event TSOs do not make capacity available which they have contracted to provide. Whether such compensation is derived from TSOs being required to buy back capacity from network users, TSOs paying network users the difference in price prevailing at adjacent market hubs or TSOs buying gas to meet the nominated flow is immaterial; the principle is that TSOs should be required to pay adequate compensation where they cannot meet their contractual obligations.

2. Adaptation of existing capacity contracts

- *What are in your views of the challenges that existing contractual arrangements create with regard to capacity allocation? What would be the possible ways to overcome those challenges?*
- *Should relevant clauses in existing contracts be amended if they contradict the new legally binding set of rules (which will be based on the framework guideline) in order to create a level playing field for all shippers?*
- *Experts have discussed if existing / legacy contracts should be questioned if certain conditions are met, in order to free up capacity, which would then be reallocated. Do you consider such a proposal appropriate?*

TSOs could face significant challenges in amending existing contract arrangements in line with these Framework Guidelines in 6 months. Furthermore, a new set of rules affecting retroactively all existing contracts could create detrimental effects on market stability and trust. This would affect the availability of market actors (suppliers and shippers) to take on long term commitments, due to the uncertainty involved, and would endanger future investments in capacity.

Therefore, we think it will only be possible to change the relevant clauses of existing contracts on a case-by-case basis if they are in contradiction with the new legally binding rules for unsold capacity unless capacity is withdrawn by way of congestion management procedures, which could restrict the effectiveness of what the Framework Guidelines are seeking to achieve in the short/medium term.

A possible way forward would include regulatory measures that primarily encourage market participants to release the capacity they do not need, e.g. an Open Season would enable market players to adjust the existing contracts.

The adaptation of existing contracts should not lead TSOs to unilaterally modify contracts; any resulting discrepancy among the parties should be facilitated by the relevant Regulatory Authorities. Moreover, this process could have some additional administrative costs and it would be better to specify how these costs will be recovered by the interested parties.

As regards the issue of freeing up capacity, we stress that it should be dealt with by the Congestion Management Procedures that will be adopted directly through comitology.

3. TSO cooperation

- *Is the scope of the identified areas for TSO cooperation appropriate to ensure efficient allocation of cross-border capacity in order to foster cross-border trade and efficient network access?*

Yes, we judge the cooperation among TSOs positive and the identified area for cooperation appropriate.

4. Contracts, codes and communication procedures

- *Should a European network code on capacity allocation define a harmonised content of transportation contracts and conditions of access to capacity?*

Yes, we think that a binding cross border European network code on capacity allocation should state the generic conditions to be included in all transportation/access contracts to ensure harmonisation across all EU interconnection points.

- *Should a European network code on capacity allocation standardise communication procedures that are applied by transmission system operators to exchange information between themselves and with their users?*

Ideally the communication should be standardised. However, this may prove to be difficult to achieve and we do not want this to hold up the development of cross border capacity allocation, or the implementation of such a code. ENTSOG have provided very little visibility of how they intend to standardise communication procedures thus far and we would welcome further information on this.

5. Capacity products

- *What are your views of our proposals regarding capacity products?*
- *Do you agree with the idea of defining a small set of standardised capacity products that do not overlap?*
- *Should TSOs offer day-ahead and within-day capacity products?*
- *Should European TSOs offer the same capacity products at every interconnection point across Europe?*

- *Should TSOs offer interruptible capacity also in cases where sufficient firm capacity is available?*

We do support the proposals made by the Regulators but we would welcome a more clear statement saying that capacity products shall be financially firm. This is not recognized at the moment and we would appreciate a further clarification on it.

TSOs should be allowed to offer the same capacity products, in the same manner and at the same time, at every interconnection point across Europe. But this should not restrict TSOs offering capacity or other services at interconnection points over and above the core capacity products in response to market needs.

Even if sufficient firm capacity is available, its availability as well as congestion may vary over time. Therefore, TSOs should offer interruptible capacity also in case where sufficient firm capacity is available. Such interruptible capacity should be made available subject to a release methodology rather than TSOs discretion. We also believe that unsold firm capacity relating to a particular day should be offered day ahead and within day. Interruptible capacity should be made available at least on a day ahead basis.

In case capacity is booked but it is not used, we point out that the unused quantity should be released to the market again.

6. Breakdown and offer of capacity products

- *Should a reasonable percentage of the available capacity be set aside for firm short term capacity products?*

Yes. It would be probably better to standardise this percentage across all interconnection points.

7. Cross-border products

- *Recital 19 of Regulation (EC) 715/2009 states that gas shall be traded independently of its location in the system. Do you think that cross-border products will facilitate the exchange of gas between virtual hubs of adjacent markets?*

Yes.

- *Do you support full bundling of cross-border capacity into one single capacity product, including a limitation of the possibility to trade at the border so that gas is traded at virtual hubs only in order to boost their liquidity?*

In principle yes, but there may be legitimate reasons why trading at the border is still appropriate, e.g. to manage existing contracts and for backhaul and so this should not necessarily be precluded.

- *Do you consider combined products to be an appropriate interim step towards bundled products?*

Yes. Combining entry/exit capacity and having one TSO allocating it will reduce administrative complexity and be more efficient for shippers, which should help to increase liquidity.

- *Should capacity at two or more points connecting the two same adjacent entry-exit systems be integrated into one single capacity product representing one single contractual interconnection point?*

In principle yes but this may be easier said than done particularly if a number of different TSO networks systems make up one market hub.

8. Capacity allocation

- *Should auctions be the standard mechanism to allocate firm capacity products?*
- *What would be the implications of using auctions for capacity allocation in the markets in which you operate? Is there any way in which auctions can be designed to overcome potential issues resulting from their introduction in those markets?*

Yes, we believe that auctions will ensure that firm capacity is allocated to those parties that value it most. Moreover, applying the same auction process consistently across all interconnection points will ensure network users quickly become familiar with operating the process.

In our sector, namely the supply of gas to power stations, auctions for capacity combined with effective congestion management procedures will enhance liquidity and competition. Suppliers will be able to adopt integrated long and short run procurement/supply strategies throughout Europe rather than the current piecemeal nationalistic approach.

- *Do you support pro rata allocation as an interim step? If yes, should pro rata allocation only be used in given situations or market conditions?*

As regards pro rata allocation, we stress that it invariably results in all parties not getting the capacity allocation they require. Nonetheless, we recognize that it could be used on a case-by-case basis.

9. Re-Marketing Booked Capacity

- *Should the network code define harmonised firm secondary capacity products and anonymous procedures for offer and allocation of secondary capacity products in line with those on the underlying primary capacity market?*

A functioning, flexible secondary capacity market is essential. However, we are not convinced that network codes should define harmonised secondary capacity products or anonymous procedures for offer and allocation as this could restrict the ability of secondary trading platforms to develop in accordance with market needs. Also shippers should be entitled to sell their capacity bilaterally, not via an exchange.

TSOs should be required to facilitate secondary trading by recording trade and adjust each network users capacity holdings accordingly, regardless of whether it was conducted on an exchange or not. TSOs should also facilitate assignment of capacity where the obligations associated with that capacity transfer permanently between users.

10. Booking platforms

- *Do you think that all capacity connecting systems of two adjacent transmission system operators should be allocated via a joint, anonymous, web-based platform?*
- *Do you agree that joint allocation of primary and secondary capacity products on these platforms would strengthen capacity markets?*

The joint, anonymous, web-based platform is likely to be the most efficient method of allocation for users.

Since it could be more complicated and time consuming to implement, we are not convinced that joint allocation of primary and secondary is feasible or necessary. However we would welcome more information as to how this might be achieved.



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