

**EUROGAS RESPONSE TO ERGEG PUBLIC CONSULTATION OF CAPACITY ALLOCATION MECHANISMS AND CONGESTION MANAGEMENT PROCEDURES FOR EFFECTIVE ACCESS TO STORAGE AND PROPOSALS FOR THE AMENDMENT OF THE GGPSSO
REF: E10-GST-09-06**

General

Eurogas welcomes the opportunity to participate in this public consultation which goal is to propose amendments to the Guidelines on Good Practice for Storage System Operators, on the basis of the results of surveys conducted by ERGEG in 2009 and of new legislative measures contained in the "Third Energy Package".

Notwithstanding the right of the Member States in the current legislation to choose between negotiated or regulated third party storage access, both regimes must be equal in terms of non-discrimination, transparency and competition. In particular, transparency of information is crucial for sound decision making by storage users, as well, as for investment decisions for new storage facilities.

Those principles are already laid down in the Directive 2009/73/EC as well as in the current ERGEG Guidelines on Good Practice for Storage System Operators, which Eurogas supports.

Eurogas also supports market based principles such as trading on exchanges. There should not be a disproportionate regulation that can lead to excessive costs without achieving the ultimate goal of a competitive European market at its foundation.

Eurogas would like to point out that in some markets the picture has changed significantly regarding flexibility tools in recent years in a positive direction, for example significant storage capacity has been built (and additional storage capacity is under way) .

Often problems with lack of storage access have been caused by insufficient transmission capacity. Eurogas acknowledges ERGEG's initiatives being carried out on this topic (Transmission network capacity Allocation Mechanisms/Congestion Management Procedures and harmonisation of balancing rules). In recent years, this has already led to a certain degree of integration of national towards regional markets.

Eurogas emphasises that investments into storage facilities must be supported by means of a stable and predictable regulatory environment.

Comments to the questions

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

Eurogas agrees with ERGEG that auctions are the preferred tool when capacity availability is scarce and the market is sufficiently competitive. An Open Subscription Window (OSW) enables the SSO to collect requests for storage capacity over a pre-defined period of time. Upon the determination whether there is a lack of capacity the SSO will call for an auction. Therefore Eurogas considers auctions as the most propitious allocation tool for those markets where there is a scarcity of storage capacity, as they are non-discriminatory and provide every market player an opportunity for available storage capacity.

Eurogas likes to point out that auctioning of storage capacity is not fully established throughout Europe, requiring more time to develop. As described in the consultation

document, there are presently several capacity allocation methods that have advantages or disadvantages, also in relation to the development of an EU electricity and gas market. Eurogas would like to recall that allocation methods other than auctions are currently in place and that these address the market needs in some Member States reflecting their choice given by the Legislation.

The previous consultation documents revealed that it will be difficult to achieve harmonization of storage products and services throughout the European gas market (i.e. similar standard storage services and capacity allocation procedures, similar time horizon of the contracts), thus products will inevitably differ across Europe according to the type of storage and market characteristics.

Although the level of harmonisation of products is not necessarily linked to the scope of this consultation, EUROGAS believes that a certain degree of harmonisation among storage services in Europe would contribute to enhanced market liquidity in the European gas market.

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

Greater clarity of information on procedures, timetable and contracts should be made easily and clearly available on the internet in the national language as well as in English. Publication of information and communication should be in English as well as in the national language.

In order to provide transparency, each SSO should display to the market the following information in addition to the information requirements detailed in the "Third Energy Package":

- a) Available storage capacity information –up to 10 storage years ahead; daily max technically available capacity; daily commercially available capacity; daily booked capacity (always firm and interruptible);
- b) Max daily injection and withdrawal rates;
- c) In aggregated form daily flow levels (in/ and out);
- d) Planned maintenance as far ahead as known by the SSO;
- e) Appropriate notification of unplanned outages (affecting injection and withdrawal rates);
- f) Nomination lead times;
- g) Ancillary services offered;
- h) Causes for FM.

Publication of one or more of the above elements should not lead to disclosure of commercially sensitive information according to the provisions of the "Third Energy Package".

(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?

Eurogas recommends an in-depth analysis on this topic as basic criteria are still missing and offers its experiences of the Eurogas System User Committee to ERGEG in order to investigate and develop how the UIOLI could be set up at EU level.

- (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?*

Of foremost importance is to create a level playing field in the primary market first, i.e. standardized products and allocation mechanisms. Any harmonisation on the primary market will eventually entail similar harmonisations on the secondary market. The focus should be on the standardization of products first in line with the balancing requirement of TSOs and Network Codes. If possible the SSO should offer standardised products consulted with the market.

EUROGAS agrees with ERGEG to stimulate secondary marketing through the use of platforms for storage capacity with harmonized terms and conditions (contracts as well as products).

- (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?*

Although the question is rather unclear, market-based prices provide indications whether investments in the enhancement of existing facilities or in new storage facilities are reasonable. As markets differ widely it should be left to the discretion of the SSO what products and contracts to offer.

In the future, long term storage contracts should remain not only from a security of supply point of view but also as they provide stable investment conditions.

Eurogas support a robust and well functioning market which will facilitate a competitive delivery of gas to the end customer.

- (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?*

In general the product design should be left to the SSO, provided market participants have been consulted. Combined products are an advantage to the shipper which only has to deal with the storage operator instead of approaching SSO as well as TSO. It should be up to the SSO to offer such products if there is demand for it but without any obligation.

- (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?*

By means of transparency the SSO should be able to publish unused capacity to a certain extent. Shippers may offer their unused capacity to the secondary market, or by means of storage capacity platforms (see question number 4). The development of secondary markets should be particularly encouraged where storage is the main source of flexibility to balance the system. In other cases where the shipper does not offer unused capacity UIOLI shall apply, subject to further investigation- on the suitable principles.

- (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?*

If requested by the market cross-border products are important to move towards a common European gas market. Although the question is unclear, cross-border combined products

should be offered as an optional product, suitable in the future, covering short term as well as long term needs, subjects to congestion management of the TSOs.

(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?*

Eurogas considers that interruptible storage capacities could facilitate allocation and congestion management procedures.

(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?*

According to legislation strategic reserves as well as PSOs are a matter of individual Member State decision making. Ideally the market should bear the responsibility for security of supply.

(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?*

As far as LNG is concerned, it should be pointed out that there are important differences between countries and regions: in the Western Mediterranean area LNG is the main supply to the market, whereas in Northern Europe LNG is an important option to diversify supplies, although pipeline gas will remain the main source of supply. A regional approach would therefore be the best way to proceed.

There are also important differences between players. Traditional gas and energy companies are the main suppliers to end users and these companies are securing the supply of gas and LNG to the European markets. Traders could also be important to develop new tools and secondary markets, although until now their share of the market is small. Regulation should take into account the differences between these two business models and should prevent cross subsidies between players that could cause market distortion.

As an example Spain is a country characterized by short underground storage and as much as 2/3 of its gas demand met by LNG, therefore, part of the LNG terminal facilities end up function as storage capacity. Modulations allowed by these LNG facilities are a key factor for the development of renewable energies, especially wind.

CAM and CMP measures like cooperation of adjacent TSO or the implementation of secondary markets could be appropriate in the mid-term. However, in the long run, investment in new LNG facilities - either offshore or onshore - should be promoted to avoid CMP whenever there are players ready to cover the investment cost; on the other hand, improvement in the permitting process is one of the main targets to address.

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

Eurogas is of the opinion that it is premature to consider additional NRAs' competences.