



Storengy's response to the ERGEG Public Consultation "Assessment of Capacity Allocation Mechanisms and Congestion Management Procedures for effective Access to Storage and Proposals for the Amendment of the GGPPSSO", Ref: E10-GST-09-06

Storengy welcomes the opportunity to respond to the ERGEG consultation paper regarding the Capacity Allocation and Congestion Management Procedures (CAM&CMP) for storage and would like to contribute to a constructive discussion on this subject. The present response provides both some general remarks as well as answers to the consultation questions. Moreover, Storengy supports the response to the consultation paper submitted by Gas Storage Europe.

General remarks:

Storengy would like to express its support and readiness to discuss ways of facilitating the well-functioning of the storage market in Europe. However, we believe that any such discussions should be characterized by a market-oriented approach and should not lead to overly prescriptive proposals which could eventually stifle competition or affect further development of storage.

In terms of the regulatory framework for storage, the Third Package introduces a wealth of new legally-binding provisions and as such constitutes a major step forward. As part of this Package, the regulation 715 contains provisions regarding Capacity Allocation and Congestion Management Procedures which aim at facilitating the storage market in Europe. However, Storengy regrets to note that in its consultation document, ERGEG makes an upfront assumption that the new Third Package rules regarding CAM and CMP for storage will prove insufficient. This approach seems to us to be biased and not justified. Furthermore, we believe that the GGPPSSO amendments as proposed by ERGEG are premature and in many instances do not take into consideration the technical characteristics which are inextricably linked with the way storage is operated and marketed.

Finally, we would like to note that any discussion on potential enhancement of the regulatory framework for storage necessitates the participation of all involved parties. Yet, we are aware that the surveys carried out by ERGEG among storage users in 2008 and 2009 resulted only in a limited number of responses. This, in turn, risks creating a picture which is not fully representative of users' views. Given this, Storengy would like to reiterate the need for enhanced participation in the consultation debate of all market players.

Answers to consultation questions:

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

Storengy agrees that as an allocation method, auction presents many advantages in terms of its market-oriented character as well as the visibility on price evolution and capacity demand that it offers. As such, we believe therefore, that auction is a good allocation mechanism stimulating market development. At the same time, however, we recognize that auctions may not necessarily be the only solution to be applied across Europe as market circumstances or security of supply considerations may require the use of other, more adequate, allocation mechanisms. The use of auctions could therefore be promoted but should not be legally imposed. Moreover, it is worth noting that auctions can be used in conjunction with other allocation mechanisms. In particular, in systems where Public Service Obligations exist in relation to storage, auctions can be combined with another allocation mechanism allowing suppliers to meet their existing PSOs.

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

Storengy would like to stress its commitment to transparency, which we believe is the cornerstone of market development. As regards CAM and CMP, we believe transparency elements should include the information regarding the applicable allocation and congestion management principles, available products, timelines for capacity allocation procedures and the results thereof as well as the terms and conditions of access to storage, including the rules of the secondary market.

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

Storengy would like to highlight that in the case of gas storage any assessment of the reasons behind the non-use of capacity is arbitrary. This is because the non-utilization of capacity can be attributed to factors other than anti-competitive behavior, for instance weather conditions, security of supply or arbitrage. As a result, the primary storage user should always be entitled to exercise its right of the use of storage capacity. The design of any Use-It-Or-Lose-It mechanism should take this into account and should not lead to restricting the rights of the primary user. It should be pointed out that the regulation 715 already includes an obligation for SSOs to offer any non-nominated capacity on an interruptible basis. The thus designed UIOLI mechanism is the most efficient and non-discriminatory solution giving the possibility for an optimal use of capacity.

- (4) In your opinion, to what extent should offered services and terms and conditions on secondary markets be standardized so as to improve secondary trade of storage capacity? Is standardization a way forward to enhance liquidity of secondary markets? What aspects of secondary markets (products, contracts etc.) are the priorities to be harmonized?**

Storengy is in favor of efficient secondary markets and, like all other SSOs, offers currently to its users the possibility of secondary capacity trading. However, we are uncertain to what extent standardization of secondary markets would trigger greater liquidity. It is important to note that as regards storage products European-wide standardization is simply not feasible due to the varying technical specificities of storage facilities which underlie the way storage is operated and marketed. Any attempts to standardize storage products would be detrimental to the proper functioning of storage facilities and the storage market at large. Should, nevertheless, some degree of harmonization be sought, it should be limited to the processes related to secondary capacity trading. At this point, we would like to, again, stress the need of a robust feedback from storage users.

- (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?**

SSOs should be free to design their pricing strategies that both are compatible with their marketing model and respond to market needs while ensuring that they are non-discriminatory and transparent as regards the conditions applied. "Pay-as-used" for interruptible capacity is one such strategy already applicable by some SSOs. As pricing strategies will naturally evolve with the market development and will take into account investment needs, these should be left fully at the discretion of SSOs. Any potential regulatory interference in this area would be detrimental to the market.

- (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?**

Storengy notes that while the Third Package advocates for further unbundling of activities, ERGEG appears to be promoting bundling of services. This seems inconsistent. Yet, whereas we recognize that combined storage and transportation products could have some added value, their development should be driven by the market and should be pursued by SSOs and TSOs on a voluntary basis. Neither SSOs nor TSOs should not be obliged to offer such combined products as they cannot be held accountable for transport or storage services, respectively.

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

Storengy would like to reiterate the facilitating role that SSOs play today in fostering secondary markets: currently all SSOs offer at least one form of secondary capacity trading; additionally, wider secondary market platforms comprising more than one SSO are at the disposal of the market. Storage users are therefore not impeded from making use of the existing secondary capacity trading schemes. Moreover, as secondary market is customers' market, storage users should, by default, have commercial interest in secondary capacity trading. It is therefore unclear to us what "market mechanism" ERGEG has in mind that could be envisaged to stimulate secondary capacity trading.

(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?

Please refer to the answer to the question (6).

(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?

Storengy is of the opinion that any proposals aimed at modifying or complementing the existing regulatory framework for storage should be well-balanced, objective and non-discriminatory. Storengy believes that the GGPSSO amendments proposed by ERGEG do not fully meet these objectives and fail to take into consideration the technical constraints of storage. We are under the impression that in many instances they are too rigid and, if applied, could undermine the development of storage capacity or affect the proper functioning of the market. Moreover, we note that some of the proposals made by ERGEG seem inconsistent with the current unbundling objectives.

Finally, we would like to emphasize that any new proposals regarding CAM&CMP should be preceded by a robust stakeholder discussion involving all concerned market players. Beyond the aspects mentioned in the present response paper, any such discussion should also recognize that storage is a flexibility tool and that a proper investment climate for storage should be fostered.

(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-to-day experience?

In the case that Public Service Obligations are imposed on suppliers, any use of storage reserved for PSO that could potentially affect suppliers' ability to comply with these



obligations would most likely not be in their interest. As storage system operators are not directly bound by PSOs, any potential proposals in this regards should be first consulted with storage users and should take due account of the existing legal constraints.

(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-to-day experience?

In the case of LNG facilities, access to the portions of those facilities which fall under the definition of a storage facility is not straightforward as physical injection is not possible. As Storengy, we do not have any day-to-day experience in this regard.

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

Storengy believes that the role of NRAs should be to ensure that the criteria of transparency and non-discrimination in the storage market are met, including in the area of CAM and CMP. However, we are of the opinion that SSOs are best suited to develop, in cooperation with users, the CAM and CMP rules taking into account the technical specificities of storage. This should be without prejudice to any possible legal obligations related to security of supply or PSOs influencing on allocation procedures. As a result, we feel that at present a sufficient balance exists between the competences of NRAs and those of SSOs as regards the design of the CAM and CMP. Moreover, we feel that the amendment proposal regarding the extension of the powers of NRAs goes beyond the competences of ERGEG.