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Dear Sir/Madam

## **Capacity Allocation on European Gas Transmission Networks: Pilot Framework Guidelines**

Centrica welcomes the opportunity to comment on the ERGEG consultation on the pilot framework guideline on capacity allocation in gas transmission networks. As a supplier and shipper in the EU gas networks, with gas production, wholesale trading and energy retail activities, we have a close interest in any measures that would help support the optimal allocation and use of gas transmission capacities.

This response is on behalf of the Centrica Group of companies excluding Centrica Storage Ltd. We will submit a separate response on ERGEG's recommendations for congestion management procedures.

### **Scope of the arrangements**

The scope of the framework guideline is restricted to cross-border interconnection points between Member States and adjacent TSOs within Member States. Whilst some aspects of the framework guideline are clearly not applicable to all other relevant entry and exit points (e.g. combined entry/exit products), the process for allocating capacity at excluded points will need to be sufficiently compatible to support the wider objectives of market integration and efficient access to and use of the network. Thus at least some of the principles set out in the Framework Guidelines should also apply to other key interconnection points (e.g. with gas production, storage facilities and LNG re-gasification terminals).

The ERGEG scope is presumably intended to include dedicated gas interconnector pipelines between two Member States – such as IUK and BBL. This should be clarified in text. Further consideration needs to be given to how the framework guideline would

work for interconnectors, in particular with regard to the offer of combined or bundled products.

We suggest that the following is added to F1.1 to cover these points:

## **F1.1 Scope**

The rules in this Guideline apply to **interconnectors and** cross-border interconnection points between two or more Member States as well as interconnections between adjacent entry-exit systems within the same Member States, insofar the points are subject to booking procedures by users. Exit points to end consumers and distribution networks, entry points to supply-only networks, ~~entry points from LNG terminals, and entry/exit points to or from storage facilities~~ are not subject to this Guideline. **The rules in this Guideline shall apply to all other relevant points, including entry points from LNG terminals and production, and entry/exit points to or from storage facilities and non-EU transmission networks insofar the points are subject to booking procedures by users and the rules do not solely relate to inter-TSO activities such as the provision of combined or bundled products.**

**A list of all interconnectors and interconnection points under the scope of the Guideline will be published and kept up to date by ENTSOG. This list should indicate which TSO is appointed as the responsible party for capacity allocation.**

**The rules in this Guideline shall apply equally to allocation of existing and new primary capacity.**

If it is not possible to include relevant points that are not interconnections between EU transmission systems directly into the Guideline at this stage, the following text could be added to the scope instead:

**Transmission service operators shall ensure that capacity allocation procedures at relevant points that are not subject to this Guideline are sufficiently compatible to support market integration and efficient access to the network.**

## **Adaption of existing capacity contracts**

We would like more information on how the adaption of existing capacity contracts would be implemented. It would be helpful if ERGEG could list the typical contract provisions it believes would be affected by this principle before finalising the guidelines.

In some cases we believe amendment would be appropriate. For example, we would support the removal of automatic prolongation arrangements as well as the automatic upgrading of interruptible capacity to firm, since this is tantamount to a FCFS approach.

We do not support the suggestion in the ERGEG document E09-GNM-10-03 on revised principles on CAM and CMP that shippers would have the option of terminating existing contracts. This could have an adverse effect if the returned capacity is not wanted by other shippers and the TSO smears the associated costs over all network users. The objective should be to facilitate the release of capacity where it is constrained e.g. through the improvement of TSO mechanisms enabling secondary trading.

Where amendments are needed it is essential that there is detailed shipper consultation by the relevant TSOs, which should be on a public basis for standard contracts or general terms and conditions.

### **F1.2 Existing contracts**

Following the adoption of a legally binding network code, transmission system operators shall amend all relevant clauses in capacity contracts and/or all relevant clauses in general terms and conditions underlying the capacity contract existing prior to the application of this code in line with the implemented provisions within 6 months after entering into force of the code. **Any amendments shall be made in close consultation with market participants.** Expiring contracts shall not be subject to tacit exclusion.

Our support for contract adaption is restricted to capacity allocation. For example, we do not support the introduction of a general right to restrict existing renomination rights via contract amendment in the context of ERGEG's congestion management proposals. This could harm new and recent market entrants and smaller market participants who rely on this contract flexibility.

### **TSO Cooperation**

We support the proposed text. TSO cooperation over the addition of new or expanded capacity could be included. In this respect, the network code could build on elements of the Guidelines for Good Practice for Open Seasons (GGPOS). It is desirable that some aspects of the current non-binding GGPOS should become legally binding code. We suggest that the framework guideline should also signal that intention – since in practice Open Seasons are a key mechanism for allocating new cross-border transmission capacity.

### **Contracts, codes and communications procedures**

If the scope of the framework guideline is limited to transmission interconnection points between and within Member States, it is important that any requirements listed here do not create loopholes that could lead to non-publication of important data at relevant points that are outside the scope. Data that needs to be published at all relevant points needs to be listed in a separate code, if it is not already covered by the transparency

guideline to be annexed to Regulation 715/2009. The same applies to communication processes for exchanging data between TSOs and users.

The code could set out minimum requirements for market consultation in relation to the resulting capacity allocation framework. For new capacity expansions, this could include some of the market communications that were incorporated in the Guidelines for Good Practice for Open Seasons, adapted to take account of the principles in the new framework guideline e.g. auctions.

## Capacity products

We generally support the text, subject to the continuation of work by ENTSOG and ERGEG in consultation with stakeholders on the detailed definition of standard capacity products.

We agree that there should not be any discrimination between access to the network for transit or domestic transmission purposes. The text could be amended as follows, to clarify that that whilst there should be no separate commercial regime for transit, this does not prevent transmission capacity being used for transit purposes.

The offer and use of separate capacity **products** for transit purposes shall be forbidden.

## Interruptible capacity products

Automatic upgrading of interruptible capacity to firm should no longer be allowed as this is a form of First Come First Served and is potentially discriminatory.

Whilst some TSOs currently offer several classes of interruptibility, the proposed capacity allocation framework would be more effective if there was only one interruptible product or class in each direction at the points covered by the guideline. Having a single class would simplify processes at each point and is more consistent with an auction approach to capacity allocation.

Users need access to information from the TSO to enable them to assess the probability of interruption. This is not fully covered in the latest version of the proposed amendment to the Chapter 3 of the Annex of Regulation 1775/2005 (Transparency Guidelines). The following amendment could be used to cover this, noting that this should also apply to the TSOs' relevant points that are outside the scope of the framework guideline.

The network code shall define the possible reasons of interruption, ~~classes of interruptibility~~, the sequence of how interruptions take place and the methodology to calculate the likelihood of interruption. **TSOs shall provide sufficient data to market participants to allow them to assess the risk of interruption.**

## **Breakdown and offer of capacity products**

We agree that a reasonable percentage of capacity, such as 10%, should be set aside for firm short term products and generally support the proposed text.

## **Cross-border products (combined & bundled products)**

We agree that TSOs should jointly offer combined capacity products, with bundled product a longer term objective. However we believe it is unnecessary and undesirable to eliminate completely the possibility to sell or transfer primary or secondary unbundled entry and exit. Such a restriction would inhibit a TSO's ability to meet the differing needs of gas shippers and could also have negative effects on smaller market participants as well as established capacity holders.

For example, market participants who currently hold capacity on just one side of an interconnection point will need to be able to purchase unbundled capacity on the other side to match their existing position and to be given a reasonable choice of date as to when they do this, reflecting the standard timetable for capacity allocation. The rules should not force existing capacity holders to buy capacity that is not required or otherwise uneconomic.

It is unclear how combined or bundled products would work for interconnections points connected to dedicated interconnector pipelines.

## **Primary capacity allocation**

Auctions have correctly been identified as the preferred method for implementing a common approach to capacity allocation across Europe. We support the proposed approach of allowing the use of pro rata as an interim allocation method only until efficient and fair auctions are practicable.

Allocation processes at the TSOs' relevant points that fall outside of the scope of the framework guideline need to at least be compatible with those adopted at points falling within its scope.

## **Re-marketing booked capacity & Booking platforms**

TSOs should facilitate the process of secondary trading; however, the design of secondary trading products should be driven by the market. Market participants need to retain the right to trade secondary capacity over the counter (OTC); the use of TSO platforms to execute secondary trades should not be mandatory as this would create a risk of excessive charges or other onerous monopoly terms.

This is different from shippers using online tools to register capacity transfers with the TSO. TSOs should provide shippers with the facility to register transfers, including those resulting from OTC capacity trades.

### **Consultation**

The pilot framework guidelines do not include any reference to consulting market participants on the detailed design and operation of capacity allocation arrangements. We support the proposal by EFET that the Framework Guidelines and Network Code should include minimum obligations on transmission system operators to consult market participants during the development, implementation and operation capacity allocation processes. This should include processes for consulting on changes.

For significant new capacity or capacity expansions, consultation processes could use the existing requirements in the Guidelines for Good Practice for Open Seasons.

### **Implementation**

Successful implementation of the Framework Guidelines and Network Code will depend on TSOs having the right incentives in place. This will require the development of appropriate Framework Guidelines on tariffs and for National Regulatory Authorities to make sure that an appropriate incentive regime is in place at a local level.

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We hope that this response has been helpful. If you would like any further clarification please do not hesitate to contact me on 44 7979 567785 or [helen.stack@centrica.com](mailto:helen.stack@centrica.com) .

Yours sincerely

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