



## Response to ERGEG's Public Consultation on the Assessment of Capacity Allocation Mechanisms and Congestion Management Procedures for effective Access to Storage and Proposals for the Amendment of the GGPSSO

---

October 8, 2010

### Who we are

EDF SA is a French corporation involved in the generation of electricity and the supply of electricity, gas and associated services to nearly 28 million customers in France. In 2009, it generated €34 billion sales, representing 400.4 TWh of electricity and 18.5 TWh of natural gas. With an installed capacity of 98.7 GW, mainly nuclear and hydro, EDF SA is the leading provider of efficient and low-carbon energy solutions, with an average 40.8 g of CO<sub>2</sub> per kWh generated.

EDF SA is a new entrant on the French gas market. In addition to its gas supply activity, EDF is currently developing two infrastructure projects: a new storage facility and a new LNG terminal. In its role of storage infrastructure developer, gas supplier but also sponsor of three new gas fired power plants, EDF is interested in any EU guidelines concerning storage and balancing.

### Introduction

EDF welcomes the opportunity to comment both on ERGEG's assessment of Capacity Allocation Mechanisms (CAM) and Congestion Management Procedures (CMP) for effective Access to Storage and on the Amendments to the GGPSSO. EDF of course agrees with ERGEG preliminary statements that storage is an important flexibility tool and that market situations characterized by sufficient or scarce capacity available, have to be considered differently.

Indeed, in order to facilitate the development of competition, storage capacity allocation mechanisms and congestion management procedures shall ensure the maximum availability and the most efficient use under economic and non discriminatory conditions of technical storage capacity. Therefore, It should not create undue barriers to market entry and not prevent market participants, including new entrants, from competing effectively. Storage System Operators (SSOs) shall provide the services needed by storage users on a fair and non-discriminatory basis.

EDF however regrets that this assessment takes place at a time when Member states or national regulators have not yet proposed the criteria to determine whether a regulated or a negotiated access regime should be implemented. Indeed, answers may differ depending on both the applicable regime and the market design.

## General Remarks

In its assessment of capacity allocation mechanisms, ERGEG strongly favours auctions, as a target market-based mechanism which ideally favours transparency and non discrimination, and gives the adequate economic signal. However, as also pointed in the document, auctions require a liquid market with a large number of participants to work efficiently. That will not be the case in all EU countries in the coming years due, on one hand, to the limited number of storage infrastructure and the difficulty to find appropriate geological sites to develop new storage capacities and, on the other hand, to the existence of a number of monopolies and duopolies on storage activities. Moreover, EDF wonders whether the economic signal provided by auctions will be stable enough to enable and support long term and large scale investment in storage infrastructure.

The CGWC mechanism currently applied in France is not devoid of interest especially for shippers who have to fulfill public service obligations and security of supply requirements. This mechanism ensures that each supplier has sufficient access to storage capacity to supply its customers and therefore enables new entrants to access capacity as long as they develop their customers portfolio. This induces a positive effect on competition.

Finally, as far as UIOLI is concerned, EDF believes that, in theory, this mechanism could work for freeing short term capacity but that, in practice, it is not suited to prevent capacity hoarding on the storage market.

## I - The questions raised in the consultation

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

Auctions are in theory the best allocation mechanism to the extent that:

- it is non-discriminatory and transparent ;
- it gives market signals for new investment ;
- capacity is allocated by the willingness to pay ;
- auction price shall reflect the value of flexibility for a storage user.

From a practical point of view, such a mechanism must be chosen and designed carefully. Auctions cannot be applied where shippers have to fulfill public service obligations (for example for residential customers). In this case, EDF deems the appropriate mechanism to be CGWC, at least for the capacities dedicated to these specific customers.

Furthermore the auction mechanism might be relevant

- in case of scarce capacity as it gives an economic signal for investments (even if this can be questioned by the importance of the time needed to develop storages, which can be up to 8 years) ;
- in case of excess of capacity, in a negotiated TPA access context, when the capacity price (with FCFS or CGWC mechanism) is not competitive enough to allocate the whole capacity : in this case an auction mechanism would allow to disclose the right price to maximize the use of capacity.

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

EDF would like SSOs to communicate the data listed hereunder, in order to give more transparency on the price of the capacity and the calculation of capacity allocation.

The following data should be published by the SSO :

- total storage capacity ;
- total capacity available to shippers (which means the total capacity minus the amount necessary for the TSO's missions) ;
- available daily capacity.

A good benchmark would be to consider the publication of data equivalent to the one disclosed for transmission networks.

**(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?**

UIOLI mechanisms should not impose any constraints on shippers which have booked firm capacity. This means, for instance, that a storage operator should not be entitled to ask for a binding injection/withdrawal program for a week in advance for the sole purpose of freeing capacity that he could then sell on the secondary market.

On a day-ahead basis, when the SSO defines its daily injection/withdrawal program, selling interruptible unused capacity appears to be a viable option.

Selling interruptible capacity on a medium term basis could be made possible by relying on historical data and forecast.

**(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?**

Standardisation is a way to enhance liquidity of secondary markets. Storage products have to be comparable in terms of structure (duration, capacity in volume bundled with injection and withdrawal capacity, etc...). Nevertheless it is important not to go too far in terms of standardisation (same products with same specifications for all storages). The specifications of storage products should be as close as possible to the physical capacities of a storage so that the storage assets can still be optimised by the shippers.

Allocation mechanisms for storage capacity should be aligned with the allocation capacity at the interface between transmission network and storage. This bundling of storage and transport capacities would guarantee that transport capacities are available and match the storage capacities. In this way, the exchange of storage capacities on secondary markets would be made easier and without risk.

In order to enhance liquidity of secondary markets, the implementation of combined storage and transport capacities for secondary products should have the priority in terms of standardisation.

- (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?

The price for interruptible capacity shall reflect the difference of value between firm and interruptible capacities. This could be done with a discount settled according to the probability of interruption. But the best pricing method is probably the 'pay-as-used' method. Interruptible capacity is made available by shippers using only a part of their firm capacities and does not correspond to an additional physical capacity but to the optimisation of the existing one. That is why only a variable price - and not a fix one - should be paid for using an interruptible service. Furthermore a 'pay-as-used' pricing method is an incentive for the SSO to maximise the available capacity.

- (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?

Combined storage and transport products could be useful to enhance access of storage capacity to the virtual hub.

Nevertheless creating such products would not have a significant impact in France since - it is EDF's experience - transport capacity is usually available when booking storage capacity. This is true as long as mechanisms for transport and storage capacity management are technically compatible (i.e. matching balancing periods).

- (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?

One of the possibilities is to provide a platform where primary customers can sell their firm capacity on a firm basis to secondary customers, for example through auctions. Nevertheless this will only be efficient if liquidity is high enough, which may well not be the case.

Another option would be to propose a pay-back system that would consist in a (gradual) reimbursement of the capacities released, depending when the capacity has been released.

- (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?

Such combined products would be very useful in some cases to enhance cross-border trade of storage capacity but their setup could face difficulties when combining two balancing areas with different balancing regimes.

Other reliable solutions to increase cross border trade of flexibility exist. For example, EDF, along with five other partners, is developing a private interconnection of storage facilities in Germany with the Dutch market.

**(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?**

It is difficult to optimise storage capacity reserved for public service obligations or strategic storage to the extent that the volume in storage has to be protected in case of default of a supplier to supply the customers. Authorities and regulators must ensure that these public service obligations are defined at a level as low as possible and that the legal constraints are minimized in order to leave shippers the maximum of storage capacity.

Another way to increase the available storage capacity is the implementation of a market-based balancing system. Such a market system would force the TSOs to source their flexibility on the market rather than relying on reserved storage capacity. This capacity could then be offered to the market.

**(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?**

The Gas Directive 73/2009 includes a defined part of LNG facilities in its definition of storage facilities (Article 2 (9)). The storage capacity of such facilities can indeed be used as a flexibility tool, as well as short term storage.

Nevertheless, storage tanks in LNG terminals are first and foremost used as a means to ensure a stable and constant send out for terminal users. This is necessary due to two reasons: on the one hand, unloading LNG cargoes means receiving a substantial volume at once and storage tanks allow this volume to be unloaded rapidly with a subsequent constant send out until the arrival of the next LNG cargo. On the other hand, deliveries of LNG cargoes are irregular and submitted to unforeseeable delays due to climate. Storage tanks allow this irregular delivery not to impact the send out.

Thus, the largest part of storage tanks is not used as a flexibility tool or as a seasonal storage. Moreover the relative part of storage tanks allocated to either "constant send-out" or "storage" is hard to identify and depends on:

- the specific market the LNG terminal is operating in (Spain, for instance, which is lacking storage facilities, relies on its LNG terminals to provide flexibility),
- the number of shippers using the terminal (the more shippers using the terminal, the more important storage capacity is to allow for a flat send-out) and,
- the size of the gas market.

The operator of the LNG terminal is the only one who ultimately has the technical insight for defining whether some storage capacity is available or not. Thus, setting up general CAM and CMP for LNG terminals does not appear to be a way of increasing the utilization rate and efficiency of LNG terminal's storage capacity, which should be left to the LNG operators to manage.

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

The way the negotiated pricing of allocated (CGWC) storage capacity works in France, does not give satisfaction to storage users. Indeed the price is fixed by the storage operator with a lack of transparency (there was an increase of 20% in 3 years with no real justification, which makes the design of offers for the final customer difficult).

That's why EDF had requested many times more information, in application of the criteria of transparency and non-discrimination which are the basis of the European legislation concerning the good functioning of the internal energy market

If the option of a negotiated price is maintained, EDF would be in favor of more NRA's intervention (audit of the price elaboration process for example) in order to guarantee the respect of both these criteria.

## **II - Comments on the proposed amendments to the GGSSO**

- **Concerning the following proposal : 4.1/b**

*"4.1. Allocation of storage capacity shall ... :*

*b. be subject to regular and/or NRA triggered consultation with the market, e.g. concerning the actual design of the allocation mechanism(s)."*

EDF agrees with this proposal but would suggest mentioning the importance of stability for actors. For example, too many changes in the design of the allocation mechanism would be counterproductive.

- **Concerning the following proposal : 4.1/c**

*"c. ensure compatibility (i.e. regarding timing / lead time) with the transport capacity allocation mechanism(s) of the connected TSO(s) and the organization of the gas trading market(s). Consequently, this also requires to align at least a basic set of storage products (with regards to duration and lead time for regular allocation) to transport products."*

EDF agrees on a general basis with this proposal even if in France there is no problem of coordination at the transport/storage interface.

- **Concerning the following proposal : 4.1/d**

*"d. allow for and endorse the development and offer of combined storage and respective transport capacities as one product in order to allow for offering such storage services at the virtual hub."*

Mark-up proposal :

*"d. allow for ~~and endorse~~ the development and offer of combined storage and respective transport capacities as one product in order to allow for offering such storage services at the virtual hub."*

EDF agrees with the principle of allowing combined storage/transport capacities but it should not be a priority.

- **Concerning the following proposal : 4.1/f**

*f. start with an open subscription period (OSP). At least during the OSP, SSO's shall provide all relevant information including specific storage product descriptions, contract durations, (reserve) prices and the conditions for the respective CAM(s) to be applied according to the results of the OSP to the potential customers.*

*The timing of the OSP should be fixed and aligned to the duration of the respective storage contracts.*

EDF agrees with this proposal, especially regarding the publication of all relevant information like reserve prices.

- **Concerning the following proposal : 4.2/f**

*"f. A primary customer makes, at best effort, a timely nomination to the SSO on the capacity that will be used. In case a primary customer, holding a significant part of capacity, has not made a nomination on a specified date, the involved SSO will (since the Regulation 715/2009 says that the SSO must offer unused capacity at least on a day-ahead and interruptible basis) ask this primary customer to relinquish its renomination right by selling back capacity to the SSO and offer the unused capacity on the secondary market on firm basis or SSO will offer non-nominated capacity on interruptible basis."*

EDF agrees with the idea of improving the release of unused capacity. But this system has to be clarified especially in terms of delays (what is meant by "timely" or "specific date"?). This should not allow the SSO to define on his own the conditions and rules of release or loss of shipper's capacities.

- **Concerning the following proposal : 4.2/i**

*"i. Information on the amount of non-nominated storage capacity should be provided by the SSOs on a day-ahead basis and the already sold day-ahead interruptible products. Similar best effort should preferably apply to longer outlooks. The data should be published on a website in time series (both for unbundled and bundled services) preferably close to real-time. Also historical data on (not) booked capacity should be published as to make an estimate of the probability of interruption."*

EDF agrees with this proposal especially regarding historical data used to make an estimate of the interruption probability.

ooOoo