

**GDF SUEZ (GLOBAL GAS BUSINESS LINE) RESPONSE TO ERGEG PUBLIC  
CONSULTATION ON CAM-CMP FOR STORAGE  
REF: E10-GST-09-06**

### General

This response reflects the views of GDF SUEZ as gas storage user (GDF SUEZ Global Gas and LNG business line) and not as storage operator.

The previous consultation documents revealed that storage products will inevitably differ across Europe according to the rules (regulated, non regulated, negotiated/semi-regulated), to the type of storage and to the national/regional gas market characteristics. Harmonisation of products is therefore not the key issue as long as the underlying rules for CAM, CMP, and transparency can effectively contribute to increase market liquidity and integration.

Concerning these rules, there is definitely room for enhancement compared to the current situation and more harmonisation towards best practice is highly needed. But, whatever the capacity allocation mechanisms, a prerequisite for a proper functioning of the storage market in any country and throughout Europe is a stable regulatory framework which is key to stimulate investment and further integrate the European gas market. It is also crucial to make sure that the SSOs set their products and allocate them to the market in the way that best fits with their users' needs while preventing any discrimination between them. **In this respect, allocation of storage capacities shall first ensure that suppliers are able to meet, to the best possible extent, the needs for their existing or anticipated portfolio of end customers protected by Public Service Obligations at a reasonable and predictable price.** Bearing all this in mind, the challenge is to find the proper pace, in each country and all over Europe, towards more harmonisation and market-based mechanisms, without putting at risk investment in TPA-storage, existing contracts and affordable security of supply.

Therefore, GDF SUEZ welcomes this consultation which aims at enhancing the current GPPSSO and is happy to provide its views about the most efficient way to use gas storage as it is, by far, the first flexibility tool on the market.

Globally, GDF SUEZ supports the proposed amendments to GPPSSO. However GDF SUEZ does not fully share ERGEG's views on the current wording and wonders if some detailed provisions are essential or feasible.

### 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?*

GDF SUEZ agrees that auctioning is a non-discriminatory, transparent and market based mechanism. Theoretically, auctioning is also the most efficient way to allocate capacity (highest willingness to pay) and to provide the right signals for investment. Nonetheless, there is also a rationale why the use of auctioning for allocating gas storage capacity is currently not generalized. Drawbacks of auctions lay indeed in possible market failures (lack of integration or competition on the market, either on the users' or on the operators' side, with market participants abusing their market power) and also in a possible higher price volatility that can put at risk suppliers of highly modulated end-users and distort investment signals. Therefore, GDF SUEZ doubts that it would be appropriate, nor efficient, to auction the entire storage capacity in every country. Each country, depending on its market characteristics, available storage capacity, regulation and public service obligations, has to adopt the most appropriate (mix of) allocation mechanisms, in order to reach the desired level of security of supply and

proper market functioning at reasonable cost. Transparency, effectiveness of TPA and elimination of barriers to new entrants should in all cases be monitored and guaranteed by the national authorities or regulators.

According to GDF SUEZ, GGPSSO should reduce the scope of possible CAM. Allocation based on a lottery mechanism should absolutely be avoided, as stated in ERGEG public consultation paper for the amendment of the GGPSSO, and FCFS should be strictly limited, in particular for long-term contracts.

To sum up its views on this question, GDF SUEZ is of the opinion that progress on transparency and efficiency could and should be made, whatever the allocation regime (partly market-based or not market-based), according to the following principles:

- In markets where there is an adequate storage capacity to meet demand (no congestion at the end of the OSW), an open subscription window (OSW) should be applied, in line with and based on transparency requirements of Directive 2009/73/EC. Allocation methods could be auctioning or subscription at negotiated/regulated prices, or a mix of both systems, depending on the booking maturity. Only the capacity not allocated after the OSP could be made available afterwards on a FCFS basis, preferably at a public price (reserve price). Regular additional auctions could also be held throughout the year for the available capacity, especially in case undersubscribed capacity may put at risk the physical performance of the storages.
- In markets with limited access and/or competition in storage capacity, however, access conditions and, possibly also prices (if deemed appropriate) could remain regulated, with the aim to give priority/automatic rights to suppliers of end customers, especially for those protected under Public Service Obligations, and subject to review as the market develops. If adequately designed (marketing of the total capacity each year and regular re-allocation during the year in order to adapt allocated volumes to the real end-users portfolio), pro-rata or Capacity Goes With Customer (CGWC) approaches, could be the most efficient and secure way to allocate scarce capacity and prevent any possible abuse by storage operators. FCFS should be avoided in this case, especially for long term (multi-yearly) products.
- Mixed regimes (pro-rata/CGWC approaches for basic rights ensuring the seasonal balancing of end-users to be protected under the PSO, and auctioning for the remaining capacity, if any) can also be considered and could pave the way to a purely market-based allocation regime when the relevant market seems mature enough. Mixed regimes may be also justified because the situation on the storage market in a country (congested/not congested) may vary from one year to the other, depending on the situation of the flexibility market.

Finally, according to GDF SUEZ, GGPSSO should encourage systems where the whole capacity is marketed each year. But, in such cases, it seems also appropriate that suppliers of end-users get a priority right to subscribe their needs related to PSO at a price known in advance (ie auctioning starting price) before the remaining capacity is auctioned.

The exclusive use of market-based allocation regimes on a national or regional market for the entire storage capacity should only be decided if a thorough cost-benefit analysis has provided sufficient evidence of a mature and competitive storage and flexibility market on the relevant area.

GDF SUEZ considers that appropriate incentives should be provided for SSO to :

- Market the maximum of their capacity on a regular basis (ideally yearly);
- Develop new facilities under TPA which can successfully compete with exempted storages, so that TPA storage remains the rule and not an exception.

As regards auctions, the following principles should in any case be respected in order to maximise their benefits :

- Auctions should be transparent and their rules should be clear. The time frame should be in line with the contracting season or the physical characteristics of the storage (seasonal vs multicycled).
- Auction information should be made public at least 1 month and a half ahead of the auction date.
- Injection or withdrawal capacities and ancillary services should be available for all time frames i.e. yearly, monthly, daily and intra-day. In certain market conditions, a proportion of the yearly products could be auctioned up to a maximum of 5 years ahead.
- It is also important to make sure that only real market players take part in the auction and that the risk of purely speculative behaviour is properly addressed (ex post monitoring).
- The storage gas year should begin the 1<sup>st</sup> of April and finish the 31<sup>st</sup> of March.

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

To ensure that suppliers are able to meet, to the best possible extent, the flexibility needs of their existing portfolio of end customers, information should be communicated to all storage service actual and possible customers via a regularly-updated website.

Public information should be available regarding both the offers and aggregated data about the use of the storage at all time horizons.

Published information should concern :

- Overview of relevant regulations (confidentiality, equal treatment, transparency, priority access if any);
- Methods and timing for allocating storage capacity, if under a " storage rights envelope" giving access to available capacities;
- Characteristics of Storage groups;
- The basic storage service, additional services and the tariffs associated, Operations management (maintenance, nomination's tool...);
- Documents and tools (storage agreement, tool system to help to determine/optimize the storage subscriptions, storage fee calculator...);
- The secondary market.

Aggregated data (daily and historical) about the shippers' use should be:

- Working volumes for each storage group
  - Technical, Commercialised, Subscribed, and available capacities
- Firm withdrawal and injection capacities for each storage group
  - Commercialised, Technical, Subscribed, and available capacities
- Conditional or interruptible withdrawal and injection capacities for each storage group
  - Technical, Commercialised, Subscribed, and available capacities
- Transfer of stored gas
  - Number of registered exchanges, Number of concerned customers
  - Total exchanged quantity of stored gas
- Day-ahead service for each storage group
  - Withdrawals per Quarter, minimum and maximum price
  - Injections per Quarter, minimum and maximum price
  - Unused Withdrawals and Injections
- Historical storage data for each storage group
  - **Inventories and flows day by day for each storage group**
- Planned Maintenance operations as far ahead as possible

Information should always be made available in English on the internet.

- (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?*

GDF SUEZ's opinion is that there are some prerequisites on which market participants should first agree before designing UIOLI mechanisms.

Those prerequisites are:

- clear criteria defining unused capacities,
- the concerned capacities on which UIOLI mechanism shall apply (injection, withdrawal, working volume)

Whereas it is rather easy to determine criteria to define unused capacity on a day ahead basis for withdrawal and injection capacities, this is very challenging if applied to the working volume on medium or long term basis, especially when shippers are obliged to inject or withdraw gas to respect technical constraints (tunnels) imposed by the SSO to maintain the physical performance of the storage. Furthermore, the use of storage is influenced by a variety of external factors: weather conditions, interruption in transportation and other storage facilities, variation of consumption, prices on hubs. As the very purpose of storage subscription is to cover this wide range needs or risks, it is very difficult to determine criteria to define unused capacity, especially with regard to the working volume.

The interest and feasibility of implementing UIOSI/UIOLI rules for longer/medium-term contracts in congested facilities, should be assessed depending on the products maturity, the characteristics of the storage sites (seasonal or multi-cycled), the part of storage capacity made available each year (taking also into account the secondary markets) or any other relevant parameter.

Enhanced transparency by the SSOs may help to improve this matter but it may not be sufficient to succeed in defining objective criteria for unused capacities and to design an effective UIOLI mechanism. Concerning UIOLI for working volume, one could imagine to :

- generalize "forward looking" UIOLI (use must be confirmed before notice period) on congested facilities. The difficulty is to release the capacity in a timeline where it can still be used by other market participants;
- implement UIOLI for long-term booked capacities if the holder of capacities did not fully use its rights, in particular if it has not complied with its obligation of having a minimum stock at the beginning of the winter season or with its "tunnel" obligations. Other criteria could be that, duly informed by the SSO of interested bidders, the holder refused to go on the secondary market without proper justification.

While apparently suitable for seasonal storages, these principles could be difficult to apply to multi-cycled storages, especially for any ex-post UIOLI. It is very difficult to penalize a market player for past behavior, except if one can prove deliberate and/or systematic abuse.

Another option worth exploring, would be that SSO offer working volume (and the associated injection/withdrawal capacity) in the short term on a firm or, more likely, interruptible basis if they have the feeling (based on historical data, weather forecast etc.) that initial capacity holders are late in injecting their gas or will not fill all their capacity. It could even increase the overall security or performance of the facilities. One could question the real interest of the market for such products (there must be a rationale based on market considerations if initial holders do not inject, apart from any consideration of deliberate hoarding) but on the other hand market participants may have different expectations, needs and hedging strategies that leave room for such products. In any case, SSO must guarantee that no market participant uses for free the gas stored by others. New users would have firm withdrawal rights according to their effective stored gas but they would have to empty their capacity in the storage by the end of their booking maturity.

Regarding injection or withdrawal capacity, the principles of UIOSI/UIOLI are GDF SUEZ preferred tool in order to offer unused injection or withdrawal storage day-ahead capacities to the other storage users but only on an interruptible basis.

As storage is the essential balancing tool, it is indeed important for shippers to keep their capacities (injection or withdrawal) on a firm basis, so as to be able to respect their Public Service Obligations or to cope with any unexpected event. Even in more liquid and interconnected markets, and even if well-designed daily balancing regimes are to be generalized, **any restriction, on a day-ahead or intraday basis, on the use of contracted rights must be thoroughly assessed, especially if CMP for transmission capacity would restrict re-nomination rights.**

(4) *In your opinion, to what extent should offered services and terms & conditions on secondary markets be standardized 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?*

In GDF SUEZ's opinion it is not of foremost importance to standardize offered services in the primary market or the secondary market on an European scale, nor to impose bundled products. Only a large variety of products within Europe will enable to create a level playing field allowing the shippers to adapt to their large variety of needs depending on their market positions (trading, industrial customers, retail, power, balancing...). Standardization and harmonization of the products (beside evident elements such as energy units etc.) would probably not meet the needs of the market. Standardization and harmonization should only be considered within the same storage group for primary and secondary markets.

The best way to facilitate secondary marketing is to allow sellers/buyers to trade exactly what they need to sell/buy. To do so, it would be interesting to define only three types of capacity products and allow them to be traded separately if needed (on top of bundled products) : injection capacity, withdrawal capacity and working volume.

This would be the best and simplest way towards expected standardization on secondary markets.

Due attention should also be paid to the way the SSOs could intensify the use of secondary markets by providing additional services (platforms) and be incentivised on the way they offer interruptible products and accurate and timely information on the usable capacity. Technically a harmonized single European platform (or at least one platform per relevant market area or per balancing zone) for storage capacity with harmonized terms and conditions could intensify the use of secondary markets as it would face bids and offers all over Europe.

Also, the question of the price of the filled capacity (gas in store) has to be addressed properly. Administrative price setting for sale of stored gas would probably not give the best incentive to go on the secondary market, maybe with the exception of very unmaturing markets.

(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 incentivize new investment in storage and efficient use of storage?*

Pay-as-used pricing strategy is not yet developed enough to fully assess its implications. In principle it could be a valuable alternative to offering discounts for interruptible products, especially if the probability of interruption is impossible to assess. It may also provide a right incentive for SSO to market the maximum possible capacity. However; this should not be detrimental to the rights of initial capacity holders to fully use on a firm basis the rights they

have contracted and paid for. As stated above, the implementation of an effective UIOLI system for storages is still a challenge ahead and there is little evidence of how it should work. Besides, the real priority to date is to improve CAM for the initial allocation of seasonal storage and allocate on a regular basis as much capacity as possible under these rules, rather than refining products for congested storages.

Given the current "experimental stage" of "pay-as-used" pricing, there should be no obligation for SSO to implement such a pricing strategy for the time being.

Concerning incentives for new investments in storage, as stated above, the key is to provide a regulatory environment stable enough and a predictable revenue, to the best possible extent, in order that SSO can confidently invest in TPA storages. The ideal risk-sharing between operators and users has to be fine-tuned for each project. A look on the regional market is also a condition for optimum and consistent decision-making to be made by national authorities.

*(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?*

First of all, GDFSUEZ considers that TSO and SSO should always offer the following combined products: Injection/exit network capacity and Withdrawal/entry network capacity. It is usually the case but there are still network points where a shipper can get injection or withdrawal firm capacity but only exit/entry interruptible capacity on the transportation network, as a result of separate booking procedures.

Specifically designed combined products of storage and transport capacities to allow SSO to offer storage services at virtual hubs may raise a risk of less available transportation or storage capacity for the market and should not be detrimental to the rights of "real" (mostly seasonal) storage users.

Consequently, GDFSUEZ considers that combined products of storage and transport capacities in order to offer virtual storage at hubs should be offered by the SSO after a market consultation to assess the interest and the proper design of such products. For very short-term to short-term products, the development of liquidity at hubs can already provide the necessary flexibility tools, so that there is no strong evidence that direct access to storage facilities through such combined products or through CMP would really improve the situation.

*(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?*

The best way to stimulate a storage user to offer any unused capacity on the secondary market is to give him the possibility to sell the exact capacities it does not need. As the three main capacities are injection capacities, withdrawal capacities and working volumes, GDF SUEZ's opinion is that those capacities should be separately traded if appropriate. The development of secondary markets could also be activated by the implementation of a harmonized single trading platform as described in response 4. A single platform would have the advantage to centralize all bids and offers.

*(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?*

Combined transport-storage products to allow SSO to offer storage services and cross-border capacities entails a risk of less available transportation capacity as the entire firm withdrawal or injected quantity will be deemed to be transported. Also it raises the question whether the buyer should be obliged to use the bundled transportation capacity as a "transit" with no possibility to deliver the gas before the border. Due to transmission tariffs, it is quite difficult to

get competitive gas out of cross-border storages without creating, somehow, distortions in the tariff design. Conversely, regulators should make sure that no cross-subsidies in the tariff unduly protect national storages against competing adjacent storage facilities. And local investment projects in new storage facilities should be assessed with a regional view, especially when their sponsors apply for TPA exemption. Regulators should make sure that an investment on a adjacent network (with, if necessary, cross-border combined storage-transport products) would not be more efficient.

Finally, GDF SUEZ considers that combined products (storage+ cross-border) should not :

- have negative effects on the available storage or cross-border transportation capacities;
- create market distortions in the tariff setting by artificially making the use of cross-border storage more attractive.

GDF SUEZ doubts that such products would deliver overall benefits in the current market patterns. But it should be, for sure, an issue of concern and a field of cooperation and consistent decision-making for regulators when assessing investments projects or re-designing the tariffs.

*(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?*

Ideally, the market should bear the responsibility for security of supply. That is the reason why GDF SUEZ considers strategic storage as a last resort option which is always detrimental to commercial storage. In our view a well-designed CGWC system with priority rights of suppliers based on their current or expected customers' portfolio offers a much better compromise between the need for supply security and the reliance on the market.

GDF SUEZ hardly sees how a partial use of strategic storage for commercial purpose could be implemented without creating new market distortions, as the very purpose of strategic storage is to keep these volumes away from the day-to-day 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 role of LNG for supply and storage differs widely across Europe. Also do the rules concerning access to the terminals, send-out regimes and durations, sharing of the stored gas between shippers, depending on regulatory objectives (as regards competition and the role of gas in the energy and generation mix), on technical considerations (reliability and performance of the facilities) and on the willingness of the shippers to pay for a given achievable level of flexibility.

Only the facility users shall get access to terminal storage capacity. The challenge is to guarantee fair TPA to these facilities. Effective UIOLI rules for access to terminal capacity are as challenging to design as for underground storages, as the question is less about having access to the capacity than to the gas itself.

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

According to GDF SUEZ, there is no clear necessity for NRAs to be endowed with additional competences for developing CAM and CMP. NRAs should primarily focus on the monitoring of the good implementation of GGPSSO and on the assessment and impact of the existing rules in each country on the market functioning. They should prevent any market abuse and help to find the best trade-offs in order to achieve security of supply, market integration and supportive investment climate, so that TPA storage remains the rule in Europe.

There are other leverages (notably, competition Law, investment framework) for the NRAs against possible capacity hoarding in storages than the setting of intrusive CMP rules that are very challenging to define and could turn out to have more adverse than beneficial effects.