



Trans Adriatic Pipeline

Mrs. Fay Geitona
EREG
Rue le Titien 28
1000 Brussels
Belgium

Your reference: ERGEG / Public consultation CAM
TAP's reference: LT-TAP-EREG-00001
Direct line: +41 41 747 3430
E-Mail: karlpetter.waern@tap-ag.com

Baar, 02.03.2010

Subject: Public Consultation on the Pilot Framework Guideline on Capacity Allocation in European Gas Transmission Networks

Dear Mrs. Geitona,

Please find attached to this letter our comments on the public consultation on the pilot framework guideline on capacity allocation. Although in the project development stage, Trans Adriatic Pipeline has been closely following ERGEG's progress and developments, since our commercial and operational models still under development must comply with European business standards. We also consider cooperation with adjacent TSOs on cross-border issues to be a key element in the success of our project. Therefore, we welcome the opportunity to share our opinions on the consultation topics, and would appreciate ERGEG's consideration of our feedback when defining a Network Code on capacity allocation for European gas transmission networks.

We would welcome ongoing communication with ERGEG regarding the development of the Network Code, as it contains numerous issues that could potentially have a significant impact on our project. Please feel free to contact Karl Petter Waern at karlpetter.waern@tap-ag.com should you require any further information.

Yours sincerely,

Trans Adriatic Pipeline AG


Robert Klein
Project Director


Marija Savova Velkoski
Commercial Manager

1. General

- *What are your main views of the proposed measures? Do you think Network codes based on these guidelines can achieve non-discriminatory and transparent capacity allocation and the fulfillment of the capacity allocation principles set out in the Third Package of Energy legislation?*

TAP considers capacity allocation to be a crucial area of work where an appropriate policy could result in significant improvements for many stakeholders in the gas industry. Adoption of a common Network Code according to these guidelines and implementation by the Member States would be a major step forward toward better harmonization and coordination of capacity allocation, facilitating access to capacity. However, we believe that these guidelines as well as the resulting network should be drafted with a goal of creating the right incentives to promote and support new investments. It is in this context that we have provided our response.

2. Scope of the Arrangements

- *Do you support the scope of the draft framework guidelines proposed?*

Yes, we support the proposed scope. However, we see that some clarification is necessary with respect to newly created capacity, as well as upstream and downstream capacities adjacent to newly created capacity. In particular, we expect the new rules not to apply to TPA exempted infrastructure, which would conflict with the exemption itself. Generally we believe that interconnectors' TPA exempted capacity and adjacent national network capacity should be commercially handled separately. We also believe that special attention should be paid to avoid overlapping or contradiction with other guidelines or business practices approved by other industry associations such as EASEE-gas.

3. Existing contracts

- *What are in your views of the challenges that existing contractual arrangements create with regard to capacity allocation? What would be the possible ways to overcome those challenges?*
- *Should relevant clauses in existing contracts be amended if they contradict the new legally binding set of rules (which will be based on the framework guideline) in order to create a level playing field for all shippers?*
- *Experts have discussed if existing / legacy contracts should be questioned if certain conditions are met, in order to free up capacity, which would then be reallocated. Do you consider such a proposal appropriate?*

As a project pipeline company, we regard regulatory stability as a key element to be able to perform our activity. Any proposal or measure that jeopardizes such stability is in our view an impediment to market needs.

We believe that the Network Code should only apply to contracts that have been agreed after its entry into force. This should not prevent regulators from intervening in case of capacity hoarding. When such situations arise, regulators should intervene by means of appropriate congestion management procedures instead of contract renegotiation.

4. TSO cooperation

- *Is the scope of the identified areas for TSO cooperation appropriate to ensure efficient allocation of cross-border capacity in order to foster cross-border trade and efficient network access?*

Cooperation with existing TSOs is one of the key elements of our project and we welcome any initiative that could enhance it. Harmonization of capacity calculations and maintenance intervals, as well as the exchange of relevant data (when not detrimental to existing confidentiality commitments) is valuable for both operators operating at the same interconnection point. However, a number of issues should be addressed in order to make such coordination effective, e.g. elimination of inconsistencies in gas specification limits, or synchronization of the gas calendar settings (including the start time of gas days). To ensure efficient interoperability, the conditions for cooperation should be established as early as possible, in particular with respect to new infrastructure.

5. Contracts, codes and communication procedures

- *Should a European network code on capacity allocation define a harmonized content of transportation contracts and conditions of access to capacity?*
- *Should a European network code on capacity allocation standardize communication procedures that are applied by transmission system operators to exchange information between themselves and with their users?*

TAP believes that harmonized access conditions and harmonized content of transportation agreements applicable to all gas systems in Europe would facilitate access to cross-border infrastructures. Looking ahead, this might be an appropriate interim step toward the release of a standard template agreement for transportation services. However, whether the draft of a Network Code on capacity allocation is an appropriate place to define harmonized content of transportation contracts is instead more questionable.

Concerning the harmonization of communication procedures, effort should be put on implementing existing standards, and in particular guidelines issued by other associations.

6. Capacity products

- *What are your views of our proposals regarding capacity products?*
- *Do you agree with the idea of defining a small set of standardized capacity products that do not overlap?*
- *Should TSOs offer day-ahead and within-day capacity products?*
- *Should European TSOs offer the same capacity products at every interconnection point across Europe?*
- *Should TSOs offer interruptible capacity also in cases where sufficient firm capacity is available?*

Consistent with the TPA exemption that TAP will apply for, we believe that sufficient capacity should be booked on a long-term basis, since only such agreements provide a long-term forecast for revenues and therefore allow the project to match the financial requirements imposed by banks and investors. However, in general, the definition and offering of products and services (including short-term, backhaul or interruptible) for the regulated capacity should be driven by the interest of the market. In particular, they should be compatible with the products traded on the commodity market. Also, the additional costs associated with marketing and operating these services should be taken into consideration for defining their tariffs.

Regarding provisions for backhaul capacity products, the nature of the interconnection point and technical capability of the associated equipment should be taken into account. These products may not be appropriate for systems directly connected to upstream production facilities. Not all border plants are designed to accommodate low gas flow –even in the original direction- due to the combination between forward and backhaul nominations. Interruptible capacity for a specific interconnection point should be discussed between the adjacent TSOs.

7. Cross-border products

- *Recital 19 of Regulation (EC) 715/2009 states that gas shall be traded independently of its location in the system. Do you think that cross-border products will facilitate the exchange of gas between virtual hubs of adjacent markets?*
- *Do you support full bundling of cross-border capacity into one single capacity product, including a limitation of the possibility to trade at the border so that gas is traded at virtual hubs only in order to boost their liquidity?*
- *Do you consider combined products to be an appropriate interim step towards bundled products?*

TAP supports the allocation and marketing of cross-border capacity through combined products. Adjacent operators should agree on mechanisms to allocate simultaneous exit and entry rights on both sides of an interconnection point, with each operator entering into a separate agreement with the same shipper. We believe that allocation of combined products represents a better option than the full bundling of cross-border capacity, since the latter keeps one of the two adjacent operators outside any commercial relationship with one of its shippers, which isn't appropriate.

8. Capacity allocation

- *Should auctions be the standard mechanism to allocate firm capacity products?*
- *Do you support pro rata allocation as an interim step? If yes, should pro rata allocation only be used in given situations or market conditions?*

TAP believes that auctions are the most market-oriented method of allocating the regulated capacity, to the extent that the auction procedure can ensure a cost-recovery income for operators and does not allow capacity rights to be sold below a minimum price determined by the operator, including costs and revenue.
