

## **EREG Letter to storage users**

### **Monitoring of the implementation of the Guidelines for Good Practice for Gas Storage System Operators (GGPSSO)**

#### **Introduction**

The Guidelines for Good TPA Practice for Storage System Operators (GGPSSO) set out the minimum requirements for the provision of fair and non-discriminatory access to gas storage (in accordance to the Gas Directive<sup>1</sup>). Monitoring implementation of the GGPSSO is therefore important in understanding how access to gas storage is being provided.

The European Commission requested the European Regulators Group for Electricity and Gas (EREG) to monitor the implementation of the Guidelines and report back to the next Madrid Forum on their findings.

This paper seeks views from storage users – be they actual storage users or potential storage users - on how the GGPSSO have been implemented by storage system operators (SSOs).

#### **Invitation to comment**

EREG is committed to open and transparent consultation. The GGPSSO were developed through consultation over a number of months. EREG has already sent out questionnaires in order to collect information from EU Storage System Operators (SSOs) and National Regulatory Authorities (NRAs). These questionnaires are published on the EREG website. Please note that responses to the questionnaires will also be published on the EREG web site at the end of June.

At this stage of the process, EREG would like to consult users, since they are actively participating in the storage market and therefore should provide the best insight as to whether and how the GGPSSO have been implemented or its provisions circumvented. Accordingly, EREG has prepared a list of questions for users.

---

<sup>1</sup> Directive 2003/55/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC

The results from the monitoring process will be crucial in identifying the effectiveness of TPA to storage and areas where the GGPSSO may be improved. Your response to this questionnaire is therefore important to the development of the EU regulatory framework.

Any responses should be received by **25 July 2005**. They should be sent to:

**Pierre-Marie Cussagnet / Claude-Albane Swanson**

Commission de Régulation de l'Énergie

Direction du Gaz

2 rue du Quatre-Septembre

75084 Paris Cedex 02

France

[pierre-marie.cussagnet@cre.fr](mailto:pierre-marie.cussagnet@cre.fr)

[claud-albane.swanson@cre.fr](mailto:claud-albane.swanson@cre.fr)

and/or

**Rosita Carnevalini / Davide Giorgi**

Autorità per l'energia elettrica e il gas

Direzione Gas

Piazza Cavour 5

20100 Milano

Italy

[rcarnevalini@autorita.energia.it](mailto:rcarnevalini@autorita.energia.it)

[dgiorgi@autorita.energia.it](mailto:dgiorgi@autorita.energia.it)

To help ensure transparency, responses to the questionnaire and other documents associated with the GGPSSO will be published by placing them on the ERGEG website (<http://www.erggeg.org>). **EREGEG will take into account any requests to keep information confidential. ERGEG encourages you to separate confidential information from information you are willing to be made public.**

Any questions on this document should in the first instance be directed to Pierre-Marie Cussagnet and/or Rosita Carnevalini (see addresses/email above).

EREGEG intends to publish an initial report on the implementation of the GGPSSO in September 2005, and it expects to present these findings at the next Madrid Forum – therefore, ERGEG intends to issue a final report on implementation after it has an opportunity to consider responses to its initial report and the views of delegates at Madrid.

## Section1: open background questions

*The objective of the monitoring of the GGPSSO is to find out whether and how the GGPSSO have been implemented. Questions addressing the actual compliance with the GGPSSO are presented in Section 2. However, the monitoring should also provide an overall view of the effectiveness of the GGPSSO. Therefore, the questions presented in Section 1 are designed to assess **how** the GGPSSO have been implemented and in particular whether the GGPSSO could be improved.*

### 1.1 Do you believe implementation of the GGPSSO by SSOs has been effective?

The GGPSSO distinguish among requirements to be implemented by April 1<sup>st</sup> 2005 and those to be implemented in the following year.

Most of the requirements of GGPSSO to be implemented immediately, have already been in place in Italy in the last years.

However no other major improvement has been introduced after the approval of the GGPSSO, since storage contracts for the present thermic year were already in force.

Some more developments in line with GGPSSO have been introduced by a recent decision of the Italian Regulator (Del. 119/05 of June 21<sup>st</sup>), to be taken up by the storage operators in short.

### 1.2 Apart from storage services, do you have sufficient access to other sources of flexibility in order to meet your commercial needs (e.g. hubs, production flexibility, import flexibility, long-term contracts, balancing market)? Can these other sources of flexibility be considered as effective substitutes to storage?

Import flexibility and balancing market cannot be considered as substitutes to storage, but only as additional sources of marginal flexibility. In the Italian system, storage is a scarce resource and often the others sources of flexibility are not sufficient to cover modulation needs; in these cases storage provides modulation with the risk to get involved in a system of expensive penalties.

### 1.3 Please indicate if the adoption of the GGPSSO has had a positive impact on TPA services (GGPSSO requirements on “Necessary TPA services”, chapter 3)?

Most of the GGPSSO requirements under ch.3, due to enter in force by april 2005, were already in force in Italian storage contracts.

Specifically the Italian SSO presently offers on the primary market: TPA for storage; bundled services of space and injectability; long term services (= 1 year).

Storage services are consistent with the use of the interconnected gas transportation system.

However the basic conditions for gas storage service set two specified periods for gas injection (from April 1st to October 31st) and withdrawal (from November 1st to March 31st). In addition injection is also possible in the first two weeks of April and in the second two weeks of October.

Counterflow is regarded as a “special service” at negotiated tariffs, which are not cost reflective and very expensive.

In decision 119/05 the Regulatory Authority foresees some improvement in line with GGPSSO.

**1.4 Please indicate if the adoption of the GGPSSO has had a positive impact on storage capacity allocation/congestion management procedures (GGPSSO requirements on “Storage capacity allocation and congestion management”, chapter 4)?**

At present in Italy the lack of adequate storage capacity is one of the main concern.

Secondary market is active and allows storage users to exchange storage space and gas titles without significant extra costs.

In case of final customer switching, the necessary storage space to supply the customer is passed to the new supplier.

However the practical implementation is not easy due to the difficulty first to identify the final customer switching along the chain of customer-wholesalers-shipper and then to agree in transparency on the storage space needed to serve the individual customer (cfr. 1.5).

These conditions were already in force before the adoption of GGPSSO.

**1.5 Please indicate if the adoption of the GGPSSO has had a positive impact on transparency. Would you say that as a user, you are provided with sufficient and timely information in order to gain effective and efficient access to storage facilities? What data would you like to see published? Why would you need this additional information (GGPSSO requirements on “Transparency”, chapter 6)?**

Storage operators publish on their internet site contractual terms and tariffs for the basic and optional services (including penalties and rules for secondary trade), technical information (annual storage capacity, annual peak outflow, plans for the injection phase, etc..), the relevant regulation.

The Italian Authority decision 119/05 requires storage operators to publish on their internet site the whole daily inflows and outflows for week -1. Operators are also requested to disclose within three days, on request of the single customer, his own daily inflows and outflows. These requirements shall be implemented.

Available and contracted capacity are not specified and historical utilization rates are not available.

Since in practice storage capacity assignments are based on the residential volumes served by each shipper, in order to increase transparency, the SSO should publish the reference residential volumes under each delivery points .

**1.6 In nTPA, if the main commercial conditions including the prices for standard services are published, is there consistency between your contract and these published conditions (GGPSSO requirements on “Tariff structure and derivation”, chapter 7)?**

Yes they are consistent.

**1.7 Please indicate if the adoption of the GGPSSO has had a positive impact on secondary trade of storage capacity (GGPSSO requirements on “Secondary market”, chapter 9)**

Storage users may exchange storage space and/or gas storage titles wholly or in quotas, without significant extra costs. The exchange is effective from the first day of the following month, for a minimum period of one month.

A daily pooling rule is available in order to compensate the relative gas position of two storage users.

Storage users may compensate their opposite monthly position ex-post.

These conditions were already in force before the adoption of GGPSSO.

- 1.8 Do you believe that there is a conflict between the requirements of the GGPSSO and national legislation that will materially affect either your interests or your ability to comply with the GGPSSO (GGPSSO Scope and Objective)? Please specify the nature of such conflict**

No, there are no conflicts.

- 1.9 If you have entered into a new storage contract after the adoption of the GGPSSO (18 March 2005), do you believe that there is a conflict between the requirements of the GGPSSO and certain clauses of your contract (e.g. publication of certain data, day-ahead release of non-nominated injectability and deliverability)? Please specify the nature of such conflict**

All storage contracts have been signed after 18 March 2005 and the above answer refer all to them.

- 1.10 Do you believe there are gaps in the GGPSSO? How could the effectiveness of third party access to storage be improved?**

**2 Section 2: monitoring of the implementation of the Guidelines for Good Practice for Gas Storage System Operators (GGPSSO)**

*These questions are designed to monitor implementation of the GGPSSO requirements due to be implemented from 1 April 2005.*

**If you are a customer/potential customers of several SSOs, the questionnaire should ideally be completed for each SSO**

**General**

**2.1 Business name of respondent:** ENEL TRADE

**2.2 Please specify if you are (several answers possible):**

	<i>tick</i>
(a) a production company	<input type="checkbox"/>
(b) a supply undertaking	<input checked="" type="checkbox"/>
(c) a wholesale customer	<input checked="" type="checkbox"/>
(d) a trader	<input type="checkbox"/>
(e) a TSO	<input type="checkbox"/>
(f) a DSO	<input type="checkbox"/>
(g) a final customer	<input type="checkbox"/>
(h) other (e.g. local utility, distribution company, retailer including public services)	<input type="checkbox"/>

**2.3 Please specify if you are:**

	<i>tick</i>
(a) part of the same vertically integrated undertaking as to the SSO to which this questionnaire applies	<input type="checkbox"/>
(b) a company with no relationship whatsoever with the SSO	<input checked="" type="checkbox"/>

- 2.4 If you have ticked the box for question 2.3 (a), can you confirm that there is a document setting out all the terms and conditions relating to storage use by the affiliate company and that this document is used (GGPSSO 1.3)?

	<i>yes</i>	<i>no</i>
	<input type="checkbox"/>	<input type="checkbox"/>

- 2.5 Please provide the name/country of the SSO you are a customer of and to which this questionnaire applies

STOGIT spa/Italy EDISON STOCCAGGIO spa/Italy
--

- 2.6 Do you own storage capacity rights in this storage system (date of reference: 1 April 2005)

	<i>yes</i>	<i>no</i>
	<input checked="" type="checkbox"/>	<input type="checkbox"/>

- 2.7 Please specify if you experienced any refusal of access in this storage system:

	<i>yes</i>	<i>no</i>
(a) before 1 April 2005	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(b) after 1 April 2005	<input checked="" type="checkbox"/>	<input type="checkbox"/>

- 2.8 If the answer is “yes”, what were the reasons for the refusal of access?

Lack of adequate storage capacity to satisfy all user's requirements.
---

- 2.9 For the SSO you are a customer of, please indicate if:

	<i>tick</i>
(a) you have signed the relevant storage code	<input type="checkbox"/>
(b) you have entered into a contract based on a standard storage contract	<input checked="" type="checkbox"/>
(c) you have entered into a contract in the absence of a standard storage contract , or in another sort of arrangement	<input type="checkbox"/>

### **Roles and responsibilities of Storage System Operators**

- 2.10 Please provide details on whether and how you were consulted by the SSO in developing a standard storage contract/storage code (GGPSSO 1.2.b)

<p>Up to now STOGIT standard storage contracts are approved by the Regulatory Authority.</p> <p>Decision 119/05 of the Regulatory Authority defines the main structure of the storage code. The same decision establishes a Committee representing all storage users that should be involved in the definition and update of the storage codes.</p>
---

2.11 Please provide details on the guarantees you were asked to provide with respect to creditworthiness (GGPSSO 1.2.h)

A guarantee that covers 80% of total annual amount for storage space was asked.

**Necessary TPA services**

2.12 Are you obliged through a PSO to book storage capacity?

	yes	no
	<input type="checkbox"/>	<input checked="" type="checkbox"/>

2.13 Would you say that the menu of services offered on the primary market meets your needs, as far as the following criteria are concerned (GGPSSO 3.3, 3.5, 3.7, 3.8):

	yes	no
(a) size of standard bundled units (SBUs) appropriate	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(b) no undue restrictions on the starting date and the prevailing physical flows	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(c) duration of contracts	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(d) price	<input type="checkbox"/>	<input checked="" type="checkbox"/>

2.14 If any of these criteria (question 2.13 (a) – (d)) is not met, please state why. Which improvements would be necessary to meet your demand?

Size of standard services are not appropriate since there is not enough storage space available.

Price for standard service is approved by the Regulatory Authority and, in our opinion, is fair.

Gas is injected in storage from April to October. Withdrawal period is from November to March.

Standard service include the possibility to withdraw gas in April from 1<sup>st</sup> to 15<sup>th</sup> and in October from 15<sup>th</sup> to 31<sup>st</sup>.

According to the present contract for standard service, special services are automatically activated (a-cyclic modulation, counterflow) and price for these services are unduly high ( counterflow - see answer to question 2.16).

The application of GGPSSO and of the Authority decision 119/05 will be an improvement.

2.15 Is there an additional charge if you inject or withdraw at a time of the year when the prevailing physical flows are in the other direction (GGPSSO 3.7)?

	yes	no
	<input checked="" type="checkbox"/>	<input type="checkbox"/>



- 2.16 If the answer is “yes”, is the additional cost “unjustified” or “justified” in your opinion (GGPSSO 3.7)? Please provide details

Counterflow is regarded as a “special service” at negotiated tariffs, which are not cost reflective and very expensive. Counterflow tariffs are applied also to nominal flows (not related to physical flows) and thus are completely independent of the actual cost for storage operators.

- 2.17 What is the timeframe for solving capacity booking requests (based on your experience) (GGPSSO 3.9)?

Annual capacity booking is solved within two weeks .

- 2.18 What is the timeframe for solving other requests (please specify) (GGPSSO 3.9)?

Nominations are solved within one day.

Transfer of capacity rights need at least one week (communication should be sent to the SSO by the 23rd of month m and is active from the beginning of the month m+1)

- 2.19 Does the SSO respond in a time frame compatible with your reasonable commercial needs (GGPSSO 3.9)?

	yes	no
(a) capacity booking requests?	<b>X</b>	<input type="checkbox"/>
(b) other requests?	<b>X</b>	<input type="checkbox"/>

- 2.20 If the answer is “no”, please provide details (GGPSSO 3.9)

**Storage capacity allocation and congestion management**

**2.21 Does the storage capacity allocation mechanism applied by the SSO meet all the requirements below (GGPSSO 4.1):**

	<i>tick</i>
(a) it facilitates the development of competition and liquid trading of storage capacity (GGPSSO 4.1.a)	<b>X</b>
(b) it is compatible with market mechanisms including spot markets and trading hubs (GGPSSO 4.1.a)	<input type="checkbox"/>
(c) it does not create undue barriers to market entry (GGPSSO 4.1.c)	<b>X</b>
(d) it does not prevent new market entrants and companies with a small market share from competing effectively (GGPSSO 4.1.c)	<input type="checkbox"/>
(e) it does not prevent customers from changing suppliers at any time of the year (GGPSSO 4.3)	<input type="checkbox"/>

**2.22 If any of these criteria (question 2.21 (a) – (e)) is not met, please explain why (GGPSSO 4.1)**

Capacity is allocated at the beginning of the thermic year. Capacity rights could be exchanged for a minimum period of one month (see below for details). These procedures allow for a reasonable competition and trading of storage capacity, with no main concern.

However the same procedures do not facilitate spot market and trading at the hub, which need to operate over a very limited time-frame (down to a minimum period of one day).

Since storage is an essential service to gas operators, the access and charge condition on storage impact on the competitive conditions throughout the whole gas chain.

Lack of storage capacity affects more operators that need to rely on sufficient storage such as those with a very variable gas usage along the year (often new entrants and companies with small market share).

Customer switching is allowed at any time of the year. The necessary storage space is passed to the new supplier. However the definition of “necessary space” is not transparent and quite controversial. Besides it is very costly to fill this space in withdrawal period.

Decision 119/05 introduces some improvements in this regard.

**2.23 Do the congestion management procedures applied by the SSO meet all the requirements below (GGPSSO 4.2):**

	<i>tick</i>
(a) they facilitate the development of competition and liquid trading of storage capacity (GGPSSO 4.1.a)	<b>X</b>
(b) they are compatible with market mechanisms including spot markets and trading hubs (GGPSSO 4.1.a)	<b>X</b>
(c) they do not create undue barriers to market entry (GGPSSO 4.1.c)	<b>X</b>
(d) they do not prevent new market entrants and companies with a small market share from competing effectively (GGPSSO 4.1.c)	<input type="checkbox"/>
(e) they do not prevent customers from changing suppliers at any time of the year (GGPSSO 4.3)	<b>X</b>

**2.24 If any of these criteria (question 2.23 (a) – (e)) is not met, please explain why (GGPSSO 4.2)**

In case of congestion in capacity allocation, space is assigned "pro quota". Mechanisms for pro-quota assignment is transparent and follows clear criteria (priority list).

However while suppliers of domestic customers are entitled of a priority right for access to storage space, no priority is assigned to power station suppliers..

Congestion is sometimes solved through secondary services among operators (such as gal parking).

**Transparency requirements**

**2.25 Does the SSO provide you with sufficient and timely information in order to gain effective and efficient access to storage (GGPSSO 6.5)?**

	yes	no
	<input type="checkbox"/>	<input checked="" type="checkbox"/>

**2.26 If the answer is "no", please explain why (GGPSSO 6.5)**

In case of final customer switching, the relevant storage space to be assigned to the new supplier is not clearly defined (cfr. 1.4 and 1.5) .

**2.27 Have you ever made a request to the SSO not to publish some information (please specify which data), because it would harm your commercial interests (GGPSSO 6.2)?<sup>2</sup>**

[confidential]

**Tariff structure and derivation**

***Where regulated***

---

<sup>2</sup> answers to this question will be treated as confidential

2.28 Do you think that the tariff structure of the SSO promotes efficient commercialisation and use of storage (GGPSSO 7.1.d)?

	<i>yes</i>	<i>no</i>
	<input checked="" type="checkbox"/>	<input type="checkbox"/>

2.29 If the answer is “no”, please explain why (GGPSSO 7.1.d-f)

***Where negotiated***

2.30 Charges (GGPSSO 7.2):

	<i>tick</i>
(a) do not restrict market liquidity of storage capacity (GGPSSO 7.2)	<input checked="" type="checkbox"/>
(b) do not create undue barriers to market for new entrants (GGPSSO 7.2)	<input type="checkbox"/>
(c) promote efficiency and facilitates competition in the use of storage services (GGPSSO 7.2.b)	<input type="checkbox"/>

2.31 If any of these criteria (question 2.30 (a) – (c)) is not met, please explain why (GGPSSO 7.2)

Tariff for special services (counterflow, a.cyclical modulation etc..) are called “negotiated” but are actually defined unilaterally by the storage operator.

Counterflow tariff is very expensive and thus hamper an efficient recourse to storage services.

2.32 Are charges negotiated in a time frame compatible with your reasonable commercial needs (GGPSSO 7.2.d)?

	<i>yes</i>	<i>no</i>
	<input checked="" type="checkbox"/>	<input type="checkbox"/>

2.33 If the answer is “no”, please explain why (GGPSSO 7.2.d)

**Storage penalties**

**2.34 Where they are established, storage penalties (GGPSSO 8.2)**

	<i>tick</i>
(a) are proportionate	<input type="checkbox"/>
(b) do not hamper the entry of new participants into the market	<input type="checkbox"/>
(c) are cost-reflective, to the extent possible, whilst providing incentives for the appropriate use of storage capacity	<input type="checkbox"/>

**2.35 If any of these criteria (question 2.34 (a) – (c)) is not met, please explain why (GGPSSO 8.2)**

<p>Penalties are very high and based on ex-post balancing which includes measure errors Users are not in condition to correct properly inappropriate behaviours.</p> <p>Penalties are applied according to a methodology that is not transparent and still controversial.</p> <p>Decision 119/05, once effective, introduces large improvements.</p>
--

**Secondary market**

**2.36 What kind of services can be traded on the secondary market (GGPSSO 9.1) ?**

	<i>yes</i>	<i>no</i>
(a) standard bundled units (SBUs)	<b>X</b>	<input type="checkbox"/>
(b) unbundled services	<b>X</b>	<input type="checkbox"/>

**2.37 Do you trade storage capacity on the secondary market (GGPSSO 9)?**

	<i>yes</i>	<i>no</i>
	<b>X</b>	<input type="checkbox"/>

**2.38 If not, please state why (GGPSSO 9) ?**

	<i>tick</i>
(a) not possible	<input type="checkbox"/>
(b) possible but difficult in practice	<input type="checkbox"/>
(c) not interested in secondary trading of storage capacity	<input type="checkbox"/>
(d) other (please specify)	<input type="checkbox"/>

**2.39 Please provide details on how secondary trading of storage capacity is facilitated by the SSO (GGPSSO 9.1)**

The present conditions for Storage Service allow for a fair secondary market for storage capacity. However actions on this market need to match with (and are bounded by) the contractual conditions for booking and transfer procedures.

- transfer of capacity rights need at least one week (communication should be sent to the SO by the 23rd of month m and is active from the beginning of the month m+1).
- transfer of deliverability follows the above rules as well.
- gas in storage may be exchanged on a daily base, within the month. However usually these exchanges take place before definitive balances are known and as a consequence users are forced to adopt precautionary behaviour, limiting gas exchanges.

Decision 119/05 introduces some improvements.

**Interoperability**

**2.40 Does your SSO ensure interoperability between the storage system and the transmission system (GGPSSO 10.1)?**

	<i>tick</i>
(a) services offered are consistent with those offered by the adjacent TSO	<b>X</b>
(b) operational procedures, such as nominations, are compatible with those of the adjacent TSO	<b>X</b>
(c) re-nomination procedures meet market participants' requirements	<input type="checkbox"/>
(d) relevant storage arrangements are matched in consistency with the balancing requirements of the adjacent transmission system	<b>X</b>
(e) other	<input type="checkbox"/>

**2.41 If any of this item (question 2.40 (a) – (e)) is not met, please provide comments based on your experience (GGPSSO 10.1)**

Since a power pool is active on the electricity market, power station would need to be able to renominate gas both from storage and from the transmission system within the day. This procedure is not allowed.

Moreover gas transmission and storage procedures do not allow to compensate transmission imbalances with gas in storage.