Centrica's response to ERGEG's Public Consultation Paper, Calculation of Available Capacities (AC) : Understanding and Issues

Centrica welcomes this consultation paper, which it believes correctly addresses the main issues surrounding the calculation of available capacities. Network users and other market participants need easy, timely and non-discriminatory access to capacity and flow information in order to plan and carry out their activities.

Given the importance of cross border flows in the EU gas market there needs to be consistency in the methodology behind the calculation of capacity information across Member States. We would therefore welcome the development of capacity calculation guidelines by ERGEG.

We wish to make the following comments on the issues raised in the paper.

- **What is your understanding of transparency and how should greater transparency be achieved? (para. 7)**

More needs to be done by individual Transmission System Operators (TSOs) to comply fully with the minimum requirements in Regulation 1775/2005. The ultimate objective should be access to real-time information on available firm and interruptible capacities and actual flows at all relevant points.

National Grid, the TSO in the UK, could be used as good example of best practice with regard to the level and manner of publication of the information relating to available capacities and their calculation.

We believe that the "less than 3" principle is a barrier to entry and the ultimate objective should be its removal from Regulation 1775/2005.

We welcome the Gas Infrastructure Europe (GIE) initiatives such as the "transparency platform" and "interoperability map", but these depend on the provision of timely and accurate data by individual TSOs.

- **What is your understanding of capacity calculation and how should greater consistency be achieved? (para. 9)**

Centrica would welcome a more coordinated approach among both TSOs and regulatory authorities on the assumptions and methodologies used in the calculation of available capacities.

Capacity information needs to be given for backhaul at each relevant point, as well as for the normal direction of flow.

- **What is your understanding of transportation capacity maximization and how should greater network efficiency be achieved? (para. 10)**

TSOs should be incentivised to maximize utilisation of existing capacity. The various tools available to TSOs to achieve this are discussed later in the consultation paper.

- **The network simulation model used by the TSO to simulate network scenarios for capacity calculation should be adequate and accurate. Is there a need to validate these network models by an independent organization? What should be the role of the NRA? What about any responsibilities and liabilities? (para. 23)**

The model and its assumptions need to be transparent and discussed with the NRA and network users. The assumptions should be reviewed on a yearly basis, as part of an annual public consultation process.

The NRA should be responsible for approving the model's assumptions, methodology and its outputs. An independent organization could be used by the NRA to help validate these models, if for example the NRA does not have sufficient permanent staff with the technical expertise. Making the model (or a simplified version) available to network users would also help with the identification of any errors or other problems with the model.

We would welcome formal ERGEG guidelines on how TSOs and NRAs should share information to ensure that capacity calculations are consistent and reflect developments in neighbouring networks.

The TSO must be responsible for publishing accurate and timely capacity information. The TSO is also responsible for maintaining and developing it network under economic conditions to provide network users with the capacity they need, as set out in the Gas Directive.

- **Would capacity buy-back be an option that TSO may apply in order to guarantee the effective availability of capacity when requested? (para. 28)**

The first priority should be to ensure that the level of baseline capacity is set as high as possible, however we would also encourage the use of discretionary rights by the TSO to sell firm capacity beyond the agreed baseline. The NRA should ensure that the TSO's financial incentives encourage this.

As the document states capacity buy-backs are one of a number of tools that can be used by TSOs to maximize the availability of capacity. Capacity buy-backs could be used as a methodology, however care needs to be taken to ensure that the buy-back rules do not encourage gaming.

- **Are the following requirements adequate? Each TSO should make its OM values and calculation methodology available to the NRA. The OM should be reviewed by the NRA and appropriate updates must be made. What about any responsibilities of the NRA? What type of reviewing process is**

feasible and reasonable? Is it right to stipulate that the NRAs investigate when there is a refusal of capacity request or a complaint but does not approve network scenarios nor calculation methods? Is it right to stipulate that adequate calculation of available capacities must remain one of the core responsibilities of TSOs? (para. 31)

There are different methods for providing OM – indeed OM might be an intermediate stage until a full commercial regime, including market-based balancing, can be implemented.

We support an ex-ante review of the OM by the NRA. The NRAs should be responsible for approving the OM values and calculation methodology, proposed by each TSO. The NRA is best placed to challenge TSOs, who tend to be overly prudent in their OM calculation. The OM and the methodology underlying its calculation need to be published.

The development of pan-EU guidelines would facilitate this process.

- **Security of supply criteria: are the following requirements adequate? …. Any more critical constraints for network scenarios for calculating firm capacity than for which EU legislation exists, have to be reviewed by the NRA and communicated to the market? …. What about any responsibilities of the NRA? What type of reviewing process is feasible and reasonable? (para. 33)**

The Gas Security of Supply Directive 2004/67/EC and the Article 5 of the Gas Directive 2003/55/EC set out the Member State's responsibility for setting and monitoring security of supply standards and ensuring that standards are made transparent. We would expect the responsibility to be largely devolved to the NRAs. However, once set, we would not expect national security of supply criteria to change on a regular basis.

Approval of the OM by the NRA should be on an ex-ante basis.

Care needs to be taken to avoid security of supply standards in one Member State unduly preventing gas flowing across border points in response to market signals – especially were this may have a negative impact on small consumers in other Member States. The NRAs should be primarily responsible for ensuring that national criteria are designed in a way to prevent such situations occurring.

- **The co-existence of different capacity models may not jeopardize the proper and consistent calculation of AC across networks. Are there any likely bottlenecks to guarantee consistency? How could bottlenecks be remedied? (para. 34)**

We support the implementation of entry-exit systems, with large balancing zones e.g. no more than one zone per Member State, as the preferred capacity model. We do not believe that the entry-exit model reduces the amount of firm capacity that can be sold by the TSO.

Sharing best practice by TSOs and NRAs across Member States, including with respect to the implementation of entry/exit models, would help ensure consistency and avoid bottlenecks caused by over cautious calculations. Clearly TSOs and NRAs need to share information on expected flows and capacity developments.

- **Should each TSO make its linepack values and calculation methodology available to the NRA? Should the flexibility requirements be reviewed by the NRA and must appropriate updates be made?**
- **What about any responsibilities of the NRA? What type of reviewing process is feasible and reasonable? Is it right to stipulate that the NRAs investigate when there is a refusal of flexibility services request or a complaint but do not approve the calculation method of linepack and flexibility needs? Is it right to stipulate that adequate calculation of linepack and flexibility needs must remain one of the core responsibilities of TSOs? (para. 35)**

Yes, the TSO should make linepack data and calculation methodology available to both the NRA and network users. Real time information on linepack data should be made available to shippers, along with the system aggregate demand and supply data.

There should be ex-ante approval by the NRA of the flexibility services offered by the TSO. We would see this as part of the ex-ante approval by the NRA of the TSOs standard terms and conditions.

- **Should each TSO make its reliability values and calculation methodology available to the NRA? Should the reliability requirements be reviewed by the NRA and must appropriate updates be made?**
- **What about any responsibilities of the NRA? What type of reviewing process is feasible and reasonable? Is it right to put that NRAs investigate when there is a refusal of capacity request or a complaint but do not approve the reliability requirements nor calculation methods? Is it right to stipulate that adequate calculation of available capacities must remain one of the core responsibilities of TSOs? (para. 36)**

Reliability values and the related calculation methodology should be submitted for approval by the NRA on an ex-ante basis.

The NRA should monitor the level of network reliability and set standards that the TSO is required to meet.

- **ERGEG seeks views whether there are elements which can be agreed within the EU for enhancing the consistency of risk management and liabilities. (para. 41)**

The roles and responsibilities of all market participants need to be transparent.

We agree that some TSOs are more risk averse than others, which has an impact on the level of AC in interconnected networks. We believe that

ERGEG could help improve the level of AC through increased harmonization and sharing of best practice in the implementation of TPA.

- **Is there a need for more evidence and consistency of incident management? (para. 43)**

In principle maintaining supply to domestic consumers should be a priority; however border points must not be discriminated against unduly due to the impact that this could have on domestic consumers in other Member States.

Emergency procedures need to be published. Network users and other market participants should be consulted when these procedures are designed or amended.

- **Is there a need for more evidence and consistency of 'Force Majeure' clauses? What about any contractual clauses going beyond the standard legal definition of force majeure?**
- **How to deal with e.g. planned maintenance? Should TSOs provide back-up capacity for firm contracts and guarantee that the network users can reorganise themselves without bearing extra costs or are contracts still considered firm if contracts may be interrupted for maintenance as specified in the contract? What about the reasonable durations for maintenance?**
- **What about incidences due to negligence of the TSO, including lack of investment? (para. 44)**

It would be useful to have more consistency in the definition of Force Majeure across all TSOs.

TSOs need to ensure that information on planned maintenance is published. The TSO must provide network users and neighbouring network operators (NNOs) with up to date information on the expected duration of both planned and unplanned maintenance.

TSOs should be encouraged to discuss their maintenance plans with network users in advance, to help the TSO time maintenance so that the impact on consumers and the need for mitigating actions by the TSO is minimised.

We would encourage TSOs to back-up capacity for firm contracts to cover maintenance periods where possible.

The Gas Directive gives the TSO a duty to maintain and develop the gas network. The NRA should act on an ex-ante basis to ensure that this requirement is met on a timely basis, rather than waiting for incidents to occur.

- **May financial commitments improve network efficiency? Firm should be firm but what might happen if firm capacity sold cannot be honoured for some reason? (para. 45)**

We recognize that there is always a risk of residual interruption. If this is due to the negligence of the TSO, then the network user should be compensated. Procedures for interruption, e.g. in the case of an emergency should be published and approved in advance

- **Generally, there is a risk that TSOs opt for the very worst network scenario to hedge themselves against problems of liabilities. On the other hand, very worst network scenarios may dramatically drop the AC.**
- **How should guidance on this hedging behaviour of TSOs look like? How can an appropriate equilibrium between liabilities and levels of AC be found?**
- **How should failures of commitments to nominate on TSO's request be dealt with? How should the circumstances where a shipper cannot provide anticipated gas flow that have been relied upon in capacity calculations by the TSO (cf. operational options see section 3.2) be dealt with? Is there a possibility to release TSOs responsibility? (para. 46)**

Public consultation, leading to ex-ante approval by the NRA is needed to avoid the TSO opting for the worst scenario, whilst ensuring that the maximization of available capacity is compatible with the agreed security of supply standards.

The TSO should be responsible for calculating network scenarios and proposing hedging behavior. We would encourage publication of the different scenarios and assumptions used by the TSO. These should be open to challenge by the NRA and network users.

- **Could periodical recalculations be an option?**
- **In the case of periodical recalculations, there may be room to harmonise the period and therefore the dates of AC recalculation (network simulation) throughout the EU. What time period would be reasonable and practical feasible? Annual, quarterly, monthly recalculations? (para 48)**

We would expect individual TSOs to update their AC calculations to reflect any material change in the parameters involved. To ensure consistency a common timetable for periodical recalculations across TSOs networks could be agreed. This should ideally be monthly, but quarterly would be an acceptable minimum.

There will need to be a sharing of assumptions between TSOs during an agreed window prior to the recalculation date – especially with regard assumptions on cross-border flows.

- **No matter whether there are automatic or periodical AC recalculations, should network scenarios be set according to the moment of the year, for instance different sets of network scenarios in summer than in winter; in spring than in autumn for instance? (para 49)**

We would expect AC calculations to reflect seasonality.

- **In a capacity calculation regime where AC are not indicative, how can a situation be avoided where the TSOs chooses the very worst network scenario that may lead to a dramatic drop in the level of AC?**
- **Could guidance on parameter values in the critical scenario be an adequate option? For instance, parameters in the network scenario for which (national) legislation, directives, rules, guidelines, etc. exist are set equal to these values and may not have more critical values (for the calculation of available firm capacity). Secondly, parameter values for network scenarios should be consistent with values in other areas such as network planning, congestion management, security of supply, etc. This parameter setting may avoid that more critical values are used than for which rules exist. (para 50)**

Yes, there should be consistency between the parameter values used for different calculations by the TSOs (network planning, security of supply etc.) Parameter values should be published.

Ideally a number of scenarios should be published, along with a reasoned explanation of the scenario used as the central case by the TSO. As mentioned earlier, the capacity model used by the TSO should be made available to users.

- **Is it feasible to consider the published AC for each point as binding to the TSO? Or should the published AC for individual point be considered as binding but not necessarily the sum of all AC at all points?**
- **How should we deal with the risk that under a binding regime of published AC, TSO's may choose the most critical network scenarios which lead to a dramatic drop of AC? (para. 55)**

Users need to have confidence that the published AC for an individual point accurately reflects the firm capacity that is available for them to book at the time. There could be sum flexibility with regard to aggregated data, but in this case available capacity should only be interchangeable across logically linked groups of points.

The NRA should have responsibility for ensuring that the TSO is not overly cautious in its AC calculations and that the regulatory regime is giving the TSO the correct financial incentives to maximize capacity availability.

- **How to achieve consistency of AC calculation across networks?**
- **How can coordinated network planning and operation solve network inefficiencies like under-utilisation of facilities?**
- **How can coordinated network operation lead to a "network service concept" that crosses borders with maximum assistance between TSOs? (para. 70)**

ERGEG guidelines on AC calculation would contribute towards consistency across networks. For the avoidance of doubt, consistency also needs to be achieved across different networks within an individual Member State.

Improved implementation of transparency measures by individual TSOs, greater hamonisation of transmission services and regular public consultation on network planning requirements would all contribute to greater gas market integration across the EU.

- **How to deal with the potential of shippers themselves to provide capacity by means of signing contracts of the "operational options" type? (para. 76)**

This is a potential tool, but care needs to be taken in attributing a value to such contracts and validating their delivery. Whilst the shipper in question may intend to deliver at a set rate, there will always be a risk that the shipper's supply could be interrupted upstream.

- **Shall such a scheme be subject to review by the NRA? What about any responsibilities of the NRA? What type of reviewing process is feasible and reasonable? (para. 86)**

All the items mentioned in paragraph 86 should be published. The capacity calculation model itself should be published, or at least a simplified version of the model.

It should be the NRAs responsibility to ensure that the TSO is complying fully with its transparency requirements. Publishing the methodology, l assumptions and the model itself allows shippers and other market particpants to challenge potential errors or inconsistencies. The NRA could also contract an independent organisation to validate the TSO's calculations, if the NRA does not have the expertise to do this.

- **Is there a need for such kind of web based simulator? Should it be designed for the whole EU grid? Is such a tool feasible and practical? Should GTE be requested in particular to put forward such a tool to calculate available capacities on a case-by-case basis? Who is liable for this capacity? Which information does the published AC provide if shippers can calculate different values? Is the system blocked while one shipper calculates? (para. 90)**

Network users need access to both:

a) published available capacity data for each relevant point, and separately
b) a copy of the TSO's capacity model, or a simplified version (including the TSOs scenarios and assumptions).

These are distinct products; therefore there should be no need to block the system while one shipper calculates. The published available capacity data needs to be updated on a real time basis to reflect new bookings and expected flows.

We doubt if it would be practical to design a model for the EU grid. It is important that the models allow users to mirror accurately the TSO's calculations. There should be ex-ante consultation on the model and its assumptions, but there should also be a process for any errors identified by network users to be raised with the TSO and NRA.

- **How can consistency be achieved between network design criteria, the capacity calculation method and the definition of congestion?**
- **Convergence of planning and capacity calculation criteria must be an objective, e.g. it would be inconsistent with the applicable planning criteria to evaluate a transmission service request using more extreme events than planned for. Consistency would mean for instance that if the network is designed according the "1 in 20" winters rule, the networks scenario for firm capacity calculation must also use this rule and not for instance a more stringent temperature according to a "1 in 40" winter. (para. 107)**

TSOs should be obliged to follow Guidelines established by DG TREN/ERGEG. If properly implemented, the various Guidelines should promote a coherent approach.