



ERGEG Workshop

Pilot Framework Guideline on Gas Capacity Allocation

02/02/2010



Agenda



Background on POWEO

Capacity Allocation Mechanism

- Key standardization items
- Beyond the gas capacity market

Case study: GRTgaz North-South link

- Context
- Analysis - OSP
- Analysis - Auction

Background on POWEO

New entrant in the French Gas & Power markets



History

- 2002: incorporation
- 2005: first non-residential Gas and Power clients
- 2007: first residential Gas and Power clients
- 2009: 412MW CCGT in operation

Market presence, wholesale markets

- Power
 - France, Germany
 - Infrastructure
 - Germany-France interconnection
- Gas
 - France (GRTgaz, TIGF), Zeebrugge, TTF and NCG
 - Infrastructure
 - Storage capacity in France
 - Transport capacity between GRTgaz North, South and TIGF networks
 - Secured TTF-PEGN and ZEE-PEGN capacity through the joint GRTgaz/Fluxys/GTS Open Season
 - Intends to participate in the commercialization of capacity following GDF Suez commitments

Capacity Allocation Methodology

Key standardization items



POWEO strongly supports the development of a Network code

- Long-term vision
- Interim phases for harmonization will be necessary
- Change in the mindsets is a required step
- NRAs and TSOs should regularly relay ERGEG's work within national working groups

Current system inflates the real capacity demand

- Lack of harmonization: safety margins are built in capacity bookings
- Lack of reliance on natural gas spot markets: capacity covers the theoretical maximum flow
- Contractual congestion vs. physical congestion
- Example of the GRTgaz/Fluxys/GTS Open Season: too much capacity will be built!

Top 3 standardization items

- Capacity Products and Duration
 - Significant fragmentation of capacity markets
 - Long, Medium and Short-term have as many definitions as the number of shippers!
- Bundled products
 - Gas trading at the border is an heritage from the past
 - Won't be achieved in one step
- Capacity Allocation Mechanism
 - One size fits all?
 - Aligning Primary and Secondary markets

Capacity Allocation Methodology

Beyond the gas capacity market



Looking beyond the gas market: learning from the electricity market

- CASC (Capacity Allocation Service Company)
 - 7 TSOs across 5 countries: Belgium, France, Germany, Luxemburg and the Netherlands
 - “single point to implement and operate services related to the auctioning of power transmission capacity on the common borders between the five countries”
 - Not an end-game: ongoing initiative to further develop and improve existing mechanisms
- Highlights
 - Auction as the single capacity allocation mechanism
 - Longest product duration is 12 months
 - Resale mechanism ensures alignment of primary and secondary markets
- Further information: www.casc-cwe.eu

Gas infrastructure vs. Gas market

- Not a competition, but a virtuous circle!
- Portfolio structure: flexibility can come from many sources
 - Storage capacity
 - Transport capacity
 - Market
 - Contractual optionality

Capacity Allocation harmonization is a key milestone towards market integration

Case study : GRTgaz North-South link

Context – OSP with pro-rata on a congested link



GRTgaz North-South link is an interconnection point between 2 balancing zones (and 2 markets)

- Should fall under ERGEG's scope for Capacity Allocation Management
- ERGEG's recommendations should be applied

GRTgaz North-South link is contractually congested

- 230 GWh/d of firm capacities of which :
 - 78 GWh/d are booked on very long term basis by GDF Suez
 - 46 GWh/d (or 20% of overall firm capacities) is commercialized every year, for one year duration
- Last allocation for period 1st April 09 – 31st March 10, under and OSP with pro-rata, showed that:
 - Requests for firm capacities were 17.2 times (respectively 9.2 times) greater than available capacity for the 1st round (respectively the 2nd round) for « Typical Allocation »
 - Requests for interruptible capacities were 3.4 times (respectively 2.8 times) greater than available capacity for the 1st round (respectively the 2nd round)

GRTgaz North-South link is physically congested

- The average daily usage in 2009 was 92% of available reduced capacity

A majority of shippers agree that capacity allocation rules used in 2008 and 2009 were not satisfying

Case study : GRTgaz North-South link

Option analysis: OSP with pro-rata (as in 2009)



Strengths
Guaranteed price Fix revenue for TSO

Weaknesses
Unknown quantity making it difficult to structure a portfolio
Complex mechanism creating uncertainty on bid strategy (expected pro rata factor, risk of over/under allocation, guaranteed or typical option...)
Current rules discriminate between shippers

Opportunities
Guaranteed price allows arbitrage between North and South markets

Threats
Over/under allocation leads to capacity not optimized on the market
Does not foster the development of liquidity in the South
Fragmentation of capacity

Discrimination and risk of over allocation could be mitigated by increasing the number of rounds with small volume each time, all taking place over one day, and without any distinction on license type

Case study : GRTgaz North-South link

Option analysis: Auctions



Strengths
Guaranteed quantity
Provides a valid economic signal for investments
Market-based approach easily understandable for all shippers

Opportunities
Attracts additional shippers, which fosters the development of the liquidity of the French wholesale gas market
No more “chicken or egg” issue: I need capacity to supply clients or I need clients to justify booking capacity?

Weaknesses
Unknown price, potentially high if demand significantly exceeds offer

Threats
Risk of additional/shortfall in revenues for TSO
Risk of price squeeze in case one shipper has leverage

Auction rules need to be defined carefully

Some changes in the TSO revenues regulation would be necessary (for instance, allocation of additional revenues to decongestion investments on N-S link)