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Capacity management @ Cross-Border points

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Network Operating and Capacity management: analysis of the current situation

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Major operating obstacles that prevent efficient capacity management and Networks rules harmonization development:

Most of the IC points in NW European region experience critical cross-border operational issues, which prevent cross-border trading and regional capacity markets development.

▪ Transport and Transit model

- ✓ Entry/Exit versus Point to Point model
- ✓ No Network Operating coordination (Congestion, quality,...)
- ✓ Tariffs design divergence (distance-based, regulated/non-regulated,...)
- ✓ No coordination in Network Plan expansion (Open Season...)
- ✓ Nomination/Confirmation/Allocation processing: daily versus hourly...
- ✓ Fuel Line Losses, shrinkages
- ✓ No coordination on Balancing regime design

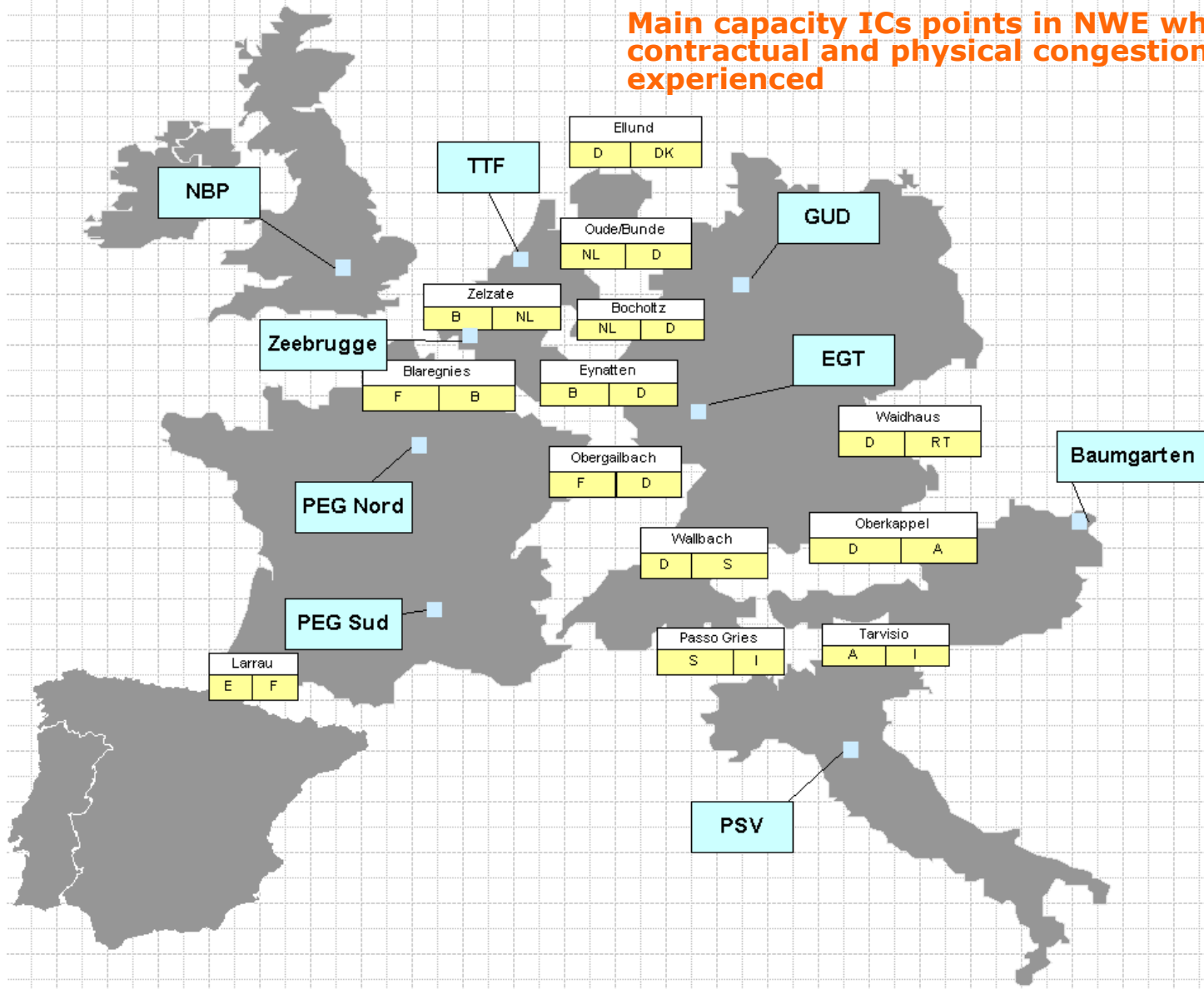
▪ Capacity management

- ✓ Capacity bookings in energy (MWh/d, kWh/h, GJ/d) or in volume (n/s)m³/d
- ✓ Booking methods: Open Subscription, auctions... versus FCFS Booking (Allocation time cycle)
- ✓ Capacity products (Multi Annual, yearly, Monthly, daily capacity ...)
- ✓ Inefficient UIOLI, UIOSI
- ✓ Firm and Interruptible capacity – clear and common definition of Firmness and Interruptibility (Firm, Conditional, interruption levels...)

→ **These issues are partly the causes of transit issues, market distortions and of insufficient liquidity development on gas Hubs**

Cross-border IC Points in NWE

Main capacity ICs points in NWE where contractual and physical congestion is experienced



Benefits of Network Operations harmonization

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Benefits of Network Operating rules harmonization and efficient CAM and CMP:

- **Facilitate Cross border flows and as a consequence Cross border trading**
 - ✓ Improvement of the interoperability of adjacent networks and improvement of the gas transit
- **Enable access to new alternative supply sources and route arbitrage**
 - ✓ Long distance transit is no longer an issue
 - ✓ Route optimization and diversification
 - ✓ Shipping Portfolio development
- **Capacity portfolio development**
 - ✓ Minimize the operational risk of routes congestion (physical and contractual)
 - ✓ Portfolio Equilibrium between Firm / Interruptible and Secondary / Primary capacity bookings
 - ✓ Capacity usage distinction: Hub to Hub arbitrage, firm customer deliveries, storage / LNG activity
- **Contribute to capacity market liquidity development**
 - ✓ Give opportunity to more participants (especially small shippers) to access transit services and cross border capacity
 - ✓ Establishment of Market-based capacity allocation mechanisms
 - ✓ Capacity prices discovery (secondary market)
 - ✓ Capacity traded as a commodity
- **Encourage secondary capacity market development**

Benefits of Cross Border Trading

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Benefits of Cross Border Trading:

- **Cross Border flows consistent with Hubs price-differential**
 - ✓ Gas flows naturally from lower prices- to higher prices-market places
 - ✓ Better control on flows direction and capacity utilisation
 - ✓ Market coupling opportunity
- **Market based balancing mechanism**
 - ✓ Facilitate liquid Network Balancing operation for TSO's and Shippers → should lead to no tolerance regime (UK)
 - ✓ Fair access to storage units for all
 - ✓ Distant supply sources economically viable for balancing action
- **Asset (capacity) backed trading**
 - ✓ Coupled trading: Capacity + Commodity
 - ✓ Wise arbitrage between market sources and Assets portfolio management
 - ✓ → Unused capacity traded or released back to the market (secondary)
- **Development of Capacity trading desks**
 - ✓ Optimized Short term / Long term bookings strategies (no longer capacity hoarding issue)
 - ✓ Traders will take advantage of the tight complementarities of supply means and of demand curves
 - ✓ Hubs trading activity should be boosted by liquid cross border trading development

→ Regional objective and ERGEG principles are paramount to develop fair and flexible cross-border trading provided that capacity is released to the market in an optimal and non discriminatory manner

We fully support the Gas Regional Initiatives projects and ERGEG principles and we think they should be an important step towards the targeted business objectives

- **Major recent improvements**

- **Transparency project: GTE+, commitment of the TSOs**
 - ✓ Development of a centralized TSOs platform publishing the necessary data to assess accurately physical risks and to decide on reliable and economical short term and long term transport trading strategies
 - ✓ Rely on TSOs motivation to release data and accuracy of the data
- **IC points pilot**
 - ✓ Interconnection points targeted in the zone to test new procedures agreed by ERGEG, TSOs and Stakeholders: Bunde Oude, Obergailbach, Blaregnies, Eynatten...

- **...but**

- There is some uncertainty on the success of the project because it is based on the EU 3rd Energy package “go through” and mostly rely on the efficient cooperation between regulators and TSOs.
- This is also a very long process and markets need quicker answers.

Conclusion

- **Harmonization of Capacity Products and transport codes is a pre-requisite for the development of continental Europe's gas markets**
- **Improvements will benefit both TSOs and market participants**

- Harmonization should lead TSOs to better understand the new capacity usage practices (market-based) and to better assess the real need for new capacities
- It should also help TSOs to eradicate hoarding behaviour and consequently to be able to release more capacity to the market in all timescales
- TSOs will promote a more efficient and better usage of the capacity → this will translate into significant economical operating savings
- Market based balancing should also help TSOs to ensure pipes services continuity and security by giving more flexibility and equivalent or better as today guaranty that Gas is always available for balancing (sourcing portfolio will be wider)
- Market participants will have easier access to capacities and will be able to bring more market depth by integrating capacity backed trading to their trading portfolio

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