Congestion Management Procedures

Impact Assessment and draft Commission Proposal

XX. Madrid Forum
27 September 2011

Directorate-General for Energy

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Topics

- Summary of the Impact Assessment
- Headlines of the draft Commission Congestion Management Procedures Guidelines Proposal

Contractual congestion hinders development of an integrated IEM

- Contractual congestion is
  - inhibiting efficient capacity usage in the European gas network
  - puts a barrier on shippers to flow gas from one Member State to another
  - is a significant obstacle to cross-border trade within the EU

It hinders the development of a fully integrated internal energy market that EU consumers should benefit from

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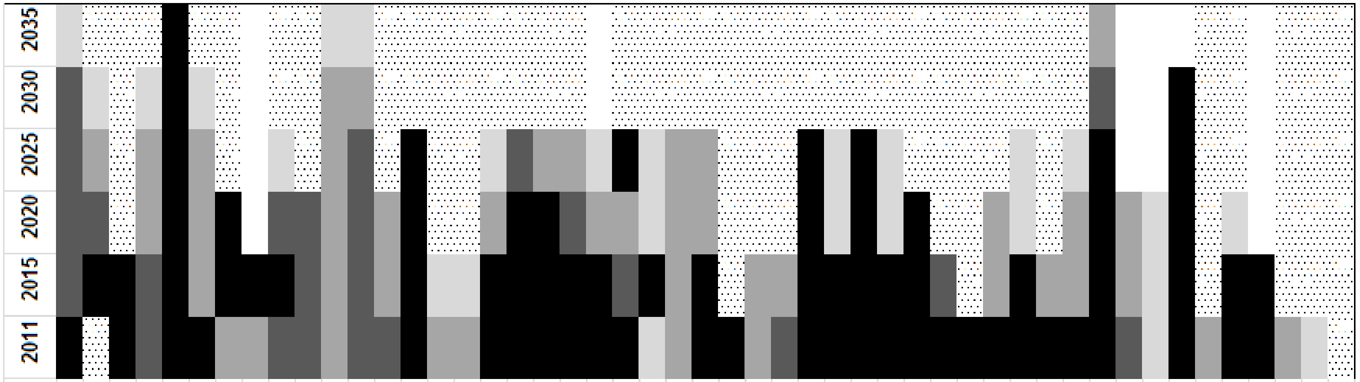
Many pipes are full far into the future, foreshadowing contractual congestion



IP Name	Country	Direction	TSO	Capacity category
Tarvisio	AT>IT	Exit	TAG	large
Blaregnies Segeo	BE>FR	Exit	Fluxys	large
Bacton	BE>UK	Entry	Interconnector	large
Waidhaus	CZ>DE	Entry	GRT. DE	large
Waidhaus	CZ>DE	Entry	OGE	large
Medelsheim	DE>FR	Exit	GRT. DE	large
Bunde	DE>NL	Exit	WIN	large
Bunde	NL>DE	Entry	WIN	large
Julianadorp	NL>UK	Exit	GTS	large
Mallnow	PL>DE	Entry	WIN	large
Baumgarten	SK>AT	Entry	BOG	large
Baumgarten	SK>AT	Entry	TAG	large
Lanžhot	SK>CZ	Exit	Eustream	large
Bacton	UK>BE	Exit	National Grid	large
H. S. Kateřiny	CZ>DE	Exit	N4G	medium
Lanžhot	CZ>SK	Entry	Eustream	medium
Gravenvoeren	NL>BE	Exit	GTS	medium
Bocholtz	NL>DE	Entry	ENI D.	medium
Zevenaar	NL>DE	Entry	OGE	medium
Hilvarenbeek	NL>BE	Exit	GTS	N/A
Winterswijk	NL>DE	Exit	GTS	N/A
Oberkappel	AT>DE	Entry	GRT. DE	small
Oberkappel	AT>DE	Entry	OGE	small
Eynatten	BE>DE	Entry	ENI D.	small
Eynatten	BE>DE	Entry	OGE	small
Eynatten	BE>DE	Entry	Thyssengas	small
Eynatten	BE>DE	Entry	WIN	small
Sidikastron	BG>GR	Entry	DESFA	small
Oberkappel	DE>AT	Exit	GRT. DE	small
Oberkappel	DE>AT	Exit	OGE	small
Eynatten	DE>BE	Exit	ENI D.	small
Eynatten	DE>BE	Exit	OGE	small
Eynatten	DE>BE	Exit	WIN	small
H. S. Kateřiny	DE>CZ	Exit	Ontras	small
Medelsheim	DE>FR	Exit	OGE	small
Bunde	DE>NL	Exit	GUD	small
Bunde	DE>NL	Exit	OGE	small
Lasow	DE>PL	Exit	Ontras	small
Larrau	ES>FR	Entry	TIGF	small
Badajoz	ES>PO	Exit	Enagas	small
Larrau	FR>ES	Entry	Enagas	small
Gorizia	IT>SL	Entry	Geoplin	small
Bocholtz	NL>DE	Entry	OGE	small
Bocholtz	NL>DE	Entry	THY	small
Bunde	NL>DE	Entry	GUD	small
Bunde	NL>DE	Entry	OGE	small
Zevenaar	NL>DE	Entry	Thyssengas	small
Badajoz	PO>ES	Entry	Enagas	small
Gorizia	SL>IT	Entry	SRG	small

Legend for capacity sold:		
100%		
>=90%	and	<100%
>=50%	and	<90%
>0%	and	<50%
0%		
No data		

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Back-up to capacity data

- Capacity data provided by TSOs via ENTSOG according to transparency provisions of the Gas Regulation
  - not all TSOs replied
  - some data seems to be missing
  - some claimed confidentiality on certain data
- Calculations done by ENTSOG and EC
- IPs selected largely on the basis of 2011 ERGEG Monitoring study IPs
- „Capacity category": Size of pipelines categorized based on 2011 firm technical capacity figures (GWh/d)
  - Small: 0-253 GWh/d (253 GWh/d is the median)
  - Medium: 253-409 GWh/d (409 GWh/d is the mean)
  - Large: 409-1870 Gwh/d
- IPs with no 2010 flows were filtered out
- For IP entry-exit pairs capacity reservation data for the more congested (bottleneck) side of the border is displayed

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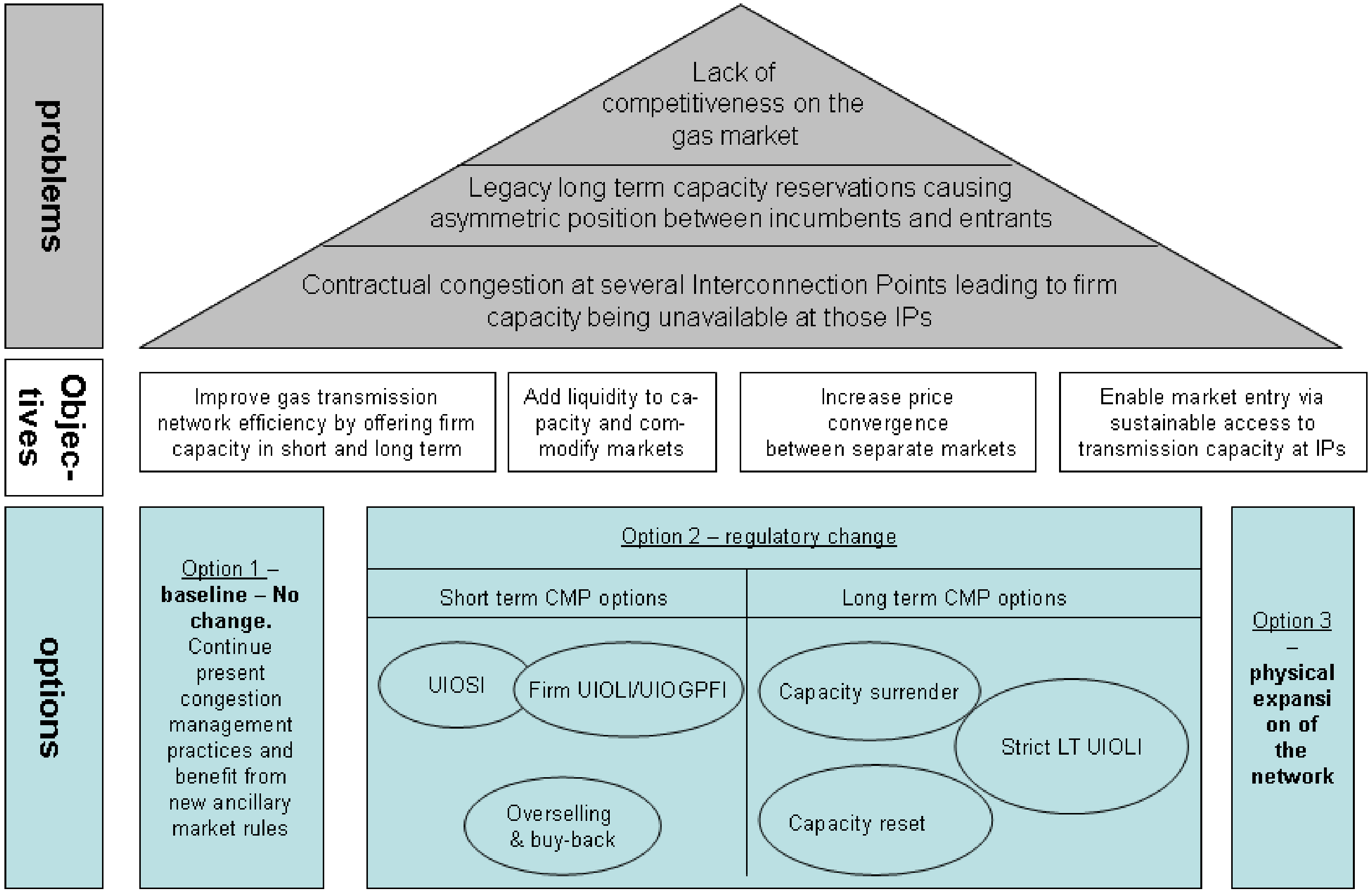
Contractual congestion needs to be eliminated to assure a functioning IEM



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Option 1: No further EU action

- General preference for firm over interruptible capacity due to
  - the risk averseness of the market player and with it the type of business that he is supplying;
  - the physical location of the cross-border point which is largely determinant to the level of flows as compared to capacity; and
  - the stakeholder's ability to resort to other portfolio elements (in particular storage) or to substitute gas with other fuels in the case of an interruption.
- Asymmetrical risk profile of interruptible versus long-term firm remains which will not enable entrants to gain necessary foothold in market
- clear view of market that CAM (capacity platforms, 10% for short term) will be beneficial but not sufficient

Further steps need to be taken to alleviate contractual congestion

Option 2: Regulatory change - Short term measures (1)

- **UIOSI (Use-it-or-sell-it) mechanism:**
  - » close to half of respondents in the Public Consultation favourable;
  - » may only work with strict fining policy and even so ex-post approach is less direct/effective

UIOSI too indirect for general application

Option 2: Regulatory change - Short term measures (2)

- **Firm day-ahead UIOLI/UIOGPFI mechanism** with restriction of renomination rights; very mixed views, many against
  - » *Argument in favour* of a restriction of renomination rights: most effective mechanism to release firm capacity to the day-ahead market
  - » *Counterarguments:*
    - Breach of contractual rights and corresponding flexibility value loss of primary capacity holders;
    - Lack of sufficiently liquid within day capacity and commodity markets that would allow shippers to adjust positions;
    - Genuine need for flexibility to re-nominate in unforeseeable events; and
    - Security of supply concerns stemming from lack of flexibility.
  - » *Proportionality/scope issues*
    - the *extent of the restriction of renomination;*
    - the possibility for *primary capacity holders to be compensated* for the capacity rights they have lost after not having nominated (UIOGPFI) or alternatively the possibility to "*pick up" capacity* not resold late in the day-ahead or within day for free; and
    - *de minimis* rules, which set out that certain players may not have to face the rules of UIOLI.

Firm DA UIOLI may not be appropriate to be applied in general

Option 2: Regulatory change - Short term measures (3)

- **Overselling and Buy-back regime:**
  - Market-based and non-invasive regime (safeguards contractual rights)
  - Works both in short- and long-term
  - Strong majority considering it effective CM measure (more positive of system than firm day-ahead UIOLI)
  - Sophisticated system requiring good network knowledge and intensive inter-TSO/-NRA cooperation (anyway necessary with Third Package implementation)
  - Views split on appropriate geographical scope of application
  - Works successfully in UK and BE

OS+BB market-based system that can be rolled out across the board

Option 2: Regulatory change - Long term measures

- Capacity surrender
  - » TSO could efficiently „package" capacity with other tranches
  - » Allows primary capacity holders to sell capacity more „discreetly"
  - » Firm day-ahead UIOLI may incentivise capacity holders to surrender capacity
- Long-term UIOLI
  - » Careful balance between avoiding capacity hoarding and allowing contracts to be fulfilled
  - » Not easy to successfully implement
- Capacity reset
  - » Very little support for measure in PC
  - » Has little precedence in EU liberalization process

Capacity surrender and LT UIOLI appropriate measures to implement

Option 3: Physical expansion of the network

- Implementation of mandatory or essentially coordinated, regular Open Seasons to fight contractual congestion may provide wrong incentives to market players
  - » may stimulate investments in areas without real physical congestion, channeling investment away from points where capacity is physically needed
  - » solving contractual congestion with this tool would have only a rather long term effect
- Investment is good solution in case of physical congestion but disproportionate when there is none

Physical expansion without physical congestion is disproportionate

CMP proposal

- 1. Scope
- 2. General Provisions
- 3. Oversubscription and Buy-back
- 4. Firm day-ahead UIOLI
- 5. Capacity Surrender
- 6. Long-term UIOLI

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1. Scope and 2. General provisions

- Scope: ALL ICs
- General provisions:
  - TSO's to publish data on contractual congestion (transparency regime)
  - ACER monitoring of contractual congestion
  - If, with OS&BB contractual congestion remains after three years, mandatory firm D-A UIOLI
  - Requirement for strong (cross-border) cooperation between NRAs and TSOs
  - Role of interruptible
  - Role of secondary market

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3. Mandatory overselling and buy-back schemes for all IPs

- TSO to propose and NRA to approve scheme
- Financial incentive scheme to be implemented too cover additional risks
- NRA – in consultation with TSO - may set minimum overselling volume

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4. Optional firm day-ahead UIOLI

- NRA may impose firm day-ahead UIOLI, restricting renominations but no exemption regime shall be granted
- Non-nominated (and non-nominable) capacity shall be sold in the regular capacity allocation process

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5. Capacity surrender

- TSOs to accept surrendered capacity if contractual congestion exists – terms and conditions to detail mechanism
- Surrendered capacity to be sold in regular capacity allocation process

6. Long-term UIOLI

- NRA to request that TSO withdraws (partially or completely) capacity from holder if
  - Capacity requested but not available
  - Holder has not offered capacity on secondary market
  - Holder uses less than 80% during 12 months period or underutilizes during winter month
  - Day-ahead UIOLI no justification
- Surrendered capacity to be sold in regular capacity allocation process