
**EURELECTRIC Response to
ERGEG ‘Principles’
Consultation on: Capacity Allocation
& Congestion Management
in Natural Gas Transmission Networks**

WG Gas



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This paper has been prepared by the WG Gas.

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EURELECTRIC welcomes ERGEG’s initiative on this very important subject. Overall, we believe that internal gas market would benefit from the implementation of the majority of the proposals contained in this paper.

Of particular note are the interesting suggestions on TSO-incentives. Indeed we believe that ERGEG could have gone further and using stronger wording on this issue. Perhaps in the near future ERGEG could provide concrete examples as to how such incentives would work.

One issue which requires clarification is the statement made in G2.1 regarding whether or not there should be separate definitions of transit capacity or not. While we understand that the internal market legislation does not define ‘transit’, it is still a fact that much capacity is booked for transit purposes.

While the reference to ‘10-25 percent of technical capacity’ for short-term capacity (G2.2.1) is a bit arbitrary, we agree with the principle of freeing-up capacity for short-term allocation.

Finally, although the consultation is not based on an impact assessment – which it, perhaps, should be in an ideal world – we do not see the benefit of undertaking a detailed impact assessment at this stage as most of the proposals contained in the paper are quite clear-cut.

1. Do you agree with the problems that ERGEG has identified with capacity allocation and congestion management? Are there other aspects that should be taken into account?

Overall, we agree with the problems identified. However, while electricity and gas markets share a large of number of characteristics, care should be taken (in section 1.2.2 when making one-for-one comparisons.

2. The scope of ERGEG’s principles and of the derived proposals covers bringing capacity to the market where there is currently contractual congestion. Do you agree with this approach?

Yes

3. In principle, European regulators consider FCFS allocation potentially discriminatory. Do you share this view? What do you think about the proposed mechanisms (OSP with subsequent pro-rata allocation or auctioning)?

We do not believe that FCFS allocation is discriminatory *per se*. Indeed it can work in certain contexts, especially where the amount of capacity offered exceeds that demanded. It is also cheaper to implement. However, one main difficulty is how to set prices when using this method i.e. on a cost-plus basis? Overall, in practice allocation using FCFS does not appear to be appropriate where there is contractual congestion. In that case, primary capacity should be sold at its market value and the best, most transparent and non-discriminatory way to establish this value is via (explicit or implicit) capacity auctions.

For large investments in specific infrastructure which are treated as separate from the network (e.g. terminals or large transit pipelines) open seasons with subsequent allocation via an auctioning system is an appropriate instrument.

Due to the risk of congestion, market participants could be tempted to ask for more capacity than their real needs or have for other reasons a higher allocated capacity than their real needs. Therefore, after the first phase of the allocation process, participants with excess capacity should be able (e.g. via web platform of the TSO) to release part of the allocated capacity on the secondary market.

Conversely, while auctioning systems may be more expensive, they probably work better in practice. Likewise they are more in line with market principles. Therefore, on balance, auctioning is better.

4. In your view, what is the future importance of the proposed capacity products (firm, interruptible, and bundled) and of the proposed contract duration (intra-day up to multi-annual)?

The proposals suggested here should improve the single market. Overall there is a good balance between long-term and short-term products.

Market participants should be able to hedge volume and price risks by locking in the price for transporting their gas in similar timescales (multi-annual contracts, annual, month(s) ahead, day ahead... and potentially even intraday). We are in favour of long term subscriptions as capacities are mainly used to supply customers or end users and to fill up storages, whose related contracts are on an annual or multi-annual basis. A small part of short-term products will be useful to offer punctual flexibility in case of peak demand, arbitrage opportunities etc.

Where possible, bundled products are an improvement as they facilitate cross-border booking of capacities.

The offer of interruptible products is also a good way to improve the full use of capacity. But participants need to be able to estimate the risk of interruption; therefore TSOs must explain precisely in which cases these capacities will be interrupted.

5. What is the role of secondary capacity trading?

A functioning, flexible secondary capacity market is essential. For example, as a result of the current recession, there are many companies who are using less gas than previously planned (e.g. car companies etc). These firms – who may wish their supplier to sell some of their capacity – cannot always do so. This is inefficient and results in private losses (due to unnecessary ‘sunk’ costs) and public losses (due to poor use of existing infrastructure and higher-than-necessary prices).

Some measures could be put in place to encourage and to ease the development of this secondary market:

- All the TSOs should propose a Web platform where offers and demands of capacity can be posted anonymously;
- TSOs should charge a limited fee for such a service;

- Market Participants must have the choice either to transfer the usage (lend it) or the whole property of the capacity (sell it);

6. How do you assess the proposed measures to enhance the availability of firm capacity and to improve short-term and long-term congestion management?

Overall, we agree with the proposed measures.

7. What are your views on the proposals? Do they address the problems? Will they lead to more effective capacity allocation methods being developed?

Most of the proposals will be beneficial provided that they are preceded by the implementation of comprehensive, easily-accessed transparency arrangements.

8. Are the needs of shippers performing supply activities properly taken into account?

Not applicable to EURELECTRIC.

9. Are the proposed measures suitable to facilitate development of liquid gas markets?

See answer to question 6 above.

The measures that improve the utilisation of capacities will also enhance the liquidity of the market. Liquidity is necessary on the short term (spot market) but also on the forward markets, hence market participants must be able to book capacity on a monthly and yearly (and even multi annual) basis.

10. In your view, how important are compatible booking and operational procedures between adjacent systems?

Very important. Incompatible booking products and different procedures between two adjacent systems can create financial and operational risks for market operators and have a negative impact on the market functioning (liquidity, security of supply etc). For example, if the allocation method on one side of the border is FCFS and on the other side a booking period, market participants are not sure to be able to book the same capacity on both sides of the border. Therefore, compatible booking procedures are crucial to facilitate the optimal use of cross-border capacities.

Indeed EURELECTRIC would welcome the move towards compatible multi-TSO booking procedures, not just towards compatible bilateral-TSO rules as alluded to in G1.2.2.

Such multi-TSO booking rules should be backed-up by multi-TSO operational procedures.

11. Do the proposed measures increase the efficient use of the system? What aspects would you support and like to see further developed?

Comprehensive, easily-accessed transparency arrangements are a pre-requisite.

Beyond transparency, the proposals referred to above in question 10 are very important. We would like to see further development of both bundled products and compatible booking and operational procedures.

Finally, as it could be argued that the benefits of such products and procedures are self-evident, arrangements should be made to implement these improvements without delay (i.e. there is no need to wait for more guidelines on this). While this may require harmonisation of selected definitions and national rules, the benefit of these common products and procedures far outweigh the cost.