

EUROGAS VIEWS ON THIRD PARTY ACCESS TO STORAGE

Introduction

1. Eurogas welcomes the opportunity to participate in the discussions that will take place in the framework of the Madrid Forum on storage. The place of storage in the competitive gas market is an important issue for consideration; also a complex issue because it is dependent on its function in the relevant market. The relevant market does not stop at the borders as it is determined by all the other alternatives available to provide flexibility, security, or peak services and has to be seen to balance fluctuating demand and supply beyond the gas market regional structures. The different roles and types of storage facilities competing with other flexibility instruments must be recognized and investments incentivised in approaching the issue of TPA to storage. This will also enhance security of supply.
2. Eurogas has within its membership companies with important storage holdings both as users and as storage operators therefore it is important that Eurogas is fully involved in this debate, as the Madrid Forum recognized when it decided to set up the Storage Working Group to prepare Guidelines.
3. In preparing this initial position, Eurogas has taken note of the draft CEER paper (July 2003) on "Third Party Access to Storage and Flexibility". Aside from the consideration that the title implies the Directive also includes provisions on TPA to flexibility, which it does not, Eurogas recognizes the paper's description of storage and flexibility instruments as a useful starting analysis on this complex issue, affording a basis of future discussion. The paper gives a good explanation of the different flexibility mechanisms in competition with each other amongst others storage. The authors demonstrate a sound understanding of the different choices market participants have to balance supply and demand on the commodity market. Some, however, of the Conclusions and Principles then drawn, with an apparent bias for regulatory over negotiated market solutions, are in Eurogas opinion, not justified with regard to Directive 2003/55.
4. Eurogas considers that a regulatory approach will not be applicable for all storage facilities, because in several areas storages are operating in competitive commercial national or cross-border markets with differing requirements and this should be recognized in the access system. The possibility, however, of storage being used in differing national markets with differing levels of competition indicates that regulatory oversight may sometimes be required in absence of sufficient competition.

Provisions in Directive 2003/55

5. Article 19 of the Directive 2003/55 permits a Member State to choose either regulated or negotiated access or both "for the organisation of access to storage facilities and linepack when technically and/or economically necessary for providing efficient access to the system for the supply of customers as well as for the organisation of access to ancillary services (19.1)". The choice is subject to subsidiarity.
6. The measures to be taken by Member States will enable natural gas undertakings and eligible customers either to negotiate access on the basis of published main commercial conditions (19.3) or to have a right of access on the basis of published tariffs and other terms and obligations (19.4). An approach with elements of both systems is also a possibility.
7. Access to storage by TSOs is included as TSOs are natural gas undertakings.

Priority Use Considerations

8. The directive 2003/55/EC defines access to storage such that priority use can be provided for exclusive TSOs' operational functions, gas production and public service obligations.

Different use by the TSO and the commodity markets

9. From article 8, the TSO's minimum functions (tasks) can be derived. A more elaborate description of the primary role of the unbundled TSOs in a competitive market, is provided by Eurogas*, and the "Guidelines for Good Practice" also give some guidance on the balancing function of the TSO. In the Eurogas view it is:
 - The primary role of the TSO to provide transportation and to set a balancing regime focussed on maintaining the safety and technical integrity of the system unless otherwise specified (PSO etc).
 - The responsibility of the shippers/suppliers to balance their supply to and their demand from the system within defined tolerances.
 - The TSO is also responsible for ensuring that there are mechanisms to deal with any failure to maintain system integrity. Such arrangements might involve emergency plans reducing deliveries or the TSO might book some extra storage capacity or back up supplies beyond what is required for servicing the system tolerance levels of the balancing regime.

Directive 55/2003/EC specifies a regulatory framework for the balancing function of the TSO's responsibilities (Article 25). A TSO can thereby use storage facilities or other services on the market for its specific responsibility.

10. How market players balance supply and demand on the commodity market is a commercial decision in a competitive market only limited by competition law. Now art.19 provides access rules to storage as defined. This regulatory framework supports the choice of instruments available to market players in the flexibility market to balance their supply and demand on the commodity side of the business.
11. As the CEER paper explains, storage is a facility which can be used to provide flexibility among other instruments. A wide range of instruments is at the disposal of suppliers to balance demand and supply. Different conditions require different instruments and also different types of storages competing in the market. Caverns, LNG, depleted gas fields and aquifers serve different situations and have different roles to play in the market in competition with alternatives such as interruptible sales, dual firing, spot markets, swaps, supply contract flexibility, linepack that is not used by the TSO, other peakshave facilities, LPG/air etc. Those alternatives and their availability to all suppliers in the market should be taken into account in assessing market structure and the role storage plays. Because of those alternatives storage facilities should not be assumed to be essential facilities.
12. Of course, there should be no abuse of dominant position under general competition rules in the way storage is used or offered to the market. Eurogas recognizes that the Storage Operators must give Storage Users confidence that TPA services are provided on a fair and non-discriminatory basis.

* Eurogas document 01NO564 "Transmission System Operator (TSO) Function and Responsibilities".

Determination of the Market and Access Rules

13. Instruments to achieve flexibility in the supply of gas include many alternatives that are effective in supporting competition as shown in the CEER paper. Storage is in several respects comparable to a normal commercial business. Detailed interventions have the potential to distort the competitive market liberalisation is aiming at, as the flexibility market is closely connected with the (free) commodity market. Regulatory intervention will be counterproductive if it distorts the optimal allocation of investments in flexibility along the gas chain and could inhibit construction of the many new storages needed for security of supply in Europe's gas market.
14. Where alternative instruments to achieve flexibility are available in the relevant markets or these can be made available in adequate quantities in aggregate to meet the relevant market demands, then abuse of dominant position is unlikely. If alternative instruments are not available or cannot be expected to be made available then an appropriate un-intrusive level of regulatory oversight may be required until competition develops. Access to facilities (linepack, storage) is safeguarded under the second gas directive. Access to services rather than access to facilities involves different considerations. Services if available will be offered on the market at market prices. Competition law applies.

Access to the storage facilities

15. In many countries, standard packages are offered to customers, where volume, injection and extraction capacity is sold in fixed relationships and for a full storage year (in general with starting injection period in Spring and closure in Autumn). These fixed relationships are determined in order to maximise the usage of the storage facilities, that historically have been designed to live up to the needs of the often international flexibility market. It must be recognized that the use of storage can change over time due to market developments, but in general storages are filled during summer to have the gas and the capacity available in winter.
16. In addition to standard packages, it might be possible to negotiate other terms and conditions for access to storage or to reallocate surplus capacities on the secondary market. Such negotiated terms will take into account the effects on the total usage, type and function of the facilities. Most storages are designed and operated within certain technical limits on the basis of a certain market related ratio between send-in, working volume and withdrawal. In some cases, the resulting tariffs will be higher (if the conditions decrease the optimal usage), whereas the tariffs will be lower in other cases (if the conditions increase the total usage).
17. In general, deviations from the access packages will need to be carefully considered, as these potentially can reduce or improve the optimal usage of the storage. This also underlines the complexity of reaching agreements of access even on standard packages as many factors are determining the economics and its market use. Therefore, Eurogas supports the possibility of a secondary market to optimise use.
18. It is important to point out that statistical information on inventory levels, main flows etc. can be commercially sensitive information. In case there is a dominant position aggregated information should be made available to all users.

Recommended approach

19. Eurogas therefore agrees that there needs to be a common understanding on how storage facilities are operated and are contributing to the flexibility market. Member States can choose between NTPA and RTPA for storage or a combination. In cases where insufficient competition between alternatives is shown, some form of regulatory oversight is likely to be required. In any case, incentives to develop new storage facilities would create more efficient competition in the longer run.

20. The flexibility market consisting of many instruments on a national or cross-border basis will have to determine the use and the investment in type and use of storages. The investment incentive is determined on the right economic mix of flexibility instruments for a given market. The market price for flexibility should be the determining factor in investment decisions.
21. It is clear there will not be a single price for flexibility, but it will be determined by a combination of (changing) market factors and conditions and be implicit in storage access terms and conditions, the spot market, interruptibles, etc.
22. Eurogas looks forward to contributing to the development of the Guidelines for storage given the above considerations.

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