

RESPONSE TO PROPOSED PILOT FRAMEWORK GUIDELINE ON CAM

General

What are your main views of the proposed measures? Do you think Network Codes based on these guidelines can achieve non-discriminatory and transparent capacity allocation and the fulfilment of the capacity allocation principles set out in the Third Package of Energy Legislation?

Eurogas supports the decision to prioritize capacity allocation in the transitional year towards implementation of the Third Package in order to make rapid progress on this issue, and can broadly welcome the proposed guidelines. They promise a good direction for achieving non-discriminatory and transparent capacity allocation, to increase liquidity in the capacity market.

Eurogas wishes to recall that the preparation of the pilot Code also has the function of "testing" the Third Package designed process to prepare European level Codes and rules. Therefore the quality of the consultation and how ERGEG is seen to respond to stakeholders inputs is also very important.

What are your views of the implications of the measures for the sector in which you operate? In particular, we are interested to understand the nature of the implications in a qualitative way (and if available, any quantitative evidence on costs and benefits would be extremely welcome).

The guidelines have positive implications for convergence of capacity allocation approaches, increased co-operation between TSOs, the introduction of new capacity instruments, and improved trading opportunities. Eurogas, however, is concerned that as yet implications of the target model underlying key aspects of the guidelines are not fully thought through.

Scope of the Arrangements

Do you support the scope of the draft framework guidelines proposed?

For a first draft guideline, the overall scope is appropriate but perhaps inevitably the guidelines touch on some areas which will also be treated in other guidelines. The pilot should not anticipate the outcome, and the challenge will be to ensure compatibility and coherence when other framework guidelines will be prepared.

We are surprised that the role of Open Seasons is not mentioned, as they should continue to have a role in allocating new capacity. This clarification should be introduced somewhere.

There should be clear definitions of the terms used in the guidelines.

Existing contracts

What are your views of the challenges that existing contractual arrangements create with regard to capacity allocation? What would be the possible ways to overcome these challenges?

A shared understanding is necessary on the likely impact of new capacity markets on existing access terms and conditions. Eurogas considers that the introduction of efficient markets in gas transmission capacity rights must not abrogate or undermine existing contractual rights to use the network. Maintaining existing contractual rights contributes to a stable framework for

investment. In the event that historic rules and procedures are inconsistent with the desired future model, system operators should work with shippers and Regulators to ensure an appropriate and acceptable path for reflecting the economic rights enjoyed under the historic contracts in the new arrangements.

Should relevant clauses in existing contracts be amended if they contradict the new legally binding set of rules (which will be based on the framework guideline) in order to create a level playing field for all shippers?

Eurogas supports a level playing field for all shippers, but there can be no presupposition of a retrospective impact of future rules. Any issues of incompatibility of access terms and conditions arising from new rules should be discussed by TSOs with the capacity holders, if deemed appropriate.

Experts have discussed if existing/legacy contracts should be questioned if certain conditions are met, in order to free up capacity, which would then be reallocated. Do you consider such a proposal appropriate?

Not knowing what "certain conditions" the experts had in mind, Eurogas refrains from answering this.

TSO co-operation

Is the scope of the identified areas for TSO co-operation appropriate to ensure efficient allocation of cross-border capacity in order to foster cross-border trade?

Yes, but as required by the Third Package, TSO co-operation has to be supported by improved NRA co-operation, and there should be a view to the regional dimension.

Contracts, Codes and communication procedures

Should a European network Code on capacity allocation define a harmonized content of transportation contracts and conditions of access to capacity?

Harmonization of conditions of access to capacity is an important goal, and a Code should give guidance on the main principles to be covered in transportation contracts, but need not enter into a level of detail beyond that which is necessary to achieve the objective of a more liquid capacity market.

Should a European network Code on capacity allocation standardise communication procedures that are applied by transmission system operators to exchange information between themselves and their users?

Eurogas has referred to the importance of sound IT systems supporting the future needed developments. A lot of work will need to be done in this area, to ensure cross-border compatible communication procedures and compatibility with shippers' systems, but any standardisation would be more appropriately handled in a separate work stream and Code.

Capacity Products

What are your views of our proposals regarding capacity products?

It is very important that capacity products offered by TSOs are compatible across borders, and they have to meet users' needs which will vary in different market areas and at different stages of market development. Products have to be in line with balancing market requirements. Firm and interruptible products of different durations should be available, with an appropriate break-down of multi-annual, annual or seasonal products, monthly and daily.

Your proposals should meet these concerns.

We support the emphasis on the availability of new bundled products as an **additional** product option.

Do you agree with the idea of defining a small set of standardised capacity products that do not overlap?

In principle yes, but not the implied exclusion of other products which users needs and which are in line with the objective of a more liquid capacity allocation system. TSOs need to consult users on their evolving needs.

Should TSOs offer day-ahead and within-day capacity products?

Yes

Should European TSOs offer the same capacity products at every interconnection point across Europe?

TSOs should offer the same core capacity products at every interconnection point across Europe, but they should also offer other products in line with market demand and the objectives of a liquid capacity market, providing also that they do not conflict with cross-border compatibility.

Should TSOs offer interruptible capacity also in cases where sufficient firm capacity is available?

The objective of the guidelines and subsequent Code should be to maximise the availability of firm capacity, and only if no firm capacity is available, should interruptible capacity be offered. It should be made available in accordance with a defined release procedure.

Breakdown and offer of capacity products

Should a reasonable percentage of the available capacity be set aside for firm short-term capacity products?

Yes, initially in consultation with users, and in the longer term on a convergent basis at the interconnection points.

Cross-border products

Recital 19 of Regulation (EC) 715/2009 states that gas shall be traded independently of its location in the system. Do you think that cross-border products will facilitate the exchange of gas between virtual hubs of adjacent markets?

Eurogas agrees that such cross-border products would be useful additional products, but the possibility to trade natural gas at the border should continue.

Do you support full bundling of cross-border capacity into one single capacity product, including a limitation of the possibility to trade of the border so that gas is traded at virtual hubs only in order to boost their liquidity?

As mentioned above, Eurogas supports the concept and practice of a bundled product to boost liquidity at hubs, but as an additional product, not implying the limitation of the possibility of border trade. The implications of this would have to be considered in much greater depth and in any case the proposal is counter to existing contracts.

Do you consider combined products to be an appropriate interim step towards bundled products?

One Entry/Exit product between adjacent zones is a welcome product, but it is not clear, from the Code alone at least how combined products will be developed and evolve (if that is intended) to bundled products.

Should capacity at two or more points connecting the two same adjacent entry-exit systems be integrated into one single capacity product representing one single contractual interconnection point?

In principle we approve of bundled products as additional available capacity products, but this particular objective could prove very complex. The consequences for shippers would have to be clear in discussions with the responsible TSOs.

Capacity allocation

Should auctions be the standard mechanism to allocate firm capacity products?

Yes, but Eurogas agrees with the proposal in the guidelines to allow pro-rata allocations in an interim period. Not all markets may have reached an adequate level of maturity and liquidity for auctions to be found appropriate, or perhaps the legal framework may have to be adapted.

What would be the implication of using auctions for capacity allocation in the markets in which you operate? Is there any way in which auctions can be designed to overcome potential issues resulting from their introduction in those markets?

This question is clearly directed at companies.

Do you support pro-rata allocation as an interim step? If yes, should pro-rata allocation only be used in given situations or market conditions?

See above for the support of Eurogas for pro-rata as an interim step in given situations or market conditions.

Re-Marketing Booked Capacity

Should the network Code define harmonized firm secondary capacity products and anonymous procedures for offer and allocation of secondary capacity products in line with those on the underlying primary capacity market?

TSOs should facilitate the provision of secondary trading of capacity between users. Users should also be able to sell to other users OTC, a point which should be clarified in the guidelines.

The guidelines and the Code should elaborate requirements on harmonized products in line with products on the primary market and on anonymous procedures, but sellers should be able to "slice and dice" their capacity.

Pricing on the secondary market should not be determined by pricing on the primary market.

Booking Platforms

Do you think that all capacity connecting systems of two adjoining transmission system operators should be allocated via a joint, anonymous, web-based platform?

This should be the objective.

Do you agree that joint allocation of primary and secondary capacity products on these platforms would strengthen capacity markets?

There should be joint booking platforms for primary and secondary capacity trading, although they would require careful development. The platforms should also provide a clearing service, and publish relevant information on OTCs.

Joint allocation, however, is a more complex matter, and could imply restrictions on holders of capacity either to market those holdings separately in a secondary market or to be able to change their holdings in accordance with their portfolio needs. Such consequences would be a cause for concern.

DETAILED COMMENTS

1. SCOPE OF THE ARRANGEMENTS

F.1.1 Scope

It should be clear that the scope of the framework guidelines applies to new capacity, notwithstanding the provision in F.1.2. The situation regarding Open Seasons and OSP should also be clarified.

A glossary defining the terms used in the guidelines, especially the capacity products, should be added.

2. ADAPTATION OF EXISTING CAPACITY CONTRACTS

F1.2 Existing Contracts

This is a very broad catch-all provision, and Eurogas is concerned at the implications. The guideline should clarify what terms and conditions could be affected. In any case, any amendments to existing contracts could not be decided unilaterally by the TSOs.

3. TSO CO-OPERATION

F.1.3 Capacity Calculation and maximisation

The Code should elaborate on the co-operation expected of TSOs, especially in order to maximise the **firm** capacity they offer. The Code should also acknowledge the importance of having the necessary IT infrastructure and communication standards available.

5. CAPACITY PRODUCTS

F.2.1 Capacity products

Eurogas is concerned by the proposal to define a "small set" of standardised products. Network users will have different needs in different market regions and in different phases of market development. Products have to meet inter alia the balancing system requirements.

It should be clear in the guidelines that Codes have to permit an enlarged product design that meets these needs.

7. BREAKDOWN AND OFFER OF CAPACITY PRODUCTS

F.2.3 Breakdown and offer of capacity products

Although in principle Eurogas can support setting aside available capacity for firm short term capacity products, definitions are needed for long and short term capacity products.

8. CROSS-BORDER PRODUCTS

F.2.4.1 Combined Products

F.2.4.2 Bundled Products

Eurogas is concerned that there has been inadequate consideration of the new market model implicit in these draft guidelines. Eurogas supports the introduction of a bundled product alongside other capacity products, to allow hub to hub trading as an **additional** product, but does not accept that separate Entry/Exit products possibilities to trade at the border should be replaced. This is a condition of many existing long-term contracts. What is the intended timetable, and what would the intention be regarding existing contracts?

A bundled product obligation would be inefficient for portfolio management and incur unnecessary costs for shippers. It would be unacceptable if shippers were unable to meet their contractual obligations in existing contracts.

9. PRIMARY CAPACITY ALLOCATION

F.3.1 Auctions

Eurogas supports the emphasis on allocation of products via auction but the guidelines should elaborate further on design features of the auction.

10. RE-MARKETING BOOKED CAPACITY

F.3.4

Eurogas welcomes the emphasis on the efficient functioning of Secondary markets and the establishment of booking platforms but it is not clear from the text that the OTC market will still be permitted. We understand that there is no intention to abolish OTC deals, but this should be clarified. Further guidance should also be given on the design of platforms, in line with the responses received on the relevant questions.