



Response to ERGEG's Public consultation on Capacity Allocation and Congestion Management in natural gas transmission network

Fair access to transmission networks is a key factor to achieve progress towards a sustainable and competitive gas market. It will reinforce security of supply which appears as a crucial issue for European gas market, in the light of recent January events between Russia and Ukraine. Therefore, EDF agrees with the aim of this ERGEG consultation and welcomes the opportunity to submit its view on the various points raised and among these, the amendments to the Guidelines annexed to Regulation (EC) 1775/2005 proposed. These modifications will serve as background paper for the Agency and the development of the Framework Guidelines for the network codes.

Concerning capacity allocation and congestion management, some efforts have been made across Europe but the conditions still need to be improved to achieve a well-functioning integrated European market. Therefore, EDF gives support to most of the proposals made in the consultation document, as far as the rules and tools defined include flexibility to accommodate valid, practical and efficient considerations.

As a new entrant in the gas market, EDF finds it hard to secure capacity at some key interconnection points. The existence of long term contracts between some stakeholders and TSO's might partly explain this situation. However some of the mechanisms used to allocate capacity, as Open Subscription Periods (OSPs) and Open Season (OS) for instance, still need improvement to be less risky for shippers, more efficient and fully practicable.

Different levels of market development and different markets designs lead to quite complex capacity allocation mechanisms (CAM) and congestion management procedures (CMP). Improved cooperation between European TSO's are absolutely necessary to foster harmonized regulatory processes and measures between European countries and remove some barriers to competition.

The medium term target is to achieve a high level of harmonization between the different European networks. This condition is a prerequisite to ease the development of a European liquid market and, hence, to improve Europe's gas market attractiveness in competition with others world markets.

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?

At many interconnection points, capacity is fully booked on a long-term basis (for instance, entry/exit points on French TSO's networks TIGF and GRTgaz are almost fully booked). This makes it hard for market players needing some or more capacity to secure their supply at these points, to obtain some.

To develop the cross-border trade (as well as the trade within a state such as France where there are two TSOs), EDF thinks that the improvement of the CAM and the CMP must lead to :

- provide shippers some security and stability about their access to capacity and mainly allow them to book long term and firm primary capacity,
- maximise the use of the existing capacities by TSOs by
 - o bringing back the unused capacities to the market (and solve the problem of capacity hoarding),

- improving the interoperability of the networks
- improving the coordination between TSO's
- harmonize the products offer and the TPA rules between TSOs,
- implement fair and transparent mechanisms to allocate new capacity.

EDF is in favour of every improvement in coordination and harmonization of practices and products between TSOs. EDF supports measures aiming at making transparent to the shippers the transit through the different gas networks (same rules, no interface point, global balancing system, common commercial interface...).

The development & upgrading of GTE platform (“ *GTE+ Transparency Platform*”) set in line during the end of 2008 should be supported, for it should improve visibility on different kinds of capacities and tariffs (provided TSOs effectively contribute to that purpose).

Other suggestions or issues that could be taken into account :

- **Visibility on tariffs in order to contract on the medium and long term** (GTS and FLUXYS tariffs unknown for the moment).
- Most of the recommended mechanisms send back to the local regulator the decision for their implementation. This approach can however lead to a “patchwork” type organisation of transmission at EU level, which is not desirable. **Coordination and cooperation between regulators is necessary** to facilitate the implementation of the recommendations made in this document. The ACER proposed in the third package will help to achieve this target.
- Insist upon the need for increasing market players' visibility on the availability of capacities at different time scales, short term to long term. Some TSO's could probably bring more information to the market on these matters. This is particularly true for the OS / OSP planning/programs (to be validated by regulators).
- Transmission contracts unilaterally imposed on shippers by TSOs (example of the poor coordination between adjacent TSOs during the North South OP GRTgaz/Fluxys ; two contracts to be signed with different legal clauses).
- Tariff and capacity units (favour subscription in energy and give indications on usual GCV).
- Avoid complex tariff formulas (calculator with user notice).
- Make sure the products allocated correspond to the products asked for (example of the OSP France/Spain 2008 : demand for multi-annual flat products vs allocation of seasonal products).
- Ask for transparency on the criteria leading TSOs to propose interruptible capacities and to specify the probabilities of interruptions.
- Facilitate the change of flanges / TSO with low costs at interconnecting stations like for example at Oude/Bunde (example of wheeling services proposed by GTS).
- Avoid the differentiation between transit and transmission systems, particularly for geographically narrow stretching networks (Fluxys case).

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?

Contractual congestion within natural gas transmission networks is both detrimental to development of competition, to security of supply and to the overall economic efficiency of the system.

Capacities for interconnection and transit available in Europe are scarce and new entrants particularly suffer from this situation because incumbents often take advantage of their historical positions on this matter.

In Europe, structural places of congestions remain and are of two kinds : contractual or physical.

Among these, are to be mentioned:

- Difficulties to access to the South Zone in spite of the scheduled opening of Fos-Cavaou LNG terminal, and to TIGF Zone in France. Suppliers find it hard to bring gas from Spain to GRT Gaz network.
- Difficulties to enter GRTgaz system at Obergailbach & Oltingue on a MT-LT basis. Situation at the entry point Taisnières H is not an issue as such but there is a lack of firm available capacity up to this point on the transit through Belgium. This situation has, however, been improved on the medium term by the means of conditional & interruptible capacity and on the LT by the means of the recently settled open season by Fluxys and GRTgaz.
- Difficulties to access the Belgian market, in particular from adjacent countries like France where there is no visibility on long term physical reverse flow due to odourisation issue.
- No available capacity for L-cal gas transit in particular in Belgium

Solving contractual congestion issues is therefore a key point, with always in view that this should not result in increasing the incomes of TSO beyond the reasonable recovery of network costs.

ERGEG nevertheless should not forget that in top of contractual congestion issues, capacity development by the means of, notably, Open Seasons is also a key element in order to reach a competitive and well functioning European market.

ERGEG should also focus on the means to bring more liquidity to the market (gas releases, market makings ...).

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)?

Yes if the FCFS process is potentially discriminatory because in case of congestions, it does not give TSOs the visibility on shippers' needs. Therefore there are no long term investments to solve congestions ; the subscription process is often unsuited (rush for first arrived...).

The problem of OSPs with pro-rata allocation is that they drives shippers towards actors' games where they are incentivised to ask for more capacity than really needed in the hope of getting the amount of capacity they actually need. This is a risky game for shippers. It would be necessary to modify the pro-rata rule asking shippers for example to justify their needs, in particular for the supply of a final customer market, and by setting a dialogue procedure... which however will not prevent final allocation to take place..., but which should dimension the demands at their right level.

OSP should be followed by OSs in case of insufficient supply.

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)?

We attach particular importance to the following products :

- Long term UIOLI, proposing firm capacity to shippers. The system described in the consultation must be developed to handle the case of capacities held by some shippers and

that would not be nominated during a long period of time, except exceptionally from time to time.

- Firm releasable capacity as alternative to long term UIOLI, if the latter appears to be insufficient, taking into account market needs, or not practicable.
- Although we are not particularly interested by interruptible products as such, we believe that interruptible products at very low price (1/10 x firm tariff for example) using firm booked capacity but unused on long periods of time, could be an incentive for the holders of such capacity to themselves release it as secondary market. Such a system could be granted testing priority compared to other long term UIOLI systems.
- ERGEG's consultation document points out in § 2.3.2 that offering short term (< 1 year) capacity should be mandatory, unless primary & secondary markets & UIOLI procedures provide shippers with satisfactory access to capacity. Regarding the development of new capacities, we think that such a statement should be subject to each TSO's appreciation of the risks & profitability of allowing part of its investment not being covered by long term commitments.
- **Bundles are extremely important.** They should be the rule at the interfaces between networks, prior to the merger of networks, which should be the medium to long term objective.

5. What is the role of secondary capacity trading?

The role of the secondary capacity trading is to contribute to maximise the use of the existing capacities by bringing back to the market the unused capacity.

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?

We believe **long term UIOLI is a good measure** (cf § 4).

Concerning Short term (day-ahead) UIOLI with ban for the shipper holding the capacity to renominate after a certain time at (day-ahead) or intra-day, we think that, unless that shipper otherwise agrees not to renominate after a certain time, such kind of system should be avoided for it may hamper the flexibility available to the shipper's who has booked the capacity.

This flexibility could reveal to be even more necessary if networks evolve towards an hourly based balancing or towards the penalties associated with intraday modulation.

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

Opinion expressed in answer to question 1.

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

Most of the measures proposed are good measures. As already said, access to long term firm or quasi-firm capacity must be favoured and the principles of tariff visibility and cost-reflective tariffs must be maintained and ensured.

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

Yes, they are.

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

It is very important (see answer to question 1).

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

Opinion expressed in answer to question 1.