

Capacity allocation and congestion management in natural gas transmission networks

The ERGEG has published its position and a public consultation on Capacity Allocation Mechanisms (CAM) and Congestion Management Procedure (CMP) for interconnection points between adjacent networks to be used as a basis for proposing modifications to the existing Relations (EC) 1775/2005.

This document contains the opinion of GDF SUEZ, who is a shipper on several European networks.

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 ?

GDF SUEZ agrees with the view presented by ERGEG regarding capacity allocation and congestion management. We would like also to point out that progresses have already been made in some countries on the allocation of bottlenecked capacities :

- ❖ Publication in 2007 of the Good Practices for Open Season Periods;
- ❖ Open Subscription Period for the capacities between French market areas, between France and Spain, between France and Belgium...
- ❖ Open Season for new capacities in the Netherlands, Germany, Belgium, France...
- ❖ Creation of releasable capacities on the GRT Gaz network.

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 ?

GDF SUEZ is in favour of restricting the scope of ERGEG's principles to the interconnection points between adjacent networks where there is currently a contractual congestion ; for border points where the offered capacity is clearly higher than the demand, it is more simple to keep a "First Come First Served" (FCFS) principle with a large publication of the offered capacities, as it is the simplest method and the most flexible for shippers. Nevertheless, for this kind of points, NRAs should encourage TSOs to propose a common commercialisation of the capacity with adjacent TSOs.

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) ?

The FCFS method is obviously not appropriate for points where there is a contractual bottleneck.

In our view, the best method to allocate capacity for existing capacity is an Open Subscription Period. This OSP must be done **without any restriction** for all the market participants (except for subsidiaries and affiliates of the same group), with a large publication of the offered capacities, to respect the principle of non-discrimination and transparency : if a regulatory authority decides that one or several companies are dominant and limits the capacity they can book, it could cause supply problems in case the capacity they can book is not sufficient in comparison to their contracts with gas producers or to their sales portfolios.

Then the capacity has to be allocated according to a **pro-rata basis** of the demands, with a priority for the longer requests.

Auctions must be limited to capacities connecting directly two liquid market places. It does not seem a good method for others points :

- ❖ New entrants will not be able to pay a lot for capacities,
- ❖ In case the results of the auction is very low, TSOs revenues will be insufficient to cover the cost of the capacities.

Due to the risk of congestion, shippers could be tempted to ask more capacities than their real needs and be allocated for more than desired. Therefore, after the first phase of the allocations, shippers with excess capacities should have the right to release a part of the allocated capacities, and these released capacities should be re-allocated in priority to the shippers whose demands have not been satisfied.

This method should also be used to allocate interruptible capacities.

Finally and in order to avoid speculators to participate to such OSPs could be put in place a cap on the price of the capacity sold on the secondary market (120% of the published tariff for instance).

For new capacities, the best method is to launch an Open Season, where TSOs will build the capacities needed and requested by the shippers.

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) ?

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

To commercialise interruptible products is also a good manner to improve the full use of capacity. But shippers need to be able to estimate the risk of interruption, therefore TSOs must explain precisely in which cases these capacities will be interrupted.

Concerning contracts duration, GDF SUEZ is in favour of long term subscriptions as capacities are mainly used to transit gas, to supply customers and to fill up storages and related purchase contracts are on a annual or multi-annual basis. A small part of short-term products will be useful to give exceptional flexibility in case of peak demand, arbitrage opportunities... In our view, a good share-out could be 80 % for multi-annual, annual or seasonal products, 10 % for monthly products and 10 % for daily products but could be adapted for each country.

5. What is the role of secondary capacity trading ?

Secondary capacity trading is a very useful tool for shippers in order to adapt the capacities to their needs either by buying or releasing unused capacities..

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 shippers could post anonymously offers and demands of capacity (ex. Bulletin Board of GTS),
- ❖ TSOs should ask for a limited fee for such a service,
- ❖ Shippers must have the choice either to transfer the usage or the whole property of the capacity,

- ❖ Shippers must keep the right to choose its counterpart,
- ❖ The price of capacity traded on the secondary market should be capped (120% of the published tariff, for instance).

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 ?

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

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

GDF SUEZ agrees with the measures proposed by ERGEG to increase available capacity by **enhanced cooperation between TSOs** : coordination on maintenance schedule, coordinated development of new capacities... Moreover, TSOs must update their calculation of available capacity frequently to be able to propose to the market any new capacity.

We also agree that **long-term UIOLI (or a Use it or Sell it rule)** is one of the solution to stop hoarding of capacities. However the definition of long term has to be defined precisely and must take into account specific and local constraints. For example, some capacities are used for flexible supply (when there is no or not enough storage capacities in the delivery area), the use of the capacity highly depending on climate : a small use of rate could be explained by warmer temperatures during winter. Moreover, shippers can book some capacities in order to respect **obligations of security of supply** imposed by the national authorities and these capacities will only be used in rare occasions (default of a long term supplier for example).

However GDF SUEZ is in favour of long-term UIOLI **as long as the suspension of capacity is temporary and not final.**

GDF SUEZ is in favour of **short-term UIOLI** but only on an **interruptible** basis; shippers owning firm capacities must keep the right to re-nominate on an intra-day basis :

- ❖ this flexibility is used to keep their portfolio balanced and the difference between the first and the last nomination could be very important (for example, a trip of a power plant implies a re-nomination of 80 000 m3/h),
- ❖ this flexibility could also be used to participate to intra-day market or imbalance market,

Moreover, volumes supplied by producers can change as they depend on technical or political constraints: the importers must keep the right to re-nominate from 0 to 100% to be able to manage unforecasted events like interruptions on adjacent networks, storm on an offshore site...**Any limitation of re-nomination rights at cross-border points jeopardises the security of gas supply in Europe.**

Besides, GDF SUEZ would recommend that proposal under point 2.5.3 (capacity release) should be applied **only provided the consent of interested shipper is required and with enough advance notice.**

GDF SUEZ could agree on the proposal under 2.3.3 (interruption procedure) provided the interruption is made on a pro rata basis. We are not in favour of a "last committed, first interrupted" interruption procedure which seems to be unfair.

Last, GDF SUEZ would recommend under G4.4 a duration longer than **a six months period for adaptation by TSOs and Shippers of their existing contracts to the new congestion management guidelines. One year minimum is more appropriate.**

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

All the measures improving the utilisation of capacities will also facilitate the development of markets. But to develop mature markets, liquidity on the forward market is necessary and shippers must also be able to book capacity on a monthly and an yearly basis.

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

Incompatible booking products and different procedures between two adjacent systems could create financial and operational risks for shippers. For example, if the allocation method on one side of the border is FCFS and on the other side a booking period, shippers are not sure to be able to book the same capacity on both sides of the border.

So compatible booking procedures is crucial to facilitate the use of cross-border capacities.

However, the proposal under G1.2.2 seems unrealistic from a technical point of view: it is not possible to have different conditions applied on one single territory.

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

GDF SUEZ will support the following measures to increase the efficient use of capacities :

- ❖ to put in place amongst TSOs compatible procedures, compatible rules and compatible definitions of products...
- ❖ to put a cap for capacity prices on the secondary market in order to avoid speculation (for example 120% of the tariff),

For border points (where this is relevant) commercialize **interruptible capacities** corresponding to the part of the firm capacities historically not used. This system seems the best way to use non-nominated capacities: shippers can book this type of capacity for a longer period and are not obliged to participate each day in auctions. Nevertheless, a **very high level of transparency from TSOs is needed** because the shippers must have enough information to estimate the risk of interruption.