

ERGEG

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Our reference

Your reference

Subject

Response to ERGEG principles: CAP/CMP in natural gas networks

Dear Sir/Madam,

N.V. Nederlandse Gasunie welcomes the opportunity to comment on the ERGEG paper "ERGEG principles: Capacity allocation and congestion management in natural gas transmission networks". Gasunie is an independent gas infrastructure company. Its subsidiaries operate long-distance networks in North-Western Europe. Furthermore Gasunie participates in storage facilities, LNG re-gasification, interconnectors (e.g. BBL and Nord Stream) and European Gas Exchanges. As a fully ownership-unbundled company, Gasunie has the natural incentive to release as much capacity as possible to the market. Capacity is offered in a transparent and non discriminatory way with compliance to the letter and spirit of rules set out by regulators on a European and national level.

Gasunie agrees with and supports the response by Gas Transmission Europe (GTE+) on the consultation document and wishes to make some additional comments.

In general, Gasunie shares the views of ERGEG that existing pipeline capacity should be utilised maximally for the benefit of the European energy markets and restrictions to market entry should be resolved. However, any regulation should only be applied where there are problems that could not otherwise be solved and hence should be avoided where the industry is resolving these bottlenecks on its own accord. A recent example is the successful implementation of bundled capacity products and secondary market platforms on German/Dutch border points such as discussed in your paper.

Gasunie would furthermore like to offer some specific comments.

1. Interruptible capacity

In our opinion the power of the tool interruptible capacity is underestimated. We suggest that throughout Europe unlimited interruptible capacity should be offered when firm capacity is not available. This should be in combination with (the enforcement of) the publication of interruption data. Interruptions are a useful indication of physical congestion and hence of the need for additional investment. If interruptions occur only a small proportion of the time it is likely that the costs of an interruption can be earned back. However, it is less likely that the costs of interruptions in a larger proportion of the time can be recovered by market trading. Hence, the level of interruption is an important signal to consider expansion of the network. This simple mechanism may thereby avoid the costs of compliance to more general European legislation as proposed in the paper.

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2. Buy back mechanisms

Buy back mechanisms by the TSO are discussed as a means to release more firm capacity. Careful consideration is required, because the price the TSO has to pay is based on the difference between two hubs connected by the transport system. In our view this is a trading position. Commercial trading and transportation should in our view stay separated. To make matters worse, it concerns a trading position with such risk profile that commercial parties are not prepared to enter into the arrangement.

3. Long term capacity rights

Gasunie is of the opinion that there should be no restriction of long-term capacity rights (more than a day or month) since this may have adverse effects on the willingness of market participants to enter into long-term transportation contracts. In our view long-term commitment from market parties is the best investment signal there is.

Gasunie considers restriction of short-term capacity rights (for example re-nomination rights) as the responsibility of the regulatory authority. The adoption of European guidelines containing when and how to impose any such restrictions would be a considerable improvement. Without such guidelines, restrictions will be applied differently at a national level creating different playing fields in Europe instead of one market. In our view, without clear guidelines such restriction of capacity rights should not be included at all in European legislation.

4. First come first served

Gasunie agrees with the observation that at congested interconnection points first come first served may not be a suitable way to allocate scarce capacity to the market. OSW and pro rata is a practical and relatively fast way to harmonise allocation on cross-border points in Europe. That does not mean that first come first served should be abandoned. In our view it is the preferred allocation mechanism when there is sufficient capacity since it makes fast release of capacity possible (click and book systems).

5. Contractual congestion

In the document there is a strong emphasis on contractual congestion where the main issue seems to be non-usage. However there is a big difference between non-usage of capacity and congestion. Optionality for shippers to differentiate between multiple supply sources, end consumer markets and trading hubs is an important aspect of liberalised competitive markets. In our opinion, the utilisation rate of capacity could decrease rather than increase in fully functioning markets. For instance we see in the Netherlands a considerable growth of entry capacity without a corresponding growth in exit capacities. Does this mean an increase in contractual congestion or of optionality?

6. Cross-border points

We think that the challenge is in finding a harmonised approach for all cross-border points in Europe or at least on a supra-national regional level. The suggestion in the document to import different regimes within one (national) system to harmonise different borders only transfers the problem from the interconnection points to the domestic market. This could be counterproductive to the goal of one internal market and unworkable for shippers and traders within such a system or in transit through such a system.

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In conclusion, we support the work of ERGEG to ensure that capacity is optimally made available to the market. If relatively harsh measures are required to accomplish this goal, so be it. To accomplish a level playing field in Europe we think it is essential that clear and precise guidelines on a European level should be in place to complement these measures. Needless to say, a fair recovery of cost is an integral part of good regulatory governance and requires no further discussion with regard to the proposed principles.

Gasunie is cooperating with adjacent TSOs and regulators to improve cross-border connections on a supra-national level. We are willing to work together with ERGEG in the proposed ENTSOG and ACER structure or any other suitable structure e.g. Gas Regional Initiative.

Yours faithfully,

N.V. Nederlandse Gasunie

Wim Groenendijk