



Amendment of the Guidelines of Good Practice of Storage System Operators (GGPSSO)

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INFORMATION PAGE

Abstract

This document E10-GST-14-04 is an ERGEG document on Amendment of the Guidelines of Good Practice of Storage System Operators (GGPSSO).

In this document, ERGEG presents the final proposals that will be incorporated in the GGPSSO. ERGEG aims with these guidelines for CAM and CMP to ensure a level playing field from which market players will benefit. In general, without these additional guidelines the market might remain as it is today for a long time namely congested in some parts of the EU.

Target Audience

Energy suppliers, traders, gas/electricity customers, gas/electricity industry, consumer representative groups, network operators, Member States, academics and other interested parties.

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Related Documents

CEER/ERGEG documents

- Status Review 2008: Capacity Allocation Mechanisms and Congestion Management Procedures for Storage
- Status Review 2009: Capacity Allocation Mechanisms and Congestion Management Procedures for Storage
- Guidelines of Good Practice for Third-Party Access for Storage System Operators (GGPSSO), March 2005 (Ref: E04-PC-01-14)
- Assessment of CAM and CMP for effective access to storage and proposals for the amendment of the GGPSSO, July 2010, (Ref:E10-GST-09-06)

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1. Introduction

ERGEG has carried out a monitoring process on the GGPSSO for CAM and CMP for storage in form of Status Reviews in 2008 and 2009. Based on these past surveys, it was decided that there was a qualified basis for an enhancement of the already existing GGPSSO. Taking stakeholders' feedback (gathered during a public consultation and an ERGEG workshop) in the Evaluation of Comments Paper "Assessment of Capacity Allocation Mechanisms and Congestion Management Procedures for effective access to storage and proposals for the amendment of the GGPSSO" into account, ERGEG has drafted the following guidelines for CAM and CMP to be integrated in the existing GGPSSO.

This amendment has to be seen as a supplement to the existing EU law (3rd Package). ERGEG aims with these guidelines for CAM and CMP to ensure a level playing field from which market players will benefit. In general, without these additional guidelines the market might remain as it is today for a long time namely congested in some parts of the EU.

The following Guidelines for CAM and CMP for storage will be integrated in the already existing GGPSSO in chapter 4 "Storage capacity allocation and congestion management". The indication A to Q for the various guidelines has just been used during the working process. The additional guidelines on CAM will then be incorporated in chapter 4.1. and the additional guidelines on CMP in chapter 4.2. of the GGPSSO.

2. Guidelines and Explanations

EREGG would like to clarify that Member States' (NRAs') specific regulation has to be taken into consideration when the guideline proposals for CAM and CMP (as presented in this document) are applied. Furthermore, in the case that SSO is not bearing the responsibility for allocating capacity and/ or congestion management (as is the case in at least one country), the responsible party should then follow the guideline proposals as presented in this document.

2.1. Guidelines and Explanations on CAM

2.1.1. Guideline A: Transparency

“Allocation of storage capacity shall be made transparent by detailed publication of timing, organisation (schedule) and aggregated results of applied allocation mechanisms on the Internet in the local language as well as in English. English should also be used by the SSOs when communicating with (potential) storage users if requested by users.”

For reaching maximal market awareness and for ensuring the principle of non-discrimination, SSOs shall publish at least on their website (and common marketing/trading platform(s)) in English and the local language the actual design of the capacity allocation mechanism, including a schedule for regularly applied allocations, the actual procedure and its timing as well as further conditions that may apply and the aggregated results of the process. In order to facilitate transparency, SSOs should provide, for example, the following information, in which the extensiveness depends on cost-benefit analysis/ user consultations to find out their needs:

- *Working gas volumes, firm and interruptible withdrawal and injection capacities for each storage facility on a daily and longer term basis (technical, commercialised, subscribed/booked, and available capacities)*
- *Historical interruption data/ Historical flows / levels of utilisation at each storage facility*
- *Planned Maintenance operations as far ahead as possible;*
- *Nomination lead times for different capacity products (yearly, monthly, daily);*
- *Clear description of CAM and CMP in the contract terms, so that users are fully aware of their storage access rights and obligations;*
- *Calculation of tariffs;*
- *Contact details;*
- *Nomination lead times;*
- *Ancillary services offered;*
- *Clear information on the applied mechanisms, procedures and necessary steps to request storage capacity or trade capacity on secondary market;*
- *Methods and timing for allocating storage capacity, if under a “storage rights envelope” giving access to available capacities;*
- *Overview of relevant regulations);*

- *Characteristics of Storage groups;*
- *Detailed information provided to storage users in case of unplanned outages (affecting injection and withdrawal rate (impact on storage operation, duration of the disruption...));*
- *Day-ahead service for each storage group (withdrawals per Quarter, minimum and maximum price ; Injections per Quarter, minimum and maximum price);*
- *Documents and tools (storage agreement, tool system to help to determine/optimize the storage subscriptions, storage fee calculator...)*
- *Transfer of stored gas (Number of registered exchanges, Number of customers).*

2.1.2. Guideline B: Consultation with market

“Allocation of storage capacity shall be subject to consultation with the market, e.g. concerning the actual design of the allocation mechanism(s).”

To accommodate market needs well-structured regular consultations with actual and potential storage users on the actual design of the allocation mechanisms, i.e. auction design, are expected to be a beneficial instrument for design of optimum allocation, though it does not imply that the design needs to be changed frequently.

2.1.3. Guideline C: Compatibility

“Allocation of storage capacity shall ensure on best effort basis compatibility (e.g. regarding timing / lead time) with the transport capacity allocation mechanism(s) of the connected TSO(s) and the organization of the gas trading market(s). Consequently, this also requires to align at least a basic set of storage products (with regards to duration and lead time for regular allocation) to transport products.”

For facilitating a gas market, easy access to storage services is very beneficial. To prevent burdening storage customers when trying to organise related transport services, compatible allocation mechanisms consequently also require aligning (the definition of) storage products to transport products (with regards to contract duration and lead times for regular allocation procedures (allocation schedule) of connected TSOs. Just as with transport products, storage products should be designed to make them exchangeable or interchangeable. It should be possible to commercialise these standard products on (electronic) trading platforms. In the competitive flexibility markets the design of CAM should also take into account the organisation of the wholesale and retail markets, more precisely implying that products (duration),

organisation and timing of storage CAM should be compatible with the organisation of the gas trading market(s).

2.1.4. Guideline D: Combined Products

“Allocation of storage capacity shall allow for the development of combined storage and respective transport capacities as one product within the SSOs product portfolio in order to allow for offering such storage services at the virtual hub.”

To further improve services to storage customers, the further development of compatible storage and transport CAM could be achieved by an integrated storage and transport product, to be developed and offered by SSOs, if there is market demand for such a service. This would of course imply a close co-operation of the concerned SSO with the respective TSO(s) in the concerned balancing/market area. An NRA has to be timely informed when an SSO has the intention to offer combined products.

2.1.5. Guideline E: balancing Market

“Allocation of storage capacity shall take into account the needs for balancing markets by offering services which support the balancing by aligning nomination and renomination periods and procedures to the technical requirements of the physical balancing regime. If technically possible, lead times shall be shortened so that balancing gas can be taken from storage.”

Since storage services are often (sometimes even as the only measure) used for balancing purposes¹, SSOs should make sure that the offered services contain a.o. standard products, which are compatible with the balancing regime (both in terms of product definition and CAM organisation (timing) and fulfil the needs of the different customer groups (such as TSOs).

¹ sometimes even as the only resource.

2.1.6. Guideline F: Open Subscription Period

“Allocation of storage capacity shall start with a standardised open subscription period (OSP). At least during the OSP, SSOs shall provide all relevant information including specific storage product descriptions, contract durations and the conditions for the respective CAM(s) to be applied according to the results of the OSP to the potential customers. The SSO should consider providing price information to the potential customers as e.g. indicative prices. The timing of the OSP should be fixed and aligned to the duration of the respective storage contracts.”

The allocation process shall always start with an open subscription period (OSP) in order to ensure a transparent and non-discriminatory participation of all interested storage customers in the subsequent allocation procedure. The relevant information to be provided at least during the OSP must be easily accessible to potential customers and in a user-friendly manner. Furthermore, an SSO should consider providing price information (e.g. indicative price). Some of that data, which is unlikely to be modified over time, like product description, contract durations, general terms and conditions could also be published on a permanent basis.² Timing of the OSP should be fixed and aligned to the contract durations.³

Examples: The OSP of a standardised yearly storage contract (representing a calendar year “a”) should regularly last for example from 1.10. until 15.12. of the previous year (a-1), the OSP for a daily storage contract (for day “d”) from 10:00 – 11:30 the day ahead (d-1).

When the OSP closes, SSOs have an overview of the storage capacity demand for the specific storage product.

2.1.7. Guideline G: CAM depending on result OSP

“Allocation of storage capacity shall with respect to the applicable mechanism be determined by the results of the OSP:

1: If demand exceeds supply - and unless national legislation stipulates differently - auctions should be implemented for allocation of all of the capacity offered with this storage product or service in the preceding OSP.

2: If supply exceeds or is equal to demand, allocation is straightforward.

² see also guideline proposal under 1.1.1.

³ “Fixed”: timing provides sufficient time for storage users to contract storage services, ahead of the beginning of the contract.
“Aligned to the contract durations”: timing reflects the duration of the contract.

An OSP can lead to two different situations: i.e. demand exceeds offer or not. This provision aims at defining a harmonized approach on the CAM to be used to deal with these two situations:

1.) The market for the selected product is tight (demand > offer):

Only if there are no (other) national provisions on the regulatory treatment of storage capacity allocation mechanisms, the CAMs shall be adjusted to fit market needs sufficiently and simultaneously representing the best possible market-based mechanism. In such cases, as long as competition between the bidders and absence of the possibility to strategically misbehave are assured (and an appropriate reserve price is in place), auctions should be implemented as the CAM of first choice, as such mechanisms are considered to be the most market-oriented and value-reflecting way of allocating (especially scarce) capacity.

In markets with specific national PSO provisions on storage with respect to, for example, ensuring compliance with gas security of supply obligations, it is noted that SSOs may be required to use alternative allocation arrangements to those recommended in this section to meet those PSOs.

2.) The market for the selected product is not tight (demand ≤ offer):

If the market for the selected product is not tight (demand ≤ offer): Allocation is straightforward. In such a case, allocation should take place via an objective, transparent and a non-discriminatory process. Alternatively, SSOs could use auctions, or some other allocation mechanism that provides a similar level of objectivity, transparency and non-discrimination to allocate the capacity.

2.1.8. Guideline H: NRA power

“Allocation of storage capacity shall be subject to ex-ante review by NRAs if deemed necessary by an NRA.”

Since regulators – especially in the negotiated access regime – often do not have the power to review, approve, define or at least influence storage CAMs ex-ante, it is proposed to include such a measure to allow for easier resolving of issues related to storage and gas market foreclosure(s).

2.2. Guidelines and Explanations on CMP

2.2.1. Guideline I: Standardisation of Secondary Markets

“SSOs should be responsible for the implementation and standardisation of secondary markets for storage capacity. SSOs will provide a web-based platform that enables primary customers (without restraining the possibility for bilateral agreements) to sell unused capacity on the secondary market. It should at least enable primary customers to make an anonymous offer (both bundled and unbundled storage capacity) that is visible to third parties. To foster standardisation, published master agreement templates are used. Furthermore a lead time for the implementation / acceptance / registration of secondary trades is published. In an illiquid market, a market mechanism should be in place that reflects the value of the offered products so as to stimulate the offering of unused capacity. SSOs connected to the same balancing zones or market areas should cooperate (if possible) in the implementation and consolidation of secondary markets to improve liquidity. Relevant NRA will be consulted in the decision making process. SSOs shall keep a record of all transactions on the secondary market. The collected information shall be communicated to the NRA on request.”

This provision aims to make sure that there is an effective platform available where storage customers can trade their firm capacity on a firm basis with other customers. Based on article 22 of Regulation 715/2009, SSOs are to take reasonable steps to ensure and promote that capacity rights can be freely traded on a transparent and non-discriminatory way. As such, an SSO should therefore be responsible for organizing the secondary market, but an SSO can choose to delegate this task to a third party who will organize the secondary market and run the day-to-day business. SSOs connected to the same balancing zones or market areas should cooperate in the implementation and consolidation of secondary markets to improve liquidity. Given the complexity of such a co-operation – relevant NRA’s should be involved in this decision making process. It is important that a secondary market exists for each storage facility (which is the aim of this guideline), but the higher aim should be that eventually a national platform is founded where all storage capacity in the market can be traded.

2.2.2. Guideline J: Standardisation of Terms and Conditions

“The terms and conditions for access to storage and the processes for operating the secondary market and appliance for interruptible products should be standardized, timely accessible for (potential) customers and published at least on the internet in both English and local language.”

This provision aims to make sure that the content of storage contracts (including general terms & conditions) is known by (potential) customers who are interested in booking storage capacity. If these conditions are not known in a timely manner, a customer cannot make a good judgement whether it is (commercially) interesting to book storage capacity. Transparency is thus of utmost importance.

Given the fact that storage users in one internal market very often include international companies (that do not always have personnel that speak the national languages of all the storage operators of the EU), any information that is provided by an SSO should also be published in English.

2.2.3. Guideline K: Renomination and unused capacity

“A primary customer makes, at best effort, a timely nomination to the SSO on the capacity that will be used. An SSO will make best efforts to stimulate and facilitate primary customers to do so.”

*This provision aims to make sure that SSOs have a clear sight on any capacity that is nominated by a primary customer. This will allow the SSO to make a timely and fair prediction of any “unused” capacity (that is marketable on an interruptible basis) so that potential customers can make a timely decision whether they are interested in buying interruptible capacity or not. Such a timely and fair prediction can only be made by an SSO if primary capacity holders timely consider their **expected need** for gas flows / capacity utilisations (“timely meaning earlier than the latest possible official nomination time, usually one day before the gas flow day). A primary customer should therefore, at best effort, make a timely nomination (through an initial nomination), but the timing of the best efforts nomination should at least allow for a weekly preview to SSO on capacity use.*

2.2.4. Guideline L: Dynamic Capacity Calculation

“Based on the received nominations and their own forecast, SSOs shall strive to maximise the interruptible capacity products offer (at least on a day ahead basis but preferably on a longer term basis) by dynamically calculating available capacities taking into account actual temperatures, counter-flow nominations, any other information means available influencing capacity use. Based on dynamic calculations, SSOs may decide to perform a buy back of capacity if there is an actual need for this service and commitment of a user to contract this capacity immediately.”

This provision aims at maximising short-term capacity offers to the market, because visibility of actually available storage capacity is better, the closer the date and time of use is. It is expected that SSOs by experience have data regarding historical flow behaviour and that this information (among other information) can be used to make a prediction. This should both be in the interest of SSOs, that can maximise the selling of their services and users, that can benefit from a higher availability of storage services at least on a short-term basis (quarterly, monthly, weekly, daily).

2.2.5. Guideline M: Optimal use of storage and corresponding products

“SSO’s will offer a reasonable amount of interruptible capacity on a short term and interruptible basis and with a balanced mix of contract duration. Any unused capacity will be sold in both unbundled and bundled products. The design of products should be consulted with current and potential customers. Offered products should not be customized too much as to prevent “1 user only fit” and any limitations in offering products should only be the result of legal, operational or technical dependencies.”

*Through this provision, SSOs will offer any **unused** capacity so as to make sure that the storage capacity is optimally used and that the selling (and revenues) of any capacity is maximised. SSOs should offer both unbundled and bundled products (consisting of fixed proportions of injection capacity, working gas volume and withdrawal capacity) so as to make sure that market players can use storage. The offering of bundled products may not always be possible e.g. due to legal (re-nomination rights) and/ or operational/ technical (stock level) dependencies. However, limitations in offering bundled products should only be the result of such legal and/ or operational dependencies and products should not be customized to fit one (dominant) user.*

2.2.6. Guideline N: Information on non-nominated capacity

“Information on the amount of non-nominated storage capacity should be provided by the SSOs on a day-ahead basis and the already sold day-ahead interruptible products. Similar best effort should preferably apply to longer outlooks. The data should be published on a website in time series (both for unbundled and bundled services) preferably close to real-time. Also historical data on (not) booked capacity should be published as to make an estimate of the probability of interruption.”

By applying this rule, (un)bundled storage capacity that is not (yet) (re-)nominated on a short term basis will be made more transparent and therefore can easier be accessed and used by third parties via interruptible capacity. This measure can help – only to a limited extent – to ease the problem of congestion at least on a short term basis. Concerning publication of non-nominated capacity, it is preferred to update the data close to real-time, because re-nominations can occur on a very short notice. Therefore, providing this information in time series (e.g. in a table with additional entries for every half hour) can give holders of interruptible capacity better transparency on the value (probability of interruption) of their interruptible capacity products. The procedure in the event of an interruption of interruptible capacity, including, where applicable, the timing, extent and ranking of individual interruptions should also be published.

2.2.7. Guideline O: Transfer of Working Gas

“SSOs will take efforts to facilitate the transfer of working gas of the same storage facility between a primary and secondary customer at the start and end of the duration of the interruptible or firm (bought at secondary market) contract. In case of a working gas transfer, the price should be ideally market-based.”

A primary customer will already have a certain amount of gas-in-storage (working volume). Without a proper arrangement, this gas should first be retracted from the storage before the secondary customer can inject gas. Through this provision, a secondary customer is ensured that gas can be retracted immediately once the contract period starts (through a transfer of gas-in-storage). At the end of the interruptible contract, the customer might need to reinject gas, so original user can start using storage immediately. Given its importance, the transfer of working gas should not bounce due to unreasonable high prices and an SSO can do its best to facilitate the transfer of gas in storage. The price in case a transfer of working gas should therefore be ideally market based.

2.2.8. Guideline P: Pricing methods

“The price for interruptible capacity that a secondary customer should pay reflects the probability of interruption. Other pricing methods, incentivising active storage capacity use – like ‘auctions’ and ‘pay as used’ - can be used if storage prices are not regulated.”

Article 15 (2a) of the Regulation 715/2009 states that the price for interruptible capacity is to reflect the probability of interruption. In addition, Article 1 of the same Regulation suggests that storage price principles are not harmonised. A customary option is to use a method where interruptible storage price contains a discount, reflecting the probability of interruption. Another option to promote active storage capacity use, is to use the “pay as used“ method. The use of an auction (under the appropriate circumstances, determined by NRA) is also a possibility. In “pay as used” method the SSO is incentivised to create attractive products, which will be used, as SSO is only paid per withdrawn or injected commodity. In “auctions” attractive congestion revenues can be generated.

2.2.9. Guideline Q: Aggregation and overcoming technical constraints

“In case a storage facility has a high minimal flow and/or other technical constraints for relatively small users, SSOs will use reasonable endeavours to aggregate customers’ nominations. If aggregated nominations - despite these reasonable endeavours - are below the minimal flow level, SSOs shall offer a service that allows a customer to continue to use a storage facility (e.g. by offering a virtual storage product).”

Customers who need to flow a small amount of gas will have difficulty to do so if the minimum flow is high. Through this provision, an SSO (in the case of minimal flow and/ or technical constraints) should do its utmost best to continue offering its service to customers. This could be done in a number of ways (such as offering a virtual storage product backed up by multiple sources of flexibility or e.g. contracting access to linepack with adjacent TSO to overcome minimum flow constraints). It is up to an SSO to decide what measure is best practice in that respect.