

## RWE Gas Midstream

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### **ERGEG Consultation on the ERGEG Public Consultation Paper “Secondary Markets – the way to deal with contractual congestion on interconnection points” (E07-GFG-22-14a)**

#### **Comment by RWE Gas Midstream GmbH**

Dear Sir or Madam,

RWE Gas Midstream GmbH would first of all like to thank you for the opportunity to comment on the consultation paper "Secondary Markets – the way to deal with contractual congestion on interconnection points" published on 10<sup>th</sup> May 2007.

In regards to the public consultation questions, we would like to submit the following comments:

**Consultation Question A:** *Please comment whether you feel the outcomes of the qualitative and quantitative study on the performance of the secondary market in the North-West gas Regional Energy Market of the Gas Regional Initiative reflect the performance of the secondary markets in the whole of Europe.*

In this context RWE Gas Midstream can only provide a comment for such regions, where RWE Gas Midstream is an active shipper. These regions are: Slovakia, Czech Republic and Austria (jointly referred to as “Central Europe”) as well as Germany, the Netherlands and Belgium (jointly referred to as “Western Europe”). Our below comments on the performance of the secondary market are limited to these markets and give no indication for regions outside of the above mentioned. Furthermore we would like to restrict our comment to Central Europe, as the performance of the Western European secondary capacity markets has already been addressed in the above mentioned study.

Currently this Central European market for natural gas is dominated by long term supply contracts from Russia and only very few wholesale market based trades take place at the interconnection points. The market situation can thus not be compared to the rather liquid markets and trading activities in Zeebrugge or the TTF, which have lately increased substantially.

Therefore it is RWE Gas Midstream's believe that the performance of the secondary capacity market assessed by the Gas Regional Initiative for North-West Europe cannot be compared to the situation in Central Europe as the markets and their maturity differ substantially.

Nevertheless, we have seen and experienced secondary capacity trading in form of subleases of primary capacity or swap arrangements as a buyer and seller of capacity and believe that these activities will increase in the future. We base this belief on the positive developments and successful establishment of the Central European Gas Hub. However, the performance of the secondary capacity market in Central Europe goes hand in hand with the development of a liquid commodity market in this region, which is currently under-developed.

**Consultation Question B:** Please advise on how you suggest to improve the secondary market design for transportation capacity products (e.g. week/ month/ season/ year(s)).

The establishment of internet based platforms will anonymously concentrate supply and demand of transportation capacity. Thus such platforms will serve as the basis for standardised capacity auctions and transactions which will again lead to an improvement of the performance of the secondary capacity market. As an example we would like to mention that the RWE TSO Gas already successfully cooperates with an independent German internet platform (trac-x) for the secondary trading of transport capacities. It is our understanding that other TSOs have started to do the same. The RWE Storage System operator in the Czech Republic likewise is cooperating with an independent German internet platform (store-x) for the secondary trading of storage capacities.

Nevertheless a variety of measures can be taken to enhance the market conditions further:

- the procurement of standardized products (such as weekly, monthly, season, years) must be paired on both sides of an interconnection point so that the relevant products can be transacted on both sides of the connection
- standardization is also necessary for delivery periods (e.g. a "gas day"), especially with regard to supplies from Russia
- an unified, non-ambiguous labelling of interconnection points by all TSOs is necessary in order to avoid misunderstandings during communication
- administrative lead times and registration processes must be streamlined and shortened in order to allow short term capacity trading, which again will lead to a higher usage (demand and supply of secondary market capacity)

- further incentives that support the physical construction of capacities at inter-connection points must be given by the European authorities. These additional capacities are needed to reduce capacity shortages in the primary capacity market. This extra capacity will ultimately also facilitate the liquidity in secondary markets

**Consultation Question C:** *Please comment on the possible ideas to enhance UIOLI provisions. Which possible (positive) incentives are there for shippers to offer capacity on the secondary market?*

Comments on the possible ideas to enhance UIOLI provisions:

An implementation of the UIOLI principle will endanger the currently high security of supply standards and could potentially hinder the relevant capacity holder from fulfilling its delivery obligations towards its counterparties (take or pay/ship or pay).

Nevertheless, we agree that transport agreements must contain provisions which aim at achieving maximum utilization of any contracted capacity and that these agreements must prevent the hoarding of capacity by (dominant) shippers. Consequently we propose the following:

Currently cross-border gas pipelines are often booked as interruptible capacity. By this means the original capacity holder (that initially booked the capacity on a firm basis) will lose the capacity automatically if it is not used for the counterparty that had booked the capacity on an interruptible basis. The initial acquirer of the firm capacity is not being paid for the use by any other market participant of this capacity. In other words the TSO will be paid more than once for the capacity, when he sells it firm and interruptible.

If no interruptible capacity is booked in advance, the original capacity holder will be required to surrender un-utilized capacity at day d-1, and the TSO will re-market that capacity on an interruptible basis. In the event that the shipper which originally held the capacity wishes to utilize the surrendered capacity again, this shipper will then be entitled to do so by making a re-nomination. Consequently the non-firm shipper will have its rights interrupted and the original shipper could make its planned flows.

The TSOs must be required to establish a corresponding online day ahead booking system. The UIOLI-Principle should be enhanced into a UIOGPFI-Principle (use it or get paid for it) for a case where the shipper whose capacity was surrendered as part of the UIOLI regime will receive a credit if the TSO subsequently resells that capacity. Thus the TSO is in an equal position than if the UIOLI had not been exercised.

*Comment on possible (positive) incentives for shippers to offer capacity on the secondary market:*

Beside the incentives described above, it must additionally be ensured that the tariffs can always be adjusted to the actual market price level. This adjustment procedure must explicitly include the possibility to adjust the tariff to a level that is higher but also lower than the initial tariff from the primary market. This possibility grants the primary capacity holder the right for adequately pricing in the future risk of unused capacity.

For a long term capacity transfer, the initial capacity holder must be completely released from his obligations towards the TSOs (liabilities, payments, nomination) provided that the new party entering into the original capacity contract fulfils the TSOs requirements regarding creditworthiness, reliability, etc.

**Consultation Question D:** *Please comment on the further thoughts on the way forward.*

Due to the fact that secondary capacity trading platforms were only set up in the recent past, we believe that a sensible amount of time needs to pass to allow both structures and systems to prove their efficiency and effectiveness. Examples for the recently established systems are the pilot day-ahead auction at Bunde/Oude/Ellund and the above mentioned internet based platforms (trac-x, store-x).

**Consultation Question E:** *Please feel free to provide us with additional comments.*

To enable a cross border capacity market, the TSOs (as the natural seller of transmission rights) should firmly offer the maximum of the attainable capacity, that at the same time allows for all long term import contracts to be fulfilled. In case of congestion, the TSOs must buy back the needed capacity on the secondary market or must be obliged to compensate the capacity holders at the full cross border spread for the capacity curtailed. In this context it is essential that these principals are flanked by the creation of a standardized market framework and a standard bilateral contractual framework. There is also an essential need for the corresponding standard IT-platforms and intensive cooperation between TSOs for this logic to work.

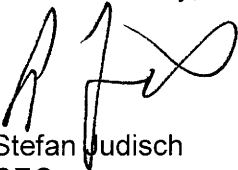
RWE believes the following issues also need to be addressed:

- the capacity market for balancing services is for the most part non-existent at present
- the low level of standardization prohibits effective business in the various sub-markets
- there is no transparency on the capacity becoming available (through new build, expansion or expiration of contract of existing capacity), the TSO must be obliged to announce any availability in advance (e.g. one year)

- In the event that a capacity holder booked capacity for balancing reasons, this reservation will stay with the capacity holder; because of the uncertainty of how much will be needed. The capacity holder must nevertheless have the right to transfer this capacity to other market participants (as described above)
- In order to meet the single daily capacity needs for balancing services and in order to optimize the respective gas flows, the capacity holder can offer un-needed capacity for balancing services on the secondary intra day and/or day ahead market.

We hope that you will find our statements useful and that they will find their way into further considerations and suggestions. We are available to actively provide additional input into the process.

Yours sincerely,



Stefan Judisch  
CEO  
RWE Gas Midstream GmbH