



European Federation of Local Energy Companies  
Confédération Européenne des Entreprises Locales d'Énergie

B2/Avis/090327

## **CEDEC POSITION PAPER**

### **EREG principles : Capacity allocation and congestion management in natural gas transmission networks**

#### **An EREG Public Consultation Document**

##### **General observations**

CEDEC defends, at European level, the interests of local energy companies. Through its members - among which VKU (Germany), Federutility (Italy), Anroc, Fncr and Fnsicae (France), Intermixt and Inter-Regies(Belgium) - CEDEC represents 2000 companies with a total turnover of about 100 billion Euros and more than 250.000 employees.

The predominantly medium-sized local energy companies have developed activities as electricity and heat producers, electricity and gas distribution system operators and suppliers, and are of considerable importance for regional economic development.

As (local) suppliers of natural gas, they need to dispose of a balanced gas portfolio which explains their need for an integrated and liquid European gas market.

Therefore, as explained in more detail in answer to the question of the consultation, concrete solutions need to be developed for the current problems related to capacity allocation and congestion management. Additional aspects such as management of line pack and of reverse-flow on interconnection networks should equally be considered.

##### **Answers on consultation questions**

1. Do you agree with the problems that EREG has identified with capacity allocation and congestion management? Are there other aspects that should be taken into account?
---

We agree with the main ideas of the consultation document that, through the establishment of an organic framework of guidelines, is aimed at the future sharing of an European network code, which is a necessary condition for the birth of an integrated and liquid European gas market.

We also agree with the problems outlined in the document related to capacity allocation and congestion management. However, EREG document does not consider two aspects of the management of transport networks that could increase both efficiency in the capacity

management and a greater liquidity of the markets. We refer especially to :

1. Reverse – flow management of european interconnection networks;
2. Pipelines management of line-pack as an instrument of further operational flexibility.

At last it is important to call ERGEG attention to the following issues:

- considering the perspective development of re-gasification capacity in Europe, it would be more appropriate to extend the applicability of Regulation 1775/2005 also to LNG terminals;
- we express particular interest in the proposed opportunities for NRA to adopt asymmetric regulatory measures to avoid any potential abuse of dominant position; this is a very useful tool for pro-competitive purpose;
- the concept of harmonization of rules and procedures between TSOs should be more "stressed" particularly in view of a progressive elimination of informational asymmetries.

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?

We agree with the approach of the ERGEG proposals even if we consider that the main aim for better congestion management should be to give an economic signal to TSO for increasing the capacity available to shippers. From this point of view, the proposals outlined in this document may certainly have an indirect effect on the development of interconnection capacity, but this effect must be necessarily managed by other policies aimed at developing an efficient network.

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)?

Basically we agree with ERGEG view. The iniquity of FCFS is unquestionable, particularly in the gas transport network system where are concomitant the congestion of networks and the integration between the TSO and the dominant players in the domestic markets.

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)?

Currently, the capacity product that could be of greater interest to the shippers is the bundled one, because it is able to ensure a less costly management of transport contracts and to provide greater transparency in terms of the feasibility of the transport commodity.

In the medium and long term view of a potential entrant, who wants to consolidate the portfolio of customers, is essential to be able to have a stable and long-term transport capacity; this would enhance new entrants which will ultimately increase the competition in the final gas market. Anyway we confirm the principle that the long term booked capacity, not systematically used, has to be put back on the market.

5. What is the role of secondary capacity trading?

The main role of the secondary capacity market should be to contribute to an effective management of unused capacity; the operators that don't need capacity are encouraged to make it available to those who need it.

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?

The proposed measures may actually contribute to improve the availability of capacity continuously and at the same time it could improve congestion management in the short and long term. As mentioned above, however, the main goal of regulation should be to encourage the development of the networks and to create an adequate reserve of spare capacity. The use of these tools alone cannot achieve this purpose.

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

As far of a more efficient allocation of transport capacity and better management of congestions, we consider that the proposals outlined in the ERGEG document identify many of the existing criticism and represent an appropriate contribution to the resolution of these issues.

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

The document seems to be more focused on the needs of traders rather than those who want to enter the market as a supplier to end users. We argue that the latter approach should be preferred to facilitate access to a long-term and stable transport capacity and focused on cross-border import pipelines. In order to avoid anti-competitive behaviors (Hoarding capacity) is important the implementation of UIOLI and the implementation by the TSOs of secondary capacity markets: this would create the preconditions for a system of optimal management of transport capacity.

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

The proposed measures are included among general measures which should be taken to develop more liquid gas markets. Nowadays, however, given the structure of gas markets in

Europe, these measures will affect only a small part of the liquidity of the market so we consider important to address more structural measures. (also see answer to question 1).

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

We consider very important the compatible booking and operational procedures between adjacent systems.

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

Please refer to the answers above.

---