

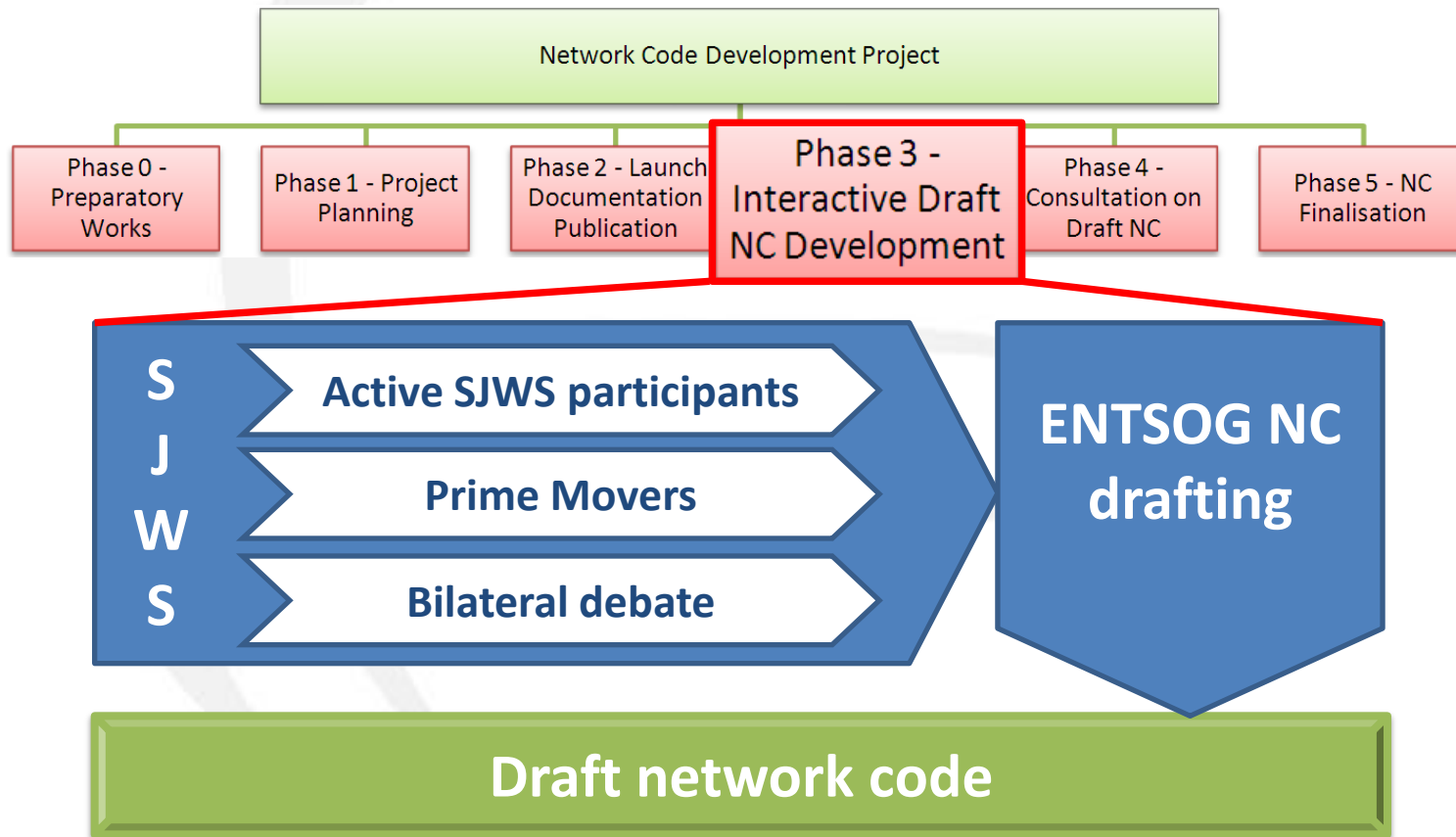


CAM network code development - Stakeholder Joint Working Session 1 -

Brussels – 6th April 2011

SJWS 1 – Opening and Introduction

ENTSOG's approach to the NC development



SJWS 1 – Opening and Introduction

Role of SJWS participants

- Stakeholders to provide views on concepts
 - Generate understanding of all positions
 - Debate on views with aim to reach supported solution
- Process relies on active stakeholder participation
- Prime Movers to facilitate discussion



SJWS 1 – Opening and Introduction

CAM concepts to be discussed

- ERGEG's CAM framework guideline is basis for ENTSOG concepts
- Launch documentation published on 21st of March 2011

➔ Discussion with market and drafting of the network code

#	Date	Remarks	Topic to be tackled
1	6 th April 2011	SJWS 1	Bundling and platforms
2	21 st April 2011	SJWS 2	Auctions
3	4 th May 2011	SJWS 3	Within-day allocation and interruptible capacity
4	19 th May 2011	SJWS 4	Wrap-up

SJWS 1: Bundled services, virtual IPs and booking platforms

SJWS 1 – Opening and Introduction

Agenda

No.	Description	Time
2.	ERGEG expectation - Benoit Esnault	10.25 – 10.45
3.	Bundling and Virtual Interconnection Points	10.45 – 11.45
	Coffee Break	11.45 – 12.00
4.	Booking platforms	12.00 – 12.30
5.	View of the Prime Movers	12.30 – 13.00
	Lunch Break	13.00 – 14.00
6.	Stakeholder consideration - Eurogas	14.00 – 14.30
7.	Open discussion	14.30 – 15.30
	Coffee Break	15.30 – 15.50
8.	Summing up and conclusion	15.50 – 16.00



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Bundling & Platforms

Brussels – 6th April 2011

1. Bundling of firm capacities

- at Interconnection Points and

- at Virtual Interconnection points

Bundling of firm capacities at IPs

Content of presentation

1. ERGEG CAM framework guideline on bundling
2. Specific assumptions towards the work on bundling
3. ENTSOG's bundling concept
4. Concept advantages & considerations
5. Reasoning
6. Nomination towards bundled capacity
7. Bundling in the transitional period

ERGEG framework guideline on bundling



Revised Pilot Framework Guideline on Capacity Allocation Mechanisms

E10-GWG-71-03
7 December 2010

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2.4.1 Bundled services

“The network code shall set out that transmission system operators jointly offer bundled firm capacity services. The corresponding exit and entry capacity available at both sides of every point connecting adjacent entry-exit systems shall be integrated in such a way that the transport of gas from one system to an adjacent system is provided on the basis of a single allocation procedure and single nomination

In order to progressively bundle the entire technical capacity at a given interconnection point, capacity becoming available on one side of an interconnection point exceeding the available capacity on the other side of the interconnection point shall be allocated for a duration not exceeding the expiration date of the corresponding capacity on the other side of the border.”

Specific assumptions on bundling

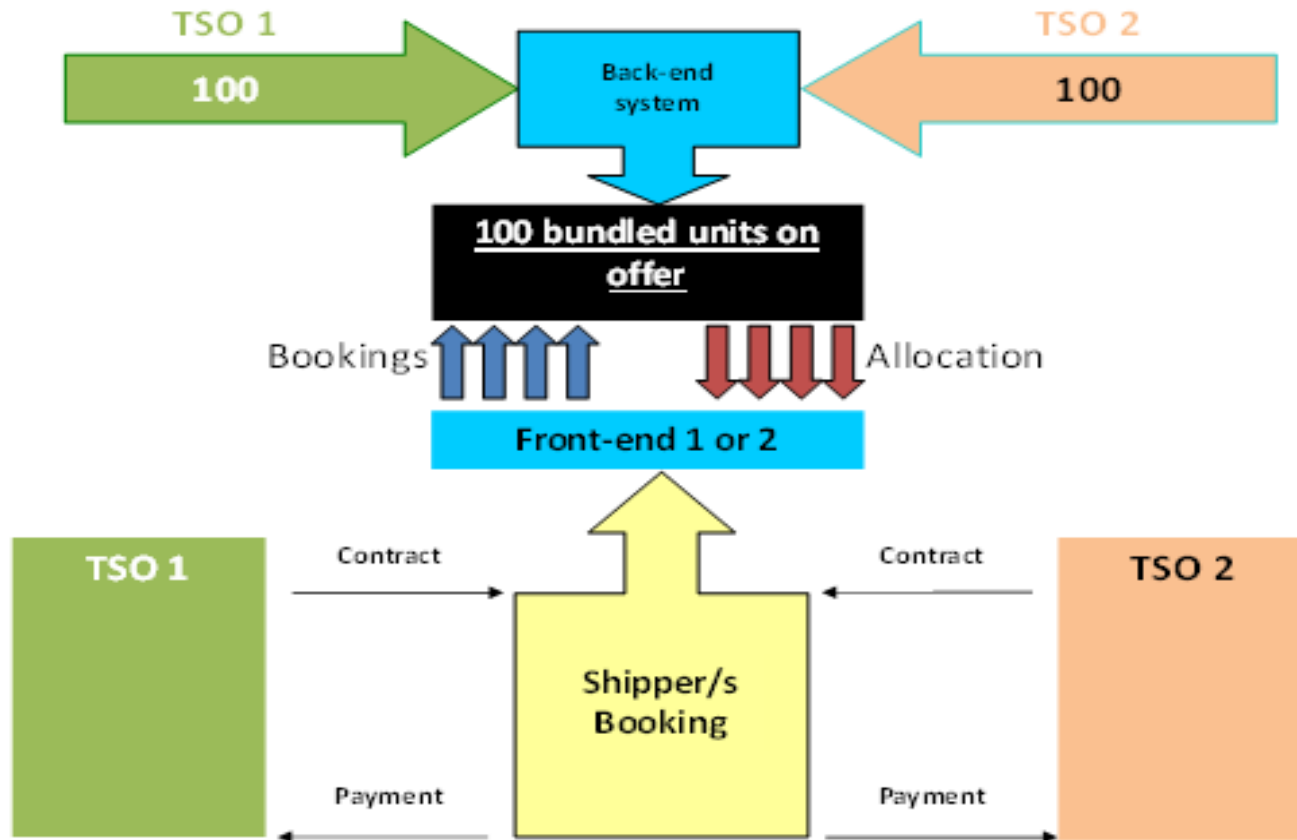
- Only firm capacity is subject to bundling
 - Framework guideline state that interruptible capacities are to be aligned, not bundled
- The bundling concept is subject to all capacity service durations
 - Requirement from framework guideline
- Only the lowest of the two firm available capacities at a specific IP can be bundled
 - Part of bundling concept described in this presentation
- TSOs must be allowed (under confidentiality agreements) to share shippers' commercially sensitive information for the purpose of offering bundled services with co-operating TSOs
 - Required to enable bundling

ENTSOG's target for the bundling concept

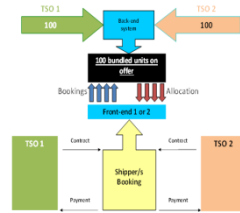
The bundling concept should:

- Be developed with a focus on user requirements
- Be based on close co-operation between adjacent TSOs
- Be created without unnecessary complexity
- Defined to fit with the final platform solution

ENTSOG's bundling concept



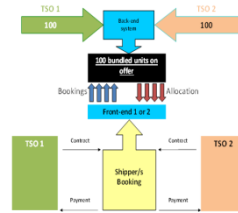
Bundling concept - advantages



Advantages

- Shippers to book a complete bundled capacity service in one process
 - Via a joint auction
 - Via one IT interface
- The bundling concept removes
 - The need to buy two separate capacities,
 - The possibility to only being allocated firm/different capacity values on one side of an IP
- No stranded capacity in the shipper's capacity portfolios
- Reduces the level complexity to enable a practicable methodology

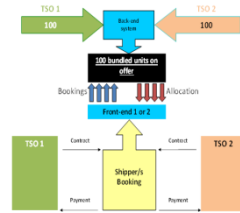
Bundling concept – Considerations



Considerations

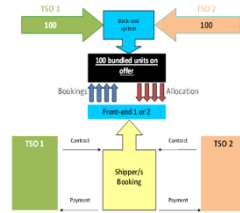
- Shippers will receive two capacity contracts for one bundled service
- The shipper will have to be registered on both sides of an IP/VIP
- According to ERGEG's Impact Assessment bundling of all capacity should prohibit trading of gas at IPs
- As a consequence, bundled capacity must also be sold as bundled capacity on the secondary market (no possibility to split up capacity)

Definition of bundling approaches



- “Full” bundling model
 - Only 1 seller/owner of capacity at an IP
- The ENTSOG bundling model
 - As described above
- Coordinated capacities
 - Capacities are sold coordinated but not bundled

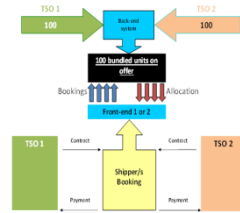
Bundling concept – reasoning



“Full” bundling model compared to ENTSOG model

- A “full” bundling model would require a huge structural change of the whole gas market, as only one party (1 specific TSO or a third party) can market and sell the capacity at an IP
- A “full” bundling model is not in line with adjacent TSO corporation part of FG
 - Full ownership in stead of corporation
- A “full” model would create great market uncertainty due to:
 - Taxation and legal differences between TSOs
 - Total change in ownership and marketing of capacity
 - Differences in liability and tariffs
 - Existing contracts would have to be deleted, in order to change the ownership of capacity at IP’s

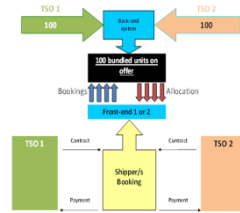
Bundling concept – reasoning



- The bundling model suggested by ENTSOG meets the requirements of the Framework Guideline and the Impact Assessment
 - No gas trading at IPs
 - One booking = one bundled capacity
 - One flow nomination
- To allow a practicable solution (avoidance of unnecessary complexity), shippers will receive separate invoices

ENTSOG's approach is considered to solve the requirements of the framework guideline and is developed considering the users needs

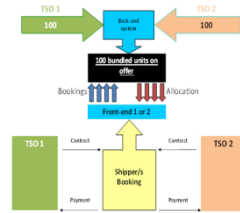
Bundling concept - nomination



Nominations

- According to FG the flow nomination for bundled capacity should be via a single nomination
 - A single nomination is considered as a nomination uniformly submitted to both involved TSOs
- Adjacent TSOs verify in the matching procedure to check that the same shipper is sending the nomination to both TSOs
 - To prevent FG requirement on no trading of gas at IPs
- It should also be possible for adjacent TSOs to only require shippers to nominate towards the “matching responsible TSO”, if both adjacent TSOs agree to this arrangement.

Bundling concept – transitional period



ERGEG framework guideline

“Capacity becoming available on one side of an IP exceeding the available capacity on the other side of the IP shall be allocated for a duration not exceeding the expiration date of the corresponding capacity on the other side of the border”

- ENTSOG suggests a coordination of this process by the adjacent TSOs at each Interconnection Point

1. Bundling of firm capacities

- at Interconnection Points and

- at Virtual Interconnection points

Bundling at virtual interconnection points

Content of presentation

1. ERGEG CAM framework guidelines on VIPs
2. ENTSOG interpretation of a VIP
3. Advantages & considerations of VIPs
4. ENTSOG suggestion for VIPs

ERGEG framework guideline on VIPs



Revised Pilot Framework Guideline on Capacity Allocation Mechanisms

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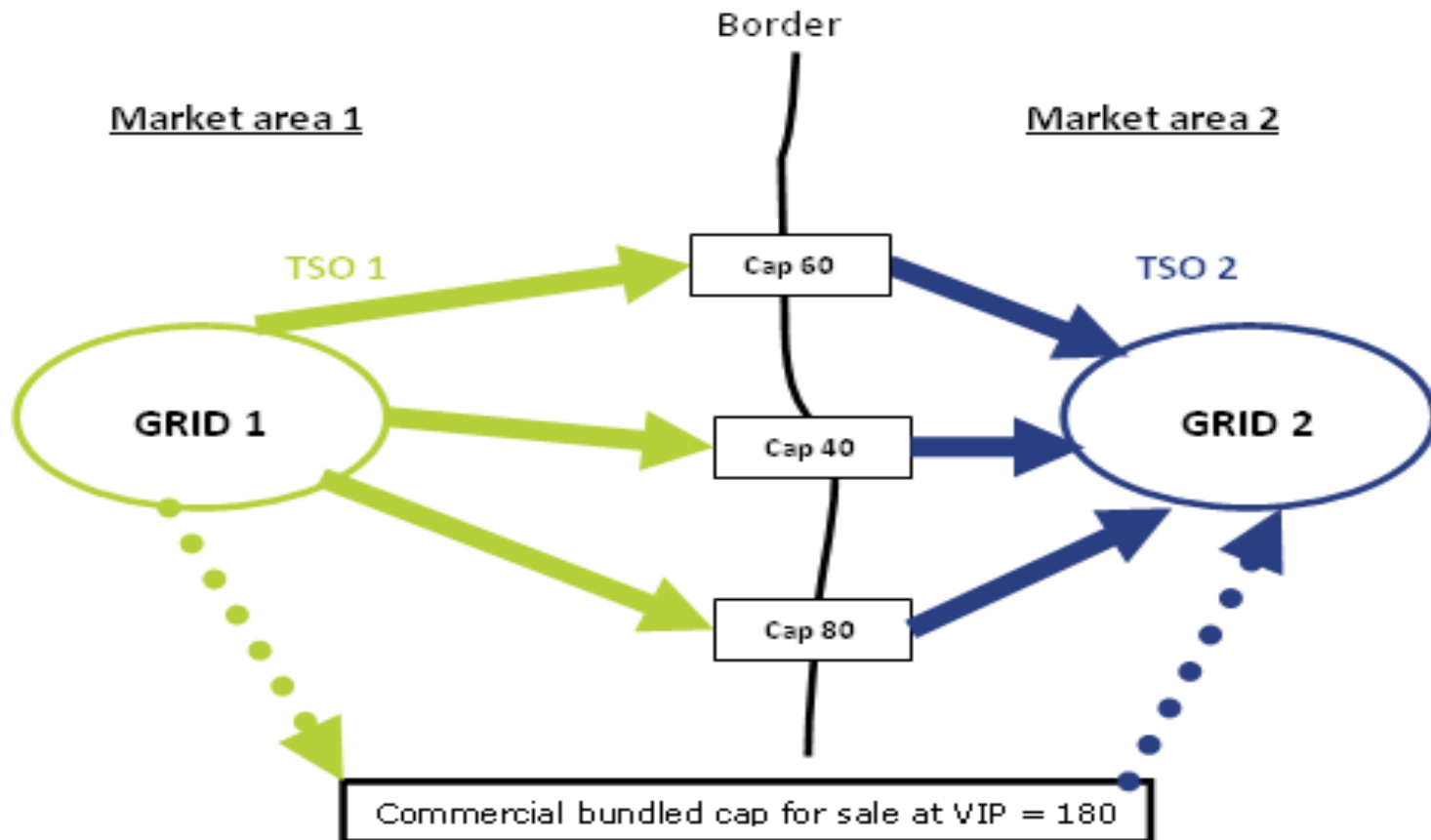
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2.4.3 Virtual interconnection point

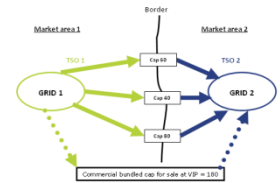
“The network code shall also set out that capacity at two or more points connecting the two same adjacent entry-exit systems is integrated into one single capacity service representing one virtual interconnection point. Transmission system operators shall calculate the entire technical capacity of the integrated service.”

Virtual interconnection points have to be established five years after the entry into force of the network code at the latest, insofar as the technical capacity resulting and at any virtual interconnection point is not lower than the sum of the previously separate bundled capacity products.”

ENTSOG interpretation of VIPs



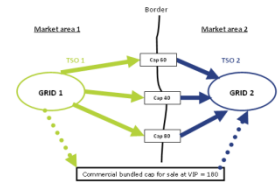
VIPs- advantages



Advantages

- Shippers only have to
 - book firm capacity at one bundled virtual point
 - to nominate at one bundled virtual point

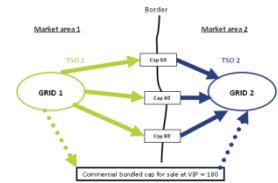
VIPs- considerations of concept



Considerations

- High degree of planning needed between TSOs
- The physical network characteristics can make VIPs very challenging or even impossible to establish
- Users are faced with less transparency on congestions when the physical IPs are removed and merged to one VIP
- VIPs may result in differences in the allocation of operational costs between adjacent TSOs

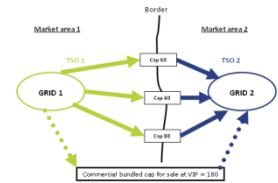
VIPs- cross subject considerations



Balancing implications

- The application of Virtual IPs will
 - Increase the role of the TSO in balancing
 - Limit the possibilities for network users to offer flexible gas to the TSO for balancing purposes
- Thereby, the philosophy of a market based approach for balancing will be reduced

VIPs- cross subject considerations

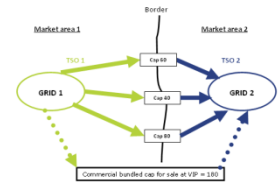


Tariffs

- Location of an IP is important for the tariff with regards to cost-reflectivity
- Lack of locational pricing is an impediment to efficient cross-border trade (according to e.g. KEMA study on tariffs and balancing)
- Appropriate locational pricing is believed to enhance tariff cost-reflectivity

With VIPs such locational pricing would be relinquished

VIPs – ENTSOG suggestion for NC



- ENTSOG suggests that VIPs could be established where two adjacent TSOs' calculation shows that the total amount of firm technical capacity will be equal to or higher than having the respective IPs separated
- TSOs are entitled to calculate the possible capacity for a VIP in time to implement five years after the entry into force of the CAM network code

VIPs should only be established where it is technically and economically feasible

2. Booking Platforms

Booking platforms

Content of presentation

1. ERGEG CAM framework guidelines on booking platforms
2. Purposes
3. Suggestion 1
4. Suggestion 2
5. Suggestion 3
6. ENTSOG suggestion for booking platform

ERGEG framework guideline on platforms



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3.3 Booking platforms

“The network code shall set out that adjacent transmission system operators establish joint, anonymous, web-based platforms for primary capacity allocation and secondary capacity trading. All capacity connecting their systems is to be allocated via this platform, unless allocated by means of implicit auctions. Primary and secondary capacity services shall be offered and allocated jointly on these platforms.”

The network code shall lay down an action plan to reduce the number of platforms. This plan shall define interim steps and shall include a timetable.”

Booking platforms - purposes

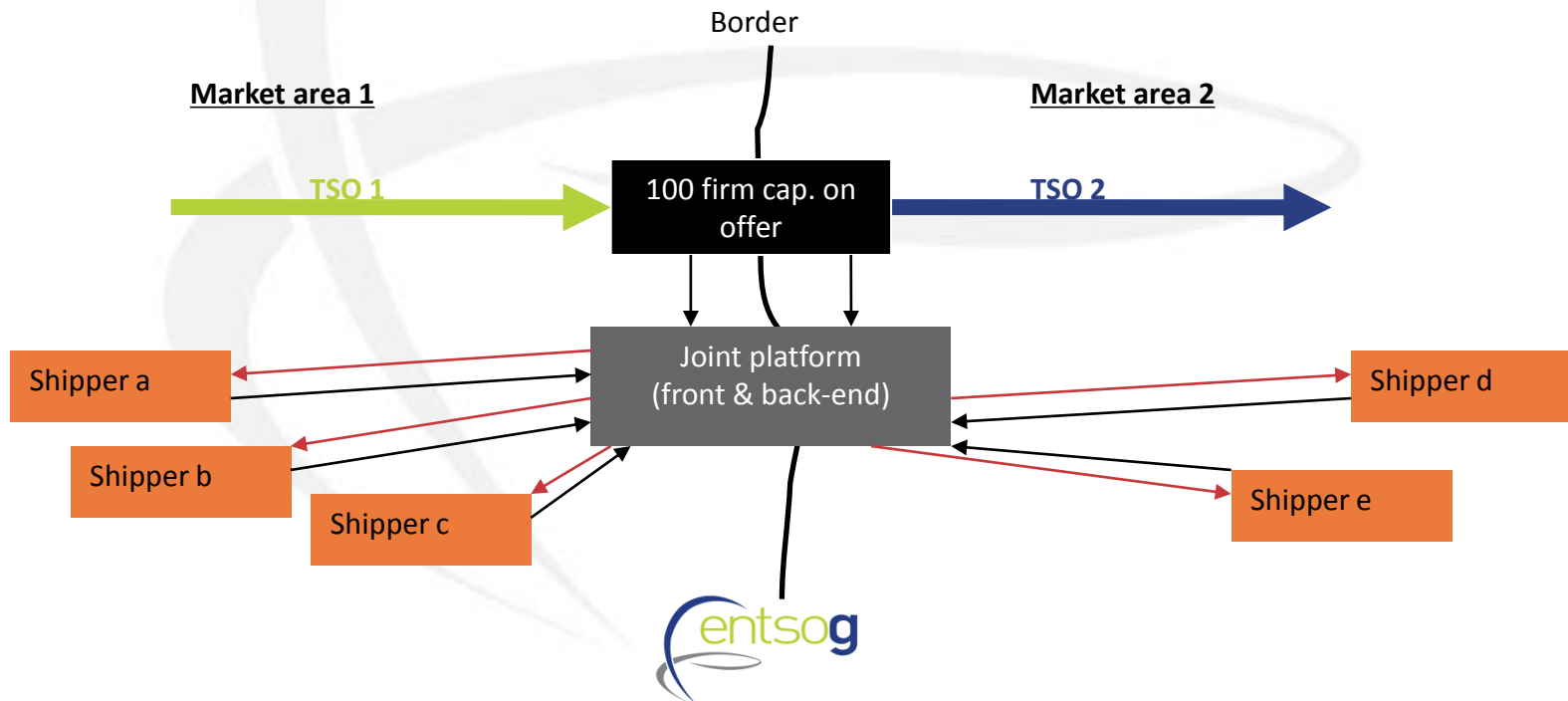
Purpose of joint booking platforms

- To be able to offer a primary joint bundled capacity product at interconnection points and/or VIPs
- To perform a joint allocation of capacity
- To ease the booking of capacity for market players
- To facilitate the exchanges of capacity in the secondary market

Booking platforms – suggestion 1

Platform for each TSO/country/IP

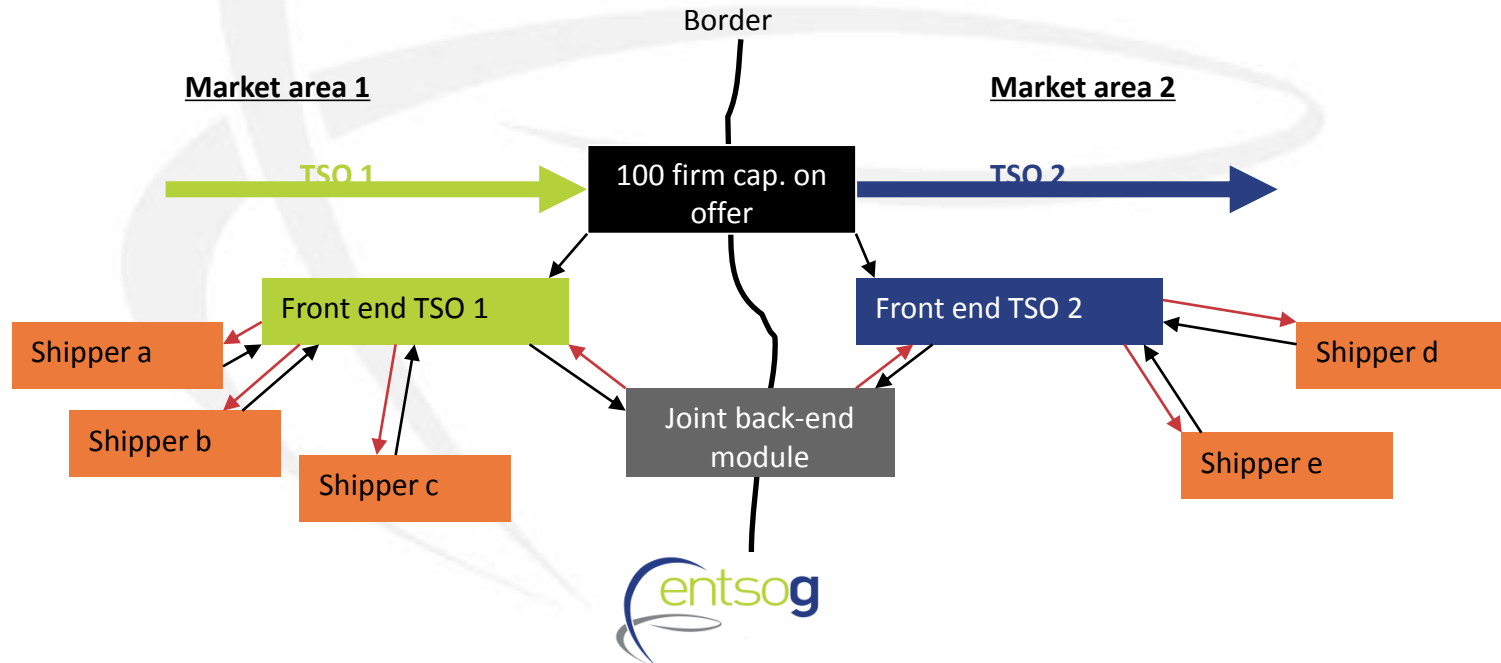
- Platforms could be established for every IP; or per country; or for each TSO
- Separate IP platforms cover market needs
- Bundling only performed on capacities becoming free when old contracts expire



Booking platforms – suggestion 2a

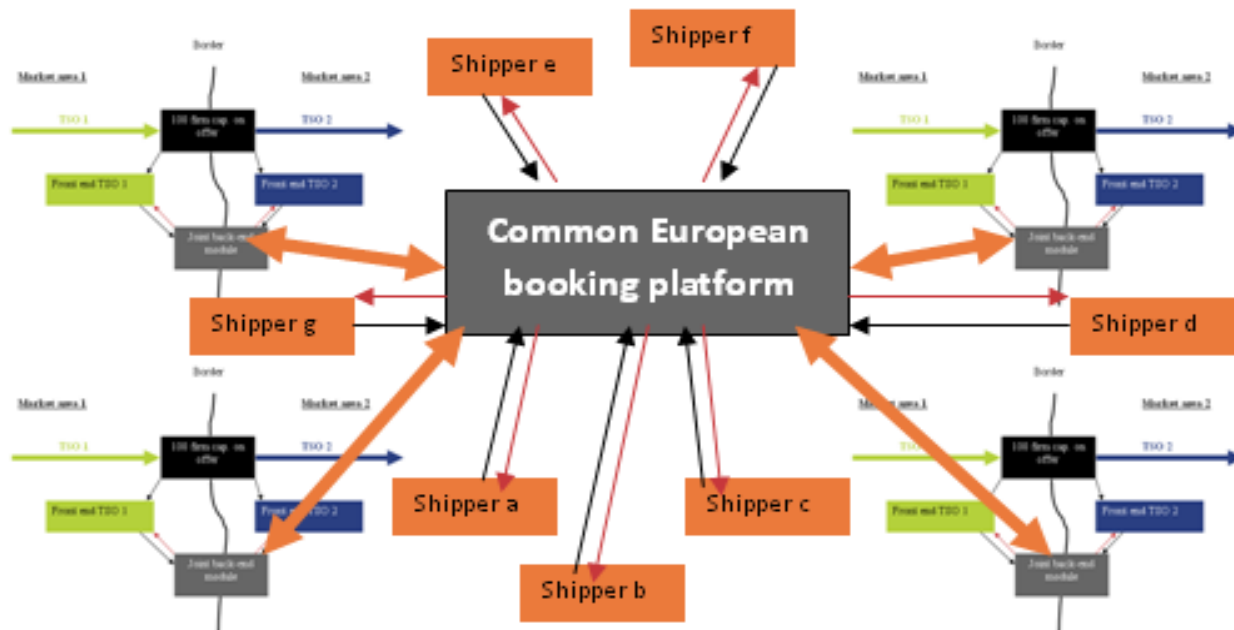
Common EU booking platform, based on a step solution

- Market values a common European platform
- Joint back-end modules can be developed with common communication procedures which could make an EU platform possible as a Step 2 if needed
- Significant bundled capacity to be booked



Booking platforms – suggestion 2b

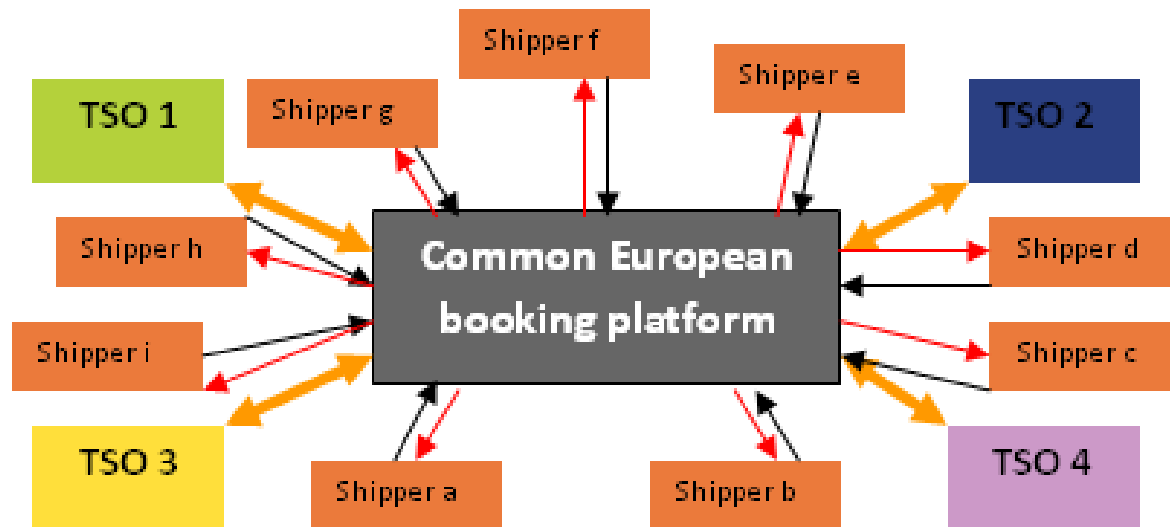
Step 2; common platform communicating with all back-end systems



Booking platforms – suggestion 3

Common EU booking platform (both front-end and back-end):

- Market highly values a common European platform
- Time to develop the concept for one platform
- Considered more cost efficient than suggestions 1 and 2



Booking platforms – ENTSOG suggestion

Platform solution depends on market needs

- What would be “nice to have” vs. what is needed to have?
- What are the costs vs. what are the benefits?
- How will shippers book capacity?
 - One shipper entity booking in all of EU? or
 - Are roles split up into daughter companies for each country/region?

ENTSOG suggests working on a simple IP per IP model in the short term, and to deliver an action plan to reduce the number of platforms, as stated in FG

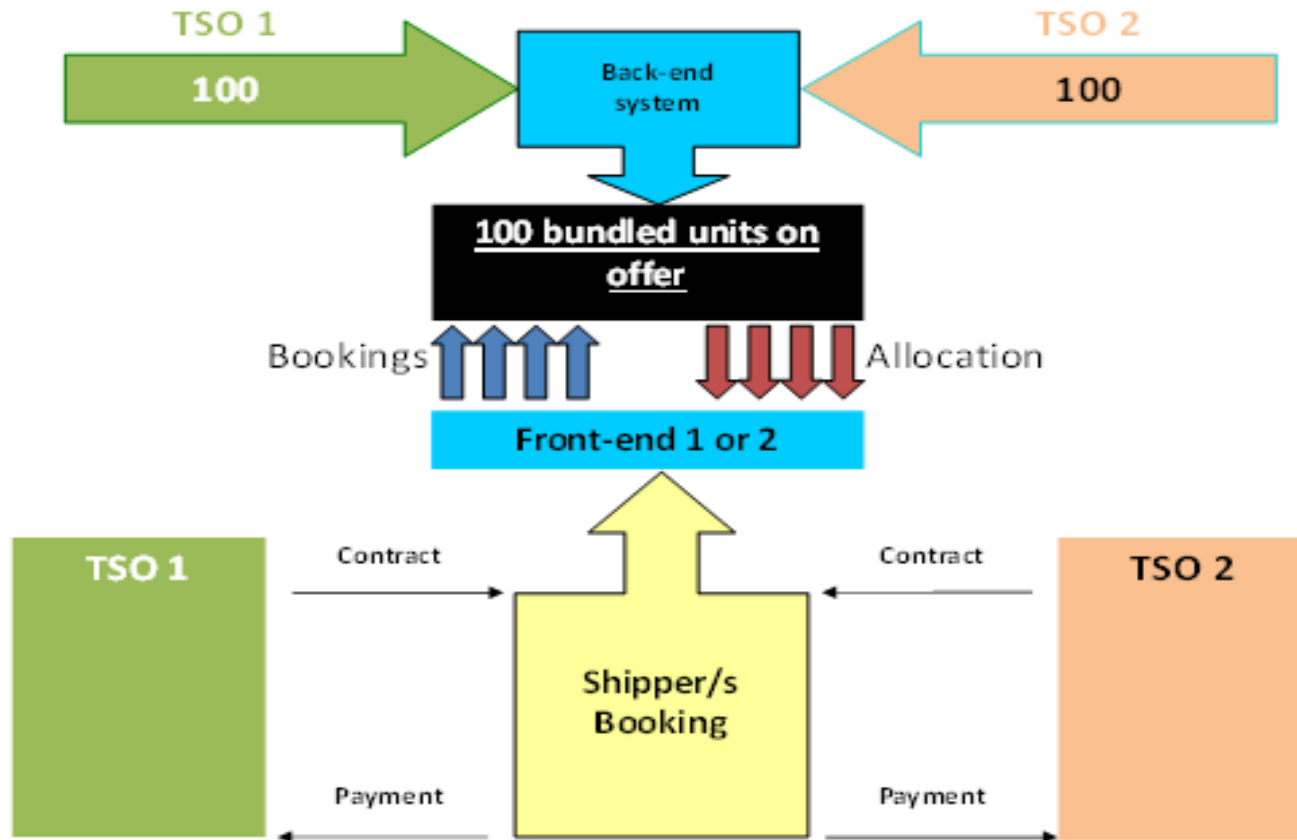


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Summing up – SJWS 1

Brussels – 6th April 2011

Summary of bundling concept



Summary of bundling concept

Key characteristics of concept

- Capacity (bundled service) request via one joint auction
 - Same level of capacity allocated on both sides – no stranded capacity
- Uniform nomination resulting in no flange trading (respecting ERGEG's framework guideline)
- Developed with focus on user needs: coordinated capacity, timing, type, etc.
- Feasible model fully coordinated via two contracts (invoices etc.)
- Avoids: tax issues, liability questions, legal issues, complexity

Conclusion of debate on bundling concept

Main points of discussion

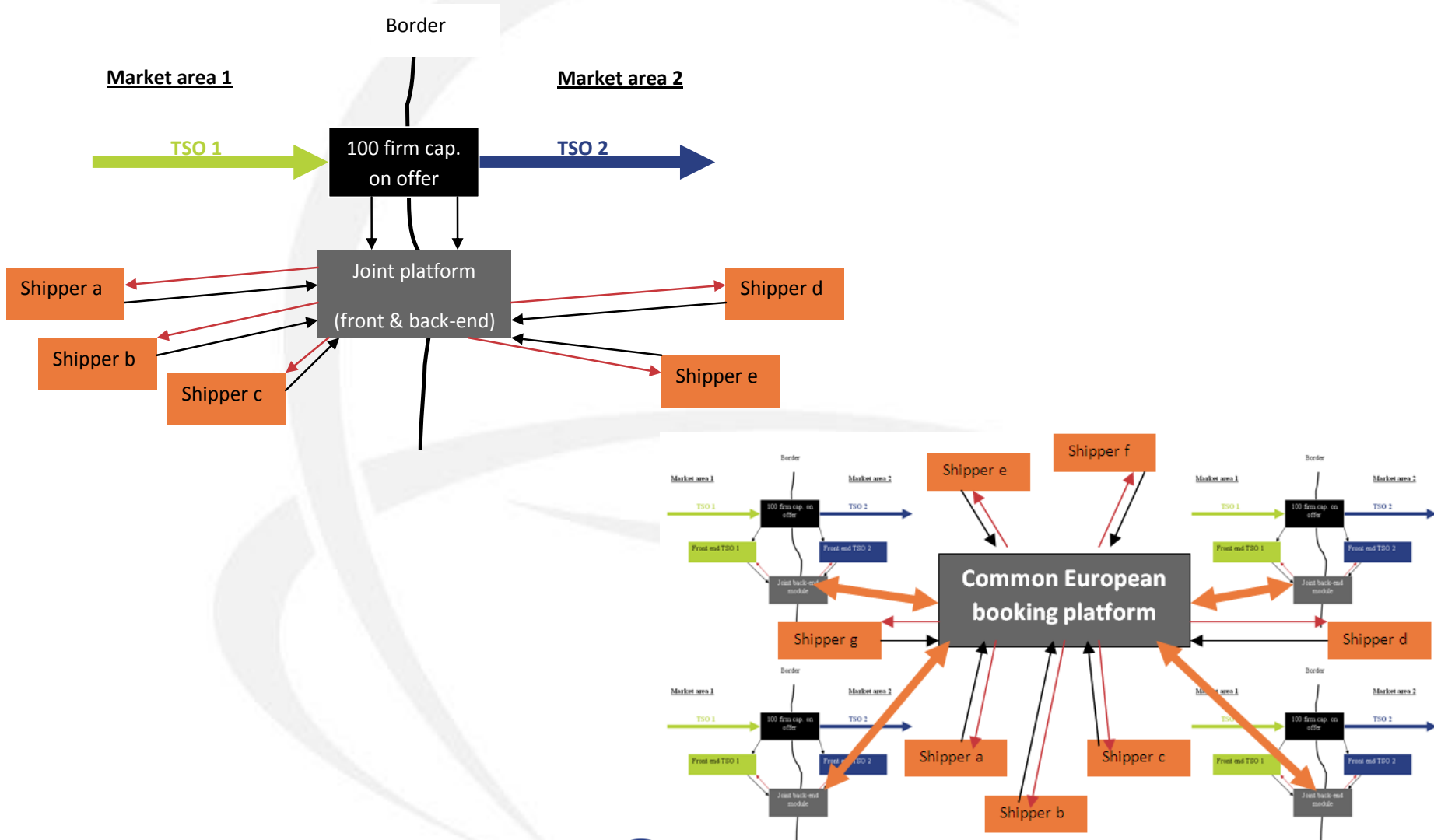
- ENTSOG model describes the sale of capacity available on both sides
 - Differences of capacity level during the transition phase remaining at both sides treated via: smeared forward to short term / recycled as interruptible / re-localised to other IPs / sold as unbundled
- Interest for one single nomination managed by the TSOs highlighted (recognising existing unbundled products during transition)
- Interest for ENTSOG providing a list of relevant virt. IPs requested
- Two-contract model allows for progressive implementation while limiting complexity associated with a single contractual framework

• Preference raised to allow market to choose where to trade gas (bundling as an option)

• Great concerns raised on obligation to offer exclusive bundled products (sunset clause under discussion)

- → ENTSOG has to take an assumption

Summary of booking platforms



Summary of booking platforms

Key characteristics of concepts

- Different platform approaches described
 - Start: platforms for each TSO/country/IP
 - End: common European platform
- Reducing platforms along with the development
- Market demand should drive the decision
- Facilitates bundling and joint allocation methods/procedure at borders
- Promotes cooperation of adjacent TSOs
- Development /or decision on /of platform option/step should focus on need to have and based on cost/benefit

Conclusion of debate on booking platforms

Main points of discuss

- Recognition of complexity, required time and challenge to set-up a pan-European Platform
 - EU platform preferred over managing numerous IP-specific solutions
 - Trade-off to be solved between early implementation of harmonised auctions and pan-European platform development

Complexity to establish a common approach recognised

- Standardised procedures/front-office is a must-have
 - Anyhow, NC focuses on standardisation of commercial aspects
- Interest raised on the harmonisation of back-office matters (as subsequent steps)

Commission, ACER, MSs, market and ENTSOG to work together



ENTSOG

