

ENTSO-G CAM network code

- Stakeholder Joint Working Session 1 -

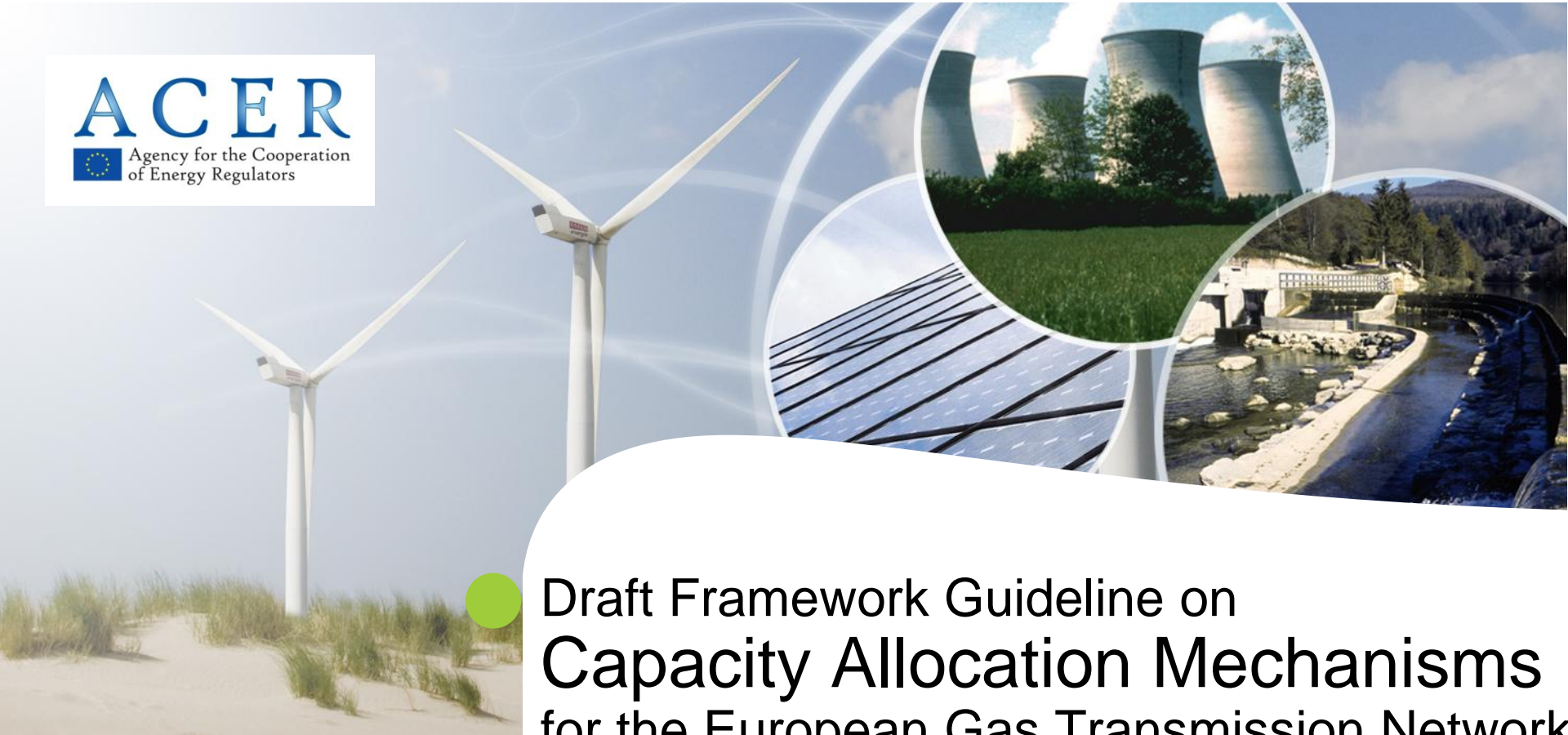
Slides presented by the session
participants

- **ACER**
- **Prime Mover group**
- **Eurogas**
- **Europex**

ACER

ACER

Agency for the Cooperation
of Energy Regulators



● Draft Framework Guideline on
Capacity Allocation Mechanisms
for the European Gas Transmission Network
Focus on bundled products

Benoît Esnault (CRE)

ENTSOG Workshop on bundled products
Brussels, 6 April 2011

● Introduction

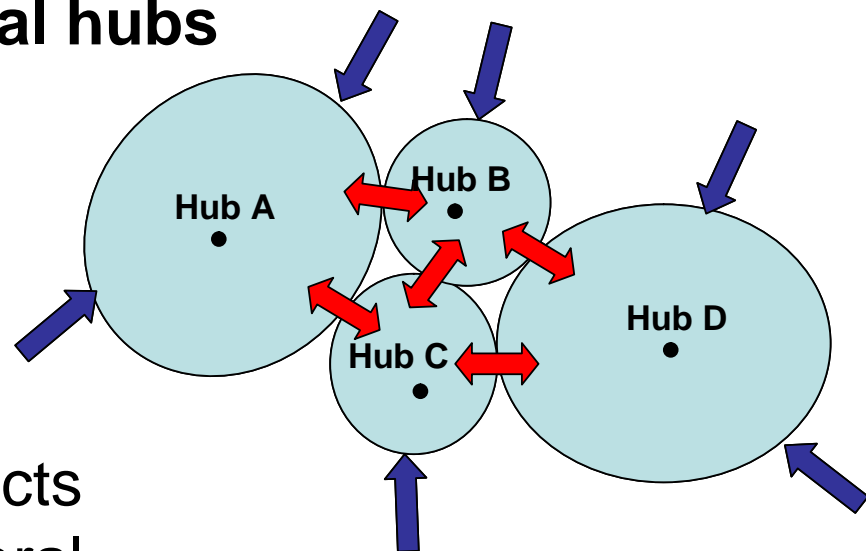
- During the “**transition period**”, ERGEG assumed the role assigned to ACER by the 3rd package and worked on “pilot” Framework Guidelines
- **CAM context**: need to improve the access to cross border points
 - » Different allocation rules on the two sides of borders
 - » Different types of capacity products
 - » Domination of First Come First Served
- Timeline
 - » 1st ERGEG FG in June 2010
 - » 2nd ERGEG FG in Dec 2010 following EC requests
 - » March 2011, Draft ACER FG for consultation

- Key points of the FG in its current version (1)
 - **Scope of the Framework guideline:**
interconnection points between entry-exit zones **within** the EU
 - Drafting the guideline required developing a **“target model”**
 - » **Simplified access** to interconnections
 - » Proper balance between **short and long term**
 - » Developing **hub liquidity**
 - TSO cooperation is key to the development of the proposed market organisation

● Key points of the FG in its current version (2)

● General principles

- » All market areas organized as **entry-exit zones** with **virtual hubs**
- » **Limited number** of capacity products
- » Regular offer of capacity
- » Capacity allocation by **auctions**
- » **Bundling** of capacity products
- » **Contractual IPs** when several physical IPs between two zones



- Bundled products in the framework guideline (1)
 - 2.4.1 Bundled services
 - » “Single allocation procedure and single nomination”
 - » Progressive bundling when capacity becomes available
 - » TSOs “shall seek to maximise the bundled capacity”
 - » TSOs shall accelerate the bundling by “encouraging their network users to free up their capacity (...) before its expiration date”

- Bundled products in the framework guideline (2)
 - 2.4.2 Amendment of existing contracts
 - » Mandatory bundling of all the technical capacity within five years for shippers
 - » Priority to voluntary agreements
 - » Default rule: if no agreement, TSOs are entitled to split the bundled capacity between original capacity holders proportionally to their capacity rights
 - » Should not entitle contracting parties to cancel supply contracts
- ➔ Specific CEER impact assessment on the sunset clause and the default rule

- Bundled products in the framework guideline (3)
 - 2.4.3 Virtual interconnection points
 - » Capacity at two or more points connecting two adjacent entry-exit systems is integrated into one single capacity service
 - » Virtual interconnection points should not lead to a reduction of capacity
 - 3.3 Booking platforms
 - » Joint, anonymous, web based platforms for primary and secondary capacity
 - » Action plan to reduce the number of platforms

- Way forward
 - ACER consultation (ongoing)
 - Launch of an impact assessment of the “sunset clause” and the default rule
 - Questions about the potential impact of the “**sunset clause**” and the **associated default rule**: analysis of the legal issues as well as the economic and strategic aspects
 - Study by an independent consultant sponsored by the regulators
 - The work on the target model could have an impact on the final framework guideline



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Prime Mover group

CAM Network Code development

Exclusive and mandatory Bundled Products

Views of prime movers

Issue concerning Sunset clause and Default rule

- **Clause 2.4.2. of ACER's Draft FG for consultation on CAM states :**

The network code(s) shall ensure that existing capacity contracted before the entry into force of legally binding network code(s) shall be bundled no later than five years thereafter.

(Sunset clause)

- **Clause 2.4.2. also states:**

If no agreement on the split of bundled capacity can be reached, the network code(s) shall entitle transmission system operators to split the bundled capacity between the original capacity holders proportionally to their capacity rights.

(Default rule)

- The FG are aimed to support only one exclusive type of trade: hub to hub. Trading at the flange of an interconnection point will not be possible anymore.

- Stakeholders have questioned the legal basis for clause 2.4.2 of FG :

- is it a non-essential element ,
- is it a proportionate measure, and
- is it in line with the 3rd package ?

Legal framework

- The adoption of network codes shall constitute a measure designed **to amend non-essential elements** of Regulation (EC) No. 715/2009 (article 6.11).
- An act of the Community must be **proportionate to the objective** it seeks to attain.
 - According to the Court jurisprudence, to decide whether an act is proportionate requires examining whether the measure is suitable to achieve the desired end, whether it is necessary in the sense that there are no other options available which are less restrictive, and whether it imposes a burden that is excessive in relation to the objective sought.
 - The objectives set out in the 3rd package can be achieved without mandatory bundling of capacities (alternatives exist, such as combined products).
- The goal of the FG (eliminating flange trading) should be included in the 3rd package.
 - Gas Regulation explicitly aims to give network users the freedom to book entry and exit capacity independently (preamble 19 and article 13)
 - Gas Directive is explicit that third party access rules shall not prevent the conclusion of long term contracts (article 32.3).
 - There is no legal basis authorising TSOs to execute the "Default rule".

Bundled product versus Combined product

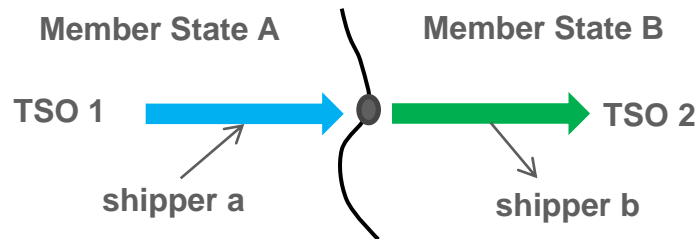
IP Capacity	Nowadays	Bundled Product	Combined Product
Joint booking	no	yes	yes
Joint allocation of the same level of capacity	no	yes	yes
Single nomination	no	yes	possible

Bundled product versus Combined product

- Similar in terms of simplicity of network access and capacity alignment (when a capacity booking is done for a transaction at one point, there is automatically an allocation for the same capacity on each side of the point).
- Combined product allows trading at the flange.
- With combined product, there is still two nominations compared to a single nomination for a bundled product. Nevertheless, the result / the nominated flow will be the same due to the rule “lesser of”.
- There is a positive feedback for combined product: they have given satisfaction to the market players where they already exist (ie : Spain/France and France/Belgium) and have been agreed by the three respective regulators.

Unintended consequences of forced bundling

- Existing supply contracts with delivery at an interconnection point:



- Forced introduction of bundled products would trigger risky and possibly unbalanced renegotiations of long-term gas supply and capacity contracts.
 - Bundling of capacity may affect the value of supply contracts.
 - Application of the "Default rule" is not a value-neutral operation: exit tariff of TSO 1 is generally different from entry tariff of TSO 2.
 - Contract term (and term that tariff is set) may be different for TSO1 and TSO 2.
- Some shippers will also need to apply for a licence in a country where they currently have no business (absent EU shipper licence)
 - With new risk assessment, new network code, ...
 - This will also trigger tax liability in both Member States (and potential ambiguity about profit allocation).

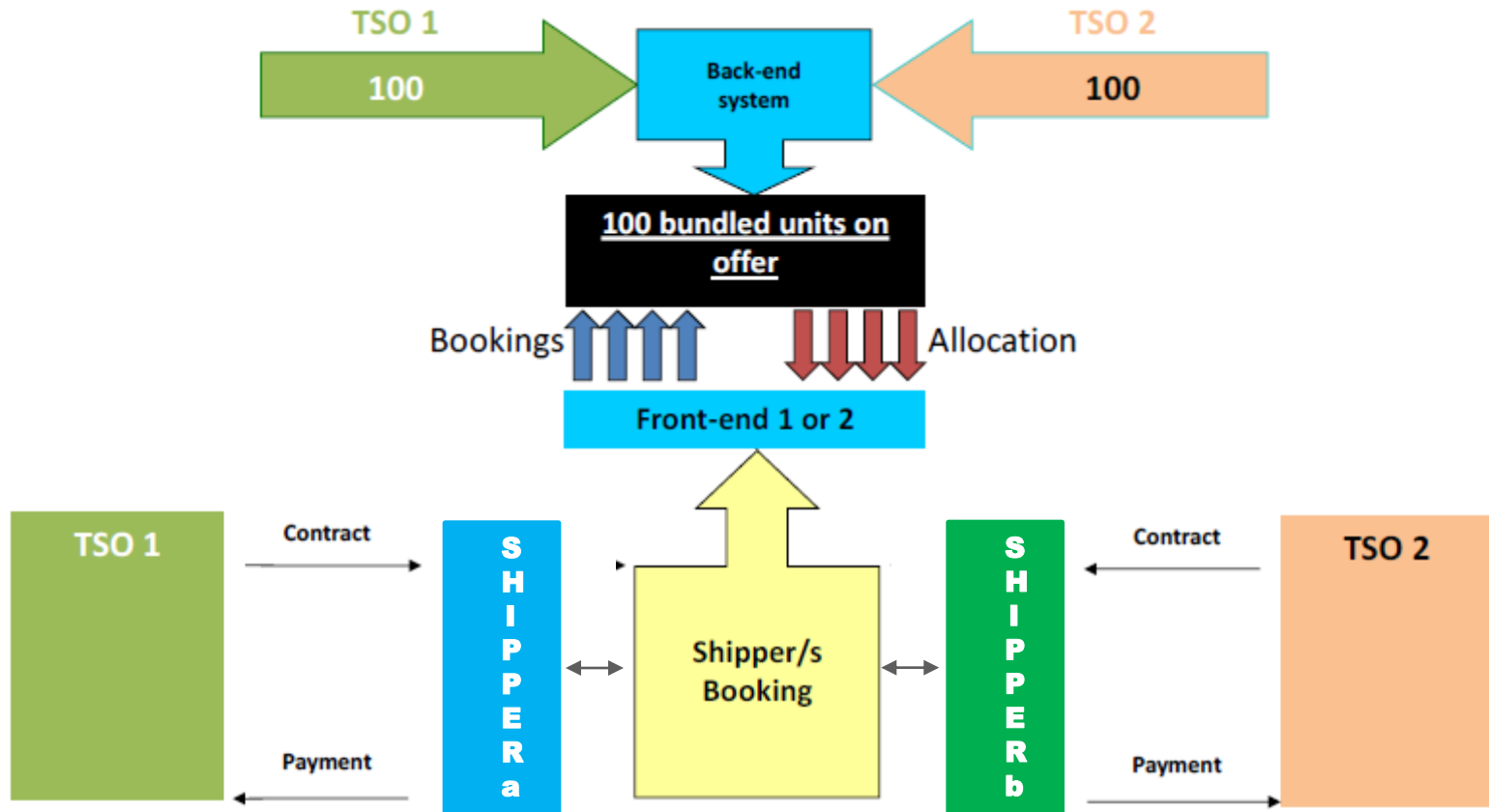
What's next ?

- ACER consultation on the CAM Framework Guidelines through 2nd May 2011.
- A specific Impact Assessment is going to be launched on the Sunset clause and the Default rule.
- Commission to review and adopt the Framework Guidelines.
 - May be impacted by on-going work on the target model.
- Meanwhile ENTSOG is to develop CAM network code.
- Finally the network code needs to be reviewed and adopted through Comitology.
 - Member States get involved at this stage (formally that is).

How should ENTSOG proceed ?

- Stakeholders recommend that CAM network code is flexible to allocate new or unsubscribed capacities as Bundled or Combined product, while also supporting existing supply contracts.
 - In any case this is required for the first 5 years of the network code.
 - In addition, allocation of unbundled capacity also serves a genuine requirement.

Combined service concept



Eurogas

CAM Network Code

ENTSOG Stakeholder Joint Working Session 1

Brussels, 6th April 2011

*Presentation by Mr. Ralf PRESSE
Chairman of the STUC*

euro  **gas**
THE EUROPEAN UNION OF THE NATURAL GAS INDUSTRY

Eurogas views on capacity bundling

- Eurogas supports the rapid development of the integrated market, and supports the objective to develop a more liquid gas market and an emphasis on greater harmonization as suggested by DG ENER/CEER
- Eurogas along with many stakeholders would be happy to see bundled (hub to hub) products as an additional product option to support hub development. However, Eurogas does not support the proposal for an obligatory bundling of capacity as a sole capacity product
- Furthermore it creates legal uncertainties regarding the change of delivery points in existing long term commodity contracts
- It must be sure that no reduction of existing capacity for any shipper will take place via capacity bundling
- The ENTSOG bundling concept considerably reduces the efforts to buy cross-border capacity via one hub-2-hub request (one stop shop)
- Eurogas recognises that the settlement of contracts remains separated

Eurogas views on virtual interconnection point

- Eurogas is still discussing this issue with regards to the running ACER CAM consultation
- The particular objective of integrating capacity at two or more points connecting the two same adjacent entry-exit systems into one single capacity product could prove very complex
- The consequences for shippers would have to be clear in discussions with the responsible TSOs
- It must be sure that no reduction of existing capacity for any shipper will take place via bundling of interconnection points
- If there will be less transparency on congestion via bundling of VIP how will this fit to the new CMP and transparency rules?

Eurogas views on booking platform

- Eurogas has referred to the importance of sound IT systems supporting the future needed developments. A lot of work will need to be done in this area, to ensure cross-border compatible communication procedures and compatibility with shippers' systems
- There should be joint booking platforms for primary and secondary capacity trading, although they would require careful development. The platforms should also provide a clearing service, and publish relevant information on OTCs
- A careful pathway to reduce the booking platforms seems to be an appropriate way but taking into account that general principles have to be harmonized from the very beginning to avoid additional costs if the reduction of booking platforms will take place

Thank you very much for your attention

europex



EUROPE views on Capacity Allocation Mechanisms Bundled products

SJWS 1

6 April 2011

Bundled products

- Develop a liquid and efficient wholesale European Gas Market, where barriers to free trade within Europe are minimized:
 - Triggers competition through the retail market, which final consumers will benefit from
 - Increases security of supply by attracting more market participants to the European market
 - Reinforces price references reliability in the gas market
- The creation of this liquid wholesale European Gas Market relies on:
 - Simplification and harmonization of transport schemes to facilitate gas flow between market zones
 - Development of Hub-to-hub trading

Bundled products

- In this context, EUROPEX fully support bundled products on each border as it facilitates gas transportation between zones:
 - Easier to book capacities for shippers: single allocation and nomination procedure, no need to buy two separate capacities
 - Same capacity products available and offered on each side of the border (firmness, volume, maturity) avoid shippers to be allocated different capacity values on both sides of the border

*Thank You for Your
attention!*

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