ERGEG Gas Regional Initiative
North and North-West Regional Energy Market (REM) Project
Definition of work stream
Draft

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An Outline Paper on Interconnections, Primary and Secondary Capacity Market

Remark: The Operators propose to treat investment issues in the work stream regulatory coordination and investment. Correspondingly all sections relating to investment, particularly section IV, 4 have been removed.

Introduction:

The issues "interconnections and primary market" and "interconnections and secondary market" were combined into one document. They are covered in the first two sections, followed by an action list, a list of TSOs involved in cross-border activities and a reference material list.

In the first two sections, the following phases are applied:

Phase 1: Fact finding
Phase 2: Evaluation of the information collected above
Phase 3: Identification of actions

Section 1: Interconnections and Primary Market

I) Scope

The scope of this work is the primary capacities at interconnections between the networks of neighbouring TSOs crossing national borders. In a second phase, the scope of the work could expand to all interconnections between TSOs.

This work will be complemented by issues related to secondary markets which is a further proposed workstream for the North/North-West regional initiative. Furthermore, this issue is related to investments into transmission capacity, which is being dealt with in the regulatory coordination and investment work stream.

Primary capacity in this document is defined as the capacity offered by the TSO to network user.

II) Issue

There has been a long tradition of cooperation between gas companies to allow gas to flow freely throughout Europe. Due to the implementation of the gas directive TSOs took over this cooperation with respect to gas transmission for shippers.

European TSOs should enable shippers to easily book capacity throughout the "European Grid". Shippers should signal their capacity needs in a transparent way enabling TSOs to react to market demand. National regulations should not impede or prohibit the free flow of gas whoever the shipper is - taking into account actual technical constraints.

The goal is therefore to obtain the largest cooperation possible between adjacent TSOs and other operators on the capacity offered to the market today – both in the short term and long term (including through new investments where appropriate) - not only on technical issues but also on services offered to shippers.

III) Targets

In this workstream, four targets are defined:

Target 1: Capacity products and services offered at interconnections should be compatible so that trade and competition is not distorted

Target 2: Allocation rules of capacity and booking rules/procedures at cross-border points should be coordinated by adjacent TSOs so that trade and competition is not distorted

Target 3: Congestion management procedures need to be coordinated so that trade and competition is not distorted

Target 4: Nomination, re-nomination and matching procedures should be harmonized or at least made compatible at each cross-border point (issue also undertaken by DG TREN –see below).

IV) Description of targets: issues and questions

1) Capacity products and services offered at interconnections should be compatible so that trade and competition is not distorted

Issue:

TSOs and other operators sell different types of capacities, in term of duration (sales of capacity on a multi-yearly, yearly, monthly, daily basis) and firmness (firm or interruptible capacities).

These products need to be compatible particularly when gas crosses one or more European networks. In fact, different types of capacities at interconnection points may have a significant impact on:

- Cross-border trade;
- Non-discriminatory access;
- Liquidity;
- Security of supply.

Therefore, capacities (e.g., technical capacity, booked capacity, available capacity, firm capacity, interruptible capacity, capacities with different durations) should at least be made compatible between interconnected operators.

Questions:

Phase 1: Which type of capacity product is each TSO offering to the market at each interconnection point? How are they defined?

Phase 2: Are there differences between adjacent TSOs? What are the reasons for these discrepancies if any?

Phase 3: How can compatibility be ensured so that trade and competition are not distorted?

2) Allocation rules of capacity and booking rules/procedures at cross-border points should be coordinated by adjacent TSOs so that trade and competition is not distorted

Issue:

In order for gas to flow freely, interconnected TSOs should sell services and products in a compatible way and where possible align – including the way in which capacity is booked and allocated. For example, if TSOs confirm their capacity bookings at different times this may introduce significant risk and uncertainty into the market.

Questions:

Phase 1: What are the allocation rules and booking procedures for interconnected TSOs?
Phase 2: Are there discrepancies? If so, do they have an impact on trade and competition?
Phase 3: How and when can they be made compatible? How to ensure that capacity offered to shippers wanting to transport gas across more than one border is done so in an efficient way?

3) **Congestion management procedures need to be coordinated**

Issue:

Short term UIOLI (day-ahead use of non nominated capacity and long – term UIOLI) should be coordinated to ensure the free flow of gas. As described above there is a need to sell compatible capacity products in a compatible way- this is equally true for capacity released via UIOLI mechanisms.

Questions:

Phase 1: What are the procedures used by the TSOs?
Phase 2: Are there discrepancies? Do these matter for trade and competition?
Phase 3: How to ensure compatibility between these procedures?

4) **Nomination, re-nomination and matching procedures should be compatible at each cross-border point**

Issue:

Differences between nomination, re-nomination and matching procedures may be an impediment to gas flows. It should where appropriate be made sure that Easee-gas procedures are implemented.

Questions:

Phase 1: Are Easee-gas procedures for nomination, re-nomination and matching implemented?
Phase 2: Are there differences between nomination, re-nomination and matching procedures? Do these matter for trade and competition?
Phase 3: If so, what should be done to harmonize them?

A work on this issue has been undertaken by the DG TREN. The results of this work will be used in this work stream.

Section 2: Interconnection and Secondary Market

RCC agreed definition: Availability of and access to network capacity at border points via re-allocation of capacity.

I) Scope

Effective access to existing network capacity remains a challenge, despite existing package of legislation. Efficient secondary capacity market (the market for re-selling of unneeded[1] pipeline transportation capacity) is an important means to achieve effective access to network capacity.

Having the capacity buyer contracting capacity prior to actual gas sales, mostly leads to a mismatch between sales (=exit side) and contracted capacity (entry-side). This mismatch between demand and supply naturally leads to the development of a secondary gas transportation capacity market, where unneeded capacity is traded between market parties with or without facilitation by the TSO(s).

The market party directly (or via TSO) offers "unused" capacity (released at different timeframe moments) to the markets by means of products like e.g. firm hourly / daily / weekly / monthly / quarterly / annual capacity.

The factual situation anno 2006 is that secondary market doesn't yet appear to solve apparent congestion at border points by means of creating (additional) network access.

II) Issue

Challenges to achieve effective secondary market can be grouped in following categories:

1. Lead-time and availability of necessary information for re-allocation information;
2. Transition from historical contractual situation;
3. Common cross-border "definitions" and common principles between (at least adjacent) TSO's;
4. Incentives for parties to make it work: TSO's, net-users, SSO's, etc.
5. Structure and pricing of re-allocated "transport" products;
6. Effective implementation of existing regulation to address the known solutions.

III) Targets

The outcome of this work stream should lead to a situation, where maximum of "unused capacity" is re-allocated on the secondary market. This should create (additional) network access from which all parties could benefit. The mechanisms used should create transparent signals for efficient investments at physically congested border-points.

IV) Description of targets: issues and questions

This workstream will consider the facilitation of secondary capacity markets by TSOs. Additional work considering the involvement of network users could be taken forward by the RCC.

Phase 1 and 2 :

- Identify mechanisms applied by TSOs to facilitate secondary markets.

- Assessing the possibility of network users to trade capacities at border points on the secondary capacity market

Phase 3 :

[1] Definition of "unneeded", sometimes called "unused" could well be the largest challenge. When does it stop being "unused" and becomes "hoarded" capacity?

- The TSO's (and, if required, other relevant parties) are requested to advise on feasibility and implementation timeframe of solutions that would improve the functioning and facilitation of secondary markets..

- RCC together with the TSO's to monitor the implementation of proposed solutions.

Outline workplan

Actions	Date
CRE to make a list of interconnections/TSOs involved	12 July
Discussion of questionnaire with stakeholder group	9 October 2006 (SG meeting)
Final revision of questionnaire	10 October 2006 (IG meeting)
Factual information for all issues provided by all relevant TSOs.	End of November 2006
Report on progress and discussion with stakeholders at Madrid Forum	December 2006
Implementation work plan developed	End of January 2007
Implementation of work plan	2007-2008

Proposed list of TSOs involved in cross-border activities in the North region based on GTE map

Interconnector - Fluxys (UK - B)

Nationalgrid – Interconnector (UK - UK)

Nationalgrid – Bord Gais (UK - IRL)

Bord Gais – premier (IRL - UK)

Fluxys - Zebra Pijpleiding (B - NL)

Fluxys - gas transport services (B - NL)

Fluxys - Wingas (B - D)

Fluxys - Eon Ruhrgas transport/ RWE Transportnetz Gas (B - D)

Fluxys - GRTgaz (B - F)

gas transport services – ENI Eon Ruhrgas transport (NL - D)

gas transport services –Eon Ruhrgas transport (NL - D)

gas transport services – RWE Transportnetz Gas (NL - D)

gas transport services – Wingas (NL - D)

gas transport services – BEB (NL - D)

gas transport services – EWE (NL - D)

Energinet - Eon ruhrgas transport BEB Dangas (DK - D)

Eon ruhrgas transport Gaz de France Deutschland Transport – GRTgaz (D - F)

Gassco – Fluxys (N – B)

Gassco – Eon Ruhrgas transport (N- D)

Gassco – BEB Fluxys (N – B)

Gassco – RWE Transportnetz Gas (N –D)

Gassco – Gas transport Services (N- NL)

Gassco – National Grid (N-UK)

Gassco – GRT Gaz (N – F)

REFERENCE MATERIAL

Existing relevant material (e.g. ERGEG guidelines/ task-force work) to be used as a minimum (this to prevent duplication of work).

1. **Regulation 1775/2005.** Valid as of 1/07/2006. Interpretative notes to this regulation. Regulation suggests solutions to congestion management.
2. **Transparency** – in the second half of the year ERGEG will look at transparency issues. This will include how to ensure that the information that the gas market needs to work efficiently is made available on a non-discriminatory and fair basis. See work of Transparency Task Force.
3. **Capacity** – ERGEG is currently reviewing the way in which TSOs calculate the amount of capacity that is available on their networks. This will be followed by work looking at how TSOs should be incentivised to maximize the amount of capacity that is made available including making UIOLI arrangements work effectively. See work of Capacity Task Force. This work could feed in to the of Capacity Task Force.
4. GTE position: **Definition of available capacities at interconnection points in liberalized markets** (2/7/2004)
5. GTE report on the **"Use-it-or-lose-it"** principle (18/1/2005)
6. GTE report: **Calculation of available capacities with reference to five European transport routes** (15/12/2005)