

Interruptible Capacity - Gas
Interim Position Paper

**EFET Gas Committee
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Introduction

In all gas markets the situation occurs whereby firm capacity is not available although there is not a 100% utilisation of the existing capacity. At many points in time, and for different reasons, the holders of capacity may not flow against their capacity for the full 100% of the booked capacity. While less than 100 % utilisation does not necessarily indicate that capacity is not being optimised, mechanisms should be available to allow the level of utilisation to meet efficient market needs. Several mechanisms can be put in place for this purpose. The sale of interruptible capacity by the TSO is one of these methods, but care is needed to avoid disadvantaging new entrants who do not have access to firm capacity.

To ensure that interruptible capacity is structured in a way that is beneficial for the functioning and development of the market, EFET¹ has taken the opportunity to describe the necessary characteristics of the product of interruptible capacity, as it should be applied in the European gas markets.

For a view on interruptible capacity in a wider context of capacity allocation, please read the EFET position paper “The allocation of primary gas capacity, economic market-based allocation”, as published on our [website](#) on 26 September 2008.

CHARACTERISTICS OF THE INTERRUPTIBLE CAPACITY PRODUCT

Firm versus interruptible capacity

Interruptible capacity has a role of support in a situation where firm capacity is not available. It ensures that the TSO can maximise the efficient utilisation of their system without creating unsafe network conditions or inhibiting the contractual rights of firm users.

Although interruptible capacity has a role to play in the European gas markets, EFET encourages the development of products that optimise capacity utilisation through firm capacity products. Options that EFET supports include requiring the TSOs to dynamically recalculate available capacities, allowing and encouraging the TSO to sell additional firm capacity and ensuring that unused firm capacity in all capacity maturities is made available to all market participants through non-discriminatory allocation methods.

TSO should be encouraged to oversell firm capacity. By allowing TSOs to earn additional revenues on the sale of firm capacity above the predetermined physically available capacity, the risk of interruption is moved away from the shipper towards the TSO. The level of additional sales of firm capacity will be based on the same probabilistic calculation of expected levels of usage by existing firm capacity holders that currently determine the price levels of interruptible capacity. In the case the usage levels of the firm capacity holders exceeds the technical capacity, the TSO should have the ability to buy back firm capacity at its discretion against the market price.

Regulators will need to ensure that TSOs have incentives to allow overbooking in their systems. Regulators must also check that as firm unused capacity becomes available it is offered to the market.

¹ Established in 1999, the European Federation of Energy Traders (EFET) is an industry association representing over 90 trading companies operating in more than 20 countries. The EFET mission involves improving conditions for energy trading in Europe and fostering the development of an open, liquid and transparent European wholesale energy market. More information about EFET views and activities is available on www.efet.org

Link to risk of interruption

Currently some TSOs set the price of the interruptible capacity based on their assessment of the risk of interruption at the time of marketing this product. When the TSO sees the opportunity to sell additional firm capacity at a later time, they are likely to have to recalculate the value of the interruptible product and adjust the pricing. This additional work and lack of transparency for TSO and market parties does not provide an incentive for the TSO to increase its firm capacity, when possible.

EFET believe that TSOs should sell only one type of interruptible product and that when they interrupt all interruptible capacity should be affected. This would be much more effective in distributing the effect of interruption and stop some types of interruptible becoming virtually firm.

By ensuring that the price of the interruptible capacity product is not linked to the risk of interruption at a certain point in time, the TSO can continue to release firm capacity throughout time without having to re-assess the value of the interruptible product.

The product should incentivise market parties to book firm capacity where available, as this supports new investments when they are necessary.

Pricing & allocation

Market parties determine the risk of the product, based on the available information on capacity booking and utilisation levels, as well as historical data on interruption. This in combination with the market situation in that market and neighbouring markets allows the market parties to place a value on the interruptible product.

By placing the valuation role with the market parties, instead of with the TSO, the latter is in the position of selling a single interruptible capacity product against a market value. The market value can be determined and set through an auction allocation process, which takes place on a regular basis for several contract durations.

Regulation should ensure that the reserve price is set to zero, to encourage TSOs to sell firm capacity rather than getting a free option when selling a lot of interruptible at a profit. However, thought should be put into the way interruptible capacity is marketed. The sale of interruptible capacity at a zero reserve price when firm capacity is still available is likely to affect investments and will disturb cost recovery of capacity by the TSO. The interruptible product should be designed to support capacity utilisation and investments where needed.

The income the sale of interruptible capacity generates for the TSO should be returned to the capacity holders in manner that least distorts the market. A high market value for interruptible capacity at a certain point in the system, possibly in combination with a high utilisation rate, indicates scarcity and should trigger an open season process to assess the need for investments.

Transparency

As mentioned above, market parties should be enabled to assess the risk of interruption and with that the value of the interruptible capacity product. Market parties should have at least the following information available to them, on a near real time aggregated basis per point:

- Total available capacity
- Total technical capacity
- Total booked capacity
- Total nominated capacity

- Historical utilisation data, per hour, for last 5 years at least
- Historical interruption data

CONCLUSION

EFET believes that when the product of interruptible capacity is set up in a transparent manner, with non-discriminatory allocation and market based price setting mechanisms through auctions with a zero reserve price, it can be a valuable addition to the capacity products available to market parties. The development of a single product for interruptible capacity throughout Europe with market based price setting mechanism provides stability to the market, as the product itself does not have to be adjusted when the market develops.

However, the value in use of interruptible capacity is limited compared to firm products. Firm capacity products, like over-selling capacity by the TSO in combination with a buy-back mechanism, are better suited to deal with congestion and should be implemented as soon as possible to facilitate market development and ease (contractual) congestion. At the same time, Regulators, TSOs and market participants have a significant role to foster the development of a broader offer of firm capacities in all time horizons. Interruptible capacities should not replace firm capacity products in the shorter and longer maturity horizon. Where there is no physical congestion, TSOs must ensure that new market entrants have equal access to long- and short-term firm capacity offers. .

An application of the above described principles for dealing with congestion throughout Europe is likely to improve transparency, capacity utilisation and insight in the need for additional investments.