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EU Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems

Dear EU Gas Committee Member

The European Federation of Energy Traders (EFET)[1] welcomes the efforts that are being made to put in place Capacity Allocation Mechanisms which will enable the creation of a true European single gas market.

Further to our letter of 21 January 2013, there are still important changes that need to be made to the current draft of the CAM Network Code text. We believe that it is wise to be "right first time" with the CAM Code, because of the practical difficulties involved in amending the Code or changing new contractual arrangements that the Code will establish. To this end we suggest:

- **The retention of the original Article 4 (2) on transparency of maintenance information**. It is essential that shippers can gauge the value of capacity products, and one element of this is the likely availability of capacity. Although there are requirements for transparency in the Transparency Annex, these are not as comprehensive as the original wording in the CAM text.
- **The inclusion of wording to ensure that TSOs' calculation of capacity is subject to proper scrutiny** by regulators and stakeholders, and is monitored and audited by regulators (Article 6 para 5 and 6). This is essential to ensure that the quantity of capacity made available to the market is maximised. Otherwise there is a temptation that, given that TSOs' revenues are capped by regulation, they may lessen the capacity they make available if it makes their life easier.
- **The inclusion of the ability to book capacity on a quarterly basis ahead of the gas year and the ability to book monthly capacity up to a year ahead** (Articles 12 and 13)**.** At a time when Congestion Management Procedures want to ensure that shippers do not book more capacity than they need, it is essential that shippers can book capacity in tranches according to their needs, e.g. book more for winter quarters than for summer quarters. This is not possible with the current text. In addition, the ability to book quarterly capacity products over a period of two gas years

[1] The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

would allow shippers to book transport capacity for a whole calendar year, which would ensure consistency with the needs of gas-fired power stations (since the contracts of such stations are organised according to a calendar year, not a gas year).

- **The inclusion of a regulatory check that capacity on either side of a border is sufficiently consistent before it is bundled** (Article 19 in draft text, 20 as amended by EFET). The momentum for bundling capacity needs to be maintained, but TSOs must not be allowed to force inconsistent capacity contracts on market participants.
- **The inclusion of the ability to book and sell unbundled capacity where capacity products on either side of the border are not yet consistent** (Article 19 in draft text, 20 as amended by EFET). Countries such as Germany and Austria currently sell "firm" capacity products which, in fact, do not give firm access to the hub. It undermines the efficient working of the market if these products are bundled with true firm capacity on the other side of the border.[2]
- **The inclusion of the ability to optimise use of the network at interconnection points connecting more than two hubs or supply sources** (Article 19 in draft text, 20 as amended by EFET). Several key points in the EU gas network connect more than two hubs and/or supply sources. Capacity bundling must not result in fixed "contract paths" at these points that prevent market participants from responding to changes in demand or hub price differentials, for example via "wheeling" gas between pipelines[3].
- **Quotas for capacity to be held back for the short term auctions should not apply to new capacity, only to existing capacity** (Article 8(8)). We understand that discussions in Comitology have recognised that quotas for new capacity would result in overbuilding. This would raise questions of economic efficiency. Whilst TSOs should be obliged to satisfy market requirements, requiring reserve quotas for new capacity would be an unnecessary distortion.

We attach our mark up of what we believe is the latest draft of the Comitology text and hope that you will be able to take our concerns into account during your discussions. Should you have any questions please do not hesitate to contact Colin Lyle, Chairman of the EFET Gas Committee, or Alex Barnes, Chairman of the EFET Capacity Group.

Yours sincerely,

Jan van Aken
Secretary General
European Federation of Energy Traders

[2] See the attached Annex for more explanation of this.

[3] See Annex for more explanation of this.

CC:

Alberto Pototschnig, *Director, ACER*
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ANNEX ON CAPACITY BUNDLING

EFET supports the bundling of capacity as a means of enabling trade between hubs. However, for this to happen it is important that the bundling of capacity is made up of consistent products, in particular products that have the same firmness.

Consistency of "firmness".
Across EU markets at the moment it is not the case that all "firm" capacity is equally firm and therefore, that it offers the same access to the hub. In the case of Austria, for example, different capacity is offered which is only firm if shippers choose to nominate gas to certain entry or exit points, but access to the hub is interruptible; additionally in Germany different capacity products are offered, whose firmness depends on certain conditions (e.g. temperature).

In an entry-exit regime, which is a requirement of the Third Energy Package, capacity that does not give firm access to and from the hub should not be described as firm. By definition it is interruptible, since it is possible that the use of that capacity to access the hub is interrupted.

The reason for bundling capacity is to facilitate hub-to-hub trading. However, if bundling includes the types of capacity described above, hub-to-hub trading is not facilitated, since access to the hub is not guaranteed. Instead, the interruptibilty of one leg of the bundled product (the leg in Germany or Austria) has the effect of undermining the firmness of the entire bundled product by combining inconsistent capacity products: bundling a firm product with a different one results in one bundled interruptible product.

The simplest way to solve this problem is to bundle only truly consistent capacity products. This means bundling only capacity which gives full firm access to and from the hub, in line with the Commission's vision for hub-to-hub trading, which we support. All other capacity should be called what it really is, that is, interruptible.

"Wheeling."
There are other aspects concerning bundling which may have adverse affects on the efficient functioning of the gas market. At a number of points in Europe three or more entry/ exit zones meet at one cross-border point. For example:

- At Oude on the Dutch German border shippers can access both Gaspool and NCG in Germany, and the GTS system in the Netherlands.
- At Eynatten on the German Belgian border shippers can access both Gaspool and NCG in Germany, and the Fluxys system in Belgium.
- At Bacton in the UK shippers can access the Belgian system via the Interconnector, and the Dutch system via BBL.

The coexistence of such points allows shippers to "wheel" gas between systems via the third system. For example if the direct connection between Gaspool and NCG is congested, shippers could wheel gas between the two systems via Eynatten or Oude. If the connection between the Netherlands and Belgium is congested, shippers can wheel the gas via Bacton. This practice already takes place so long as the price differential between markets is sufficient to cover the transportation costs. Such "wheeling" is an important part of maximising the use of the existing transportation networks to ensure that gas can flow from lower to higher-priced markets.

One of the means by which wheeling is currently facilitated by TSOs is the use of charges reflecting the true costs of wheeling, which are lower than the charges for gas to access the hub. In the Netherlands GTS applies a wheeling charge, in the UK National Grid charges a short haul tariff. The reason for this is that although shippers nominate gas into the Netherlands at Oude, or into Belgium at Eynatten, or into the GB system at Bacton, the same gas is nominated straight out again and therefore, its use of the system is minimal.

To levy such charges correctly in the current regime, TSOs can distinguish between capacity being booked for entry to the system, and capacity which is being booked for wheeling purposes. In a capacity bundling world, how will the TSOs identify capacity which will be used for wheeling as opposed to that which will be used for access to the hub?

Given the current and future importance of wheeling to the future efficient operation of the internal market, it is essential that TSOs offer consistent capacity products, which include the ability to wheel gas between systems. We have made amendments to the text accordingly.