

Gas Transmission Europe

**GTE comments on  
Capacity Allocation Mechanisms  
and  
Congestion Management Procedures**

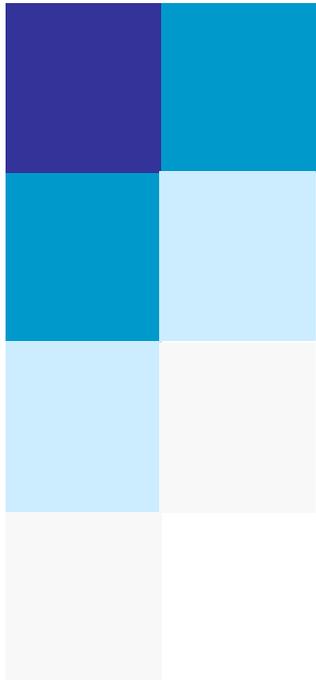
*Madrid, 18 May 2006*

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Chairman of the GTE Capacity and Congestion Management WG



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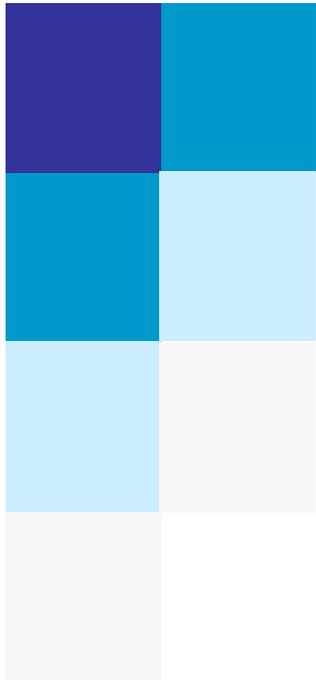
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- Background
- General comments
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## Background

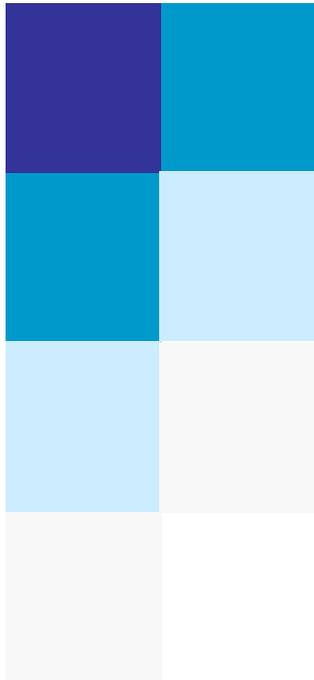
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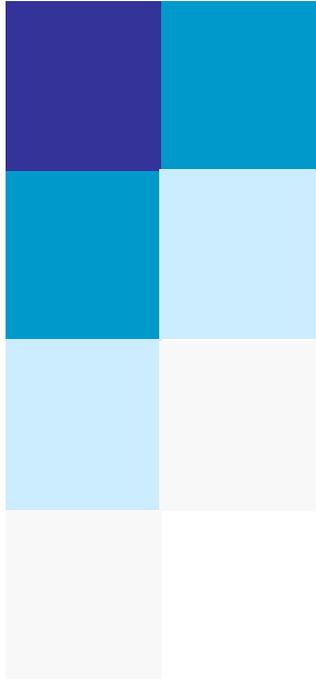
- On 17 March 2006, DG TREN published a Draft Explanatory Note on “Capacity Allocation Mechanisms” and a Draft Explanatory Note on “Congestion Management Procedures” on 20 March 2006.
- In the Madrid Forum Joint Working Group Meeting on 4 April 2006 these drafts were discussed.
- On 10 May 2006, DG TREN issued a revised version of the DEN on CAM and of the DEN on CMP.
- GTE welcomes the opportunity to comment on these DENs within the Madrid Forum Process.

## General comments

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- GTE is committed to facilitating constructively the development of the Internal Gas Market.
- GTE understands that
  - the DENs are not legally binding,
  - the DENs represent the view of DG TREN only.
- If elements covered in the DEN on CAM and in the DEN on CMP were to be made legally binding GTE would provide more comments in detail.
- In GTE 's opinion the DENs on CAM and CMP should stay within the scope of the Regulation 1775/2005.

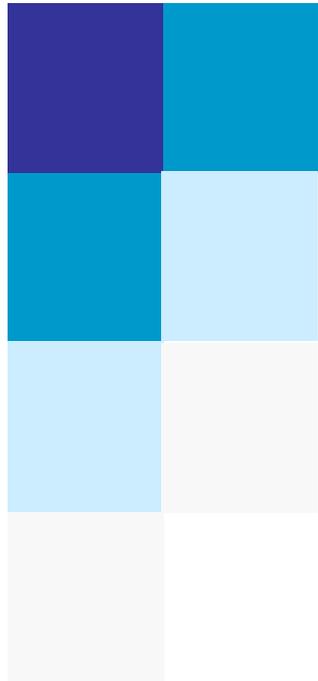


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GTE comments on

Draft Explanatory Note on  
Capacity Allocation Mechanisms

## General overview: CAM for existing and new capacity



Capacity	Handling of requests	Possible allocation mechanisms
Existing	One by one	First-Committed-First-Served
	Simultaneously (Open Subscription Period)	Pro-rata
		Ranking
		Other allocation mechanisms
New	Open Season	All economically viable requests satisfied
	Auction	Ranking based on price
	Other methods	

### GTE supports

- investments for new capacity have to be economically viable / based on long term commitments by shippers
- clear and stable regulatory framework to be ensured
- the right incentives to be set
- long term stability and predictability to be ensured

### GTE supports

- For existing capacity
  - ✗ the lead time for short term contracts should not block long term bookings,
  - ✗ the lead time for long term contracts should be as flexible as possible.
- For new capacity
  - ✗ the lead time depends on the realization of projects, therefore no general lead time can be defined.

The timing of the capacity allocation procedures should provide maximum flexibility to shippers in order to facilitate the gas market.

## Interruptible Capacity

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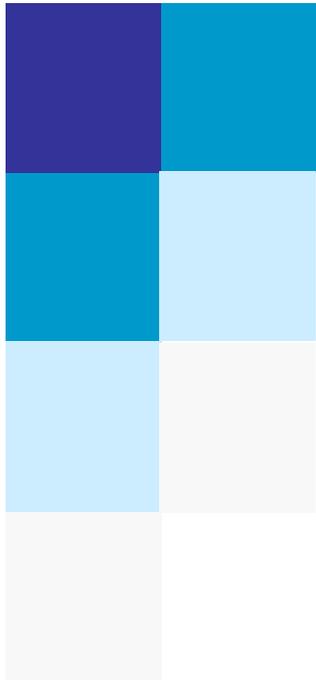
GTE agrees that

- TSOs should be incentivised to offer additional interruptible capacity beyond the technical (firm) capacity on the primary market.
- TSOs are in the best position to decide to what extent interruptible capacity can be offered to the market.

GTE does not see an obligation for the TSO “to demonstrate to regulators the correct amount of technical capacity”, but RNRA may audit the correct implementation of agreed capacity calculation methodologies where needs may arise.

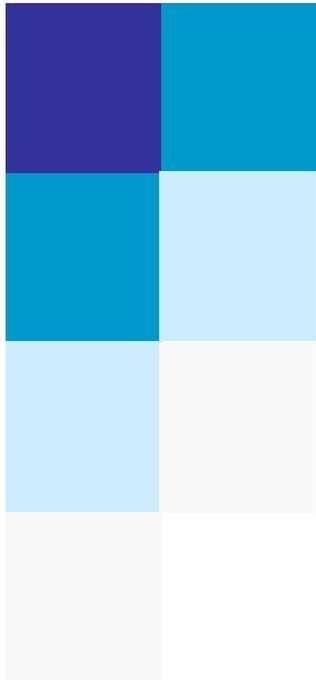
### Long-term capacity forecasting

- The Regulation defines
  - “Transmission system operators shall publish ... regular long term forecasts of available capacities on an annual basis for up to 10 years for all relevant points.”
- GTE does not see the benefits of extending this period, e.g. up to 25 years ahead.



### GTE supports:

- Entry-exit systems are a suitable compromise with respect to technical capacity and flexibility.
- Where a considerable amount of capacity is transit capacity, point-to-point systems should be allowed, if more effective for the market and for investments.



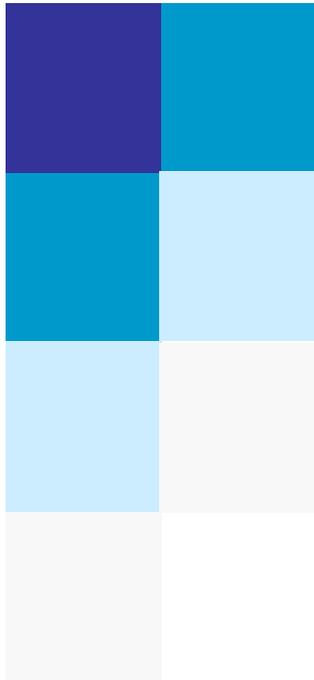
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GTE comments on

Draft Explanatory Note on  
Congestion Management Procedures

## Different kinds of capacity situations

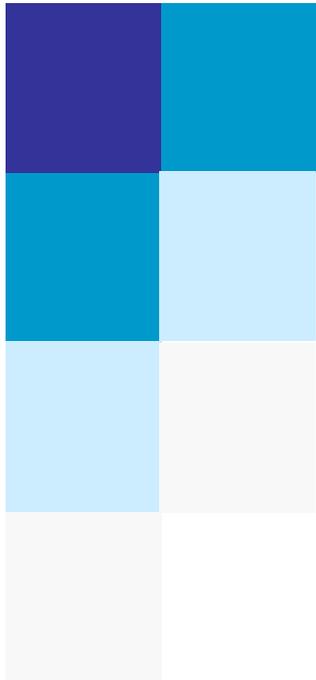
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- DG TREN describes the following different kinds of possible capacity situations
  - (I) offer exceeds requests
  - (II) requests exceed offer (short term)
  - (III) requests exceed offer (long term)
  
- GTE would like to point out that with respect to resolving a congestion situation
  - the main issue is not the question whether a congestion can be classified as short term or long term
  - but whether the investment needed to remove the congestion is economically viable

## CMP for existing and new capacity

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- GTE supports the application of the following mechanisms when applied to:
  - Existing Capacity:

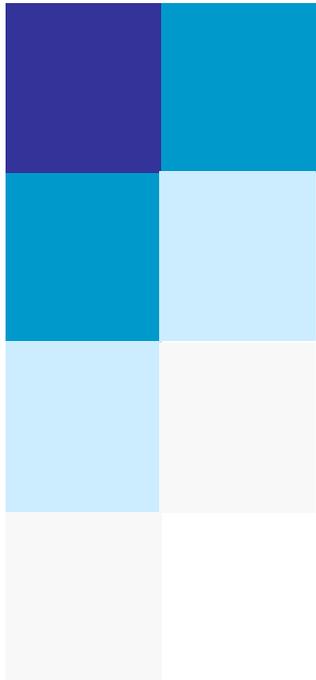
First-Committed-First-Served (FCFS), pro-rata allocation, auctions, open subscription period etc. as they guarantee transparency and non-discrimination.

Application of UIOLI principles and facilitation of secondary capacity markets.
  - New Capacity (increase of existing or developing new infrastructure):

Open season and auctions as they are well suited for new investments into infrastructure.

## Timing of capacity allocation

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- Timing of capacity allocation procedures should provide maximum flexibility to the market.
- In order to give as much flexibility as possible to the market players concluding sales / transportation contracts also for long term capacity contracts allocation systems (FCFS) and open subscription periods should be applied on a rolling basis (or at least several times a year)