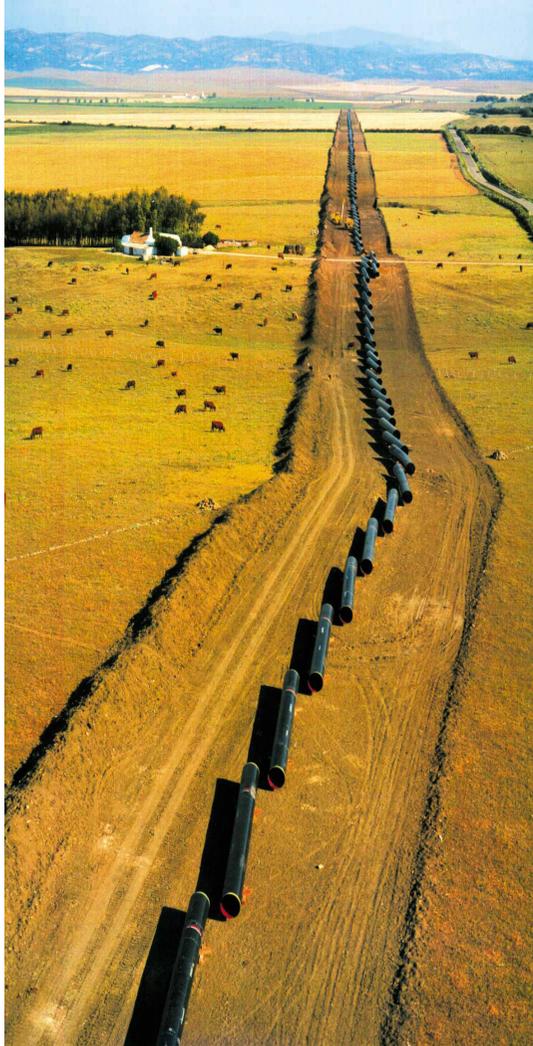




**11th meeting of the EU Gas Regulatory Forum
Madrid, 18-19 May 2006**



Principles of Capacity Allocation Mechanisms under Regulation 1775/2005

Johannes ENZMANN

Administrator

European Commission

***Directorate General for Energy and
Transport***



Directorate General for Energy and Transport



Overview

- ★ **Introductory remarks**
 - ★ **Principles and concepts**
 - ↪ **Maximum capacity**
 - ↪ **Non-discrimination and transparency**
 - ★ **Some requirements (not exhaustive)**
 - ↪ **Appropriate economic signals for efficient and maximum use of technical capacity**
 - ↪ **Investment in new infrastructure**
 - ↪ **Compatibility with market mechanisms**
 - ↪ **Development of competition**
 - ↪ **No undue barriers to market entry**
 - ↪ **System integrity and security of supply**
 - ↪ **Others**
-





Capacity situation and allocation mechanisms

★ **Situation I: offer exceeds requests**

★ **Situation II: requests exceed offer (short term)**

★ **Situation III: requests exceed offer (long term)**

★ **First come, first served (committed)**

★ **Pro rata**

★ **Auction**





The concept of maximum capacity

- ★ **Obligation of TSOs to offer maximum capacity**
- ★ **Maximum capacity (Art 5.1) and technical capacity (Art 2(18))**
- ★ **Technical capacity corresponds to „maximum *firm* capacity“ in a given situation**
- ★ **Maximum capacity corresponds to technical capacity plus capacity possibly emerging alternative capacity calculations**
 - ↪ **Interruptible capacity**
 - ↪ **Restriction: system integrity and efficient operation of the network**





Requirements of non-discriminatory and transparent CAM (1)

- ★ Underlying idea and driving principle: capacity requests should be met to the very extent possible
- ★ Objective of non-discriminatory and transparent CAM:
 - ↳ *Creation of a level playing field for newcomers and incumbents alike*
- ★ Requirement of non-discriminatory and transparent CAM apply to both existing and new infrastructure
- ★ Against this background, a number of elements can be identified, however, not necessarily excluding alternatives.





Requirements of non-discriminatory and transparent CAM (2)

- ★ **Overall transparency on future available capacities**
 - ↪ **Full information available to the TSO should be published**
 - ↪ **This includes publication of available capacities up to the first year where 100% of capacity would be available including the subsequent years**
 - ★ **No tacit prolongation of existing contracts**
 - ★ **Provide necessary transparency for users**
 - ★ **Valuable insight in overall security of supply situation of the EU**
-





Requirements of non-discriminatory and transparent CAM (3)

★ **New infrastructure: Open season**

- ↪ To be applied principally to new infrastructure
- ↪ In addition, where expected market developments including possibly other considerations (e.g. security of supply) justify, an open season could also be applied to identify the market demand for capacity
- ↪ Under certain circumstances, it could also follow an open subscription period

★ *Guidelines on minimum requirements for open seasons might be necessary*

★ ***Indispensable ingredient of non-discriminatory and transparent CAM***





Requirements of non-discriminatory and transparent CAM (4)

- ★ **Existing infrastructure: open subscription period**
 - ↪ Objective: accommodating all requests for capacity if economically viable
 - ↪ Guidance to be provided by regulatory guidelines
 - ↪ TSO to publish deadline for submitting capacity requests
 - ↪ Existing transportation contracts not affected, but:
 - ↪ *New capacity requests should be accommodated in a non-discriminatory and transparent manner*
- ★ ***Indispensable ingredient of non-discriminatory and transparent CAM***





Requirements of non-discriminatory and transparent CAM (5)

★ End of open subscription period and date of allocating capacity

↪ Main purpose: determination of capacity situation and capacity allocation mechanism

★ Relation between end of open season and start of the contract

↪ Hinges upon the duration of the capacity contract requested (short-term, long-term)

↪ Treating equal things equally, non-equal things non-equally





Requirements of non-discriminatory and transparent CAM (6)

★ Lead time or investment period:

- ↪ Corresponds broadly to the relation between the end of the open season and the start of the contract
- ↪ Depends on the duration of the contract
- ↪ Investment period eventually also determined by the time needed to increase capacity





CAM as a function of prevailing capacity situations

Capacity situation	Characterised by	Appropriate CAM
I	Offer exceeds requests	First-come-first-served
II	Requests exceed offer (short term)	Auctions, pro rata
III	Requests exceed offer (long term)	Investments to accommodate all capacity requests, implicit allocation of capacity through open subscription period or open season





Summary on Principles and General Features

- ★ Full transparency on the current and future capacity situation at any relevant point of a given transmission system
- ★ Distinction between long-term and short-term capacity contracts when allocating the capacity
- ★ Efficient use of capacity, i.e. no capacity hoarding
- ★ Clear and transparent rules and procedures, in order to determine the capacity situation
- ★ The actually applied CAM is determined in function of the actually prevailing capacity situation;





Detailed requirements 1: appropriate economic signals for efficient and maximum use of technical capacity

★ Appropriate economic signals for efficient and maximum use of technical capacity means that

- ↪ Capacity is not withheld from the market (no capacity hoarding)
- ↪ Unused capacity offered under terms and conditions as attractive as possible
- ↪ Capacity is offered at a price providing network users with efficient access
- ↪ Important, but different roles of regulators and TSOs





Detailed requirements 2: investment in new infrastructure

★ Prerequisites of CAM facilitating investment in new infrastructure:

- ↪ Sufficient level of transparency in combination with certain procedures
- ↪ Identification/determination of capacity situation calling for investment in new infrastructure

★ Main feature:

- ↪ Open subscription period/open season followed by a lead time/investment period taking into account time requirements emerging from the capacity requests





Detailed requirement 3: **requirements of flexibility, development of competition and system integrity, security of supply**

- ★ Flexibility, adaptability and development of competition best ensured by entry-exit capacity system**
 - ★ However, flexibility must neither endanger the integrity of the system nor security of supply**
 - ★ Balance necessary between the requirements of flexibility for the sake of developing competition and the need to maintain system integrity**
 - ★ Regulators would need to closely oversee the approach taken by the TSO in order to ensure the right balance**
-





Detailed requirement 4: liquid trading of capacity

- ★ **CAM to facilitate trading of capacity**

- ★ **This would mean that**

- ↪ **Contracting capacity on the primary market should entail the right to**
 - **trading capacity on the secondary market**
 - **receiving relevant information on capacity available on the secondary market**
- ↪ **Parties without capacity on the primary market should have access to the secondary market**
- ↪ **Capacity trade among users must be acknowledged by the TSO**
- ↪ **Possibility for users to be fully informed on secondary market capacity**
- ↪ **No unproportionate fee for capacity trade**





Detailed requirement 5: information and consultation of network users

- ★ **Information of network users on circumstances affecting the availability of contracted capacity and information on interruption**
 - ↪ Information to be given prior to start of contract
 - ↪ As for interruption, information should reflect the level of information available to the TSO
- ★ **Notification of difficulties in meeting contractual delivery obligations**
 - ↪ Purpose: ensuring non-discriminatory treatment of all network users
- ★ **Consultation of network users becomes a duty of TSOs**





Other requirements

- ★ **Compatibility with market mechanisms including spot markets and trading hubs**
- ★ **Requirement of no market barriers underlines the need for**
 - ↳ **an entry-exit system and**
 - ↳ **CAM in line with the principles described**
- ★ **Compatibility with network access system including upstream**





Further procedure

- ★ **Commission invites stakeholders to submit final comments by end of June**
- ★ **On the basis of the discussion today and the final comments, the Commission intends to issue the final explanatory note**
- ★ **If necessary, the Commission may request advice from ERGEG with a view to amending existing guidelines**

