



**11<sup>th</sup> 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
<b>I</b>	<b>Offer exceeds requests</b>	<b>First-come-first-served</b>
<b>II</b>	<b>Requests exceed offer (short term)</b>	<b>Auctions, pro rata</b>
<b>III</b>	<b>Requests exceed offer (long term)</b>	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**

