



C A P A C I T Y   A L L O C A T I O N  
O N   T H E   N O R T H   T O   S O U T H   L I N K  
P R O P O S A L   O F   A L L O C A T I O N   R U L E S

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This document describes GRTgaz's proposal of capacity allocation rules on the North to South link from 1 April 2011.

## **1. Background of the "Concertation Gaz"**

The Concertation Gaz steering committee decided to introduce into the "Capacity Allocation" working group discussions intended to improve the rules for allocating capacity on the North to South Link.

To this end, three allocation methods were analyzed by the working group during the eight meetings held since the beginning of the year 2010:

- « needs-related allocation », which allocates capacity on the North to South link on a priority basis to shippers, in relation with their supply needs calculated in the GRTgaz South area and the TIGF area. This method had already been studied in 2009 within the framework of working groups "Network structure" and "Capacity Allocation". This work was extended in 2010 and helped to set the method to realize sensitive studies and to establish the conditions for its application.
- « prorata allocation », that derived from the current guidelines for the entry/exit market capacities on the GRTgaz network. This method has been implemented since the establishment of the link on 1 January 2009 and has undergone successive changes.
- « auction allocation », which is an allocation mechanism based on the price. This topic was approached for the first time by the Concertation Gaz.

For each method, an executive summary including the elements discussed by the group and the positions of participants has been established. These notes are available on the website [www.concertationgaz.com](http://www.concertationgaz.com).

## **2. European Context**

The European regulation concerning conditions for access to the natural gas networks EC n°2009/715, provides in the article 16 that the "Transmission System Operator" (TSO) shall implement and publish non-discriminatory and transparent mechanisms for allocating capacities, that:

- provide appropriate economic indexes in order to exploit effectively and at its maximum the technical capacity, facilitate investments in the new infrastructure and improve the natural gas cross-border exchanges;
- are compatible with market mechanisms including spot markets and trading hubs while being flexible and adaptable to the changing market conditions;
- are compatible with the Member States' network access rules

In the consultation document concerning the capacity allocation principles (Capacity Allocation on European Gas Transmission Networks – Pilot Framework Guideline, December 2009), ERGEG proposes transparent, fair and non discriminatory procedures that should be used by TSOs to allocate capacities. The proposed standard method for the allocation of existing capacity is the auction method. During an transitory period, and if market conditions do not guarantee a satisfactory outcome for the auctions, the concerned regulators may allow the implementation of a method based on prorata allocation.

The draft Framework Guidelines on Capacity Allocation Management introduces the auction as a target system, but indicates that the prorata method may be used during an interim period according to the circumstances. This project also shows that the connections within a Member State shall be subject to the rules laid down in these Guidelines.

These Framework Guidelines are still subject to change and should be validated by ERGEG soon for writing a "Network Code" by ENTSOG before the summer of 2011. The rules contained in the network code should be applicable by early 2012.

## **3. GRTgaz's point of view**

GRTgaz considers that three objectives should guide the improvement of the allocation method on the North-South link :

- An increase in the PEG's liquidity and more widely, strengthening competition in the southern zone ;
- An increase in the shipper's visibility concerning the structure of their supply portfolio ;
- An improvement of the suppliers' and end consumers' satisfaction in the Southern zone

This transparent, equitable and non discriminatory method has particularly to be in accordance with the provisions regulating entry and exit points on GRTgaz's network, especially at PIR Midi.

#### Needs-related allocation

Regarding the "needs- related allocation " method, GRTgaz agrees with the working group participants concerning the benefits brought by this method to market actors with a proven need to supply customers in TIGF and South zones. It also agrees on its ability to reduce fairly the "deficit" of the players whose portfolios are " showing a deficit".

Nevertheless, GRTgaz considers that this method does not solve the issue of increasing market liquidity because it excludes *de facto* shippers indentified as having no supply needs in this area. GRTgaz stresses the incompatibility of this method with systems aiming to get accurate market signals that would set a path for future investments on natural gas transport networks.

In addition, GRTgaz shares the position of some working group participants on the lack of visibility provided by this method, concerning :

- The method sensitivity to the variation of intrinsic parameters (CAR, exchanges to PEGs...). It is also considered complex to determine the method parameters.
- The sensitivity of the individual allocation level of each shipper to the needs of other shippers which potentially leads to results reviewed several times during the year.

The allocation needs method studied by the working group seems to be difficult to implement, and would require the mobilization of considerable resources.

Finally, GRTgaz notes that this method does not seem to have been taken into consideration within the framework of studies conducted at the European level.

Instead of implementing a needs-related method, GRTgaz would favor other mechanisms that are more likely to solve the issue of an improvement of capacity allocations on the North to South link, and would be beneficial to all market players.

#### Auction allocation method

The early discussions conducted by the Concertation Gaz led to identify the different components of a capacity allocation method based on auctions.

As the summary report suggests, this work should focus on possible mechanisms (type of auction, reserve price, fixing) and the conditions of implementation thereof, especially including the IT-related developments that would be necessary.

In addition, GRTgaz stresses the importance to define an effective mechanism for correcting imbalances between auction revenues and the allowed income. GRTgaz considers that the definition of a method concerning the management of the TSOs income is a prerequisite before considering the implementation of an auction-based allocation method.

In this context, GRTgaz will follow the European standards and continue its active contribution to the work of the European Network of Transmission System Operators of Gas (ENTSOG), in order to propose a network code on the capacity allocation compliant with the European Commission objectives, market interests and ENTSOG Framework Guidelines.

Accordingly, GRTgaz considers that the work on this method should be improved by the working group « capacity allocation ».

#### Prorata allocation

Bearing in mind the analysis performed by the working group and the different views expressed, GRTgaz considers that prorata allocation represents the method that, at this stage, is the best compromise to meet the three objectives for improvement set out above.

Even if a consensus on the method setting could not be reached, GRTgaz notes that a large majority of the working group participants supports the implementation of a method based on prorata for capacity allocation on the link from 1 April 2011.

The proposed allocation rules are described in the following paragraph.

#### **4. GRTgaz proposal for capacity allocation on the North to South link starting from April 2011 and afterward**

GRTgaz proposes that the future allocations on the North to South link are implemented according to the following provisions, pending the elaboration of new rules that should be particularly defined in accordance with the European frames under development.

##### 4.1 General principles

- GRTgaz considers that it is essential to ensure the consistency of the schedule proposed and that provided for the marketing capacity at the interface between GRTgaz South area and TIGF, and more generally with all the capacities on the GRTgaz PIR.
- GRTgaz proposes to distinguish sales periods for each product. These periods are organized sequentially to enhance their visibility.
- For reasons regarding the consistency and the simplicity of the process, GRTgaz proposes to retain, for a given maturity, the same mechanism for the allocation of firm and interruptible capacity.
- For previous allocations, GRTgaz proposes to market annual firm and interruptible capacity in two phases, the first of which will be open only to shippers holding a license to provide end customers (industrial customers, domestic customers or public interest customers), and shippers which are themselves end customers holding a connection contract with GRTgaz.

In addition, GRTgaz would like to retain the « guaranteed allocation » process during the phase of the allocation of the annual firm capacity to the shippers holding a license to deliver to end customers or to the owners of a connection contract. The level of the “guaranteed allocation” is set to 2 GWh/d.

- In order to increase the allocation predictability, that means to enable the participants to make requests in adequacy with their needs, GRTgaz plans :
  - To provide the following information to participants : total capacity required and the number of participants at the end of one phase or one round;
  - To market capacity in increments in successive rounds during the phases that do not offer an option for « guaranteed capacity », especially for pluriannual capacity.
- Finally, the rule of linked companies as described in the general conditions of the transmission contract with GRTgaz, have to be applied for each allocation.

#### 4.2 Firm and interruptible pluriannual capacities

The same process is applied to firm and interruptible capacities for each maturity of 2, 3 and 4 years. For a given maturity, only one phase is held and the capacity is marketed in increments over several successive rounds, with a level at least equal to 5 GWh / d per round. If the level of capacity is too low a single round will be organized.

#### 4.3 Annual firm and interruptible capacity

As for pluriannual products, the same process is applied to firm annual capacities and interruptible annual capacities.

The rules are defined as follows :

- The capacities are marketed in two distinct phases
- The volume of capacity offered during each phase is equal to 50% of available capacity for the concerned product, i.e 23 GWh / d by phase for the firm annual capacity and 22 GWh / d for annual interruptible capacity.

**First phase** : The participation in this phase is open to shippers holding a license to provide end customers (industrial customers, domestic customers or public interest customers), as well as shippers who are themselves end customers and who have signed a connection contract.

The shippers can choose between two mutually exclusive options :

**The “guaranteed allocation” option :**

- Each request is capped to 2 GWh/d but it is fully allocated within the limits of capacity sold during this phase
- The participants who have chosen this option are allocated in priority compared to participants who selected the « classical » option and then give up to participate in the second phase
- If the sum of all requests from participants who opted for this option exceeds the capacity offered in this phase, the requests are allocated proportionally (according to the prorata method).

**The “classical” option:**

Each request is capped to the total proposed capacity during this phase. If the request exceeds the offer then the capacity is allocated according to the prorata method to each participant, once the requests corresponding to the “guaranteed allocation” option are allocated. The participants who chose the « classical » option are allowed to participate in the second phase.

The possibly unallocated capacity after the first phase is made available for the second phase.

**Second phase:** The participation is open to all shippers except those who have chosen the « guaranteed allocation » option during the first phase.

The capacity proposed during this phase is sold in increments over several successive rounds, with a level at least equal to 5 GWh / d per round. If the level of capacity is too low a single round is held.

The shippers who participated in the first round can participate successively in each round that remains. If a shipper decides do not participate in a round, he leaves the process for good.

For a given round, each request is limited to the round’s capacity level. If the amount of requests exceeds the round ‘s capacity level, the requests are allocated proportionally. Conversely, if the sum of requests does not reach the round capacity level, the remaining capacity is postponed to the next round.

## **5. Implementation of GRTgaz's proposal to capacities starting from 1 April 2011**

The provisions presented in the previous paragraph are divided to pluriannual and annual capacity starting from 1 April 2011 and to multiyear capacity starting from 1 November 2011.

### **5.1 Reminder of the offered capacities**

Capacities on the North to South link starting from 1 April 2011 :

	4 years	3 years	2 years	1 year
Firm capacities (GWh/d)	10,6	10,6	10,6	46
Interruptible capacities (GWh/d)	14,11	14,11	14,11	44

Capacities on the North to South link starting from 1 November 2011:

	4 years	3 years	2 years
Firm capacity (GWh/d)	3,33	3,33	3,33
Interruptible capacity (GWh/d)	5	5	5

### **5.2 Sale of pluriannual firm and interruptible capacities starting on 1 April 2011**

The same process is applied to firm and interruptible capacities for each of the following maturities : 2, 3 and 4 years. It includes two separate rounds, the capacity to market is divided as follows between each round:

	1st round	2nd round
Firm Capacities (GWh/d)	5,6	5
Interruptible Capacities	7,11	7

The rules are defined as follows:

The participation in both rounds is open to all shippers. The participation in the second round is open only to the participants in the first round.

For a given round, each request is capped to the round capacity level. For the second round the capacity level includes capacity remaining unsold in the first round. If the amount of the requests exceeds the capacity level of the concerned round, the requests are allocated proportionally.

### **5.3 Annual firm and interruptible capacities marketing starting on 1 April 2011**

The rules regarding these capacities are those described above in the paragraph 4.3 of this document.

The capacities marketed in each phase are as follows:

	1st Phase	2 <sup>nd</sup> Phase
Annual firm Capacities (GWh/d)	23	23
Annual interruptible Capacities (GWh/d)	22	22

The proposed capacities during the four successive rounds of the second phase are as follows:

	Round1	Round 2	Round 3	Round 4
Annual firm Capacities (GWh/d)	8	5	5	5
Annual interruptible Capacities (GWh/d)	7	5	5	5

#### 5.4 Sale of pluriannual firm and interruptible capacities starting on 1 November 2011

A similar process is applied for firm and interruptible capacities and for each maturity.

Due to limited levels of capacity offered, it includes a single round open to all shippers. Each request is limited to the capacity level for the product concerned. If the amount of requests exceeds the round capacity level, the requests are allocated according to the prorata rule.

#### 5.5 Marketing schedule

- Pluriannual capacities starting on 1 April 2011 :

The pluriannual capacities are marketed during successive periods. The proposed schedule is shown in the following table, which specifies for each couple "type of capability / maturity", the date of the corresponding subscription window:

Type of Capacity	Maturity		
	4 years	3 years	2 years
Firm Capacities	24/08/2010	25/08/2010	26/08/2010
Interruptible Capacities	06/09/2010	07/09/2010	08/09/2010

Each period lasts one day and is organized as follows:

- 9:00 to 10:30 : Reception of requests from the participants in the first round
  - 11:30 : Transmission of the individual results concerning the allocation to each participant in the first round. Transmission of the number of participants to all shippers and of the total amount of requests submitted during the previous round.
  - 11:30 to 13:00 : Reception of requests from the participants to the second round
  - 14 :00 Transmission of the individual results concerning the allocation
- Annual capacities starting on 1 April 2011

The annual capacities are marketed during each of successive periods spread over two days. The proposed schedule is represented in the table as follows, that shows for a given type of capability the day dedicated to each of the two phases of the allocation mechanism.

Type of Capacity	1 <sup>st</sup> phase	2 <sup>nd</sup> phase
Firm Capacities	14/09/2010	15/09/2010
Interruptible Capacities	21/09/2010	22/09/2010

## **1st Phase**

For a given type of capacity, the day dedicated to the first phase is organized as follows:

- 9 :00 to 12:00 : Reception of requests from the participants on the first round
- 14:00 : Transmission of the individual allocations to participants, the number of participants and the total request for all shippers

## **2nd Phase**

For a given type of capacity, the day dedicated to the second phase is organized as follows:

- 9:00 to 10:30 : Reception of requests from the participants in the first round
- 11:30 : Transmission of information concerning the first round
- 11:30 to 13:00 : Reception of requests from the participants in the second round
- 14:00 : Transmission of information concerning the second round
- 14 :00 to 15:30 : Reception of requests from the participants in the third round
- 16:30 : Transmission of information concerning the third round
- 16 :30 to 18 :00 : Reception of requests from the participants in the fourth round
- 19:00 : Transmission of information concerning the fourth round

The following information is transmitted at the end of each round to each participant in this round.

- Total capacity request for this round
  - Number of participants in this round
  - Individual allocation following this round
- Pluriannual capacities starting on 1 November 2011

Capacities are marketed during successive periods. The proposed schedule is represented in the following table, which specifies for each pair couple of capability / maturity, the date of the corresponding subscription window:

Type of Capacity	Maturity		
	4 years	3 years	2 years
Firm Capacities	22/03/2011	23/03/2011	24/03/2011
Interruptible Capacities	05/04/2011	06/04/2011	07/04/2011

Each period lasts one day and is organized as follows:

- 9 :00 to 10 :30 : Reception of requests from the participants ,
- 11:30 : Transmission of the individual results concerning the allocation to each participant.