

Response by EuroPEX

to the

**Public consultation by Ergeg on “Assessment of Capacity Allocation
Mechanisms and Congestion Management Procedures for effective
Access to Storage and Proposals for the Amendment of the
GGPSSO”**

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I. Executive Summary

EuroPEX welcomes the Public Consultation by Ergeg on “Assessment of Capacity Allocation Mechanisms and Congestion Management Procedures for effective Access to Storage and Proposals for the Amendment of the GGPSSO” and thanks for the opportunity to take part in the consultation.

EuroPEX believes that CAM and CMP should be based on market-based mechanisms (auctions, secondary markets, UIOLI/UIOSI), which increase competition, enable non-discriminatory access to storage capacity and provide system users with clear and efficient pricing signals.

A proper design of market mechanisms is fundamental and should be implemented while taking into (proper) consideration the over-all design of the under laying wholesale and balancing markets.

Transparency of information is a key aspect and SSOs should provide systems users with relevant information about the status of the storage system and individual positions on a timely basis.

Gas Exchanges are prime actors in the development of a efficient internal gas market in Europe. Therefore, efficient market-based CAM and CMP for gas storage should be based on centrally cleared market platforms as provided by Gas Exchanges and should be integrated with wholesale and balancing markets as much as possible. Guaranteeing the market a fair, transparent and orderly process of market mechanisms for CAM and CMP and preventing counterparty risks.

II. General remarks

1. On 28th July 2010, the European Regulators' Group for Electricity and Gas ("ERGEG") launched a public consultation on the "assessment of Capacity Allocation Mechanisms ("CAM") and Congestion Management Procedures (CMP)" for effective access to storage and proposals for the amendment of the GGPSSO "the guidelines". EuroPEX welcomes the opportunity offered by ERGEG to respond to this consultation and appreciates the continued efforts by regulators to review the functioning of the market for storage and flexibility.
2. EuroPEX represents the interests of the exchange traded wholesale markets for energy regarding the developments of the European regulatory framework for wholesale energy trading. EuroPEX promotes the role of energy exchanges as a way of increasing competition on wholesale gas markets and wants to facilitate the realization of a integrated European gas market. Our activities therefore also include issues related to commodity trading, with special emphasis on providing a market-based solution for capacity allocation and congestion management.
3. EuroPEX advocates the use of market based allocation mechanisms and agrees with ERGEG that auctions are the most economically efficient allocation method for gas storage capacity. As capacity auctions are driven by "*the willingness to pay*" by storage users they 1) create appropriate pricing signals for efficient use of the available capacity, 2) express the costs of using storages while 3) providing clear investment signals at the same time. Moreover, auctions have clear advantages over alternative allocations methods (such as FCFS, CGWC) as it is a transparent process and allows new entrants in a the market a possibility to access the storage market on a non-discriminatory basis, thus promoting a level-playing field situation.
4. Nevertheless, EuroPEX recognizes that, in cases where there is a limited number of bidders or dominance on the supply side, auctions could produce inequitable outcomes. Therefore market structures should be taken into account when designing storage capacity auctions. National regulatory bodies should identify and approve measures (such as limitation of market share in storage, obligation to re-

sell part of the storage, etc.) with the aim of creating sufficient competition for the prompt implementation of auctions.

5. In order to be successful the auction should be embedded in an appropriate governance framework containing a standardised minimum set of requirements (contract with SSO, contract with entity responsible for managing the auction, guarantee, etc.) that storage users and operators need to fulfil in order to participate in capacity auctions.
6. The schedule of successive auctions, the suite of capacity products (yearly, seasonally, quarterly, monthly, weekly, daily) and capacity nomination lead-times should be aligned with the wholesale (spot) market for gas.
7. Because storage capacity is an important source of short term flexibility, capacity auctions should take special notice of the design of the balancing regime. By doing so capacity auctions could help to fulfil the need of network users for short term flexibility and strengthen the liquidity of a spot/balancing market.
8. Introduction of UIOLI/UIOSI principle deters capacity hoarding and could help to increase the liquidity of secondary markets for storage products. On the other hand, UIOLI/UIOSI may result in a limitation of flexibility in the usage of the storage facility. In order to avoid limitation of flexibility of the storage, UIOLI/UIOSI should be implemented with a proper definition of deadlines for (re-)nomination. Frequency and deadline for (re-)nomination should be coherent with and close to the beginning of each balancing period, but, at the same time, should enable the organisation of a “last-minute” auction for the allocation of unused capacity.
9. Although EuroPEX agrees with ERGEG that the application of the UIOLI/UIOSI principle could limit the flexibility of the use of gas storage, it remains the best way to increase the liquidity of secondary markets. In addition to these principles, gas storage markets could benefit from standardization of product specifications. Furthermore, the liquidity of secondary storage markets could be enhanced by concentrating all trading on a single common platform. Therefore capacity markets

should be operated by a energy exchanges as they are best placed to provide a fair, orderly, transparent and neutral market.

- 10.** EuroPEX recognises the current lack of available information which acts as a barrier to the functioning of the storage market. Therefore we support a broad interpretation of the high level principles as set fort in article 19 of Regulation 715/2009 in the GGPSSO.

III. Role of Gas Exchanges

11. Gas exchanges would like to play a prominent role in the further development of efficient market-based CAM and CMP for gas storage. Thus far allocation and trading of (secondary) storage capacity on exchanges (in addition to commodity trading) has proven to be beneficial to market parties and storage operators alike.
12. Efficient market-based CAM and CMP for gas storage could rely on centrally cleared market platforms, eventually integrated with wholesale and balancing markets, provided by Gas Exchanges which:
 - a. can design, implement and manage both primary auctions and secondary markets of capacity products;
 - b. can ensure a fair and orderly process for primary auctions and secondary capacity markets through the definition of transparent and non-discriminatory market rules, subject to oversight of national regulators;
 - c. by performing the role of Central Counter Party (CCP), protect SSOs (in the primary auctions) and storage users (in secondary markets) from counterparty risk, enable an efficient settlement process and ensure the anonymity of market parties;
 - d. can publish timely and relevant information, given by SSOs, relating to the status of the storage system, prices and volumes, creating indices of capacity products;
 - e. independent from market parties and SSOs and supervised by energy and/or financial regulatory authorities, ensure a non-discriminatory and competitive access to the primary auctions and to secondary markets for capacity products.