Robust market rules
Gas network codes in the EU

Energy Community Gas Forum 2017

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- Congestion management procedures guidelines
- Balancing NC
- Capacity allocation mechanisms NC
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ENTSOG

- Association of 45 European Gas Transmission System Operators
- Objectives:
  - promote the completion of the internal market for gas and stimulate cross-border trade
  - ensure efficient management and coordinated operation of the European gas network
What are the Network Codes looking to achieve?

- Contribute to create EU Internal energy gas market
- Harmonisation of legislation
- Remove market entry barriers
- Increase competition at wholesale
- Better connect national markets
- Transparency
- Short term liquidity
How far have we come with the NCs?

2015

**CMP Transparency**
- Implementation: 01.07.2016
- Implementation of most CMP-rules: October 2013

**CAM**
- Imp.: 01.11.2015

**Balancing**
- Imp.: 01.10.2015
- Transitional Implementation: 01.10.2016
- Interim measures: 4/2019

**Interoperability**
- Implementation: 01.05.2016

**Tariffs**
- Development
- Endorsement
- Implementation: 6/2019

**Incremental Capacity (CAM)**
- Development
- Endorsement: 4/2017

2016

2017

2018

2019
Congestion Management Procedures (CMP)

Objective

Enhance markets access and thereby competitiveness by effectively targeting contractual congestion

IEM Contribution

- To relief contractual congestion
- To enable shippers to re-offer unused capacity
- To avoid capacity hoarding

Oversubscription and buy-back or Day ahead UIOLI: restriction of renomination rights

Surrender of Capacity

Long Term UIOLI: withdrawal of systematically underutilized capacity

Only 23 IP sides were congested in 2017 = 9% of all EU IP sides!
Balancing (BAL NC)

Objective

Promote Short term markets and market-based balancing via harmonised rules

Operational balancing using a merit order of products

Harmonised (re)nomination procedures and portfolio information

Daily imbalance charge, within-day obligations and neutrality of TSOs

Interim measures: Balancing platform and tolerances

IEM Contribution

- Stimulate liquidity in short term markets
- Enable network users to balance their own portfolios
- Incentivises network user to balance
- Ensure smooth transition
1. The BAL NC is applicable as of 1 October 2015.

2. Possibility to postpone its application until 1 October 2016 (transitory period option)

3. Interim measures can be implemented for up to 5 years (i.e. until 16 April 2019).
Capacity Allocation Mechanisms NC

Objective

Harmonised auction procedures and bundled products enhance transparent and equal access

- Standardised set of Bundled capacity products
- Auctions via booking platforms
- Short term reservations
- Virtual Interconnection Points

IEM Contribution
- Simplify allocation procedures
- Establish one-stop-shop for booking
- Ensures availability of short term capacity
- Facilitate hub-to-hub booking
Network User has interests in incremental capacity

Network user provides TSOs with non-binding capacity demand, including conditionality (volume, duration, location)

Network User receives the indications on project conditions and can interact

TSOs decide to initiate or not the needed studies

NRAs approve all necessary for binding phase

Network User gets the capacity allocated if economic test is passed
ENTSOG published Demand assessment reports on July 27

Network users submitted non-binding demand indications at 18 market area borders / interconnection points

In 10 cases, demand indications will lead to technical studies of the incremental capacity projects being initiated by the affected TSOs

AT-HU, AT-SI, AT-DE, HR-SI, DE-NL, DE-RU, DE-PL, GR-IT, IT-Malta, HU-SRB
Tariff Network code

Transparent, cost-reflective, non-discriminatory transmission tariffs that minimise cross-subsidies, facilitate efficient gas trade and competition and provide investment incentives

- Consultation on RPM at least every 5 years
- Short-term pricing consultation every tariff period
- Publication of all IP tariffs on ENTSOG’s TP
- Publication of all tariffs before the gas year and the tariff period
- Consistent use of reference price methodology for all points on the system
- Cost allocation test to help measure cross subsidies
- Capacity-based tariffs by default
- Harmonised principles for discounts, multiplier ranges and SF methodology

IEM contribution

- Increased transparency
- Stakeholder involvement in consultation processes
- Harmonised set of allowed tariffs
- Harmonised short-term pricing
Process for tariff calculation

1. Determine revenue to be recovered
2. Methodology used to calculate reference prices
3. NRA approval and tariff calculation
4. Publication
5. Capacity sales and revenue recovery
6. Revenue Reconciliation
Life after the Network Codes?

1. Monitoring by ACER & ENTSOG

From implementation monitoring to effect monitoring

2. Functionality

Check and ensure NCs work properly

Stakeholders involvement:
- Stakeholders to provide input
- Access to reported issues including status
- Involvement in development of solutions (consultations, workshops, expert groups)
- Visit www.gasncfunc.eu

Network Code functionality will need to be reviewed by all stakeholders
- Do the codes achieve what they were aiming to?
- Are there any gaps in what the codes should cover?
- Are the codes fit for purpose with the changing market?
Impact of NCs on the Internal Gas Market

High-level policy goals for the internal market set in EU Gas regulation EC 715/2009

• Market integration
• Non-discrimination
• Effective competition
• Efficient market functioning

Effects observed by ENTSOG NC effect monitoring and ACER market monitoring

• Improved transparency ✓ visit ENTSOG site - http://transparency.entsog.eu
• Decreased congestion (contractual /physical) ✓
• Harmonized and non-discriminatory access to the capacity ✓
• Hub price convergence ✓
• Increased market liquidity at gas hubs = higher competition ✓
Lessons learned, recommendations

> TSO unbundling is a key point – not only under 2\textsuperscript{nd} energy package but also with all rules and requirements of the 3\textsuperscript{rd} EP

> Transform point-to-point model to entry-exit systems

> National market rules (regulatory framework) should be transparent, available also in English

> Make sure that national rules enable creation of Virtual trading point to increase competition on wholesale level and create liquid market
Lessons learned, recommendations

> Align relevant national legislation to EU Gas regulation and network codes

> Adjust implementation plan to the current status of national market rules

> Discuss cross border issues related to implementation of Network codes with neighbouring NRAs and TSOs to avoid inconsistencies

> Implement the Network codes in a standard way, without additional conditions or rules not stated in the Network code
Conclusions

> Network code implementation is key to ensure the European Internal Gas Market – and should have highest priority.

> Do not hesitate to ask for support, ENTSOG is willing to share best practices and implementation guidance and to help with implementation of EU market rules in EnC Contracting party countries.
Thank You for Your Attention

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