



# **ENTSOG's Capacity conversion model**

**2017-03-15**

## Background

On October 13<sup>th</sup>, 2016 the amendment of CAM NC was endorsed by the Gas committee of EU member states. Article 21(3) states that ENTSOG has to develop a Capacity conversion model until 1 October 2017, which shall function as a basis for TSOs to offer capacity conversion services as of 1 January 2018.

Article 21(3) CAM NC amendment:

*“As from 1 January 2018, transmission system operators shall offer network users holding mismatched unbundled capacity at one side of an interconnection point a free-of-charge capacity conversion service. Such a capacity conversion service shall apply to annual, quarterly or monthly capacity products for bundled firm capacity at that interconnection point which the network user had to acquire because insufficient unbundled capacity on the other side of the interconnection point was offered by an adjacent transmission system operator. This service shall be offered on a non-discriminatory basis and shall prevent additional charges from being applied to network users for capacity they already hold. In particular, payments for the part of the contracted bundled capacity which network users already hold as mismatched unbundled capacity shall be limited to a possible auction premium. This service shall be based on the conversion model under development by ENTSOG and to be finalised at the latest by 1 October 2017 after consulting stakeholders and the Agency.”*

The ENTSOG conversion model according to CAM NC put forward by this document builds upon previous work done by ENTSOG in this area (rf. next paragraph).

## **Previous work of ENTSOG regarding capacity conversion**

EFET and ENTSOG started in the beginning of year 2015 a dialogue process in an ad-hoc joint work stream with the aim to identify and resolve potential issues related to the introduction of capacity bundling before more long term bundled products are offered. The issues identified in the dialogue between EFET and ENTSOG – amongst others especially the so called “capacity mismatch issue” where network users holding unbundled capacity bookings on one side of an IP may not find the equivalent unbundled capacity on the other side of the interconnection (rf. to Annex 1) – were jointly presented on the XXVII Madrid Forum. Thereafter, EFET and ENTSOG opened the discussion for all stakeholders including national regulatory authorities, ACER and the European Commission. Based on the intensive dialogue with stakeholders (public consultation, preparatory meetings of stakeholder experts and two stakeholder workshops) about the outlined issues, ENTSOG reached stakeholder’s support for potential options on a stakeholder workshop in June 2015.

The ENTSOG recommendation paper published in 2015 derived from this extensive and transparent work stream included measures to prevent the “capacity mismatch issue” as well as potential options to deal with it once it materialized. More specifically, it mentioned 3 options for capacity conversion services. When ENTSOG published the paper in 2015, the implementation of any of the measures and options was based on voluntary action and/or subject to approval on national level –today the CAM NC amendment obliges TSOs to offer a capacity conversion service based on the ENTSOG model. The work being done by ENTSOG by that time regarding capacity conversion can therefore be considered as input for the capacity conversion model to be developed until October 2017 according to CAM NC being put forward by this document.

## **ENTSOG capacity conversion model according to Art. 21 (3) CAM NC**

### **Introduction to the capacity conversion service**

The capacity conversion service allows a network user having contracted existing unbundled capacity at one side of an IP and having successfully acquired bundled capacity in an auction at the same IP to convert such unbundled capacity into bundled capacity.

### **Subject of the service**

The TSO offers all network users holding unbundled capacity at one side of an interconnection point (IP) the possibility to acquire capacity on the other side of the IP, without paying twice for the capacity on the side where they already hold unbundled capacity. Article 21(3) CAM NC refers only to firm bundled capacity products. Therefore the conversion capacity service relates to firm capacity only.

This conversion model is without prejudice to provisions described in Art. 19(5) and 21(1,4) CAM NC.

### **Process description**

1. A network user has concluded a contract for an unbundled firm capacity at an interconnection point from/to the TSO system before Regulation (EC) 984/2013 became applicable (1 November 2015).
2. According to its contractual arrangements, the TSO requires network users to submit requests for the conversion service to be applied before or after the end of the respective auction of bundled capacity.
3. Subject to successful allocation of bundled capacities to the network user in the respective bundled capacity auction, the TSO performs the conversion service for the network users.
4. The capacity becoming available by the application of the conversion service will be reoffered by the TSO in the subsequent auction(s).

### **Allowed conversion scenarios**

1. The network user may request a conversion up to the capacity (amount) and runtime of its unbundled contract(s), subject to the acquisition of bundled capacity in the respective auction.
2. Provision of the service can only result in yearly, quarterly or monthly standard capacity products.

3. The TSO may set specific conditions under which the capacity conversion cannot be applied, subject to NRA approval of the conditions.

### **Applicable charges**

1. After successful conversion of capacity by the TSO, only potential auction premium stemming from the respective auction of bundled capacity will be charged in addition to the applicable contractual payable price, subject to NRA approval.
2. No conversion service fee will be imposed to the network user.

### **Conversion service request**

The network user shall send a conversion service request in a form specified in the respective terms and conditions of the TSO

- in written form (letter or fax, ) using a TSO's standard form, or
- in electronic form (e-mail or TSO back-end system)
- via the relevant capacity booking platform, if supported by TSOs and the relevant platform.

In case the service request is incomplete or incorrect, the network user will be invited by the TSO to complete or correct it.

The capacity conversion request contains at least (where applicable) the following information:

- Reference number of the auction of bundled capacity
- Interconnection Point
- Flow direction
- The capacity(amount) and runtime(duration) to be converted
- Reference number of the unbundled contract(s)

### **Conversion service confirmation**

In case the conversion service request is complete, the TSO sends the capacity conversion service confirmation within 8 working days after completion of the auction of bundled capacity and latest before the start of the runtime of the converted capacity product.<

The Capacity conversion service confirmation contains at least (where applicable) the following information:

- Reference number of the auction of bundled capacity
- Interconnection Point
- Flow direction
- The capacity(amount) and runtime(duration) converted
- Reference number of the unbundled contract(s)

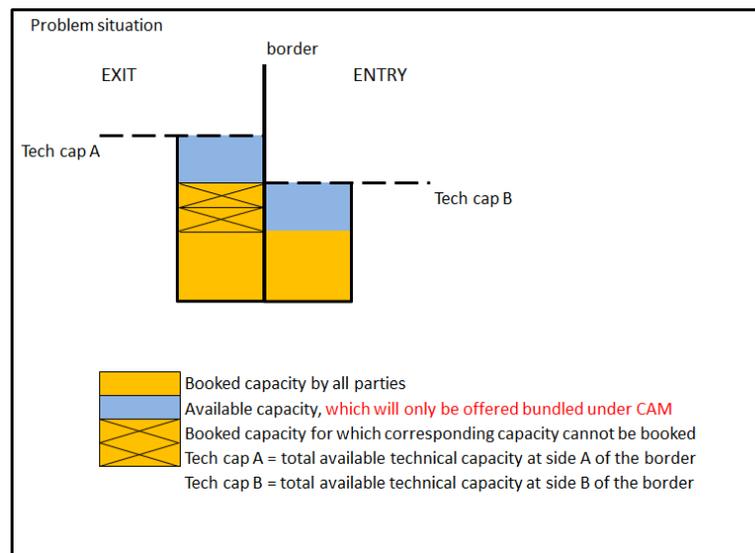
The capacity conversion service confirmation is sent in written or electronic form to the network user.

## Annex 1

### Issue description: Already contracted unbundled capacity and offer of bundled products only – the so called “capacity mismatch issue”<sup>1</sup>

Article 19(1) of CAM NC defines that TSOs are obliged to offer all firm capacity at interconnection points as bundled capacity, in so far as there is available firm capacity on both sides of the interconnection point. Unbundled firm capacity may be offered by a TSO where the respective TSO has more available firm capacity on its side of the interconnection point than the adjacent TSO on the other side in accordance with Article 19(5) of CAM NC.

Based on these requirements set out in CAM NC, the offer of unbundled capacity is limited to specific cases. This issue can materialize when network users hold existing unbundled long term capacity contracts at that side of an IP at which the level of technical capacity exceeds the level at the other side of the IP. In this case, the network user will not be able to contract unbundled capacity from the TSO to match it with its existing unbundled long term capacity contract on the adjacent side. In order to be able to transport capacity, the network user would be required to obtain bundled capacity, thus partly requiring the contracting of a capacity product that the network user already has. The issue is illustrated in the following diagram:



<sup>1</sup> Refer also to the joint EFET/ENTSOG MF paper on issues regarding bundling of capacities - ([Link](#))

In the example above, the network user holds an unbundled existing long term contract on the side of the exit TSO with no corresponding unbundled capacity at the side of the entry TSO. Due to the fact that the exit TSO has a higher level of technical capacity than the entry TSO, both TSOs have available capacity even though the exit TSO has contracted capacity in an unbundled manner. Based on the requirements of CAM NC, the available capacity on both sides of the IP would be offered in a bundled way, thus making it impossible for the network user to obtain only the unbundled capacity at the side of the entry TSO to match his existing capacity portfolio. However, interruptible capacity might be available but – according to Art. 32 (1) CAM NC – only in case all firm capacity was sold at an auction premium, sold out or not offered at all at the specific interconnection point.

## Annex 2:

### **TSOs implementation of capacity conversion service and NRAs' feedback to ENTSOG's 3 options how to address the Capacity mismatch issue**

In December 2015 ACER published its Position on gas capacity mismatch issue ([link](#)).

Since publication of ENTSOG recommendation in 2015 one TSOs started to offer Capacity conversion service in 2016 – NET4GAS ([link](#)).

Other 4 TSOs will start to offer the conversion service in Q1-Q2/2017 - Fluxys Belgium ([link](#), page 27), GTS ([link](#)), TIGF + GRTgaz ([link](#), page 7). All TSOs use (will use) a solution based on “option 1” – “Capacity conversion mechanism”. Four TSOs asks for binding request for the conversion service after the auction of bundled capacity, one TSO asks for binding request for the conversion service before the auction of bundled capacity.

The options how to address the capacity mismatch issue (see annex 1 for description) might be categorised into two groups; one group compiling preventative measures in the first place, the second group compiling additional measure (capacity conversion service) for cases where preventative measures do not solve the capacity mismatch issue.