



# **Revised Pilot Framework Guideline on Capacity Allocation Mechanisms**

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## INFORMATION PAGE

### Abstract

This document E10-GWG-71-03 is an ERGEG document on Revised Pilot Framework Guideline on Capacity Allocation Mechanisms.

ERGEG believes that the present framework guideline on capacity allocation in gas transmission networks will contribute to non-discrimination, effective competition and the efficient functioning of the market as required by Article 6 (2) of Regulation (EC) 715/2009.

This report is intended as input to ACER, which becomes fully operational on 3 March 2011.

### Related Documents

- Capacity Allocation on European Gas Transmission Networks Pilot Framework Guideline, June 2010, Ref: E10-GWG-66-03
- ERGEG's revised principles on Capacity allocation and congestion management in European gas transmission networks", December 2009, Ref. E09-GNM-10-03
- Pilot Framework Guideline on Capacity Allocation on European Gas Transmission Networks", (Public Consultation Document), December 2009, Ref. E09-GNM-10-05
- Pilot Framework Guideline on Capacity Allocation on European Gas Transmission Networks – Initial Impact Assessment", December 2009, Ref. E09-GNM-10-06
- Recommendations for Guidelines adopted via comitology procedure on Congestion Management Procedures on European Gas Transmission Networks", December 2009, Ref. E09-GNM-10-07
- Recommendations for Guidelines adopted via comitology procedure on Congestion Management Procedures on European Gas Transmission Networks – Impact Assessment", December 2009, Ref. E09-GNM-10-04

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## **FRAMEWORK GUIDELINE ON CAPACITY ALLOCATION**

### **1 General Provisions**

#### **1.1 Scope**

The rules in this Framework Guideline apply to cross-border interconnection points, whether they are physical or virtual<sup>1</sup>, between two or more Member States as well as interconnections between adjacent entry-exit-systems<sup>2</sup> within the same Member State, insofar as the points are subject to booking procedures by users. Exit points to end consumers and distribution networks, entry points to supply-only networks, entry points from LNG-terminals and production facilities, and entry/exit points to or from storage facilities are not subject to this Framework Guideline.

This Framework Guideline applies to all existing capacity as calculated by transmission system operators, including capacity being made available by capacity increase via enhanced capacity calculation, oversubscription and capacity surrendered by shippers. It also applies to all capacity under existing capacity contracts after they expire. It does not directly apply to new capacity allocated via open season, apart from capacity which remains unsold after it has been initially offered via an open season procedure. It is recommended that processes for determining incremental capacity, i.e. capacity to be made available above the prevailing level of existing technical capacity, are consistent with the provisions of this Framework Guideline.

This Framework Guideline aims at setting out clear and objective principles for the development of network codes by ENTSO-G under Article 6 (2) of the Gas Regulation ((EC) No 715/2009 on conditions for access to the natural gas transmission networks). This is without prejudice to the comitology procedure under Article 23 Par. 1 b) of the Gas Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks).

The network code adopted according to this Framework Guideline will be applied by transmission system operators taking into account possible public service obligations. The network code is without prejudice to the regulatory regime for cross border issues pursuant to Article 42 of Directive 2009/73/EC and of the responsibilities and powers of regulatory authorities established according to Article 41 paragraph 6 of Directive 2009/73/EC insofar the network code does not provide for full harmonisation.

#### **1.2 Adaptation of existing transportation arrangements to the network code**

Transmission system operators shall amend all relevant clauses in capacity contracts and/or relevant clauses in general terms and conditions relating to the allocation of capacity at relevant interconnection points, as defined in 1.1, in accordance with the terms of the network code. The relevant clauses shall be amended within six months

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<sup>1</sup> As defined in chapter 2.4.3 of this guideline

<sup>2</sup> As provided for by recital 19 and art. 13 (1) al. 4 of Gas Regulation 715/2009

after entry into force of the network code. This requirement shall apply regardless of whether the relevant contracts or general terms and conditions provide for such an amendment. Point 2.4.2 remains unaffected.

Upon expiry of transportation contracts the relevant capacity provisions shall not be subject to tacit extension.

### **1.3 Contracts and communication**

The network code shall define the standardised content of transmission capacity contracts and of general terms and conditions for capacity allocation and capacity services.

The network code shall define standard communication procedures that are applied by transmission system operators to exchange information with network users. Coordinated information systems and compatible electronic on-line communications shall be utilised particularly for capacity booking and transfers of capacity rights between network users.

### **1.4 Cooperation**

The network code shall set out that transmission system operators cooperate with adjacent transmission system operators and shall specify the procedures to:

- Harmonise, coordinate and bundle capacity services, establish virtual interconnection points and set up common capacity allocation procedures, including their timing;
- Coordinate their maintenance affecting interconnection points subject to this framework guideline in order to optimise network access.

The network code shall define a timetable to implement common communication procedures between transmission system operators which are necessary to comply with the requirements of the network code. The network code shall set out how transmission system operators cooperate with regard to capacity calculation and maximisation.

In order to maximise available capacity, the network code shall set out how adjacent transmission system operators exchange information when planning day-to-day network operation, including forecast entry and exit flows as well as the availability of network components and steering decisions for the technical use of physical interconnection points including those which are combined to virtual interconnection points. They shall also exchange information on potential congestions on their respective networks and on the use of congestion management procedures.

### **1.5 Stakeholders' involvement**

Stakeholder consultations shall be made to consider markets' needs and conditions before decisions are made. Where detailed decisions have to be taken the network code shall set out that stakeholder consultations are undertaken before decisions are made on, at least, the following elements:

- Breakdown of capacity services and the percentage of available capacity to be set aside for firm short term services in accordance with 2.3.
- The detailed design of the capacity allocation methodology used at each interconnection point in accordance with 3.

## 2 Capacity services

The network code shall set out how transmission system operators determine the firm and interruptible capacity<sup>3</sup> they jointly offer at each interconnection point.

The network code shall require that transmission system operators offer firm and interruptible capacity at any interconnection point in both directions; at unidirectional points, backhaul capacity shall be offered at least on an interruptible basis. The published available firm capacity shall be binding on the transmission system operator.

The capacity offered shall be expressed in energy units per unit of time. The offer and use of separate capacity for transit purposes shall be forbidden. That means that capacity used for transit purpose by shippers shall not be treated differently than capacity used for domestic purposes.

### 2.1 Firm capacity services

The network code shall define a small set of standardised firm capacity services of different durations and starting dates, which cover market needs. The determination of the standardised products shall be consulted on. The consultation must include yearly, quarterly, monthly, daily and intraday products. The standardisation is based on a daily capacity product's duration from 5:00 to 5:00 UTC/GMT<sup>4</sup> or any other time period harmonized across the EU as agreed by ENTSOG. The same set of services shall be offered at every interconnection point. The capacity services' design shall aim at developing competitive gas markets. It shall regularly be subject to proper consultation with network users.

### 2.2 Interruptible capacity services

The network code shall set out how transmission system operators align interruptible capacity services at every interconnection point in both directions.

Adjacent transmission system operators shall implement standardised procedures, including the definition of interruption lead times, to ensure that interruptions take place in a coordinated and standardised manner.

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<sup>3</sup> As defined in Art. 2 of the Gas Regulation (EC) No. 715/2009

<sup>4</sup> 5.00 to 5.00 UTC/GMT means 6.00 to 6.00 CET - Central European Time.

The network code shall define the possible reasons of interruption, classes of interruptibility and the sequence how interruptions take place.

Registered network users are entitled within day to submit nominations on an interruptible basis at any time. This entitlement shall not restrict the allocation of firm capacity by transmission system operators.

## **2.3 Breakdown and offer of capacity services**

The network code shall set out how to determine the breakdown of available firm capacity between the different long and short term capacity services<sup>5</sup>. At least 10 percent of the available firm capacity at interconnection points shall be set aside for firm short term capacity services. The amount of capacity for each capacity service shall be aligned between adjacent transmission system operators and be subject to review by national regulatory authorities.

The network code shall set out the procedures followed by transmission system operators to offer all available capacity in a transparent and non-discriminatory manner as long and short-term firm capacity services and as interruptible capacity services. The transmission system operators shall offer the firm capacity available plus:

- any remaining firm capacity not previously allocated,
- any capacity from previous allocations surrendered by capacity holders, and
- any unused capacity released through congestion management procedures (including use-it-or-lose-it mechanisms).

## **2.4 Cross-border services**

### **2.4.1 Bundled services**

The network code shall set out that transmission system operators jointly offer bundled firm capacity services. The corresponding exit and entry capacity available at both sides of every point connecting adjacent entry-exit systems shall be integrated in such a way that the transport of gas from one system to an adjacent system is provided on the basis of a single allocation procedure and single nomination.

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<sup>5</sup> As defined in Art. 2 of the Gas Regulation (EC) No. 715/2009

In order to progressively bundle the entire technical capacity at a given interconnection point, capacity becoming available on one side of an interconnection point exceeding the available capacity on the other side of the interconnection point shall be allocated for a duration not exceeding the expiration date of the corresponding capacity on the other side of the border. Transmission system operators shall seek to maximise the bundled capacity and to accelerate the bundling of capacity at interconnection points by encouraging their network users to free up their capacity booked on one side of interconnection points before its expiration date.

#### **2.4.2 Amendment of existing capacity contracts**

Existing capacity contracted before the entry into force of legally binding network codes shall be bundled five years thereafter.

Network users holding existing capacity contracts should aim at reaching an agreement on the split of the new bundled capacity. National regulatory authorities may moderate between the parties.

If no agreement on the split of bundled capacity can be reached, transmission system operators are entitled to split the bundled capacity between the original capacity holders proportionally to their capacity rights. The duration of the new bundled services shall not exceed the duration of the original capacity contracts they are built upon. Any further details of this procedure shall be set out in the network code.

Network codes are not meant and do not regulate supply contracts, only capacity contracts. Insofar as these guidelines could have an effect on supply contracts, implementation of network codes shall not entitle contracting parties to cancel supply contracts. It could only serve to separate the capacity contract if this is included in the supply contract.

#### **2.4.3 Virtual interconnection point**

The network code shall also set out that capacity at two or more points connecting the two same adjacent entry-exit systems is integrated into one single capacity service representing one virtual interconnection point. Transmission system operators shall calculate the entire technical capacity of the integrated service. Virtual interconnection points have to be established five years after the entry into force of the network code at the latest, insofar as the technical capacity resulting and at any virtual interconnection point is not lower than the sum of the previously separate bundled capacity products.

### **3 Capacity allocation**

The network code shall set out how transmission system operators offer capacity on a regular basis for all firm and interruptible services. The network code shall define a number of regular points in time for the allocation of firm capacity services. Each of these points in time shall be appropriate with regard to the duration of the capacity service offered at this allocation date. The longer the capacity service duration, the longer its

allocation lead time (i.e. the time between the allocation of the capacity and its use). Each allocation procedure shall contain a time window during which capacity is requested.

The network code shall set out that, for the same capacity service, the allocation procedures take place at every interconnection point in Europe in a timely coordinated way.

Capacity allocation procedures shall be designed with regard to market conditions and shall be regularly reviewed and revised if necessary. The aim of the allocation procedures shall be to foster competition and market integration.

The network code shall require that transmission system operators apply harmonised allocation mechanisms at interconnection points and publish the detailed procedure as well as the capacity offered, its lead time and its duration sufficiently in advance.

Capacity allocations shall not take place outside the harmonised allocation procedures as applied according to this Framework Guideline.

### **3.1 Standard allocation mechanism**

#### **3.1.1 Auction design**

The network code shall set out that all firm and interruptible capacity services for each time interval (with the possible exception of within-day capacity) are allocated via auctions. The network code shall set out the principles of anonymous and transparent online-based auction procedures, which should avoid any abuse of a dominant market position.

The network code shall set out a harmonised auction design, which is applicable at every interconnection point within the EU. Where the network code does not provide for a fully harmonised auction design at every interconnection point, because this is -for duly justified reasons- not appropriate, the same detailed auction design shall be established at least between adjacent transmission system operators for each interconnection point and shall be subject to review by the regulatory authorities concerned and to market consultations according to 1.5.

The network code shall set out a fully harmonised auction design for firm day-ahead capacity. The network code shall however allow deviations from this design for the potential implementation of day-ahead implicit auctions.

#### **3.1.2 Reserve price**

If not further specified in the framework guideline on tariffs, the regulated tariff shall be used as reserve price in auctions of firm and interruptible capacity.

#### **3.1.3 Auction revenues**

Auction revenues exceeding the allowed revenue (or values determined by the national regulatory authority) shall be used for different aims subject to the approval by the

national regulatory authority, such as lowering network tariffs, removing congestion by investments or providing incentives to the transmission system operators to offer maximum capacity.

### **3.1.4 Allocation of interruptible capacity services**

The allocation of interruptible capacity shall not restrict the allocation and use of firm capacity, meaning that the offer of interruptible capacity cannot be detrimental to the offer of firm capacity.

### **3.1.5 Within-day capacity**

Transmission system operators may allocate within-day capacity, i.e. capacity not allocated after the day-ahead auction, via first come first served. Interruptible within-day capacity services are allocated according to 2.2. Transmission system operators shall implement the same allocation mechanism between adjacent system operators at each interconnection point.

### **3.1.6 Interim period**

If, after the comitology procedure, as referred to in Article 28(2) of Regulation (EC) 715/2009, an interim period is allowed before the implementation of auctions, the network code shall set out that during this period, adjacent transmission system operators apply harmonised allocation mechanisms at each interconnection point.

## **3.2 Unsold capacity after the standard allocation mechanism**

Capacity which is unsold after an allocation window shall be assigned to subsequent allocation windows for capacity services of shorter term or equal duration.

## **3.3 Booking platforms**

The network code shall set out that adjacent transmission system operators establish joint, anonymous, web-based platforms for primary capacity allocation and secondary capacity trading. All capacity connecting their systems is to be allocated via this platform, unless allocated by means of implicit auctions. Primary and secondary capacity services shall be offered and allocated jointly on these platforms.

The network code shall lay down an action plan to reduce the number of platforms. This plan shall define interim steps and shall include a timetable.