

# EU Network Codes – Current Gazprom concerns

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19<sup>th</sup> October 2012



# Capacity Allocation, Congestion Management and Entry Exit

- Regulators proposals for holding back new capacity for short term trading (ACER opinion on CAM)
  - Distorts signals for new investment from market based procedures
  - Prejudices development of market based procedures for new capacity investment
  - Increases likelihood of stranded assets and therefore issues of cost recovery
- Bundling of capacity at Interconnection Points
  - No evidence that it will improve trading – NBP, German VTPs, TTF, PEG Nord all developed successfully as a result of other factors
  - Risk of capacity reduction
  - Limits number of counter parties because it forces companies to be active in two jurisdictions
  - EU proposal for replacement of sunset clause will help mitigate effects on existing contracts
  - Issue of GAC assurances to Russian side that current delivery points will not be affected
- Restriction of re-nomination rights (short term UIOLI)
  - Limits flexibility of shippers to respond to changes in demand or supply
  - Not clear if shippers refunded capacity charges if capacity is sold to other shippers
  - Need to ensure other mechanisms are developed e.g. over-subscription and buyback
- Implementation of entry exit
  - Disruptive effects of change of delivery points and reduction in capacity rights
  - Need for well planned process to enable transition from old regime to new regime

# New Capacity

- Welcome CEER and ACER work on market based mechanisms for new capacity and urge continued progress to enable new investment in capacity *where the market wants it*.
- Regulators should recognise that one of the best ways to stimulate infrastructure investments is to create a favourable regime for investments which are initiated by market players themselves.
- Need to distinguish between new capacity as part of TYNDP / central planning process / security of supply and capacity signalled by market
  - e.g. rules on holding back capacity for short term trading (see CAM comments above)
- Integrated auctions and Open Seasons are both valid and complementary market mechanisms for new capacity
  - Integrated auctions better for less complex projects, for example reinforcement of capacity at a single cross border point.
  - Open seasons are best suited for large new infrastructure projects which involve a number of TSOs and regulators.
- Close interaction between tariff structures and the provision of new or incremental capacity – essential this taken into account when designing market based mechanisms
- Procedures and key principles can be harmonised at the EU level but should not be standardised
  - e.g. the economic test needs to take account of the regulatory framework (e.g. risk levels, rate of return) governing individual TSOs and agreed with their respective regulators.

# Capacity Tariffs

- Proposed implementation one year after approval of Network Code is too fast
  - Code will affect transportation costs throughout EU including existing capacity contracts signed in good faith
  - Firms will need to adjust supply contracts to take account of new transportation costs
- Uncertainty of future capacity tariffs
  - Need for complete transparency as to how regulators and TSOs will calculate tariffs
  - Risk of changes due to regulatory intervention e.g. at Price Control
  - Revenue under recovery problems lead to changing tariffs (e.g. floating capacity charge as in Germany or commodity charge in Great Britain)
- Risk of cross subsidy between different network users
  - Low or zero reserve prices for short term capacity subsidise traders at expense of longer term capacity holders as TSOs increase capacity charges or levy commodity charges
  - Marginal pricing for backhaul subsidises reverse flow shippers at expense of forward flow shippers as forward flow shippers pay all network costs without which backhaul could not take place.
- Potential distortion of competition or market signals
  - Low or zero reserve prices can remove incentives for long term booking of capacity
  - Method of revenue under recovery can also disincentivise long term capacity booking

## Other issues

- Welcome efforts at transparency in Code development process by EUC, ACER, ENTSOG and CEER
  - But concern at nature of last minute changes to CAM proposed by ACER without suitable opportunity for shipper involvement
- Continued need for vigilance on ensuring compatibility of different codes under development because of interdependence of codes
  - CAM and Tariffs, New Capacity and Tariffs, Balancing and short term Use it or Lose it
  - Taking account if changes already agreed but not yet working when making new proposals (e.g. ACER justification of hold back of new capacity does not take account of CMP or CAM)
- EU Commission's views on ACER report on Transit contracts – what will be the next steps?
- Welcome more updates on new initiatives to improve our understanding e.g.
  - Merger of Austria, Slovakia and Czech trading region
  - Market coupling proposals in North West Europe Region
- Need for greater coordination between GAC process and EU Network Code development processes so that GAC conclusions are properly reflected in the Network Codes