EASEE-gas

European Association for the Streamlining of Energy Exchange - gas

Explanatory notes to CBP 2008-001/01 "Secondary Capacity Trading"

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EXPLANATORY NOTE 1:
BACKGROUND & ADDITIONAL CHAPTER COMMENTS

BACKGROUND

Earlier attempts to form a task force on the topic of Secondary Capacity trading have been made in the past. However, there was considerable variation in the level of commitment which made it difficult to achieve an aligned outcome across the various industry segments.

By the end of 2006 the issue had increased in importance, generating considerable interest across all segments of the industry. So it was appropriate for EASEE-gas to renew its efforts in this area and a revised Secondary Capacity trading task force was formed. A list of all task force members can be found below.

The secondary capacity trading task force had the goal of drafting a Common Business Practice (CBP) which would facilitate the Secondary Capacity market by researching existing problems in the different markets and finding a workable solution to improve the market conditions.

Following completion of a consultation questionnaire by Shippers and TSO's concerning their capacity markets, the group found that the biggest barrier to Secondary Capacity trading is the length of time it takes for capacity to be transferred between Shippers in the systems of a TSO. Additionally, the processes surrounding the transfer of capacity are different in the different systems, making capacity trading on a cross border level less efficient. The completed questionnaires can be found in Explanatory note 2.

Whilst developing this CBP, the task force was aware that other European groups were also engaged in discussions on the topic of Secondary Capacity markets. The task force kept a close watch on these developments and took part in these discussions where required to ensure alignment of ideas. The EASEE-gas task force was represented as a member of the ERGEG secondary market enabler group, was a guest speaker at one of the EFET gas committee meetings and had a visit from one of EFET's members to discuss the EFET capacity market workgroup. The work of the task force found support and corresponded with the findings and conclusions of the other groups. Some of the task force's terms and definitions were adjusted in an attempt to harmonise terminology across the industry groupings.

Below are some of the task force's findings which can be helpful in understanding the background and thinking behind the CBP itself.

APPLICATION AREA

There is a clear relation between the primary and secondary market, which should be reflected in the secondary market products that are facilitated by the TSO. The TSO will facilitate the trade of capacity products that are available on the primary market. It is not required of the TSO to facilitate any products that are not available on the primary market, unless market parties demonstrate a clear need for such products.

All markets are assumed to have implemented Regulation 1775/2005 on a national level.

Other aspects of secondary capacity trading will also be discussed in the CBP, although the primary subject is the transfer of capacity.

MARKET STRUCTURE

The requirements of the capacity transfer process are one of the most important issues of the CBP. To this end a sub task force has drafted a proposal, which has been reviewed and refined by the complete task force. The results of these discussions can be found in chapter 3 of the CBP.

On the basis of all these requirements, it is the task force's recommendation that an automated system with a web based customer interface is implemented by the TSO to transfer capacity. This web based interface is accessible to all Shippers at all times and provides a quick and easy overview of the outstanding and completed capacity transfers. It is a tool which is currently used in the market for several other purposes, which means that market parties are familiar with it and won't need extensive training to use the tool.

When an automated system with a web based interface is used, it is possible to expand the capacity transfer system with other functionalities, such as a real-time overview of available primary capacity and a bulletin board or trading platform. Another advantage of using a web based interface is the fact that Shippers will not have to implement a messaging system to communicate with the TSO's capacity transfer system. A Shipper will simply log into the (protected) website and can view and respond to any outstanding, rejected or processed transfers or add new requests for a capacity transfer.

Coordination and harmonisation at the stage of development and implementation of this web based system will avoid extra costs at a later stage and will increase the possibilities for cross-border trading of capacity.

The presents of the mentioned terms and conditions which the Shippers have to sign up to before getting access to the capacity transfer system, as well as the fact that these only need to be signed up for once, is a vital part of the capacity transfer process. It allows for capacity transfers to be processed quickly, as this process is completed before any transfer requests are made and it doesn't need to be repeated for every trade.

SECONDARY CAPACITY TRANSFER: LEAD TIMES

TSO's have the role of facilitators in the Secondary Capacity trading process and aim at developing Secondary Capacity trading facilities that are readily available to the market. In order to develop appropriate capacity trading services, monitoring of market requirements should be undertaken to ensure that Secondary Capacity trading functionalities evolve in conjunction with the liquidity of the market, in order to avoid non-market compliant developments being undertaken.

First of all, the lead times related to capacity transfer transactions should be aligned to those applicable to the commodity market. For example, it seems reasonable to apply the same closing hours for the day-ahead capacity market as those in operation in the day-ahead commodity market.

In order to promote the development of the capacity market, capacity transfer transaction lead times should evolve as described in section 5 of the CBP. These lead times depend on the deadlines for transaction requests on one hand and on the response time of the TSO's on the other hand.

As within-day capacity transactions require more advanced IT developments, it is reasonable for the TSO's to evaluate the need for within day transactions in conjunction with the development of liquidity in the capacity market. If the TSO's evaluate that the development of a within day market for Secondary Capacity is required, TSO's will develop a capacity transfer process which meets the request deadlines for within day capacity transactions, as mentioned here above.

The lead times for day-ahead and longer term capacity transfer as well as within day capacity transfer are not compatible with the terminal and storage IT system in which the transfer of capacity done through the secondary market has to be implemented: in fact (in France) secondary storage capacity has to be entered in the IT system before 1 pm for the next gas day since the calculations (rights, conditional offer, non-used storage rights and matching with the transportation capacity) of each clients begin at 2 pm. The main difference with the transportation is that the storage rights for one gas day are linked to the allocation of storage capacity the day before (since it is a function of the inventory level). It is therefore suggested to adjust the lead times to the way the certain market is set up. However, TSO's should strive to set the lead times at the latest possible time, to optimise the use of the secondary capacity market.

GENERAL REMARKS

This CBP reflects minimum requirements and does not exclude the desirability of introducing or maintaining additional provisions between individual parties.

The gas market, and therefore the Primary Capacity market, is continuously developing. As the products on the secondary market are linked to the products that are available on the Primary Capacity market, the secondary market for capacity will have to keep adapting to incorporate the developments of the primary market.

The CBP has tried to reflect the changing nature of the market in the requirements as much as possible. However, some market changes may not have been anticipated.

DEFINITIONS

This CBP applies the definitions as laid down in Regulation 1775/2005, PB L 289/3 as a starting point. The definitions below are derived from the definitions used in the Regulation.

Cross-border Entry-Exit capacity: Capacity, expressed preferably in energy unit or in normal cubic meters per time period, of the natural gas pipeline network at a regional or national boundary, whereby the booked exit capacity from one System is followed by the booked entry capacity into the other System.

Entry- Exit system: The set of Entry-Exit points and the pipes that connect these points where the flows are nominated and then measured to serve the equilibrium of Demand-Supply inside the Region.

Primary Capacity: Capacity, expressed preferably in energy unit or in normal cubic meters per time period, whichever is traded directly by the TSO.

Region: For the purpose of the present document, Region is "the geographical area served by the gas transportation pipeline network managed by a single transport operator. This network is connected with the neighbouring regions [networks] with a few and well

identified interlink [interconnection] points". The operator has all the means to fully control flows and pressures inside the network.

Secondary Capacity: The total or part of the capacity to which the Shipper is entitled in accordance with the provisions of a transportation contract and which is being traded on the market by this Shipper.

Shipper: A network user confirmed as meeting all requirements set by the TSO to get access to the System.

System: Any transmission networks, distribution networks, LNG facilities and/or storage facilities owned and/or operated by a natural gas undertaking, including linepack and its facilities supplying ancillary services and those of related undertakings necessary for providing access to transmission, distribution and LNG in any area to which Regulation 1775/2005, PB L 289/3 or any amendment or replacement thereto applies.

ROLES OF PARTIES

a) TSO Role

The TSO are the facilitators of the secondary trading of capacity rights.

They develop and operate the platforms that allow Secondary Capacity to be easily transferd between Shippers.

Each TSO adapts its platform at the level of development of the secondary market, so that the functionalities of the platform would not restrain the liquidity of the secondary market.

In the first steps of development of the secondary market, the TSO can play a role of intermediation between Shippers willing to transfer capacities, in order to trigger the activity on the market.

As the secondary trading of capacity develops, the role of the TSO shall progressively focus on the administration of an electronic platform allowing all the relevant types of transfers of capacity. The level of automation of the platform shall increase with the level of activity of the market.

b) Shipper Role

The Shippers are the holders of transportation capacity and are responsible for making the market in Secondary Capacity.

Seller/Holder

As the seller of System capacity to a third party, the seller will enter a bilateral contract for the sale/transfer of the capacity.

The seller will define the product offered for sale/transfer by indicating on a common agreed platform (e.g. TSO Bulletin Board):-

- Location
- Quantity and whether the quantity may be disaggregated into smaller bundles subject to a minima.
- Price and payment terms
- Nature of sale or trade (Assignments, Transfer or Sub-Lets)

A seller may also enter such a sale/transfer of capacity by acceptance of a posted buy bid.
The seller will warrant that they have legal title to the product offered

The seller will comply with the pre-qualification requirements set by the TSO operating that System. Such requirements should not be unduly onerous and would normally be satisfied by being a registered user of that TSO's network.

Subject to the arrangements for the trade the seller will be responsible for any original charges/penalties arising from the primary sale not transferred as part of this transaction (i.e. other than Assignments).

The seller will also inform the relevant TSO(s) in accordance with agreed timescales when the sale or trade has been agreed. All such changes (aside from Sub-Lets) will be reflected in each party's capacity account with that TSO. This may be an automated part of the process in the event that the platform for capacity transfer is common (this is the case for Transfer and could also be the case for Assignment).

Buyer/Receiver

The buying Shipper may accept any bid on the terms posted. Any variation of the terms should be regarded as a new bid.

As the buyer of System capacity from a third party, the buyer will enter a bilateral contract for the sale/trade of the capacity.

The buyer will comply with the pre-qualification requirements set by the TSO operating that System. Such requirements should not be unduly onerous and would normally be satisfied by being a Registered User of that TSO's network. The buyer will also inform the relevant TSO(s) in accord with agreed timescales when the sale or trade has been agreed. All such changes (aside from Sub-Lets) will be reflected in each party's capacity account with that TSO. This may be an automated part of the process in the event that the platform for trading is common (this is the case for Transfer and could also be the case for Assignment).

TRADE STRUCTURES

Shippers should be able to enter into more than one type of trade to transfer the use of capacity from one party to another. Standard terms and conditions should be used to facilitate the transfer of capacity.

Trade structures may include:

Novations – The Receiver is contractually fully substituted for the Holder. All rights and obligations are transferred from the Holder to the Receiver and the Holder is no longer involved in any way for the quantity of capacity that has been Novated. A Novation requires agreement of the TSO, Holder and Receiver.
Assignments – The Receiver is contractually substituted for the Holder, and the Assignment is communicated to the TSO. All rights are transferred to the Receiver and payment for the capacity transferred is to be made by the Receiver instead of the Holder.
Transfers – Transportation capacity is transferred from the Holder to the Receiver in the TSO's System. Contractual rights including payment and credit obligations do not transfer remaining with the Holder and the Transfer is communicated to the TSO
Sub-lets – A third party utilises a Shipper's transportation capacity through private arrangements with the Shipper. Contractual and operational obligations with the TSO do not transfer, and the private arrangements are not visible to the TSO. The Shipper remains the owner and user of the capacity in the TSO's System.

MARKET STRUCTURE

Market structures describe the way in which market parties find each other, when they wish to transfer capacity on the secondary market. Similar to the development of different trade structures, different market structures have appeared in the national and regional markets.

EASEE-gas recommends TSO's to implement a market structure that supports the processes as described in this CBP, enabling the TSO to handle very short lead times with a minimum of manual actions. This market structure consists of a capacity transfer process, under the responsibility of the TSO, which provides Shippers with easy access when informing the TSO of a trade.

In addition to the possibility to transfer capacity, the capacity transfer process could include a trading platform. This system will facilitate market development and ensures that capacity products (both long and short term) are available on the secondary market. The main function of the process is to facilitate transfer of capacity from one trader to the other. However, EASEE-gas strongly advises the TSO's to include the following functionalities;

- A screen, which allow Shippers to post and accept offers and bids,
- A space to post messages with additional information surrounding the secondary market,
- An alert function, which informs Shippers on request of certain offers or bids being posted (via email, text message or pop-up)
- Link with neighbouring TSO's systems to optimise cross border capacity trades

The system should have the flexibility to be expanded with other functionalities, such as;

- Real-time primary capacity information

Since the basic requirement of the capacity transfer process is the facilitation of capacity Transfers, this capacity transfer process will support and aid other continuous capacity measures and trade platforms. The aim of implementation of a capacity transfer process should be to enable all commercial market activities surrounding the Secondary Capacity market. However, centralisation of all supply and demand of Secondary Capacity will increase liquidity and transparency of the market. We therefore suggest using the capacity transfer system to post offers and bids where possible, before using any other available methods, such as Sub-Let.

PROCESS

The process description for Novation has been taken out of the main body of the CBP, as the CBP and capacity transfer process are mainly focussed on Transfer and Assignment. However, the transfer of capacity after the contractual arrangements for Novation have been concluded could take place via the capacity transfer process according to below process.

Novation

The Holder shall notify the TSO of the intention to transfer Primary Capacity to the Receiver. Subject to the agreement of all parties, and the Receiver entering into the required contractual agreements with the TSO, the TSO shall transfer the capacity (and all of the rights and obligations that go with the capacity) from the Holder to the Receiver.

The Holder may novate all or part (subject to any minimum quantity limits imposed by the TSO) of its capacity to a Receiver.

TERMS & CONDITIONS

The TSO (or the operator of the capacity transfer process) shall define the terms & conditions under which Shippers can use their capacity transfer facilities. These terms & conditions will be transparent, freely available to all parties and easily accessible. They will be designed to facilitate capacity trade, enable the reasonable recovery of costs and protect all participating parties in case of credit issues, fraud and any other issues that are also covered in Primary Capacity deals. Shippers will be required to sign before any capacity transfer can be requested.

Standard contracts between the TSO and Shippers, as well as between two Shippers are highly recommended, as these will shorten transaction lead times and will avoid misunderstandings.

ADMINISTRATION AND COSTS

The TSO shall have the right to levee a transaction charge for the transfer of capacity for Assignments and Transfers. This charge is based on actual costs, incurred by the TSO whilst facilitating the transfer.

As EU regulation has not yet been fully implemented in all countries of Europe, the TSO's of these countries might encounter problems surrounding the implementation of the CBP. When national regulation doesn't oblige the TSO's to implement a web-based system, or facilitate secondary capacity trading in general, retrieving the costs for these implementations can be problematic. Therefore the TSO's will actively encourage the national regulators to implement article 8 of Regulation 1775/2005 and engage in discussions to ensure compliance with EU regulation. The TSO's will implement the CBP when there are no restrictions put in place by the regulator.

MEMBER LIST OF THE SECONDARY CAPACITY TRADING TASK FORCE

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