Gas Storage Europe

Capacity Allocation Mechanisms and Congestion Management Procedures for Underground Gas Storage

(State of play in view of the implementation of Regulation (EC) No. 715/2009)

Madrid Forum, 27-28 September 2010

GSE has worked with ERGEG and others to improve CAM & CMP since 2008

GSE started working on the topic of CAM & CMP in 2008 in conjunction with ERGEG, Eurogas and EFET.

Since then:

- ✓ First GSE Internal Survey and Position Paper on CAM & CMP of July 2008: results reported to XV Madrid Forum in **November 2008**
- ✓ GSE Basic Criteria for CAM & CMP of **December 2008**
- ✓ 3rd Package was approved with general provisions on TPA services, CAM & CMP and transparency by SSOs
    - Commission has the power to issue detailed guidelines in all three areas in line with Article 23 of the Regulation
- ✓ Second GSE Internal Survey and Position Paper on CAM & CMP of **September 2010**
- ✓ ERGEG is preparing its own guidelines on CAM & CMP for storage, to be included in GGPSSO

In 2008, GSE drafted key principles for CAM & CMP

GSE believes that there should be a choice between the different CAM & CMPs as long as they fulfill the following basic criteria:

Capacity Allocation Mechanisms:

- Non-discrimination and transparency
- Provision of incentives to SSOs to invest in maintenance and development
- Consultation with users, NRAs and other stakeholders, if necessary
- Discouragement of capacity hoarding
- Maximization of the use of available capacity

Congestion Management Procedures:

- Non-discrimination and transparency
- Market-orientation so as to provide pricing and demand signals
- Creation of an appropriate balance between long and short term contracts so as to promote effective competition
- Maximization of the use of available capacity

The 2010 GSE Survey on CAM & CMP has shown major progress

- ✓ The 2010 GSE CAM & CMP survey covers a total of 24 GSE members representing over 60 bcm of commercial WGV, i.e. around 80% of the total commercial EU capacity
- ✓ The 2010 results show substantial progress in most areas:
  - **Storage users**: increased average number of storage users (SSOs representing almost 70% of all WGV report more than 10 storage users)
  - **Length of contracts**: One-half of all WGV is contracted for one year or less
  - **CAM**: move towards more transparent and market-based allocation mechanisms
  - **CMP**: more measures against capacity hoarding and improved facilitation of secondary trading of storage capacity
    - (All SSOs offer at least one but usually two forms of secondary capacity trading with electronic platforms, bulletin boards and OTC trading the most common)
    - (anti hoarding: one-half of SSOs believe UIOLI cannot be applied as effectively as in the TSO business and two-thirds have never actually applied UIOLI)
  - **Transparency**: following GSE daily gas stock, enhanced transparency and frequency of data publication (daily is the norm now, range of data includes available interruptible capacities)

Conclusions

- ✓ In spite of progress, room for improvement still exists and that is why GSE continues to work with ERGEG and other stakeholders to prepare the best possible rules for CAM & CMP
- ✓ ERGEG's CAM&CMP guidelines must be in line with the framework set by the Third Energy Package
- ✓ GSE believes that there should be a choice among the various CAM & CMP
- ✓ GSE also believes that UIOLI rules should be carefully developed taking into account the difficulty of applying backward-looking UIOLI to the gas storage business

BACKUP

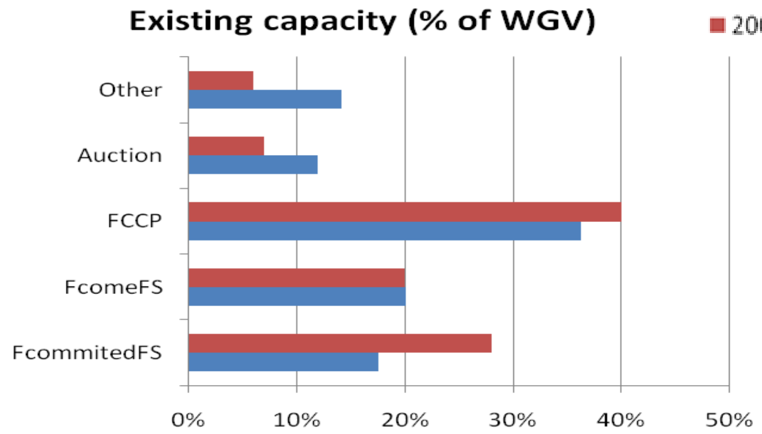
Main Findings (1)

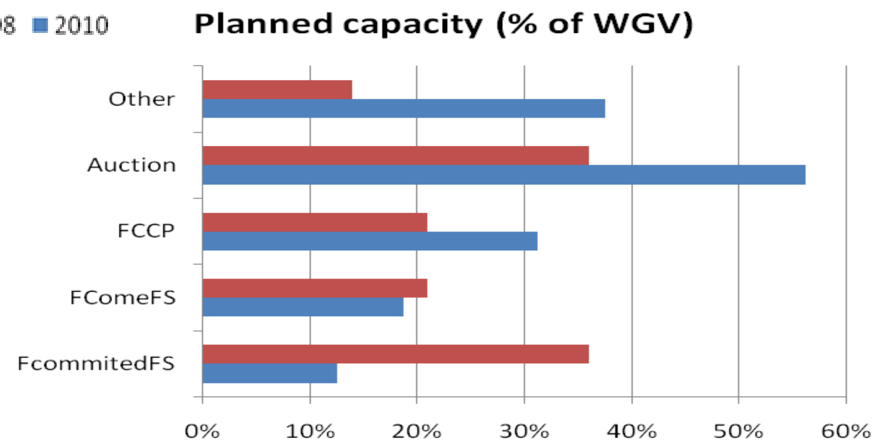
TPA regime / Length of contracts / Priority

- ✓ Two-thirds of all WGV is under nTPA regime, the rest under rTPA
- ✓ Half of all working gas volume is contracted for one year or less
- ✓ Storage use
  - SSOs representing almost 70% of all WGV report more than 10 storage users
  - 70% of SSOs report increasing the number of users in the past 2 years by 6 on average

Capacity Allocation Mechanisms

- ✓ The popularity of Auctions is growing , while the use of FCFS is decreasing

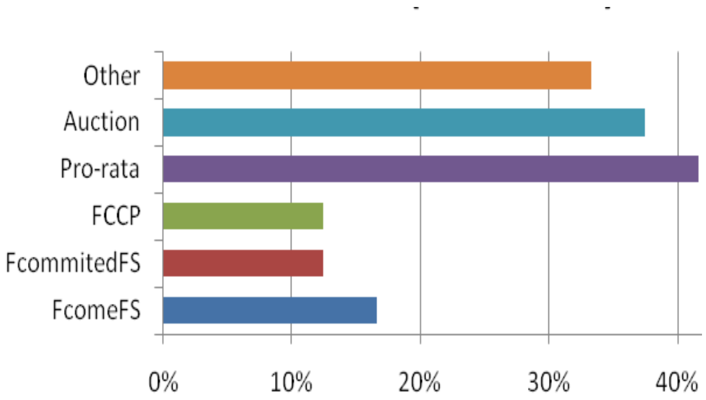




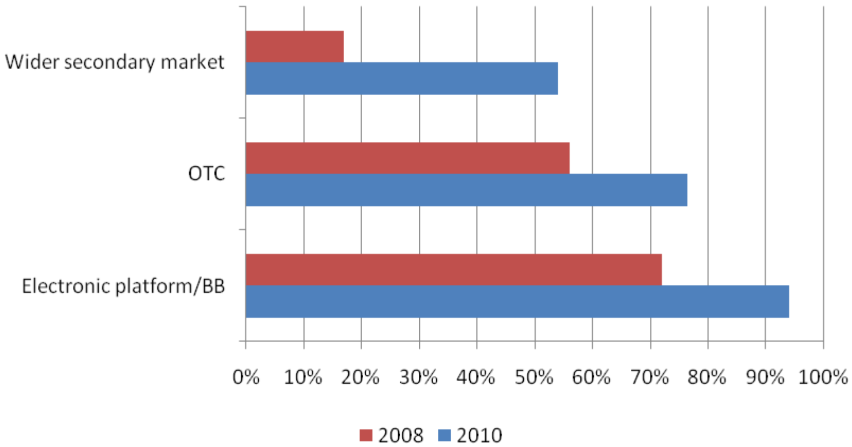
Congestion Management Procedures

- ✓ When designed by SSOs, CMPs are consulted with users in 90% of cases
- ✓ All SSOs offer at least one but usually two forms of secondary capacity trading with electronic platforms, bulletin boards and OTC trading the most common.

CMP used (% of WGV)



Secondary market tools used by SSOs



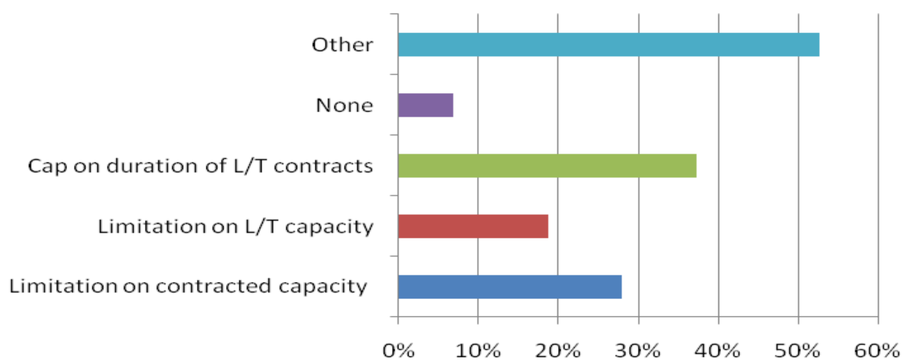
N.B. Please note that the definition of secondary market categories was slightly modified for the 2010 survey.

Main Findings (3)

Measures to tackle capacity hoarding

- ✓ SSOs apply many anti-hoarding measures including a limitation on capacity for incumbents and a cap on capacity dedicated to L/T contracts and their length
  - Almost three-quarters of SSOs have the possibility to apply UIOLI (backward, forward, LIOTI)
  - However, one-half of SSOs believe UIOLI cannot be applied as effectively as in the TSO business and two-thirds have never actually applied UIOLI
- ✓ Majority of SSOs applying UIOLI do so on an interruptible day-ahead basis – any other use of UIOLI seems arbitrary given the nature of gas storage and the role it plays in Security of Supply

Measures applied against possible capacity hoarding



Other includes UIOLI , pro-rata allocation and penalties

Main Findings (4)

Transparency

- ✓ GSE members publish a wide range of data useful for existing and potential storage users (see chart below), predominantly on daily basis (70% of all SSOs).
- ✓ All SSOs publish information on capacity which is to become available on their website, while majority also advertise this elsewhere (letters, trade publications, conferences).
- ✓ All but one SSO make available all information also in English, thus greatly enhancing its usefulness to potential storage users.