



GTE Position Paper

Access to Storage Facilities

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Introduction

After acceptance of the revised Guidelines for Good Practice (GGP) concerning Third Party Access (TPA) to natural gas transmission networks at the Madrid Forum VII held in September 2003, it was agreed to consider GGP for TPA to storage facilities. A *Specific Working Group* has been established by the EU Commission according to the Conclusions of the Madrid Forum VII. The first meeting of this Specific WG was held on the 2nd April 2004.

GTE, representing most of the Storage System Operators (SSO) in Europe, is delighted to contribute to the process of establishing GGP with regard to storage facilities on a progressive way and on sufficiently mature topics first, allowing for the necessary technical feedback and for sufficient sharing of experience.

The present document is GTE's first contribution to a mutual work on the GGP for storage with the EU Commission, regulatory authorities, storage users and all interested parties. This paper applies to storage under TPA and not to storage exempted from TPA. A key issue is to determine the circumstances in which negotiated TPA to storage facilities should be preferred to regulated access (see section 2.1).

Storage facilities are among the many sources of flexibility available in any relevant market. Existing European storage facilities were built to provide a variety of services to the storage capacity owners. This diversity is important to bear in mind when setting out GGP.

1. Products and Responsibilities of Storage System Operators (SSO)

A Storage System Operator offers basically the following products combined or individually as firm long or short term storage service:

- a) Injection capacity;
- b) Withdrawal capacity;
- c) Working gas capacity.

Subject to subsidiarity, in addition to the above mentioned services, other services such as strategic capacity to prevent supply disruption or to fill in peak demand capacity can be defined.

Based on these storage products the storage user is able to generate other services to meet seasonal flexibility and security of supply needs.

The responsibilities of the SSO under TPA are defined as follows:

- Transparent and non-discriminatory services and conditions
- Injection, storage and withdrawal of working gas
- Operation of the facility respecting technical constraints and contractual obligations
- Technical integrity of storage facilities



- Technical reliability of storage facilities
- Secure interoperability with adjacent TSOs
- Measurement and publication of relevant data
- Adherence to any local or relevant rules related to security of supply

2. Third Party Access (TPA)

2.1. Definition of suitable criteria for choosing access procedure to storage

In principle storage facilities should not be considered as essential facilities insofar storage users can choose among a significant number of storage operators and/or alternative tools providing equivalent flexibility services are available. Particular national and local circumstances should also be taken into account.

According to the Internal Gas Market (IGM) Directive, each Member State may choose either regulated or negotiated access procedures to storage facilities under TPA. These procedures shall operate in accordance with objective, transparent and non-discriminatory criteria.

GTE considers the following main criteria as sufficient in order to choose negotiated access to storage facilities in a relevant market:

- Storage services or equivalent flexibility services provided by several actors;
- The facility and the operator's facilities in total are not considered of a scale to exert market or pricing power in a relevant area;
- No discriminatory limitations for newcomers or privilege rights for dominant SSO (incl. on lines connecting the storage facility with the existing grid);
- Sufficient availability of storage capacity, and in particular no prolonged lack of capacity due to absence of suitable geological conditions or to the impracticality of increasing existing capacity.

If negotiated access cannot be accepted based on the above described criteria the degree of availability of flexibility by alternative tools should be considered for a decision on access procedure.

2.2. Separated and combined services

A combined Transmission and Storage System Operator should be able to offer combined services along with offering transmission and storage services on a separate basis.

2.3. How to ensure maximum use of capacity?

The prime objective of the SSO should be to ensure that the maximum capacity is made available to the market. Most SSOs are offering standard services with defined injection and withdrawal periods in order to maximise the utilisation of storage facilities. Deviations from this procedure have to be carefully considered, because the optimal utilisation of the storage could in that case be harmed. In any



case the ownership rights of the gas as well as the priority rights as referred to in section 3 and other contractual rights have to be respected.

- Short term firm capacity

Most storage facilities are designed to cover seasonal requirements throughout the year and hence a year would be the most logical minimum contract term. However, SSOs should normally be able to provide shorter duration firm and interruptible storage contracts, i.e. with a term shorter than one year and not confined to the so-called *Storage Year* or *Gas Year*. The lower bound for the term depends on the type of storage and installed equipment. The minimum durations should be left to commercial pressures, and it is recommended that the SSOs should seek to match the terms the market requests.

The total charges for any storage contract with a shorter duration than a reference period shall reflect the availability of capacities during the period and shall account for opportunity costs and relevant risks, i.e. market reflectivity.

- Interruptible capacity

Offering interruptible capacity should be handled very carefully and without any direct impact on existing contracts. The preferred method is for the storage capacity holders to offer unused capacity on the secondary market.

As a principle interruptible injection and/or withdrawal capacity should only be offered if no firm capacity is available. The potential user of interruptible injection capacity has to have working gas capacity booked in order to be allowed to inject gas, whereas the potential user of interruptible withdrawal capacity has to have working gas in the storage in order to be allowed to withdraw gas.

2.4. Tariff Structure and Derivation

Negotiated access tariffs should be market reflective. In case of regulated access, tariffs should reflect at least incurred costs, including appropriate return on investment taking into account predicted storage utilisation.

Benchmarking taking into account European market conditions is in principle acceptable, however limitations resulting from differences in geological and technical conditions, market demand and market conditions must be fully taken into account.

Tariffs have to provide the necessary incentives and signals for new investments necessary to facilitate the development of the market, to maintain a high level of security of supply and as a result to remove capacity constraints where the market is prepared to pay for such removal.

SSOs should be entitled to offer long-term tariffs.

2.5. Transparency requirements

Tariffs and the methodology by which they are designed, regular publications of statistical information on inventory levels, storage capacities and main flows by country or by an SSO should in principle be available provided they are necessary in order to ensure transparent, objective and non-discriminatory access conditions and facilitate efficient utilisation of storage.

However contractual requirements of confidentiality as well as the commercial confidentiality consequences associated with negotiated access to storage have to be taken into account. Actual statistical information on storage utilisation is likely to be commercially sensitive.



2.6. Operational rules

For the implementation of nomination and allocation mechanisms, balancing rules, definition of the minimum contract duration as well as other important issues, basic rules for a secure, reliable and efficient operation have to be considered.

3. Co-operation between TSO and SSO

TSOs and SSOs have to jointly plan and implement operational procedures to ensure storage and transportation systems interface effectively.

The areas of co-operation are normally described by a Storage Connection Agreement (SCA) which has to cover the following requirements at the connection points:

- Technical, to ensure safe and environmental friendly operations of the systems;
- Operational, to match the nominations simultaneously delivered to SSO and TSO;
- Measurement and allocation.

Commercial relations between SSOs and TSOs will be on 'arm's length' basis.

The subsidiarity principle means that Member States may require some form of priority rights for TSOs concerning access to storage.

4. How to facilitate new investment in storage

SSOs and/or new market players will develop infrastructures on the basis of market signals provided by the storage users and will maintain adequate levels of flexibility in the storage systems. Any future investment framework should be as market driven as possible requiring a clear, stable and long term legislative framework.

Where there is regulated access to storage, there is an absolute need for appropriate incentives in order to make sure that additional storage capacity will be developed according to the market signals and some of the main conditions to facilitate new investments in storage are:

- Rates of return which reflect the uncertainties related to this kind of business and which promote long term investments where these are needed;
- Advanced reservation through long-term agreements covering part or all of the additional capacity may play an important role in the development of the facilities, allowing the financing of infrastructures with lower commercial risks while providing access for all users of network and storage systems.

5. Regulatory framework

A central planning framework controlled by governmental authorities must be avoided for mature gas industries, and obligations imposed by national authorities must be carefully assessed to avoid market distortions and promote investments where appropriate.