

Bundesnetzagentur
Ruling Chamber 7
Tulpenfeld 4
53113 Bonn
Germany
E-mail: Kapazitaeten.Gas@BNetzA.de

Dammtorstraße 29-32
20354 Hamburg**Public Consultation on the allocation of competing capacities according to Art. 8 of the Network Code on Capacity Allocation Mechanisms (Regulation No 984/2013)**

Dear Sir or Madam,

Vattenfall welcomes the opportunity to provide our views on the allocation of competing capacities pursuant to Art. 8 of the European Network Code on capacity Allocation Mechanisms (NC CAM). As we have been involved in establishing the NC CAM at a European level, we are very interested in commenting on how the European regulation is implemented into national law.

Furthermore, we would like to thank the Ruling Chamber 7 for taking the opportunity by launching this public consultation to receive input from interested market participants regarding the allocation process of competing capacity. Vattenfall underlined the necessity of a public consultation on the applicable rules on competing capacity in its response to KARLA Gas 1.1 of 13 April 2015. In this response we stressed that the rules on competing capacities should be clear and transparent. A mechanism should be introduced in Germany guaranteeing that the maximum level of technical available capacity - also with regard to the bundling of capacity - is applied at interconnection points subject of competing capacities. Please find below our response to the issues raised by the Ruling Chamber 7.

1. Advantages and disadvantages of the allocation of competing capacities

We are in favour of the proposal by the Ruling Chamber 7 to replace the currently applicable ex-ante capacity allocation by the competing capacity allocation in Germany. Whereas the ex-ante capacity allocation leaves the choice on where and how much capacity should be made available to the market to the Transmission System Operator (TSO) the proposed competing capacity allocation reflects a more market oriented allocation. This mechanism is preferred by Vattenfall as it mirrors the willingness of the shipper to pay a higher price/premium in order to acquire competing capacities at certain interconnection points (IP). Furthermore, it reflects the demand of transport capacities of the network users compared to

DATUM
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JSANSPRECHPARTNER/IN
Joana StirnbergTELEFON-DURCHWAHL
+31 – (0)6-52400350

TELEFAX-DURCHWAHL

E-MAIL
joana.stirnberg
@vattenfall.com

IHRE ZEICHEN

IHRE NACHRICHT VOM

www.vattenfall.de

GESCHÄFTSFÜHRER
Stefan Dohler (Vorsitzender)
Jochen WinterSITZ DER GESELLSCHAFT
HamburgHANDELSREGISTER
Amtsgericht Hamburg
HRB 80335BANKVERBINDUNG
Nordea Bank Finland Plc
Niederlassung Deutschland
BLZ 514 303 00
Konto-Nr. 6330085001
DE15 5143 0300 6330 0850 01
NDEADEF

the currently applicable ex-ante capacity allocation in a more efficient way as capacities are allocated at IPs where they are actually needed. Hence, we would like to ask the Ruling Chamber 7 to introduce the market-oriented mechanism to the auctions of competing capacities.

2. Transparency requirements regarding the information of technical available capacity and available capacity at competing IPs

Vattenfall regards it as very important to guarantee a high level of transparency concerning the allocation of competing capacities. This enables network users to make an analysis on the available/offered capacity before the auction of the transport capacity in question actually takes place. It is essential for network users to know which capacity competes to each and to acquire more information on the competing capacities e.g. historical bookings and surcharges paid for capacities to understand the behaviour of the usage of capacities before taking part in the auction. Therefore, an overview of all IPs (national and international) that are subject to competing capacities should be published on the capacity platform PRISMA and updated by the TSOs if necessary.

3. Guaranteeing that rules on set-aside capacity are respected

As acknowledged by the Federal Network Agency with regard to other public consultation, such as on the implementation of the Network Code Capacity Allocation Mechanisms there is a trend towards more short-term capacity bookings. Thus, the set-aside rules of IPs subject to competing capacities should be based on the maximum level on the technical available capacity.

4. Applying the re-nomination rights

The recent monitoring report of the Federal Network Agency has shown that contractual congestion at interconnection points are rather an exemption in Germany. Furthermore, Vattenfall favours the application of Oversubscribe and Buy Back (OSBB) as a market based congestion mechanism. Hence, the re-nomination right of competing capacities should – as all other bookable transport capacity – be calculated according to the maximum available technical capacity at the interconnection points in question.

5. Requirements that should be applicable to competing capacities auctions at international interconnection points

Vattenfall favours the alignment of the mechanisms and rules concerning the allocation of competing capacity at cross-border interconnection points. We therefore propose that the Federal Network Agency should discuss its proposal how to allocate competing capacities in the future with the adjacent national regulatory authorities in order to make sure that the TSOs apply a common capacity allocation mechanism. Referring to the first issue raised by the Ruling Chamber 7 in the course of this public consultation we prefer the proposed competing capacity allocation to be applied also by adjacent TSOs at international interconnection points to Germany.

6. Difficulties that might arise between the allocation of competing capacities and bundled/unbundled capacity at interconnection points

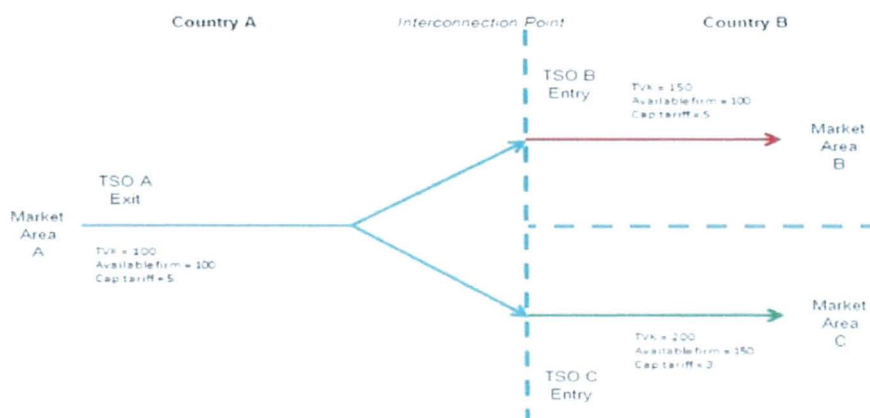
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As aforementioned Vattenfall favours the mechanism of competing capacity allocation. Thus, this mechanism should also be applicable at international connection points that are subject to bundling of capacity even though this might lead to a lower level of technical available capacity to be auctioned at the interconnection point in question.

Network user who acquired bundled capacities and at the same time already hold an unbundled competing capacity should be free to decide which border flow they want to nominate, using either the entry and the exit of the bundled capacity or using only part of the bundled and the previously acquired unbundled capacity in the market area of the competing TSO. This would enable the shipper to use the acquired capacity in a more efficient and market-oriented way.

The graph below illustrates this situation. The shipper wins the competing auction of bundled capacity of 100 firm units at the interconnection point with an entry to TSO B. At the same time this shipper holds 100 firm units of unbundled entry capacity at TSO C. The shipper holds consequently (bundled) exit capacity and both entry capacities at the adjacent TSOs, and therefore he should be free to decide if he wants to nominate a flow either towards TSO B or TSO C. It is given that the maximum level of nomination is limited to the amount of unbundled capacity units the shipper holds at TSO C.

Nomination at interconnection points subject to competing capacities



This "re-shuffling of nomination" does not discriminate against one of the involved TSOs as the shipper still pays the tariff for the originally acquired capacity to TSO B. Furthermore, in order to get the capacity of TSO B the shippers successfully participated in a competing capacity auction between TSO B and TSO C by paying a higher tariff/premium to acquire the capacity of TSO B.

To our mind no legal changes by the Federal Network Agency are necessary concerning this situation as the single nomination of bundled capacity at interconnection points is not mandatory to shippers. Hence, also under the applicable European rules (i.e. European Network Code on Gas Balancing of Transmission, No 312/2014) shippers are able to re-shuffle their nominations to another TSO of the same competing interconnection point if the requirements (i.e. holding of unbundled capacity) are given.

Further comments

Next to the issues raised by the Federal Network Agency in the course of this public consultation we would like to receive more information on the next steps of the Ruling Chamber 7 on the future process of allocation of competing capacities. We are particularly interested if a second consultation will follow as this is usually the case regarding other decisions/rulings by the Federal Network Agency. As an alternative solution and due to the time pressure regarding the application of the rules of the NC CAM as of 1 November 2015 we suggest that the Ruling Chamber 7 organises a workshop or a meeting with interested participants instead.

We trust the Federal Network Agency will take our comments into account when drafting the decision on the allocation of competing capacities and would appreciate the opportunity to discuss the possibilities and the advantages for the development of the market through the introduction of the abovementioned period personally with the Federal Network Agency. Please do not hesitate to contact us in this regard.

Best regards,

Vattenfall Energy Trading GmbH



Joana Stirnberg
Regulatory Advisor



Lutz Schierholz
Business Developer