



PROPOSAL FOR THE OVERSUBSCRIPTION AND BUY-BACK SCHEME

-EDP comments-

General comments

- We consider that the coordination between TSOs of the South Gas Region in the development of this Draft is **very important and positive for the region**, enhancing the **gas flows** between the existing entry-exit systems in it and contributing to avoid distortions in the use of capacities associated to the Interconnection Point.

In this way, as EDP stated in previous public consultations, TSO's coordination should be increased in order to promote not only a simpler and more transparent procedure, but also a greater level of harmonization. Several measures could be adopted to achieve this goal, which would facilitate the use of the IP capacity, namely a **unique contact point** associated to the use of the IP capacities, a **common contract model**, a **unique nomination** linked to the use of the bundled capacities (single nomination), etc.

Together with the above mentioned, as a first step, TSOs should manage and operate the IP in a coordinated manner aiming to **maximize the offered capacity**. NRAs should **supervise** this issue and TSOs should adequately justify the offered capacity.

- As we also have mentioned in previous public consultations, we consider that the **oversubscription buy-back mechanism is better and more coherent with market functioning than Firm Day Ahead UIOLI**. However, its implementation has to be **coherent** with the essence and main characteristics of this mechanism because, if it is not, its efficacy and efficiency in attaining the objective pursued for the CMP regulation will be **limited**. Concretely, we do not agree with the renomination **limitation from D-1**¹ neither with the use of an **unjustified/excessive risk margin**.
- Finally, in our view, the **compromise level and risk assumed by a shipper** who books ex ante a **firm capacity** product (annual, quarterly or monthly) compared with the onerelated with a **daily oversubscription capacity** is **very different** and this difference should be taken into account in this document. Therefore, we considered that previously booked capacity (annual, quarterly or monthly products) **cannot have the same treatment** as a capacity derived from an oversubscription process when **buy-back process is initiated**.

¹ "As soon as the TSOs have identified the need to trigger the market based mechanism, they restrict network users renomination rights upwards and downwards in both flow directions..." . Taking into account the timeline this situation would be in a moment between the following milestones "17:00h deadline for network users to renominate for the first time the day ahead capacity" and "19:00h deadline for the TSOs to launch the market based procedure to buy capacity..." .



2 ADDITIONAL CAPACITY

2.1 Main principles

- Oversubscription capacity products: This process should be applied to **more capacity products and not being limited to the daily capacity product**. In this sense, at least in our view, it should also be applied to the within day capacity product, with the aim to be coherent with the objective of this regulation that is, maximizing and optimizing the use of the interconnection capacity.

Furthermore, TSOs should elaborate an analysis on the implementation of this process to other capacity products.

- Variables:
 - **Physical flow** could be between the explanatory parameters, but it is sure that **optimal management** (backhaul flow, OBA, etc.) of the physical flow is an essential element for **optimizing and maximizing** the use of the capacity, and these are **two very relevant issues** to outline OSBB. So, the **supervision** of this element is crucial
 - Regarding the **exogenous variables** (i.e. price), perhaps they are not fully decisive but in our point of view these parameters should be taken into account.
- Regarding the mentioned safety margins, EDP considers that the nature of this process (OSBB) as some associated uncertainty. Therefore, the proposed “safety margins” should not remove or neutralise those elements associated to the essence of the procedure, eliminating the opportunity of a correct implementation of it. To sum up, a **balance between the use of “safety margins”, on one hand, and the achievement of the objective of using this mechanism, optimizing and maximizing** the use of the capacity, on the other hand, should be ensured

2 CALCULATION OF ADDITIONAL CAPACITY METHODOLOGY

2.2.2. Risk level quantification/ 2.2.3 Trigger Value definition/2.2.4 Additional capacity

First, we consider that TSOs assume a **generous margin to cover the possible risk** related to the implementation of this process. Therefore, taking into account that this issue could **limit the positive effect of implementing** this process for managing the congestion situations, we consider that TSOs should **justify** adequately the proposed safety margin and NRAs should **supervise** the applied margin and respective effects. In this sense, it is significant that the proposal does not have any annex or similar document with this explanation.

Taking into account the above mentioned, the following issues should be analysed and reconsidered before the approval of this proposal.

- Together with the Risk index (RI), TSOs propose, as they say, an **“additional safety factor”**. It could be **excessive or redundant**.



- Regarding the M_D factor, TSOs propose to consider directly the **maximum deviation** between the last nomination on day D-1 for day D and the last confirmed renomination of day D within the period of analysis that comprises the historical reference base.

It should be noted that the European Commission states in its decision of 24 August 2012, that the **probability of occurrence**, is a relevant factor that should be considered in the statistical scenarios used for the calculation of the maximum deviation. In this context, what is the likelihood of occurrence of that maximum deviation? **Without considering the probability, the security margin probably increases in a relevant manner, limiting the efficacy of this mechanism.**

Commission Decision of 24 August 2012 on amending Annex I to Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks

“In determining the additional capacity, the transmission system operator shall take into account statistical scenarios for the likely amount of physically unused capacity at any given time at interconnection points. It shall also take into account a risk profile for offering additional capacity which does not lead to excessive buy-back obligation. The oversubscription and buy-back scheme shall also estimate the likelihood and the costs of buying back capacity on the market and reflect this in the amount of additional capacity to be made available.”

- Furthermore, TSOs **reduce the offered capacity** with an **Operating margin** without justifying the proposed value. In this way, together with the **justification** of the proposal, TSO should inform on how much this **“safety issue” reduces the potential offered capacity.**

After analysing the proposed formulas, we conclude that if the nomination is under the 60% of the nominal capacity only an additional 10% of nominal capacity is offered to the market. Thus, without further information or a detailed justification, the offered **additional capacity seems to be really insufficient.**

In what concerns the next step of additional capacity, we cannot analyse **because we do not have enough information.**

2.4 Offer of additional capacity

In our view the compromise level and risk assumed by a shipper **who books ex ante a firm capacity product** (annual, quarterly or monthly) **or those related to a daily oversubscription capacity is very different and should be taken into account in this document.** In our view this idea is also implicitly considered in the TSO’s Draft when it proposes an explicit order of interrupting interruptible capacity.

So, we consider that **previously booked capacity** (annual, quarterly or monthly products) cannot have the same treatment as a capacity derived from an oversubscription process when a buy-back process is initiated.

Regarding the situations or cases when additional capacity would not be offered, it is very important to ensure **the transparency of the process, as well as the manner and the time to**



make it public because there could be a risk of **information asymmetry**. Thus, that kind of information should be transmitted to the shippers as soon as possible.

3 BUY-BACK PROCEDURE

- First of all, as we have mentioned in our answer other public consultations before, we do not support the **mechanism that applies pro rata to all capacity**, firm capacity and additional capacity. In our opinion users that have contracted annual, quarterly or monthly capacity need to ensure that their nominations are firm and cannot be affected by a buy-back procedure if pro-rata applies. The compromise level and risk assumed by a shipper that books ex ante a firm capacity product (annual, quarterly or monthly) or a daily oversubscription capacity is very different and should be taken into account in this document. In our view this idea is also implicitly considered in the TSO's Draft when it proposes an explicit order of interrupting interruptible capacity.

In this sense, if we **propose** the following development or structure for this mechanism that in our point of view, contributes to minimize the risk of the system.

- The Additional capacity offered could be distributed in the following products:
 1. Interruptible capacity.
 2. Oversubscription capacity.
- If the schedule use of the capacity is above technical capacity, the following steps would be taken:
 3. Management of OBA.
 4. Interruption of interruptible capacity, with the following order: Daily, Monthly, Quarterly Yearly.
 5. Voluntary buyback process. All capacity holders (firm/oversubscription) could participate in this process.
 6. If the problem is solved in the step 5, the process would be finished.

But, if it is not, the default rule would suppose that:

7. The TSO would buy back firm capacity at a regulated price from each shipper **holding "oversubscription capacity" on the point in question**, in proportion to the firm capacity it holds.
- Taking into account the above mentioned, we do not agree with the proposal considered in the point 3.2 (1) because the Draft should distinguish the firmness of capacity booked in an annual, quarterly or monthly product versus a booked "oversubscription capacity" in a daily basis.



- Renomination limitation.

First, we consider that a procedure as this **cannot eliminate the renomination** right that the regulatory framework gives to shippers. In this sense, the principles of oversubscription mentioned in the annex 1 of Regulation 715 do not consider this limitation.

TSOs proposal assumes that **if a buy-back process is initiated, shippers would not be able to renominate from D-1² and this does not make any sense in a market context.** In our view this limitation is against the objective of the European regulation, and limit shippers' tools for managing their position. With this proposal, **TSOs want to implement a process near to Firm day-ahead UIOLI because the existence or not of a renomination limitation is one of the most relevant difference between Firm day-ahead UIOLI and OSBB.** So, this issue goes against the real essence of OBSS, and it would neutralise the main difference between both mechanisms.

Thus, in our view if a renomination **reduces the difference** between the nominations and technical capacity (i.e. downward nomination or an upward nomination that increases the backhaul capacity), it should **always be admitted**, independently if a buy-back process is activated or not.

Furthermore, if any type of renomination limitation is applied, the procedure should consider an additional step just after knowing that technical/commercial measures are insufficient and before starting the buy-back procedure, where **shippers could adjust their renominations.** This should be completed with a supervision of NRAs with the aim to avoid inadequate behaviours

Regarding the deadline for starting a buy-back process, especially if it assumes the **elimination of renomination rights, we consider that it should be coherent with information flows between TSO/DSO/System Operators and Shippers** because this is one of the main inputs for taking decisions about capacity uses, flows, etc. In this way, the last information flow during the gas day is to 9 p.m. (20h UTC). After this moment, shippers should be able to renominate.

- The clearing price

We do not understand the following sentence: *“The clearing price shall be defined as the price of the lowest successful “offer to sell”. TSO shall pay all successful network users the clearing price.”*

If TSOs rank all “offers to sell” according to the price, the lowest price ranking first, it makes no sense to apply the “price of the lowest successful “offer to sell” to all successful network users. The clearing price would be that associated to the **last “offer to sell” needed to fulfil the TSOs request taking into account the mentioned ranking.**

² *“As soon as the TSOs have identified the need to trigger the market based mechanism, they restrict network users renomination rights upwards and downwards in both flow directions...”. Taking into account the timeline this situation would be in a moment between the following milestones “17:00h deadline for network users to renominate for the first time the day ahead capacity” and “19:00h deadline for the TSOs to launch the market based procedure to buy capacity...”.*



- As we mentioned before, if there are not enough “offers to sell” or TSOs need to buy-back capacity after 20:00 UTC, capacity booked through annual, quarterly or monthly products cannot have the same treatment as the capacity booked in an oversubscription process. So, in our view the **pro-rata should be applied to “oversubscription capacity”**.

4 PRICING

- We consider that the Draft is missing the criteria used for splitting the cost of buy-back related to the VIP Pirineos. It should be included in this document, as it is mentioned the splitting criteria for the VIP Iberico.