

Director

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Mr Jan Ingwersen
General Manager ENTSOG
Avenue de Cortenbergh 100
1000 Brussels, Belgium
Jan.Ingwersen@entsog.eu
By e-mail only

Subject: ACER's comments on the Capacity Conversion Model created by ENTSOG pursuant to Article 21(3) of the Network Code on Capacity Allocation Mechanisms

Dear Mr. Ingwersen,



I follow up on your correspondence of 18 May 2017, when the Agency was asked to analyse and make comments on the Capacity Conversion Model (the 'Conversion Model') put forward by the European Network for Transmission System Operators ('ENTSOG').

This letter briefly outlines the policy and technical comments of the Agency on the proposed Conversion Model. The comments will be further explained in the enclosed Annex.

Having regard to the Agency's legal obligations, as well as to ENTSOG's legal mandate to develop and finalise the Conversion Model under Article 21(3) of the Network Code on Capacity Allocation. Mechanisms in Gas Transmission Systems ('CAM NC'), the Agency is consulted by ENTSOG in order to finalise its Conversion Model by October 1st 2017, at the latest.

Based on the aforementioned legal provisions, the Agency understands that the Conversion Model proposed by ENTSOG shall have the following characteristics:

- i. The Conversion Model shall be developed and finalised by ENTSOG, after consulting the Agency and stakeholders. This Conversion Model stands as basis for the conversion services which will be further developed and offered by TSOs to Network Users ('NUs').
- ii. The TSOs shall offer NUs the capacity conversion service in case the latter are holding mismatched unbundled capacity at one side of an interconnection point ('IP').

- iii. The capacity conversion service applies to annual, quarterly or monthly capacity products at a specific IP.
- iv. The TSOs shall offer the conversion services to the NUs, free of charge, on a non-discriminatory basis and shall prevent additional charges from being applied to NUs for the capacity they already hold. Moreover, payments for the part of the contracted bundled capacity which the NU holds as mismatched unbundled capacity shall be limited to a possible auction premium.
- v. The implementation may be facilitated by the capacity booking platforms.

Given the hereinabove outline of the Conversion Model, and upon its consultation mandate under Article 21(3) of the CAM NC, the Agency developed the following main policy and technical comments:

- i. A harmonized Conversion Model is missing. The Agency recommends that the same conversion model applies at least per entry-exit zone border, should several IPs connect the respective entry-exit zones.
- ii. The Agency noticed that the current model contains potential limitations concerning the date of conclusion of the contract for unbundled capacity. The Agency is of the view that a model without limitations for annual, quarterly and monthly products is necessary.
- iii. The document is lacking examples of applied discounts and their calculation methods. The Conversion Model should prescribe them.
- iv. The Agency would like to see as well how Booking Platforms could facilitate the implementation of the service and requests ENTSOG to explain whether this could be done free of charge.
- v. The Agency recommends ENTSOG to provide a summary table on the capacity conversion services that are applied at national level, as a second best option to a fully harmonised model across the European Union. Such table is expected to contain links to the detailed national rules on the TSOs' websites.

Please find the details on these comments on the Conversion Model enclosed as an **Annex** to this letter.

The Agency would like to thank ENTSOG for its cooperation and expresses its expectation that its comments will be properly incorporated in the final Conversion Model.

Please do not hesitate to contact Dennis Hesseling, Head of the Gas Department at the Agency, should you require any clarifications.

Yours sincerely,


Alberto Pototschnig

CC: Malcolm Arthur, Business Area Manager, ENTSOG

The Agency's recommendations on the ENTSOG's Capacity conversion model

16 June 2017

Text reference	ENTSOG's Conversion model	ACER Comments
<p>p. 4, Process description – point 2.</p>	<p>“According to its contractual arrangements, the TSO requires network users to submit requests for the conversion service to be applied before or after the end of the respective auction of bundled capacity.”</p>	<p>ENTSOG does not provide for a harmonized conversion model. According to Article 21(3), NC CAM foresees that ENTSOG provides for a harmonized conversion model. The NC does not aim for the application of all potentially existing “conversion methods”, which are designed individually by each TSO. The NC foresees that ENTSOG will coordinate across TSOs and propose a model that fits with the general principles of the NC CAM to offer “transparent and efficient allocation of capacity”.</p> <p>The Agency recommends that the same conversion model applies at least per entry-exit zone border, should several Interconnection Points connect the respective entry-exit zones.</p>
<p>p. 4, Allowed conversion scenarios – point 1.</p>	<p>“The network user may request a conversion up to the capacity (amount) and runtime of its unbundled contract(s), subject to the acquisition of bundled capacity in the respective auction.”</p>	<p>The ENTSOG model should be specific about the contracts amendments and explain how the changes in the volumes and runtimes are derived. In particular, detailed examples on how the volume and runtime of contracts are calculated should be provided in the documentation. The model should indicate whether these contracts are considered new or amended on a country by country basis.</p>
<p>p. 5, Allowed conversion scenarios – point 2.</p>	<p>“Provision of the service can result in yearly, quarterly or monthly standard capacity products.”</p>	<p>NC CAM does not prohibit the daily capacity conversion. In the event that such products are offered by TSOs, the Agency sees fit that a common model applies for those products, especially cross-border products and would request that ENTSOG develop a model for a daily service if that is to be offer by a TSO.. TSOs should give due consideration to implementing a daily conversion service if many users request this.</p> <p>ENTSOG could monitor the application of capacity conversion at all IPs, including daily conversion. ENTSOG could also play a role in diminishing the common costs</p>

Text reference	ENTSOG's Conversion model	ACER Comments
		of developing a daily conversion service across the European Union by assisting TSOs to develop a common approach.
p. 5, Allowed conversion scenarios – point 3.	“The TSO may set specific conditions under which the capacity conversion service may be limited, subject to NRA approval of the conditions (e.g. applicability of the Conversion service only to unbundled capacity contracts concluded before Regulation (EC) 984/2013 became applicable - 1 November 2015).”	The NC CAM does not talk about limiting the service to capacity bought before a specific date. The text suggests the conversion service applies to mismatched capacity to annual, quarterly and monthly capacity without limitations. The Agency requests a model without limitations and conditions on the date of conclusion of the unbundled contract.
p.5, Applicable charges – point 1	“After successful conversion of capacity by the TSO, only potential auction premium stemming from the respective auction of bundled capacity will be charged in addition to the applicable contractual price, subject to NRA approval.”	<p>The applied discounts and how those are calculated are not detailed in the model. Examples on the application of auction premia should be also provided in the document.</p> <p>ENTSOG should clarify what they mean by contractual prices, where such prices apply, including whether this is subject to NRAs approval based on the applicable national rules. The Agency is not aware on what legal basis contractual prices could apply.</p>
P6, Conversion service	This part of the text touches on communication about volumes, runtime, type and location where the conversion service takes place.	<p>The Agency would see room for the Booking Platforms to provide key information on the conversion services per IP. For example Booking Platforms could notify users about basic features of the service, e.g. if the request for conversion shall take place before/after the auction.</p> <p>The Agency would like to see as well how Booking Platforms could facilitate the implementation of the service and requests ENTSOG to explain whether this could be done free of charge. ENTSOG should consider providing information about the various conversion services by entry-exit zone border across the European Union, by collecting information on its own website in a structured manner and as proposed in the last row of this table.</p>

Text reference	ENTSOG's Conversion model	ACER Comments
Issues not treated in the conversion model	In relation to the conversion model, as whole.	<p>Detailed numerical examples concerning the application of the conversion model are missing, including the calculation of conversion of volumes, auction premia and conversion discounts.</p> <p>An evaluation of the proposed model and in particular of its potential variants is also missing.</p>
p.9, Annex 2, TSOs implementation of capacity conversion service [...]	<p>This Annex contains links to the various conversion services already approved.</p> <p>“The option how to address the capacity mismatch issue [...] might be categorized into two groups; one group compiling preventative measures in the first place, the second group compiling additional measure [...]”</p>	<p>A summary table on capacity conversion services applied should be provided by ENTSOG on its website. This table could describe the major characteristics of the applied national conversion services, containing the links to the TSO websites where the detailed national rules could be found.</p> <p>As a second best solution to a hamonised conversion model, is that ENTSOG groups and keeps track of the applicable conversion services along their characteristics, such as:</p> <ul style="list-style-type: none"> - before auction/after auction; - communication timeframes applied; - other characteristics. <p>ENTSOG should provide a link to its public consultation on capacity conversion model.</p> <p>The Agency would be interested to learn more about the preventative measures that contribute to the avoidance of mismatches, which could be discussed outside of the conversion model.</p>