



ENGIE's answer to GTS consultation

Introduction of VIPs

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GTS announced its intention to implement virtual interconnection points (VIPs) between the TTF market area and the neighbouring market areas in Germany and Belgium. GTS intends to change the current 14 interconnection points into 5 VIPs. The obligation to implement VIPs is based on the NC CAM.

ENGIE understands that GTS, as TSO, is requested to comply with NC CAM requirements, however the implementation of VIPs cannot result in significant added financial burdens for the shippers (in addition to the increase in tariff for the year 2018 which already amounts to 4%). The foregoing undermines even more the difficult current situation that shippers are facing, in particular those shippers with long-term gas transport contracts without the contractual possibility to adapt, to amend/or to terminate those long term contracts; and it does not contribute to enhance competition as required by European regulations.

1. Conditions included in NC CAM for the introduction of the VIPs

Pursuant to NC CAM article 19, and as repeated in the VIPs consultation document and the GTS proposal (slide pack for Workshop 13102017), GTS has the obligation to implement VIPs where two or more IPs connect two adjacent entry/exit systems, provided that a VIP shall only be established if the following two conditions are met:

- (i) the total technical capacity at the virtual interconnection points shall be equal to or higher than the sum of the technical capacities at each of the interconnection points contributing to the virtual interconnection points.
- (ii) they facilitate the economic and efficient use of the system including but not limited to rules set out in Article 16 of Regulation (EC) No 715/2009.

GTS indicated in its proposal presented during the workshop held on the 13 October 2017 that "both conditions can be met". In this respect, ENGIE has the following remarks/concerns:



(i) Technical capacity at the VIPs

With respect to the first condition described in the NC CAM article 19, the exact meaning and calculation of 'technical capacity' is subject to interpretation. Indeed, GTS has always refused to publish the flow scenarios used to define its technical capacity. Information on Dutch internal bottlenecks has never been released. Even worse, GTS publishes unintelligible high values of technical capacities at some points, and stopped to publish real technical capacity under ENTSOG transparency platform (e.g. 25 000 GWh/d at Zelzate!). This lack of transparency also prevents the market to calculate the VIPs tariffs according to the methodology described in the NC TAR.

In addition GTS itself indicated in the VIPs consultation document that in the current situation (before the introduction of VIPs), IPs are combined in clusters (with the same physical location, close to each other) and the capacity distribution across the separate IPs is not determined ex ante, but is allocated dynamically during the auctions by means of the competing capacity mechanism. According to GTS this dynamic ex post mechanism enables optimum allocation of available capacities. VIPs have different underlying IPs which may be situated at physical locations distant from each other. The cluster capacity therefore has to be assigned ex ante to the VIPs.

- ⇒ ENGIE requests full transparency from GTS regarding the technical capacity at each current IP and future VIP and asks GTS to provide all the relevant data in order to enable the market to verify whether the total technical capacity is in fact increased and/or whether the system will be used more efficiently.

(ii) Economic and efficient use of the system

As described by GTS in slide 13 of the GTS proposal (cf. slide pack for Workshop 13102017), the introduction of the VIPs will impact the cost of different shippers in a range of +40 to -40%. There is a substantial cost increase for 10 shippers, whereby for 7 shippers the cost will increase with more than 10%.

- ⇒ With respect to this second condition to be fulfilled by GTS, ENGIE requests GTS to explain and substantiate how the economic and efficient use of the system is facilitated through the introduction of the VIPs.
- ⇒ In addition to that ENGIE wishes to highlight that this cost differential will distort competition and clearly favor certain shippers and distress others. ENGIE requests that GTS grants to shippers the possibility to terminate their contractual obligations related to IPs which are impacted by an increase in tariff.

Furthermore, the following statement of GTS' consultation document is not correct: "[the implementation of VIPs] has no negative consequences for the rights that network users hold under their current contracts. [...] Diversion and wheeling between IPs/VIPs and storages or other IPs/VIPs will still be possible after the implementation of VIPs."

Indeed, the diversion is currently possible amongst all the IPs at Oude Statenzijl: IPs connected to Gaspool, IPs connected to the NCG and storages connection points. In the intended diversion combinations, the diversion is not possible anymore between the VIPs connected to Gaspool and the VIPs connected to the NCG, nor between the VIP-NCG-H and the storages connection points.

This seems to deviate from the principles described in article 16 of Regulation (EC) No 715/2009, which aim at maximum use of technical capacity, facilitating of investment in new infrastructure and facilitating cross-border exchanges in natural gas. Since amongst others the rules set out in this article 16 of Regulation (EC) No 715/2009 apply in order to comply with the requirement that the economic and efficient use of the system is facilitated, it is in our view questionable whether this requirement can be met.



- ⇒ ENGIE requests that the diversion possibilities remain identical after the implementation of the VIPs.
- ⇒ If diversion between VIPs will not become possible, the conditions for implementing VIPs will not be met, and this also means that the shippers are treated differently. Shippers who have capacity booked on NWP which will not become part of a VIP are still able to divert capacity to other NWP (slides 16 and 17 in the slide pack for the workshop on the 13 of October 2017). In addition shippers with capacity booked at a NWP which will become part of a VIP will lose this optimization advantage when their IP's are not part of the one VIP. Shippers with capacity booked at IPs which will become part of the same VIP do still have this optimization option. This will have a negative financial impact and creates discrimination between shippers. Shippers were not aware of this consequence upon the entering into of long-term capacity bookings and should be granted the option to terminate contractual obligations which are currently used for optimization strategies and which will not be possible anymore after the introduction of VIPs.

2. Transfer of contracts from IPs to VIPs

Finally, ENGIE questions the right of GTS to simply transfer existing capacity contracts from the underlying IPs to the new VIPs. GTS may contractually have reserved the right to amend the TSC to comply with an obligation under NC CAM to implement VIPs (if any), but NC CAM does not prescribe that existing contracts will automatically be transferred to the new VIPs.

In particular, this transfer of contracts would result for some shippers in (much) higher tariffs which are calculated as a weighted average of other IPs which are not included in the relevant contracts.

- ⇒ ENGIE requests that GTS grants to shippers the possibility to terminate their contractual obligations related to IPs which are no longer bookable points.

3. Conclusion

The implementation of VIPs pursuant to NC CAM is only possible if the conditions of article 19 NC CAM are met. GTS has indicated that both conditions can be met. We however question whether this is indeed the case.

In view hereof ENGIE requests GTS to provide further explanations and substantiations on how these two conditions are met in the current proposal of GTS with respect to the implementation of the VIPs, in particular in view of the substantial cost increase for some shippers and the fact that certain optimization possibilities will be lost in the future without any compensation. In addition we are not convinced that a forced transfer of long-term contracts from IPs to the VIPs is allowed, also considering the cost increase and loss of optimization (diversion) possibilities. Our general view is that GTS should provide shippers the possibility to terminate long-term capacity bookings for IPs which are no longer bookable due to the implementation of VIPs as per GTS' proposal.

Finally, ENGIE requests GTS to provide information on the relevant timeline foreseen by GTS towards implementation of the VIPs, i.e. when further information will be presented to the market parties following the consultation, the planning of possible meetings or workshops to discuss feedback from market parties, the intended date of presenting the draft amendment to the TSC required for the implementation of the VIPs etc. It is important for ENGIE to have a clear view on the timeline, so that we can prepare our response to each of those steps in the process.