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PEGAS response to KAP+

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Powernext SAS

Introduction

PEGAS welcomes the German Federal Grid Authority's (BNetzA) initiative to launch the so called KAP+ procedure with the aim to create additional gas transport capacity for the new common German gas market area by introducing an overbooking model. Based on the new overbooking model, in combination with market-based products, the required transport capacity can be brought to the market to a sufficient extent. In this way, positive effects on liquidity in the German futures market as well as on security supply and level of prices can be achieved already before the planned zone merger will enter into force. Additionally, this measure could facilitate market access for market participants.

PEGAS hereby pronounces a preference for market-based instruments via the exchange in comparison to the rather grid-based instruments (Wheeling, "Third-Grid-Use") to secure the overbooking model. Only by using market-based products via the exchange it is entirely guaranteed that a high amount of market participants can participate in a price and quantity transparent order book. In this way, they can provide to Transmission System Operators (TSOs) or Market Area Managers (MAMs), from the result of a non-discriminatory competition environment, offers in form of long-term hedging price for the desired capacity level.

PEGAS has the following remarks on the first deliberations of the BNetzA's ruling chamber on the concrete design of overbooking model:

- **On Point 1:** Offering of firm capacities after the market area merger

PEGAS supports the BNetzA's proposal suggesting that additionally created transport capacities in the overbooking model have to be sufficiently high in order to respond to the requirements of the market.

- **On Point 3:** Allocation of firm transport capacities over the overbooking system

PEGAS supports the BNetzA's proposal suggesting that transport capacities that will be created additionally for the overbooking system should be offered within the regular capacity allocation procedure over PRISMA without that a new separate capacity product would be needed to be introduced.

PEGAS suggests in this context that BNetzA and the German Transmission System Operators (TSOs) or Market Area Managers (MAMs) explicitly communicate to the market that the overbooking procedure of the offered firm transport capacity is equal in its use to the other sold capacity for the same time of delivery.

- **On Point 4:** Exclusion of standard capacity from the overbooking procedure

PEGAS supports the BNetzA's proposal that no standard capacity product will be excluded from the overbooking system.

- **On Point 5:** Selling horizon of transport capacities after the overbooking system

PEGAS is not in the position to evaluate the BNetzA's proposal since the description in the procedure is not sufficiently clear to us.

In principal, in case of the use of explicit allocation of capacities, PEGAS advises for a harmonization of the allocation procedure with the already existent allocation procedure on the PRISMA platform without the overbooking model.

In case German TSOs decide to partly offer implicit capacities (meaning the ability to purchase transport capacities in combination with the commodity gas at once) over continuous trading on other platforms (e.g. exchanges, brokers, ...) outside of PRISMA and after the first-come-first-serve principle (FCFS), then it should be possible to acquire capacities until 15 years in advance or for non-PRISMA standard transport capacities (winter half year, summer half year, remaining months...). This option should follow a preliminary consent of the regulatory

authority. Implicit allocation today already exists in between the interconnectors BBLC and IUK.

- **On Point 6:** Market-based instruments as a reduction of risks for the overbooking system

PEGAS supports the ambitions of BNetzA and the German TSOs to introduce exchange-based instruments for the reduction of possible arising risks when introducing the overbooking system. PEGAS is already in discussion with German TSOs and MAMs on this matter.

- **On Point 7:** Level of additional available capacities

PEGAS supports the BNetzA's ambitions of providing continuity regarding the allocation of transport capacities after the overbooking system took place. This is essential to provide the necessary security on transport side for the development of a liquid gas futures market.

However, a reference to the level of precedent capacity bookings does not seem sufficient for us if the precedent demand for transport capacities has already exceeded the maximum of available capacities bookings before. For this reason, we advise for taking into account the historic demand for capacities of the last 10 years to assess the required additional capacities for the overbooking system.

- **On Point 8:** Overbooking system versus physical grid development

PEGAS supports the BNetzA's und TSO's proposals which state that the overbooking system can be used as long as the hereby arising costs for congestion management are lower than the costs of an alternative physical grid extension.

PEGAS would welcome to be further involved in the ongoing discussions on the way towards a successful market integration and would like to be particularly included regarding the use of market-based instruments. We would be pleased to support the German Gas Transmission System Operators, regulators and market participants in the presentation and consultation of the design and application of possible congestion management products to enable the realisation of a cost-effective market-based merger of the German gas market areas.

PEGAS is the central gas trading platform of EEX Group operated by Powernext. PEGAS provides its members with access to all products on one single platform and allows them to trade natural gas contracts in the Austrian, Belgian, Czech, Danish, Dutch, French, German, Italian and UK market areas. The product range of PEGAS covers spot and derivatives contracts for the major European gas hubs as well as trading in location, time spread, and options products on the TTF hub. This setup enables market harmonization and forms the preferred pan-European natural gas market. For more information: www.powernext.com/pegas-trading

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