

EFET response to the GRTgaz proposal on commercialisation of physical exit capacity from France to Germany

The European Federation of Energy Traders (EFET¹) appreciates the opportunity to submit our comments on the commercial offer of daily firm capacity at the Obergailbach IP, as proposed by GRTgaz and consulted by CRE.

Summary

EFET welcomes that capacity is being made available to enable gas to flow physically into Germany from France at Obergailbach. This will improve security of supply to German customers and allow a greater optimization of cross-border flows across Europe.

Focus now switches to how this new capacity can best be made available to shippers in an adequate manner to enable transactions that will allow it to be used in an economic way. Comments and suggestions are made below from the viewpoint of potential users of this capacity on issues that require further clarification or resolution.

These points are explained in more detail in the body of this letter, but include the following:

- There must be more transparency around how much of this new capacity will be made available and with what notice. In particular, this will affect existing holdings of backhaul capacity which become unusable. Parties who concluded transactions using backhaul to improve the supply situation in the region may be penalized if they are unable to unwind such transactions or obtain forward flow capacity to enable them to proceed.
- The nature of capacity on both sides of the border remains unclear. In France, some capacity will be offered on an intermittently firm basis, but this will be a variable amount, with further capacity being interruptible. In Germany, the product has not been announced yet but is expected to be conditionally firm, which the market regards as interruptible. The bundled chain would therefore be interruptible and commercial contracts would need to reflect the nature of underlying capacity used.
- The reserve price of transmission capacity on both sides of the border is not yet known and is crucial for pricing of forward gas sales and purchases.

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information, visit our website at www.efet.org.

- Further information on the process surrounding reversals in gas flow direction will be essential. This will help market parties to anticipate changes – especially where allocations will change on the days when reversals take place and pipelines may not be operational for a period of several hours.
- Moreover, EFET has concerns that use of the capacity could be deterred by possible additional costs and liabilities arising from acceptance of odorized gas in the German network. We are seeking assurances that they will be recovered from domestic exit points in Germany, as beneficiaries of improved gas availability and security, and wish to ensure that CRE is aware.

1. General remarks

Lack of transparency around TSO actions for access to capacity on congested points where price spreads are opening up may affect shippers' ability to conclude transactions that make use of new capacity. We hence welcome the announcement by GRTgaz to offer capacity of up to 100GWh/d at a critical interconnection point for supply to German industrial consumers, in line with the ACER Opinion to ENTSOG's Summer Supply Outlook 2022².

However, it is important that the French and German TSOs reach a clear view on pending issues around interoperability and tariffication³ prior to CRE announcing a definite date for the launch of the physical gas flow, which will correspond to the commercialisation of the daily firm capacity.

We understand that work is in progress with GRTgaz Deutschland to propose a bundled product by the time of the launch of the physical flow, for the nature of the capacity which will be commercialised via the single-round day-ahead auction on PRISMA to then be specified. We also understand that the tariff of EUR 1.53/MWh/d proposed by CRE is the reserve price of exit France. It is unclear to us what the reserve price for entry Germany is going to be and to what extent this currently constitutes a subject of discussion between GRTgaz and GRTgaz Deutschland and OGE. Therefore, we ask for further clarity as to how the capacity will be marketed and what type of capacity will be made available on the German side, given that at least GRTgaz Deutschland mainly offers conditional capacity⁴, rather than firm capacity.

² <https://www.acer.europa.eu/events-and-engagement/news/acer-assesses-entsogs-gas-summer-supply-outlook-view-risks-russian>

³ See point 2.3 in detailed comments.

⁴ See point 2.4 in detailed comments.

2. Detailed comments

2.1 We fully support the new physical exit point to Germany which should build on existing backhaul services

EFET fully supports the new physical exit point to Germany. Once experience has been gained on the proposed product, we encourage the TSOs to investigate whether further capacity can be made available.

However, we understand that if firm forward capacity is sold, backhaul capacity would be unusable. We thus would propose that holders of backhaul capacity be able to upgrade their capacity to forward firm before the remainder is auctioned. This would otherwise raise a question about what happens to German capacity held by backhaul shippers – whether it too would become unusable - and whether beneficial transactions made under backhaul arrangements would need to be unwound.

2.2 Maintenance works related to manual operations and gas quality should be well publicised

We understand that, due to manual operations required at Obergailbach/ Medelsheim compressors for flows to be reversed, quarterly and monthly products will not be available. As the intention is to have a week-long gap between the changes of direction, and the procedure for flow reversal can take several hours, there is a risk that firm capacity may not be fully available on certain days.

We hence ask for clarity as to the days on which it is possible to change the direction of the flow. Information about such changes and any works on the scale of D+2 onwards should be announced in advance by the TSOs, as it may impact price formation in the forward markets.

Another consideration in this regard relates to the issue of gas quality and adaptations of the interconnector between France and Germany for acceptance of odourised gas, which may equally constrain the offer of daily capacity. Since the level of each daily capacity, and possibly of within-day capacity at a later stage, will have to be constantly evaluated, we ask for potential maintenance works, which may affect availability of the capacity, to be promptly communicated to the market.

The detailed procedures on how flow reversals are decided should be transparent, so that market parties are best able to anticipate available of capacity (and when it may cease).

2.3 Absence of liability allocation and socialisation of deodourisation costs through tariffs risk minimising the value of the capacity

While we support the decision of GRTgaz and CRE to put forward a proposal on marketing terms and conditions and modification of the tariff for use of the transmission system, we stress that the importance of involving German counterparts and presenting a fully joined-up proposal. We have been made aware of a recent communication by OGE to shippers referring to the need for an interoperability agreement to be put in place between the two sides. It is also important for all technical discussions on liability allocation in case of damages to end-users resulting from the use of odourised gas to be properly finalised and communicated to market participants prior to CRE issuing a date for the launch of the physical flow, for the GRTgaz transmission contract to be subsequently updated.

We also note that BNetzA considers burdening shippers with the costs associated with damages potentially resulting from the injection of odourised gas in the German network. We have been made aware of a draft ordinance suggesting that the TSOs should be allowed to consider in tariffication costs related to chemical substances required to run deodourisation plants. It also suggests that compensations, in case French sulphur is traced in gas flowing into Germany and results in damages to installations on the German side, should also be accounted as volatile costs of the TSOs. We would like to make CRE aware of the fact that an eventual decision of the sort by BNetzA would massively limit the value of the capacity. EFET believes that these costs should be recovered in a way that is least distortive to market functioning, for example from domestic exit points in Germany as beneficiaries of improved gas availability and security.

2.4 The capacity on the French side cannot be considered independently from the products to be offered on the German side

As GRTgaz confirmed during its recent workshop, the newly proposed firm exit capacity will co-exist as a separate product with the interruptible backhaul capacity currently sold through the yearly, quarterly, and monthly auctions. Considering the preconditions set in the public consultation, from the moment that daily firm capacity will only be offered on certain days, this means that the product will be intermittent. The introduction of firm capacity without changes to rules on the use of interruptible reverse capacity begs the question of how both capacities will co-exist and how this will be managed with German entry on the side of GRTgaz Deutschland and OGE.

As also confirmed during the workshop, work is in progress with GRTgaz Deutschland and OGE to propose a bundled product by the time of the launch of the physical flow. However, this raises the question of what happens to existing bundled products sold under backhaul

conditions. We consider that such a prospective product would render the capacity to be effectively conditional firm. This links back to the ability of the German TSOs to offer mainly conditional, rather than firm, capacity, as stated in our general remarks.

2.5 We ask for maximum transparency on the forecast of available capacities and the auction procedure

The influence on the level of capacity of an orange or red alert level on the South-to-North limits of the system, reversal flow in the previous days, difference in gas quality, and maintenance works, needs to be made public as soon as known.

We would also ask for clarification on the following questions:

- CRE documentation states that the auction will take place at 4:30 FR time. Considering this, what will be the deadline to flow physical volumes?
- Could CRE confirm that ownership of capacity does not become an obligation to flow gas?