

Subject: Short-term capacity booking for domestic exit points

Date: June 23, 2015

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Introduction

FEBEG welcomes the introduction of short-term capacity booking for domestic exit points, which is in line with the Code of Conduct of the 23rd of December, 2010: the transmission system operators '*have to offer all available transmission services to the grid-users, and the concerning services shall be offered both on the long as on the short term basis*'.

These developments meet the needs of the gas-fired power plants: due to the economic circumstances (economic crisis, increased share of renewables, ...) running hours for gas-fired power plants are decreasing. For this reason, operators of gas-fired power plants want to book capacity at short term and no longer on a yearly basis in order to reduce the fixed costs of the gas-fired power plants.

Fluxys should anticipate new challenges in the gas market

Changing market circumstances

Evolving economic and market conditions (economic crisis, shale gas, increased share of renewables, ...) have an impact on the Belgian gas market, and in particular on large end consumers of gas and gas-fired power plant operators:

- gas consumption by large end consumers is decreasing;
- as they are more and more used as flexible and back-up plants, running hours of gas-fired power plants are dropping; as a consequence the profitability of gas-fired power plants is decreasing: some power plants are being decommissioned, others are being mothballed;
- the relatively high fixed capacity costs push power plants or large consumers towards disconnecting from the grid impacting Fluxys' revenues.

Importance of a level playing field with neighboring countries

According to FEBEG it is important – in an European integrated gas market – to ensure a level playing field with neighboring countries. The tariffs for the gas transmission, gas storage and LNG infrastructure should not lead to a deterioration of the competitive position of industrial companies and gas-fired power plants in Belgium.

A proper benchmark – with a consultation of all stakeholders on the methodology – on the tariffs that possibly have an impact on the competitive position of Belgian grid users, would address this concern, especially in a context of harmonization of tariff structures at European level in the nearby future.

Fluxys – as market facilitator – should incentivize industrial consumers and gas-fired power plants to remain connected to the Belgian gas grid

The high capacity booking costs compared to their low level of utilization, is an important factor impacting the business case of industrial consumers as well as gas-fired power plants, and sometimes even determining their viability. As regards gas-fired power plants, the high capacity booking costs deteriorate their profitability, increasing the risk they leave the market in the short-term. This impact of the tariffs on the profitability of gas-fired power plants – in a context of high security of supply risks in Belgium – should be taken into consideration by Fluxys and the Belgian regulator when designing gas tariffs.

As market facilitator, Fluxys should seize this opportunity to develop a product to keep gas-fired power plants in the market and to ensure a certain amount of revenues from power plants on the long term. It should therefore be a policy decision to support gas-fired power plants by lowering the share of the power plants in the revenues of Fluxys for the next tariff period.

Fluxys products

Yearly and monthly booking

Yearly and monthly booking of capacities must always remain possible in the future: these options are wanted by the market parties and in line with the European Network Codes.

Proposal for short-term booking for domestic exit points

FEBEG would like to point out that the attractiveness of short-term booking for domestic exit points will highly depend on the level of the tariff and the product design.

Level of the tariff

FEBEG considers the proposed multiplier of 5 as being unreasonably high and not in line with practices in other European countries. Compared to tariffs applied by neighboring countries, e.g. GTS, the proposed short term multiplier will disadvantage the Belgian gas-fired power plants and will not incentivize them to stay in the market and connected to the Fluxys grid. Additional mothballing will be considered which could further endanger Belgian security of supply.

Ideally, the daily tariff would be set at 1/365 of the yearly tariff. With the objective of reaching a consensus supported by all parties, FEBEG proposes to set the tariff at 1/30 of the monthly tariff, as for example GTS does. FEBEG sees advantages in keeping the tariff for daily capacity at a similar level as monthly capacity as it will not discourage shippers to book capacity on a daily basis. According to FEBEG this tariff level is an excellent alternative that limits the high cost risks related to booking of exit capacities on the transportation grid which is today a decisive factor when market parties consider the closure of gas-fired power plants or to abandon energy intensive industry in Belgium. An attractive price for daily capacity bookings will ensure and increase revenues from this service for Fluxys.

Product design

Fluxys proposal for day-ahead capacity booking

The day-ahead capacity booking by gas day, as proposed by Fluxys, is not completely in line with the needs of power plants that operate more and more as flexible and back-up plants. To the contrary, introducing the day-ahead booking product will pinpoint to the conflict between the gas market and the power market:

- the day-ahead electricity market starts at 0.00 hours while the day-ahead gas market starts at 6.00 hours: the day-ahead markets are thus not aligned;
- the electricity market doesn't stop in day-ahead, but continues in the intraday market and the real-time balancing market: a day-ahead booking is therefore too restrictive.

Some examples to illustrate the issue:

- power plants are activated via the Belpex Day-Ahead market: the results are communicated around 1.00 pm for the 24 hours of the next day; the capacity for the first 6 hours can thus never be booked via the day-ahead booking system;
- power plants in the strategic reserves can be called via the so called 'economical trigger' or 'technical trigger': the concerned power plants will be called for the morning peak or evening peak; with a warm-up period of minimum 6,5 hours, this means that a plant will have to start up around midnight (i.e. before the next gas day starting at 6.00 hours);
- power plants delivering tertiary reserves to Elia or being used by the operator in the balancing market, can be called at any time with a pre-notice of only 15 minutes.

FEBEG proposal for an 'implicit ex-post allocation mechanism for domestic exit points' (pay-as-used)

FEBEG advocates an 'implicit ex-post allocation mechanism' or 'pay-as-used principle' for domestic exit points instead of the proposed ex-ante day-ahead capacity booking.

According to FEBEG such 'implicit ex-post allocation mechanism' or 'pay-as-used principle' is an enduring solution that brings a lot of advantages:

- the tariff remains capacity based as today, but on daily – or in case of a within-day product on an hourly – basis;
- the mechanism allows the gas and electricity market to smoothly function together without frictions in the different timeframes (day-ahead, intraday and balancing);
- the gas capacity cost becomes a marginal cost for gas-fired power plants: the tariff will only have to be paid when the gas-fired power plant is called upon;
- as gas-fired power plants with higher marginal costs are less called upon in the merit order of the day-ahead market, this product is especially suitable for flexible and back-up power plants that are only activated at high prices, e.g. plants in strategic reserves or plants used in the balancing or intraday market;
- the mechanism should respect the costs of the TSO:
 - o the tariff for the 'pay-as-used' mechanism will have to be based on assumptions by the TSO as the proposed tariffs are based on assumptions of the TSO on the 'ex ante capacity bookings' today;
 - o in order to ensure cost recovery by the TSO, variations in the revenues could be absorbed via the regulatory accounts;
 - o the mechanism cannot be applied to end users with capacity commitments in case investments are executed on behalf of that consumer: contracts should be respected, although they can off course be renegotiated amongst contracting parties;
- less gas-fired power plants will be closed or mothballed when the gas capacity costs are no longer committed upfront but are allocated pro rata to the activations, i.e. paid-as-used; in other words: the incentive for the concerned power plants to disconnect from the Fluxys grid will disappear.

FEBEG is convinced that this proposal creates a win-win situation for all parties as the gas capacity costs will no longer be an incentive to close gas-fired power plants:

- the concerned gas-fired power plants will reduce their fixed costs which increases their competitiveness;
- stable revenues for the TSO can be guaranteed by setting a correct tariff, by absorbing variations via the regulatory accounts and by incentivizing gas-fired power plants to stay in the market;
- the new product will be complementary to the existing yearly and monthly capacity booking without adding operational complexity for the market parties;
- gas-fired power plants staying longer in the market, will contribute to a better security of supply situation which is beneficial for the government and the society.
