The Power of Flexible Capacity

An attempt to analyse in brief…

Introduction

- This analysis emphasises on cross-border capacities between countries, clearly disregarding many other elements around this topic
- So in the following we elaborate what the purpose of using cross border capacity is:
  - From a Retailer's point of view: traditionally for the physical supply of customers in a pan-European portfolio
  - From a Trader's/Wholesaler's point of view: to physically settle previously entered cross-locational positions (or: enter into)

The purpose

> Except in case of traditional supply, it is about the ability and willingness to react on fundamental changes of/between markets

> In other words: the utilisation (i.e. flow rate) should reflect medium and short term changes in supply & demand

> Enabling markets to quickly rebalance from unforeseen distortions:

  – Distortions become visible by price signals

  – Price signals send incentive to market participants to react on it

  – physically: turn down / up flows to balance or take chance to arbitrage (i.e. will lead to rebalance the location spread)

In essence

> Flexible mechanisms to book and utilise capacity help to:

- quicker physically rebalanced markets
- Improve the level of Security of Supply
- reduce the magnitude of location spread volatility
- reduce the financial risk of market players (for both, supplier and customer)

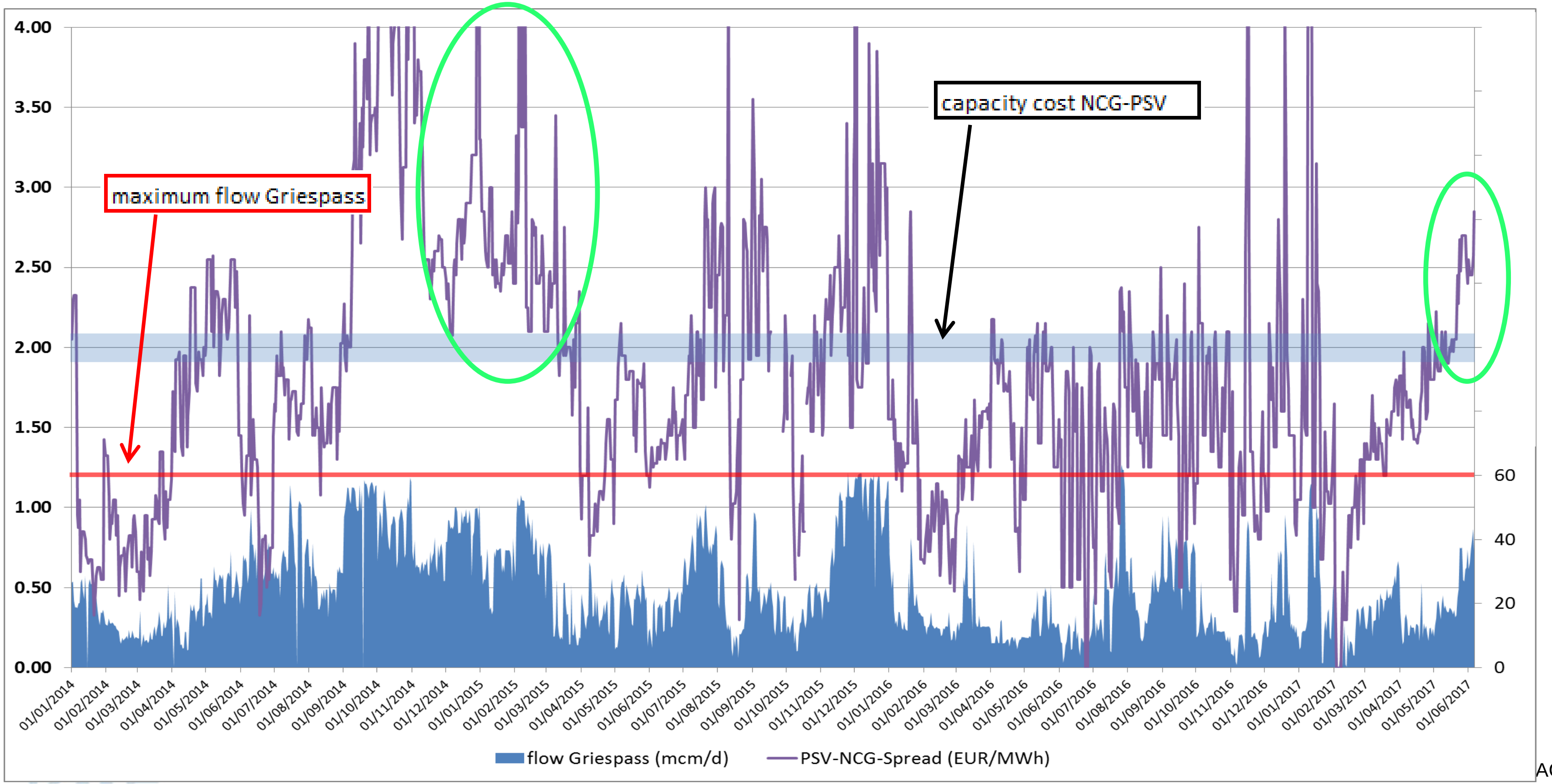
The “how” (mechanism)

- The full potential for “Power of Flexible Capacity” is based on the mechanism of marketing rules and possibilities of utilisation
  - FCFS vs Auction (i.e. was it all worse in the past?)
  - Difference of tariffs for longer term vs shorter term bookings (i.e. multipliers on base product)
  - UIOLI (use it or lose it)
- *Basic assumption: the markets are sending a price signal at the virtual points…*

Example: spread NCG-PSV vs flow rate at Griespass

- The spread NCG-PSV turns out to be highly volatile, sometimes exceeding the cost of transportation: this is a sign of imperfect markets
- On the other hand Italy has the luxury of several supply sources (Libya, Algeria, Austria, Germany/France vie CH, LNG)
- So why do we see the spread exceeding capacity cost?

Example: spread NCG-PSV vs flow rate at Griespass



Observations

- Market exposed to fixed booking windows (adding risk exposure to market in the interim periods between dates of auctions)
- Once e.g. monthly auction passed, no possibility to book that product (prior the DA auction)
- Tendency to penalize DA booking by defining high multipliers (setting the “bar”)
- Especially referring to the example: no shorter period than Month (my proposal: try to book DA capacity from NCG to PSV…)

Conclusion

> We are yet far from an ideal situation, it is still a long way…

> In order to be able to really use the "Power of Flexible Capacity" the market deserves:

- The possibility to book durations from Within-day to Yearly products
- A joint industry-wide rethinking of the current auction rules: need to a mechanism to book capacity products longer than DA outside auctions (risk of killing off trading in the interim periods between dates of auctions)
- tariffs with better balanced multipliers for short term (avoid penalizing short term)

Excursus: the “quality”

> Surely, as a side note, the “quality of capacity” defines also the value of it!

- firm, interruptible, dynamically firm (i.e. p-t-p), conditionally firm (…very wide…), temperature dependent…
- One could question given the transparency/character of the products whether they are really adding more value than just the interruptible product
- Shipper’s choice is always: is the risk manageable, or is it beyond his control
- The value added of the large variety of capacity products could be challenged in that sense whether they are really useful for the broader market or rather “tailor-made” for …

THANK YOU FOR YOUR ATTENTION.

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