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# PEGAS response to German Grid Development Plan Gas 2018 - 2028

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Powernext SAS

## Summary

PEGAS welcomes the German Transmission System Operator's draft Grid Development Plan 2018-2028. Hereby, we would like to take part in the respective consultation initiated by the German Federal Network Agency BNetzA.

With its various product and process innovations, especially by operating the respective national balancing energy markets, the Pan-European trading platform PEGAS has managed to establish itself as reliable partner to German Market Area Managers (MAMs) and to European Transmission System Operator (TSOs), in the past 8 years.

In this consultation, PEGAS will only respond to Chapter 1 on the foreseen market area integration and takes this opportunity to present its own proposal for a cost-efficient and market-based solution to manage potential arising congestions in the grid when merging both German gas market areas. In our point of view, market-based congestion management products should be prioritized over any further physical grid developments, regulated storage use or bilateral traded load flow commitments. Thus, market-based measures should be considered in any case within the planning of the German market area integration.

# 1. PEGAS Position

## 1.1. Market Area Integration

1.1.1. According to § 21 (1) of the German Gas Grid Access Regulation (GasNZV), both German Market Areas have to be merged into a common market area until April 1, 2022 the latest. In their draft grid development plan the transmission system operators argue that, in view of the network planning decision, first a common capacity model must be developed. The model, underlying the Grid Development Plan Gas 2018-2028, is therefore based on the available capacity models of the two market areas.

- **How should, in your point of view, the market area integration be reflected in the scenario framework of the Grid Development Plan Gas 2020-2030?**

In our point of view, the planned market area integration should be used as an opportunity to reduce regulatory and administrative hurdles. The procedure in France, where an integration of both market areas is planned for November 2018, provides a good example for a well-functioning market dialogue. Therefore, we urge responsible parties in Germany, such as TSOs and MAMs, as well as regulators (BMWi<sup>1</sup>, BNetzA) to consult market participants on trade and process-related issues. This should be done timely in a clear, binding and transparent manner, including a transparent follow-up of the results. In view of the high importance of the German gas market for international gas trading, the respective consultation should be undertaken in both languages, in German and in English. This procedure will clearly help to provide planning certitude to all market participants operating in Germany and thereby avoid that procedural or regulatory uncertainties put the targeted strengthening of the German gas market at risk.

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<sup>1</sup> Federal Ministry for Economic Affairs and Energy

- **Which priorities should be set in the development of the capacity model for the common German market area?**
  - A binding determination of the exact date and the name of the new gas market area: Market participants need to know when long-term investments/hedges can be conducted in the new common German gas market area.
  - A timely consultation between market participants: TSOs and regulators should consult on the design and application of market price-based measures which allow for the maintenance of capacities, especially freely allocable entry/exit capacities. This could help to foster gas trading on the common German Virtual Trading Point (VTP).

## 2. PEGAS proposal for the implementation of cost-effective and market price-based measures

In order to foster gas trading on the common German VTP, existing free allocable transport capacities for the entry/exit model should be maintained. When merging both market areas physical congestions in the gas grid are likely to arise. In order to manage those physical congestions, we advise for the use of market price-based measures which constitute an efficient alternative to any further grid expansion and achieve the same desired physical effect. We urge for a timely consultation on the concrete design and application of the mechanism to guarantee a successful implementation of such market-based congestion measures. The consultation could help the effect that many market participants would be willing to offer congestion management products to TSOs and MAMs. Those congestion management products have the advantage of providing a cost-effective, anonymous, non-discriminatory alternative which is tailored to the needs of TSOs. The well-functioning of those products is already visible in the balancing market today where they are already successful in place.

### **Example France: Exchange-based products for an elimination of physical congestions**

Since November 2017, the two TSOs GRTgaz and Teréga have successfully traded market price-based congestion management products in France. This proves to be the most efficient way possible to manage already existing grid congestion in between the market areas PEG Nord and TRS. The same products will also be used by French TSOs from November 2018 to avoid congestions in the then merged French Market area TRF, so that entry and exit capacities for trading on the French VTP remain freely allocable.

General functioning of market price-based congestion management products:

1. A congestion in between two gas grids has been detected by the TSOs. This means that gas from the oversupplied grid cannot, or only insufficiently, flow into the undersupplied grid.
2. To fix this network bottleneck, TSOs can trade congestion management products that allow, synchronously, within only one transaction:

- A. To sell gas from the oversupplied network area
- B. To buy gas in the undersupplied network area
- C. To eliminate the physical bottleneck through market price-based trading in this way

3. TSOs inform the trading partners registered with PEGAS for the congestion management product on the existence of congestions in advance, providing the following information:

- A. Duration (Hours, Within-Day (RoD), Day, Weekend,...)
- B. Direction (where will the TSOs gas buy and where will the TSOs gas sell)
- C. Name of the congestion management product traded (e.g. WD OGE Mitte/OGE Süd)
- D. Required trading volumes in MW for removal of congestion
- E. Selection of possible physical exit/entry points in the over- and undersupplied grid, which the trading partner may use for transport nomination according to the transaction.

4. After receiving the respective information from the TSOs trading participants place their orders in the price-transparent order book of the congestion management product. This will be done anonymously and in a competitive manner.

5. TSOs first trade the most cost-efficient offer, then accordingly the second best, third best...

6. The respective trading partner executes an entry nomination in the undersupplied and an exit nomination out of the oversupplied network according to duration and quantity of the traded congestion management product and thereby solves the transport bottleneck.

PEGAS favors the use of congestion management products within the planning of the market area integration in Germany. Congestion management products provide a market price-based alternative to any physical network expansion, regulated storage use or bilateral traded load flow commitments. This concept has already proven successful in practice and can help serving the needs of German TSOs.

We would be pleased to support the German transmission system operators, regulators and market participants in the presentation and consultation of the design and application of possible congestion management products in order to enable the realization of a cost-effective market integration with the help of market-based instruments.

**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](http://www.powernext.com/pegas-trading)

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