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**Shell Energy Europe Limited (SEEL) response to the procedure "KAP+" for additional capacities in the German wide market area (Az.: BK7-19-037)**

Dear Sir / Madam

Thank you for the opportunity to provide comments to the BNetzA's initial concept with respect to developing an overbooking product to increase capacity availability for the market area merger of Net Connect Germany (NCG) and Gaspool (GPL).

The German TSOs have stated that the limited exchange capacity between today's market areas makes it difficult to freely allocate capacities in the common market area, leading to a significant reduction in the level of freely allocable firm entry capacity available after October 2021. SEEL would welcome further information from the TSOs and an impartial Impact Assessment to enable market participants to better understand the extent of this risk and the specific points on the network, which could be affected and to what degree. Further detail should be provided not only with regards the capacity at risk but also the potential impact to tariffs as from October 2021. Having said this, until more information is made available, we accept that it is practical to explore alternative solutions to minimise disruption to the market. SEEL, therefore, welcomes the BNetzA's consultation to explore how the level of firm capacity offered to network users can be maintained at current levels or in the best case, be increased.

Utilisation of the proposed market-based instruments (MBIs) should follow a Merit Order List (MOL) to ensure the most economically efficient solution. In our view, the exchange based spread product should take priority before TSO to TSO instruments (wheeling, third party network use) as this is the most economical efficient solution for determining a value for the product, given that TSOs may not have the same commercial drivers as market participants, with respect to minimising the associated costs.

Moreover, the exchange-based spread product does not give rise to the risk of TSOs competing with shippers for capacity, which risks distorting the market. Should the exchange-based spread product not deliver the required outcome, then wheeling and third-party network use could be utilised. Consulting on a proposed methodology upfront to inform decisions on the most economically efficient MBI to utilise will enable network users to assess their booking strategies and to quickly respond to market signals for additional capacity requirements. Further information should be provided ahead of next year's yearly capacity auction.

Please find SEEL's specific comments to the BNetzA concepts on the design of an overbooking system listed under Chapter III of the consultation:

**Point 1:**

SEEL agrees that the offer of additional capacity should meet the demand of the market. The capacity levels should be close to the current level and increased according to market needs. In ACER's report on gas conditional capacity products in the EU, ACER recommended that a cost-benefit analysis (CBA) is carried out for zone mergers, which could increase the use of conditional products. SEEL would welcome more information on whether the BNetzA plans to commission such a study and the timeframe, to minimise the current uncertainty faced by network users and to ensure the liquidity and attractiveness of the German gas market is not jeopardised.

**Point 2:**

The application of an overbooking system at all entry and exit points (German wide), including all TSOs, should help to ensure that shippers can continue to book firm capacity in Germany, thereby facilitating supply security and a liquid gas market. SEEL agrees that it should not be limited to certain TSOs or certain grid points and should not be offered at the discretion of the TSOs but instead, should reflect market demand.

**Point 3:**

SEEL agrees with the principle that for simplification purposes, capacity (FZK) offered via overbooking should be offered as part of the regular allocation procedure and not as separate capacity product. However, if the capacity booked via the overbooking mechanism is of greater risk of interruption than the standard FZK product, then a mechanism should be established to reflect that in the tariff.

We understand, however, that rather than buying back the capacity, the TSOs will instead initiate the MBIs if they cannot make the capacity available. Should this be the case, then tariff issue may fall away but to ensure the proper functioning of the market, it will be important for network users to be able to understand the mechanism in place, which will determine whether the TSOs need to buy-back capacity or use MBIs. Network users need to know the risks of being curtailed, which determines the value of the product purchased and whether MBIs will be used, which could impact competition for capacity.

With respect to the costs for curtailment, in the event that it is needed, a transparent mechanism should be established to ensure that network users are not unduly exposed to high buy-back costs. For example, how will the costs of buy-back be determined, and will a sharing mechanism be put in place to ensure a fair distribution of the costs between network users and TSOs? A separate accounting mechanism for over-selling and buy-back costs would ensure a greater level of transparency in this regard.

**Point 4:**

SEEL agrees with the view that the offer of additional capacity should not be restricted to certain standard capacity products. The overbooking tool should apply for annual, quarterly, monthly, daily and within day standard capacity products.

**Point 5:**

The market needs certainty and reliability on capacity availability in the upcoming years. For this reason, SEEL concurs with the BNetzA view that several years' additional capacity should be offered in advance.

**Point 6:**

As referred to earlier, instead of "buy back", the use of the MBIs could instead be called on to ensure booked capacities can be honoured. To reiterate our view, the mechanism to determine how and when the TSOs will invoke the MBIs or potentially buy-back capacity, must be made available the market to ensure a robust and transparent system is put in place to enable network users to respond in a timely manner to signals by the TSO, in the case of the exchange-based spread product and to ensure the impact on the German and potentially neighboring markets, is clear and transparent. The methodology for determining the price paid for buy-back capacity should also be consulted on and established upfront.

**Point 7:**

The previous year's capacity bookings could be used to determine the level of the additional overbooking capacity to be made available. However, the previous year's bookings may not accurately reflect future demand for capacity, given that capacity can only be booked up to the technical limit. This is why the maximum sum of capacity demand of the previous years for each market area and for all cross-border points is relevant to determine the level of overbooking capacity. In addition, foreseeable future changes in gas flows – import and transits, LNG availability or other changes in gas availability need to be considered.

**Point 8:**

Over-investment in the network should be avoided as this could lead to a significant increase in transport tariffs, which could consequently drive an increase in the wholesale gas price, ultimately to the cost of consumers. In our view, market mechanisms provide the most cost-efficient solution for resolving congestion. In cases where continued capacity bookings result in permanently high costs through the overbooking system, then physical network investment should be considered, where deemed efficient and cost-effective, through the usual Network Development Plan process.

The market area merger should not lead to unintended consequences on market liquidity and on the attractiveness and competitiveness of the German gas market.

Please do not hesitate to contact me, should you wish to discuss any aspect of this response.

Yours faithfully

Commercial Regulatory Affairs Manager
Shell Energy Europe Ltd