

Draft Business Rules

Auctions and When to Offer KG

I. ACER Guidance

b) When to offer incremental and new capacity

The CAM NC amendment should, as a minimum requirement, require a formal offer of incremental or new capacity, where there is likely to be significant unsatisfied demand for capacity. An offer of incremental or new capacity should be made by the existing TSOs or new entities certifiable as TSOs when at least one of the following conditions is met. This does not preclude more frequent or regular testing of demand.

- The ENTSOG Ten Year Network Development Plan (TYNDP) identifies a physical capacity gap in the sense that an area is undersupplied in a reasonable peak demand scenario and incremental or new capacity at the IP in question would be able to close the gap; or a national network development plan identifies a concrete and sustained physical transport requirement;

- No yearly capacity product based on existing capacity will be on offer (as the yearly product is fully booked) in the year when incremental capacity could be offered first and in the three subsequent years (capacity set aside for the short term is considered not offered). In the case of several IPs between two entry-exit systems the requirement refers to all IPs between these entry-exit systems taken together.

- Network users indicate in a non-binding manner to TSOs their need for and their willingness to underwrite incremental or new capacity for a sustained number of years and this transport need leads to physical constraints after exhausting all other mechanisms to maximise the availability of existing capacity.

ENTSOG should propose draft provisions for NC CAM for a cost efficient, transparent, European process, for instance on the allocation platform(s), including a time window in each year when such interest can be expressed. The CAM NC amendment should require TSOs to individually make public what information they require within this process. The minimum data required for an indicative capacity request should be well-founded and should include the location, an indication of the amount of capacity required and an indication of the number of years for which a network user considers a binding offer or bid. When specifying their needs, network users should have the possibility to indicate whether they would be interested in buying incremental or new capacity at several IPs along a 'hub-to-hub' route. TSOs should report to affected NRAs whether or not they have received expressions of interest. If they have received any, TSOs should indicate whether these are sufficient for a formal offer of incremental or new capacity and propose coordinated solutions for addressing these indicative requests.

A failure to test market demand for incremental or new capacity, when indicative demand is identified as above, is deemed to be in breach of the TSOs' existing obligation to assess market demand for investment, enshrined in Regulation (EC) 715/2009, e.g. in Article 16 (5).

e) Integration of incremental and new capacity into the NC CAM annual yearly capacity auctions

The CAM NC amendment should stipulate the integration of incremental and new capacity into the annual yearly capacity auctions of the NC CAM for existing capacity. This should apply at least in the case where a capacity expansion between two adjacent market areas is considered.

ENTSOG is requested to develop, test and consult a detailed amendment to the NC CAM's allocation procedure for existing capacity, keeping the integrity of the ascending clock algorithm. The amendment should enable the integrated offer, testing, and allocation of bundled new and incremental capacity to take place together with existing unsold yearly capacity. The same service for the same period will have the same value for network users if acquired at the same time.

ENTSOG should apply at least the following principles for the development of the methodology:

- offer and allocate bundled incremental and new capacity in a cost effective, nondiscriminatory, transparent procedure that enables taking into account willingness-to pay, on the booking platform that promotes competition;
- ensure efficient allocation of existing capacity, irrespective of the outcome of the economic test for the incremental and new capacity under consideration;
- the possibility to accommodate different reserve prices if a tariff adjustment is justified; and
- the possibility to test network users' differentiated willingness to pay for more than one level of incremental and new capacity in an auction, e.g. no increment (allocate existing capacity only because the economic test is not passed), small increment (allocate incremental and existing capacity), large increment, very large increment, etc....

ENTSOG is requested to consider:

- the possibility for network users to revise their bids if the economic test fails for incremental and new capacity;

ENTSOG should focus in its proposal on providing a recommended technical approach of integrated bidding for existing and incremental capacity (drawing on the model of parallel bidding ladders).

II. Key elements to develop

1. Conditions for when to offer incremental/new capacity

- 1.1. *The process of designing possible offer scenario(s) for incremental or new capacity shall be launched by a TSO, if at least one of the following conditions is met:*
 - 1.1.1. *In case the ENTSOG Ten Year Network Development Plan or a Network Development Plan of the respective Member State identifies in a reasonable peak scenario that a specific region is undersupplied and offering incremental or new capacity could close the supply gas;*
 - 1.1.2. *In case no yearly capacity product linking two adjacent entry-exit-zones is available in the long-term annual capacity auctions for the year in which incremental/new capacity could be offered first and in the three subsequent years;*
 - 1.1.3. *In case network users submit a non-binding demand indication fulfilling the requirements in 1.2.1. – 1.2.3., requesting incremental or new capacity for a sustained number of years;*
- 1.2. *With regards to 1.1.3., a non-binding demand indication shall be considered if the following criteria is met:*
 - 1.2.1. *All other means for increasing the availability of technical capacity at the respective IP or along a ‘transportation route’ were exhausted;*
 - 1.2.2. *The non-binding demand indication is submitted within the time window defined in 1.3.;*
 - 1.2.3. *The non-binding demand indication contains at least the information defined in 1.4.;*
- 1.3. *The formal time window for submitting non-binding demand indication shall start annually 10 calendar days after the starting date of the annual long-term capacity auction as published by ENTSOG in accordance with Art. XX of NC CAM and shall last for two months;*
- 1.4. *The non-binding demand indications shall at least contain the following information:*
 - 1.4.1. *The two or more adjacent entry-exit-zones between which demand for incremental/new capacity exists and the requested direction of transport;*

- 1.4.2. *The gas years for which a demand for incremental/new capacity exists;*
- 1.4.3. *The amount of capacity demanded at the respective IP or along the respective 'transportation route';*
- 1.4.4. *The corresponding information (IPs, amount of capacity, etc.) that was or will be submitted to any other TSO(s), in case the non-binding indications are in any way linked to each other or (at least partially) mutually exclusive;*
- 1.5. *TSOs may charge fees for the submission of non-binding demand indications in case the regulatory framework does not allow an alternative mechanism for the recovery of costs associated with technical design studies. These fees shall be reimbursed if the network user is contracting incremental/new capacity when offered;*
- 1.6. *TSOs shall make public a specified format and a point of contact for network users to submit non-binding demand indications;*
- 1.7. *When designing offer scenarios, TSOs shall assess the conditions defined in 1.1. in combination and propose the offer scenarios to the relevant NRA for approval;*

2. Auction mechanisms

- 2.1. In case an auction is chosen as allocation mechanism for incremental capacity, the involved TSOs shall offer the incremental capacity together with the existing capacity at an IP as bundled products to the extent possible, in accordance with NC CAM Article 8;
- 2.2. The offer of incremental capacity together with existing capacity at an IP in an auction procedure shall be made in a transparent, non-discriminatory and cost efficient manner, taking into account willingness to pay of network users;
- 2.3. For each offer scenario, one bidding ladder shall offer existing capacity at an IP and/or the respective level of incremental capacity. The bidding ladders shall run in parallel and independent to each other;