

# Slides presented by the market during ENTSOG SJWS 2

Brussels – 21<sup>st</sup> April 2011

ACER

**ACER**

Agency for the Cooperation  
of Energy Regulators



● Draft Framework Guideline on  
**Capacity Allocation Mechanisms**  
for the European Gas Transmission Network  
Focus on auctions

Markus Backes (Bundesnetzagentur)

ENTSOG Workshop on auctions  
Brussels, 21 April 2011

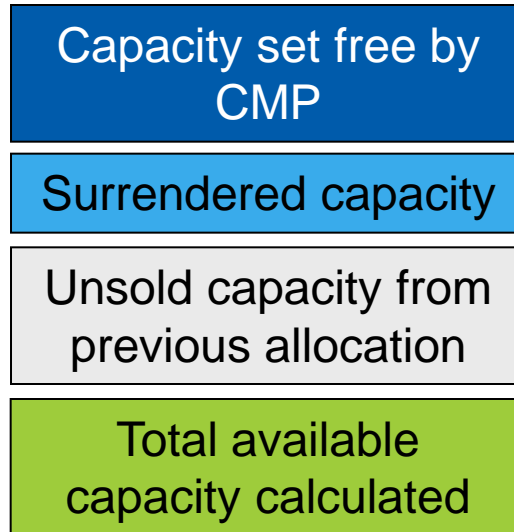
## ● Introduction

- **Auction** is the **general capacity allocation method** endorsed by revised FG CAM
  - » Via comitology procedure any interim period could be established
  
- **19th Madrid Forum Conclusions:**
  - » (14) [...] The Forum expects the draft network code to include **detailed provisions on auction design**, bundling of products, harmonisation of transportation contracts as well as relevant communication procedures.

- What should be auctioned?
  - Small set of **bundled firm** capacity services
    - » Different durations and starting dates
    - » Yearly, quarterly, monthly, daily and intra-day products to be consulted on
    - » Daily capacity duration from 5:00 to 5:00 UTC/GTM or any other time period harmonised as agreed by ENTSO-G
  - **Aligned interruptible** capacity services

# ● What should it be auctioned?

- At least **10%** reserved for **short term (<1 year) firm capacity**
  - » Adjacent TSOs to align amount of each capacity service
- TSOs to offer capacity (in energy units per time):



# ● How should it be auctioned?

- Aim: allocation shall foster competition and market integration

- Auctions at **regular points in time**

- » The longer the capacity service, the longer the allocation lead time
- » Timely coordinated

- **Regularly reviewed** with regard to market conditions



- How should it be auctioned?
  - Harmonised auction design **applicable throughout Europe**, if not possible for justified reasons:
    - » same auction design between adjacent TSOs
  - **Day-ahead**: fully harmonised auctions
    - » not preventing implicit auctions
  - **Within-day**: FCFS allowed
  - **Interruptible**: shall not be detrimental to firm capacity



# ● Prices & Revenues

- Regulated tariff is **reserve price**
  - » if not further specified in FG Tariffs
- **Extra revenues** shall be used for instance to:
  - » Lower network tariffs
  - » Remove congestion by investments
  - » Incentivise TSOs to maximise capacity offer
  - » Specific usage **subject to approval by NRA**

- Open Issues & Questions to Stakeholders
  - Price formation mechanism in auction design
    - » what serves the market's need best?
  - Bidding window design
    - » Several options needed
  - Auction result to be paid for capacity service
    - » Fix amount for whole duration?

# ● Conclusions and way forward

- Auction design must satisfy market needs and be non-discriminatory
- Balance needed:



Detailed harmonised  
auction design

Regular review and  
revision of procedures

- ACER to review if Networkcode is in line with Framework Guideline (foster market integration, competition, no abuse of market dominant position, non-discrimination)
- close co-operation with ENTSOG during NC process



[www.energy-regulators.eu](http://www.energy-regulators.eu)

# Prime Movers

# *CAM Network Code development*

## Auctions

*Views of prime movers*

## General remarks

Network Code for CAM ensures that **capacity** within and between transmission systems is efficiently **enhanced**, efficiently **allocated** and efficiently **used**, all in response to market needs

### 1. Auction Design

- Auctions times throughout Europe will need to be harmonised
- For the long term auctions capacity should be allocated in more than one round

### 2. Application of Auctions

- Auction process should apply to available **and new capacity**

### 3. Price Setting

- Reserve price calculations must be harmonised in each Member State
- Sufficiently defined to allow TSOs re recover revenue

## 1. Auction Design

Allocation process	Lead time	Duration	Product	Share of total capacity
Long term	1.5 years existing, 3 years new	Combination of quarters up to 15 years	Quarterly	Max 80-90%
Annual	2 to 6 months	Combination up to 18 months	Monthly	Total less long term allocated
Rolling monthly	10 <sup>th</sup> of month prior to use	One month	Monthly	Total less previous allocated
Day ahead	Day ahead	One day	Daily	Total less previous allocated

- Annual products are unnecessary – quarterly products can achieve the desired result
- General approach is similar to the ENTSOG’s proposal



## 2. Application of Auctions

- The current draft of the framework guidelines **does not contain** a mechanism in which to signal the need for new capacity
- Without this mechanism, the **demand for capacity in the long term auction could far outstrip supply**
- In the long run given there should be **no theoretical limit** to the level of new capacity that can be built, a **pay as bid auction is incorrect** so pro-rating would be the only option
- Obligating the TSOs to hold LT auctions in parallel with open seasons would increase the **administrative burden and add complexity** to the process
  
- Prime movers** consider that the auction for long term capacity should **allow parties to signal the need for incremental investment** and should be:
  - » **A volume driven allocation** approach based on regulated tariffs. There should be clear “price steps” showing what the price would be for a given additional capacity volumes.
  - » The **economic test should be agreed** in advance between regulators and TSOs and clearly known to shippers so that they know how much to bid for to ensure capacity gets built.
  - » **Rights and obligations** of both TSOs and shippers concerning new capacity to be known clearly in advance.
  - » **Clear timelines** – i.e. expectation that new capacity should be released to shippers XX years after it is allocated.

### 3. Price Setting

- The **tariff framework guideline** needs to properly outline how revenue is recovered to ensure correct financial incentives are placed on market parties and TSOs
- **Long term auctions should:**
  - Be **volume based** and provide a pre-defined price per unit demanded
  - Signal the need for new investment which
    - » will **integrate the current open season** model into the auction process; and
    - » **provide forward price transparency** for market parties, which is currently unavailable in most Member States
  - Run **simultaneously** in all Member States if economically possible
  - Allow **several auction rounds** to allow market parties to fine tune booking in line with industry demand - the auction must run for at least 2 rounds

#### **Short term auction should:**

- Allow TSOs to **recover remaining revenue**
- Be **pay as bid** auction
- Allow a reserve price based on **short run marginal costs** with an **additional cost recovery mechanism** to ensure TSOs recover 100% of the revenues. Or set the **reserve price at the level of the regulated tariff**
- Over recovery of revenue to be used for **system upgrade** or **fed back to parties**

## 4. Conclusions

- Prime movers on the whole **support ENTSOG's** proposed auction design
- Annual products **are not necessary**, quarterly products suffice
- The Network Code for Capacity **Allocation needs to address the following issues** which currently the FG is silent on:
  - **How to signal the need for new capacity**
  - **Simultaneous auctions**
- The Framework Guidelines **only outline the minimum requirements** that need to be delivered by TSOs, there is scope to **enhance** the guidelines by designing a mechanism to signal new capacity in the long term
- **Open Seasons could have a role** for providing capacity for large investment projects that cross several Member States. This could also be achieved via the exemption process

OGP

A faint, light blue stylized globe is visible in the background, composed of several overlapping curved lines that suggest the continents and latitude/longitude lines.

# **CAM Network Code development 2<sup>nd</sup> Stakeholder Joint Working Session**

**Brussels, 21 April 2011**

International Association of Oil and Gas Producers

## GENERAL

- OGP Europe welcome the invitation from ENTSOG to participate in the CAM NC development
- OGP support that all available firm primary capacity at IPs is allocated through an auction process
- Overall the auction design proposed by ENTSOG is considered to meet the needs and wishes of users
- These slides contain some preliminary observations

## STANDARD CAPACITY PRODUCTS

- NC is to define small set of standard capacity products from yearly, quarterly, monthly, daily and intraday products
- OGP support standard Gas Day across the whole EU to resolve time zone issues
- Auctions should allow standard products to be allocated to form longer capacity contracts to facilitate the commodity market
- Quarterly capacity can be used to build seasonal capacity as well as different yearly capacity products
  - resolves issues concerning preferred start date: 1<sup>st</sup> of Oct. for gas year; 1<sup>st</sup> of Jan. for calendar year; 1<sup>st</sup> of April for storage year)
- Yearly capacity product is not needed and therefore undesirable

## LONG-TERM AUCTION

- Long-term auction should apply to available and new capacity
- Users need information about availability/tariff for incremental capacity in order to bid for capacity through Y+15
- Auction design should allow users to flag if there is a need for incremental capacity
  - Integration of open seasons and long-term auctions to be addressed
- OGP support ENTSOG proposals on multiple bidding rounds, cleared-price auction and reserving certain % of capacity for short-term allocation (could be 20%)



## SHORT-TERM AUCTION

- Agree that capacity service for up to 12 months is considered short-term service. Suggest that all capacity allocated under long-term auction is considered long-term service
- Auctions should include all capacity marketed by the TSO, including reserved capacity and surrendered capacity
- See no merit in auctioning available capacity in “tranches”
- Support ENTSOG proposals on auction sequence/calendar and pay-as-bid auction

## TARIFFS

- Tariffs should be consistent with regulated cost recovery and have incentives that enable TSOs to provide additional capacity
- Support that the regulated tariff serves as reserve price
  - this should not prohibit day-ahead implicit auctions
- Allocation of regulated tariff to single months should not result in arbitrarily profiling reserve prices over the year
  - reserve price for a 12 months' service should not depend on the standard capacity products from which the service is built
- Over and under recovery of costs should be addressed