

Slides presented by the market during ENTSOG SJWS 2

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of Energy Regulators



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

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● Introduction

- **Auction** is the **general capacity allocation method** endorsed by revised FG CAM
 - » Via comitology procedure any interim period could be established

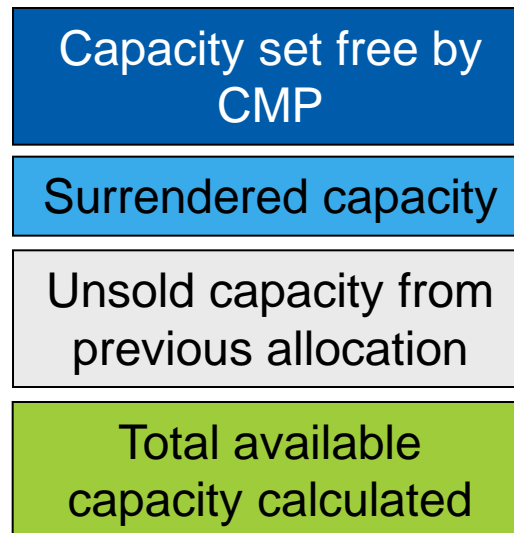
- **19th Madrid Forum Conclusions:**
 - » (14) [...] The Forum expects the draft network code to include **detailed provisions on auction design**, bundling of products, harmonisation of transportation contracts as well as relevant communication procedures.

● 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



thank you for
your attention

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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 th 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 graphic of a globe is positioned on the left side of the slide, behind the main text. It shows the outlines of the continents and latitude/longitude lines.

CAM Network Code development 2nd 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: 1st of Oct. for gas year; 1st of Jan. for calendar year; 1st 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 ENTSOE 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