Slides presented by the market during ENTSOG SJWS 3

Brussels – 4th May 2011

ACER

ACER
Agency for the Cooperation of Energy Regulators

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

Within-day and interruptible capacity

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Introduction

- **General views of ACER**
  - The same procedures shall apply to all types of products (firm and interruptible)
  - Adjacent TSOs shall coordinate at each interconnection point regarding interruption process
  - Same allocation mechanism for within-day capacity to be applied at both sides of each IP

- **Issues**
  - Consistency with CMP guideline to be ensured

Interruptible capacity services

- Common features of firm and interruptible capacity services
  - The network code shall set out how TSOs determine the firm and interruptible capacity they **jointly offer** at each interconnection point
  - The network code shall set out that **all firm and interruptible capacity services** for each time interval (with the possible **exception of within-day capacity**) are allocated via **auctions**
  - If not further specified in the Framework Guideline on tariffs, the **regulated tariff** shall be used as **reserve price in auctions** of firm and interruptible capacity

→ *Interruptible capacity products to be auctioned*

Interruptible capacity services

- Specific features of interruptible capacity products (1/2)
  - The network code shall require that TSOs offer firm and interruptible capacity at any interconnection point in both directions; at unidirectional points, **backhaul capacity** shall be offered at least on an **interruptible basis**
  - The allocation of interruptible capacity shall not restrict the allocation and use of firm capacity, meaning that **the offer of interruptible capacity cannot be detrimental to the offer of firm capacity**

→ ***Interruptible capacity must be offered at all IPs***

Interruptible capacity services

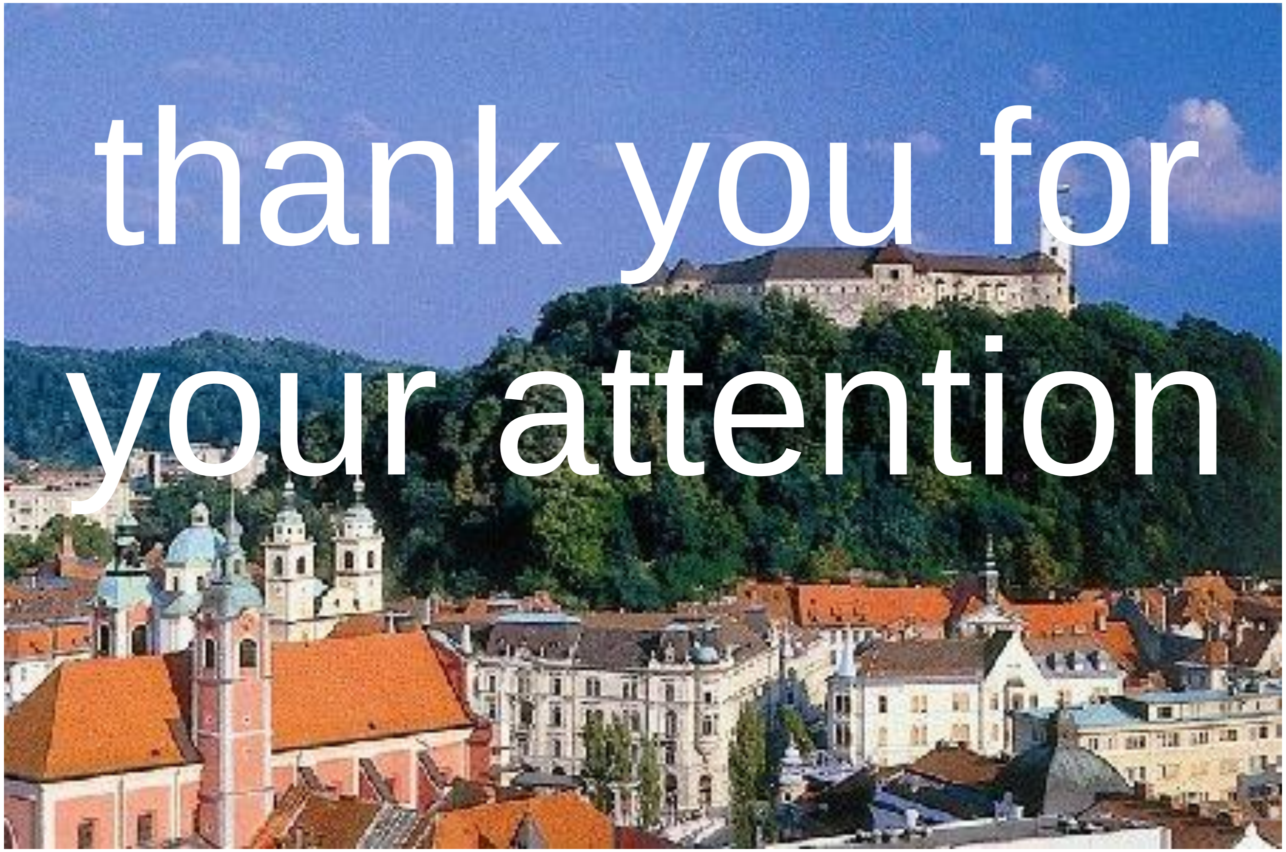
- Specific features of interruptible capacity products (2/2)
  - The network code shall set out how **TSOs align interruptible capacity services** at every interconnection point in both directions
  - **Adjacent TSOs shall implement standardised procedures**, including the definition of interruption lead times, to ensure that interruptions take place in a coordinated and standardised manner
  - The network code shall define the **possible reasons of interruption**, **classes of interruptibility** and the sequence **how interruptions take place**

→ The same volume of interruptible capacity shall be offered at both sides of each IP and interruptions shall be coordinated by TSOs

Within-day allocation

- The network code shall **allow** TSOs to allocate within-day capacity, i.e. capacity not allocated after the day-ahead auction, via **continuous trading** (first-come-first-served allocation)
- The **same allocation mechanism** shall be implemented between adjacent TSOs **at each interconnection point**
- The network code shall entitle registered network users to submit nominations on an interruptible basis at any time within day. This entitlement shall not restrict the allocation of firm capacity by TSOs.

→ The choice between auctions and FCFS will be made at each IP in a coordinated manner



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Prime Movers

CAM Network Code development

Within-day allocation & interruptible capacity

Views of prime movers

Stakeholder Joint Working Session 3 – 4th May 2011

Framework Guideline requirements – Within-day

- Defined as capacity not allocated after the day-ahead auction. (3.1.5)
- Can be allocated either by auctions or on a FCFS basis (3.1.5)
- Allocated via booking platform (3.3)

Allocation of within-day capacity

- The current draft of the framework guidelines **leaves open** mechanism to allocate within-day capacity
- More precise principles are needed to allow allocation to be coordinated across borders

- **Prime movers** consider that within-day capacity should be:
  - » An obligatory product – where firm is available it must be marketed
  - » **FCFS v Auctions?**
  - » If Auctions - number of **fixed bid windows** for balance of day capacity, allowing users to meet changing within day needs. TSOs could hold ad-hoc additional bid windows if requested by users e.g. in response to unplanned outages / sudden demand changes.

- Risk of inconsistency between FG CAM, CMP Guidelines & FG Tariffs
  - » Allocation needs to be synchronised with nomination times
  - » Where does within-day capacity fit with proposals on restriction of renomination rights
  - » TSO needs to be appropriately incentivised to maximise WD capacity

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	10th of month prior to use	One month	Monthly	Total less previous allocated
Day ahead	Day ahead	One day	Daily	Total less previous allocated
Within-day	Hourly, after day-ahead auction results	One day or remainder of day	Day or balance of day	Total* less previously allocated

***To include extra firm capacity released by Overselling / Buyback mechanism as set out in CMP Guidelines**

Price Setting – Within-day

- The **tariff framework guideline** needs to properly outline how revenue is recovered to ensure correct **financial incentives** are placed on market parties and TSOs

- Firm within day auction should:
  - Be consistent with other short-term auctions principles but,
  - Consider cleared bid auction
  - **Avoid under or over recovery** by TSO
  - Allow a reserve price based on **short run marginal costs** with an a**dditional cost recovery mechanism** to ensure TSOs recover 100% of the revenues. Or set the **reserve price at the level of the regulated tariff**
  - After allowed TSO incentives, over recovery of revenue to be **fed back to parties** or used for **system upgrade**

Framework Guideline requirements - Interruptible

- TSOs must exchange information on forecast flows, network availability etc. (1.4)
- TSOs jointly offer interruptible capacity in both directions. Network code will set out how TSOs jointly determine and align interruptible capacity. (2.0)
- TSOs jointly implement standardised procedures for coordinated interruptions, including lead times. (2.2)
- Network code to define possible reasons for interruption, classes of interruptiblity and the sequence in which interruptions take place. (2.2)
- Must not restrict the allocation and use of firm capacity. (2.2)
- Regulated tariff is used as the reserve price, if not further specified in FG Tariffs (3.1.2)
- *Price of interruptible shall reflect the probability of interruption (Regulation 14.1)*
- Allocated via booking platform (3.3)
- *Minimum of daily product (Regulation Annex 1)*

Interruptible capacity

- **Provides valuable additional capacity**:
  - » **Duration** of interruptible products?
  - » Key question - will quantity will be **fixed or unlimited?**
  - » Note, Code applies only to cross-border IPs

- **Prime movers** consider that interruptible capacity:
  - » Should be a **single product**
  - » i.e. not sold with different levels of interruption
  - » Has sufficient **information** provided by TSOs to shippers related to the **probability of interruption**
  - » Has transparent interruption processes, coordinated across borders
  - » Lead times allow users to mitigate positions e.g. to **renominate within-day**

Concern about designing Interruptible CAM in absence of coordination with CMP Guidelines

Price Setting - Interruptible

- The **tariff framework guideline** needs to properly outline how revenue is recovered to ensure correct **financial incentives** are placed on market parties and TSOs

- **Interruptible capacity pricing** should:
  - Reflect how **quantity is determined** i.e. set level or unlimited
  - **Reflect probability of interruption** in reserve price
    - » Discount to firm or zero?
  - Could auction mechanism provide linkage to **interruption order?**
    - » Pay as bid auction – price bid could be used to set order of interruption
    - » Cleared price auction – could lead to pro-rata interruption
  - Not act as disincentive to hold **firm**
  - **Avoid over or under recovery**
  - After allowed TSO incentives, over recovery of revenue to be fed back to parties or used for system upgrade

Further discussion will be needed during the development of the Tariff FG and Code

Conclusions

Within-day capacity

- If auctioned, can be allocated via regular bid windows
- Pricing should not act as a disincentive to hold medium to long-term capacity

Interruptible capacity

- One single product
- Pricing should not act as a disincentive to hold firm capacity
- Choice of interruptible allocation method depends on how level of interruptible capacity will be determined
- Shippers well informed about likelihood of interruption & process

Need for coherence with the CMP Guidelines & FG Tariffs

- **nomination schedule**
- **overselling and capacity buy-back regime**
- **financial incentives on TSOs**
- **TSO over / under recovery**

EFET

CAM Network Code
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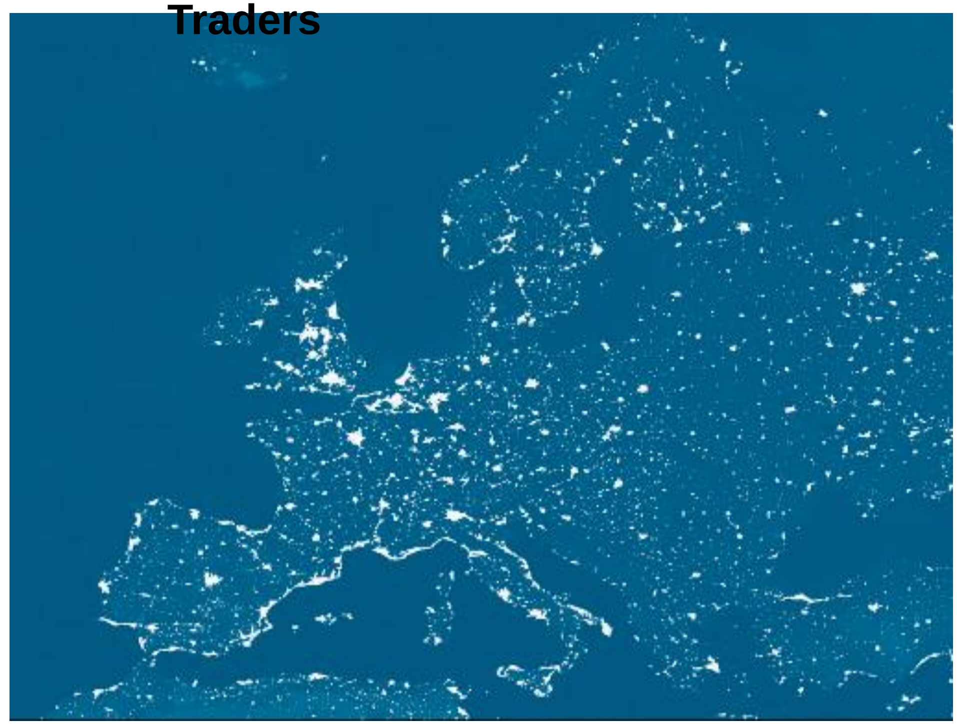

Within Day Firm Allocation
&
Interruptible Capacity

Alex Barnes
Chairman
EFET Capacity Group

Within Day Firm Allocation

Option of FCFS vs. Auctions for allocation of capacity

- FCFS
  - Advantage of simplicity
  - How to value capacity – first bidder price may not be highest therefore could lead to misallocation of scarce resource
- Auctions
  - Enables proper allocation of scarce resources
  - Enables TSOs to see demand for capacity on the day – TSO's may be able to release additional capacity as they have greater certainty within day of flows compared to day ahead
  - Could be over complicated – do we need several auctions a day at different points throughout Europe?

Possible key features of Within Day firm allocation to solve above problems

- Limited number of set bid windows for auctions within day
- Shippers able to post and amend bids for a bid window at any time before and up to closure of bid window
- TSOs required or incentivised to maximise release of firm capacity within day

Interruptible

- Sale of interruptible should not undermine sale of firm capacity if this leads to under-recovery problems for TSOs
  - Should sale of interruptible only occur when all firm has been allocated?
  - Link with Tariff Framework Guidelines as to price for interruptible

- TSOs should publish as much information as possible allowing shippers to gauge likelihood of interruption.