



# ENTSOOG Current Work on Auctions

Joint meeting with Users, European Commission and  
ERGEG

## ENTSOOG Auction Test Case TF

Brussels – 28<sup>th</sup> October 2010

Sofitel Europe Hotel at Place Jourdan 1, 1040 BRUSSELS

# Purpose of meeting

- Discuss the current process from the FG to the NC
- Exchange opinions on new considerations
- Present and debate the current stage of work on Auctions
- Receive early feedback from the market for further consideration
- Further develop the relationship with all parties
- Early exchange between the parties as pre-meeting towards the Stakeholder Joint Working Sessions during the NC Development period
  - Subsequent meetings will be accompanied by more organisations

# 1. Agenda

## 2. CAM Framework Guideline

- Role of Auctions in the FG; FG revision process (role of Auctions, Existing vs. Incremental capacity); Appropriate level of detail in the NC

## 3. Current Work on Auctions within ENTSOG

- Focus on process in terms of timing; Underlying Standard Capacity Products; Status of progress of work on Auctions

## 4. Auction process and interaction with other areas

- Process: Sequence from long to short term Auctions; Interaction with CMPs, Balancing, Tariffication

## 5. Auctioning process for different Standard Products

## 6. Future collaboration between the parties

## 2. CAM Framework Guideline

### Framework Guideline revision process

- Role of Auctions in the Framework Guideline/Network Code?
  - One Auction or open for un-harmonised IP specific solutions?
  - Appropriate level of detail of Auction process in the CAM Network Code?
- Existing vs. Incremental capacity to design an Auction?
- Pricing rules?
- Are new elements expected for interruptible capacity?

**What changes will be included in the final FG?**

# 3. Current Work on Auctions within ENTSOG

## Approach of work on Auctions

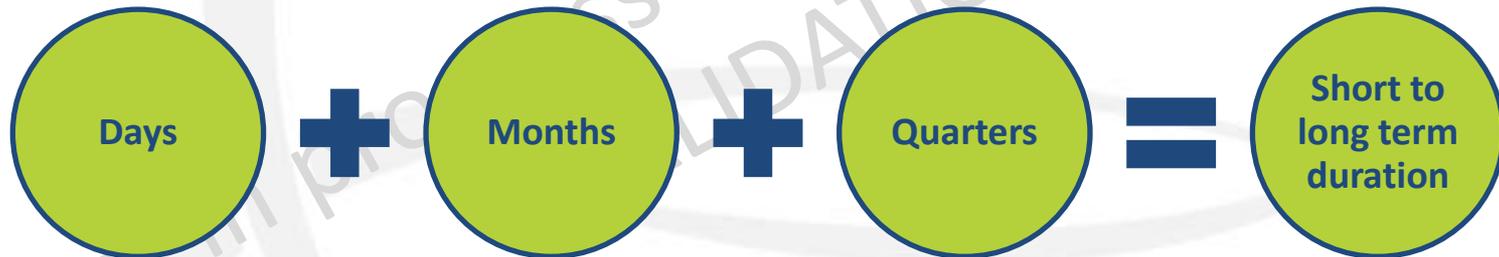
- Identification of theoretical Auction methods
- Definition of Auction principles to be reflected
- Development of Auction Options for most Standard Capacity Products for further discussion
- Started with short-term to develop functioning process
- First outline of rough procedure → then exact timing etc.
  - Exact days when e.g. Windows open are defined subsequently

**Target: Basis for discussion during Code development phase**

# 3. Current Work on Auctions within ENTSOG

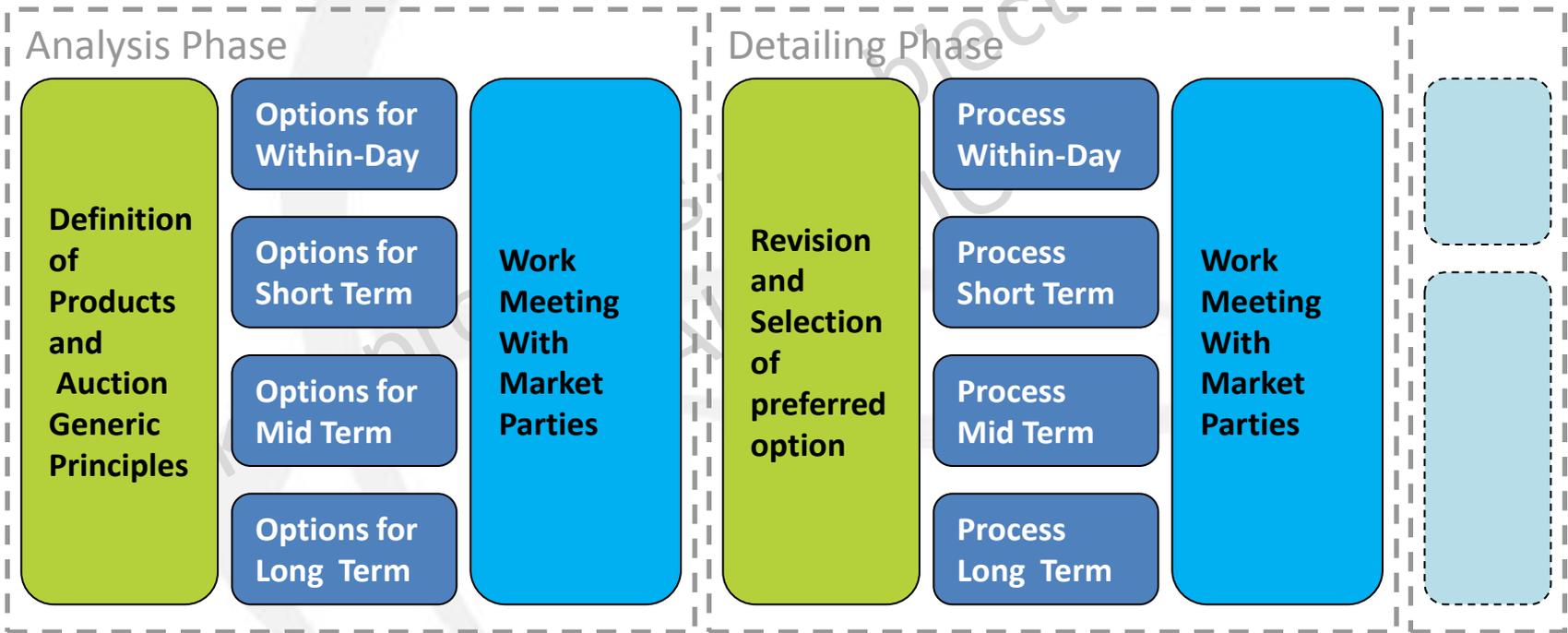
## Underlying Standard Capacity Products

- Users (Eurogas, EFET and OGP) proposed set of Standard Capacity Products in conjoint letter
- Letter expressed preference for exclusive Standard Products:



- Proposal taken as basis for ENTSOG's auction considerations
- All required transmission durations (short to long term) could be offered via the combination of each Standard Product
  - Quarterly products (1<sup>st</sup> Jan-Apr-July-Oct) allows different start of year

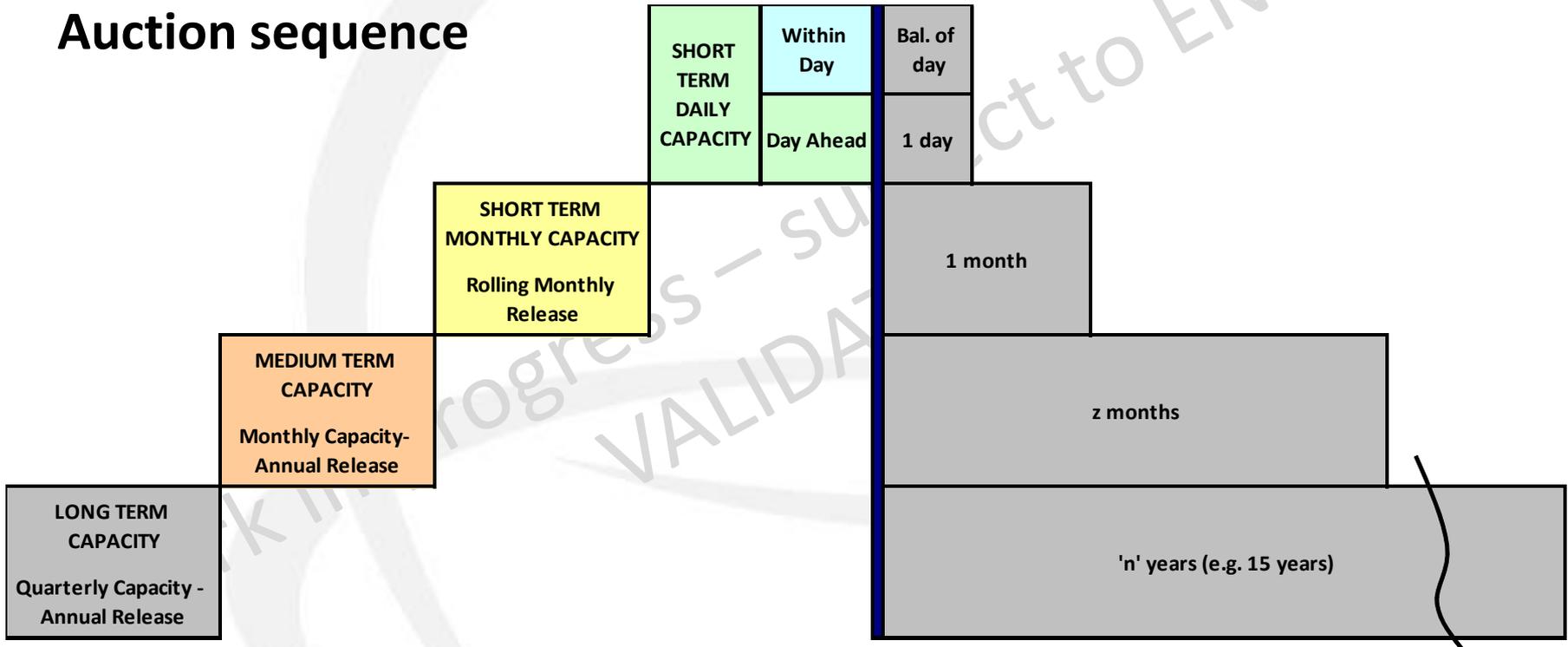
# 3. Current Work on Auctions within ENTSOG



**Preparing NC development with test case**  
Building common understanding on content  
Gaining experience on the process of developing EU-wide solution

# 3. Current Work on Auctions within ENTSOG

## Auction sequence



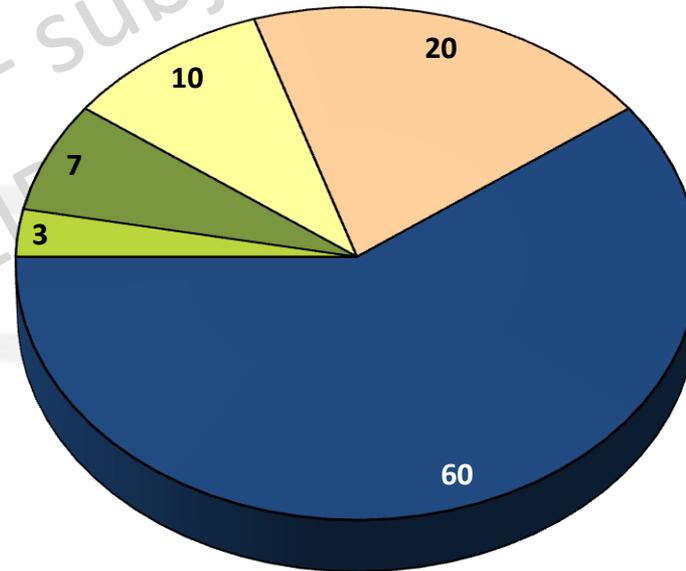
- Selected Products are to be auctioned sequentially – no overlap
- Unsold capacity is carried forward to next Auction (LT → MT → ST)

# 3. Current Work on Auctions within ENTSOG

## Capacity Portfolio build-up

Short Term Daily Capacity	Within-Day
Short Term Monthly Capacity	Day-Ahead
Medium Term Capacity	Rolling Monthly
Long Term Capacity	Annual Monthly Capacity
	Quarterly Capacity - Annual Release

Example User Portfolio



## 4. Interaction with other areas

### **CMPs – e.g. Restriction of re-nom rights**

- Restriction undermines product offered / sold
- Users would over-book capacity to get around the reduction rules  
→ TSO has capacity bookings that do not reflect the actual needs
- May increase risks of grid operation if TSO used these inflated bookings
- Buy back risks are increased – but are they ‘real’ bookings – either way TSO may need to buy back
- Users may be faced with significant increase of balancing costs

**Benefits of the restriction of re-nomination rights do not outweigh the efforts and implications.**

## 4. Interaction with other areas

### Balancing

- Target model: simple daily commoditised
  - Cash-out at the end of the day
- Intra-day balancing may require physical products
  - Locational: delivery at a specific entry or exit points
  - Temporal: delivery during a specific period within the day
- Nomination procedures will become an important issue in balancing
- This calls for compatibility of capacity and balancing rules
  - Capacity release mechanisms to be aligned with flexible gas deliveries/offtakes
  - Common gasday would be nice to have

## 4. Interaction with other areas

### Pricing (1/3)

- REGULATION (EC) No 715/2009

Article 13(1): *“Tariffs, or the methodologies used to calculate them, shall facilitate efficient gas trade and competition, while at the same time **avoiding cross-subsidies between network users** and **providing incentives for investment** and maintaining or creating interoperability for transmission networks.*

Article 14(2): *“Transport contracts signed with non-standard start dates or with a shorter duration than a standard annual transport contract **shall not result in** arbitrarily higher or **lower tariffs that do not reflect the market value of the service**, in accordance with the principles laid down in Article 13(1).”*

## 4. Interaction with other areas

### Pricing (2/3)

- Auction objectives
  - Establish market value in event of scarcity
  - Otherwise capacity secured at reserve price
- Reserve price determination
  - To reflect underlying costs
  - To avoid cross-subsidisation between system users
  - To secure TSO revenue

## 4. Interaction with other areas

### Pricing (3/3)

- Context of Reserve Price Discussion
    - CAM and CMP will lead to increased short term capacity release
    - There will be uncertainty about capacity booking levels
    - Promotion of short term trading and low short term Reserve Prices seems to be the aspiration
  - Issues to consider
    - Volume and price uncertainties create risks for all players
    - Over and under-recovery mechanisms to be defined
- ➔ **Inappropriately low Reserve Prices for short term capacity undermines longer term bookings which creates distortions and cross subsidies**

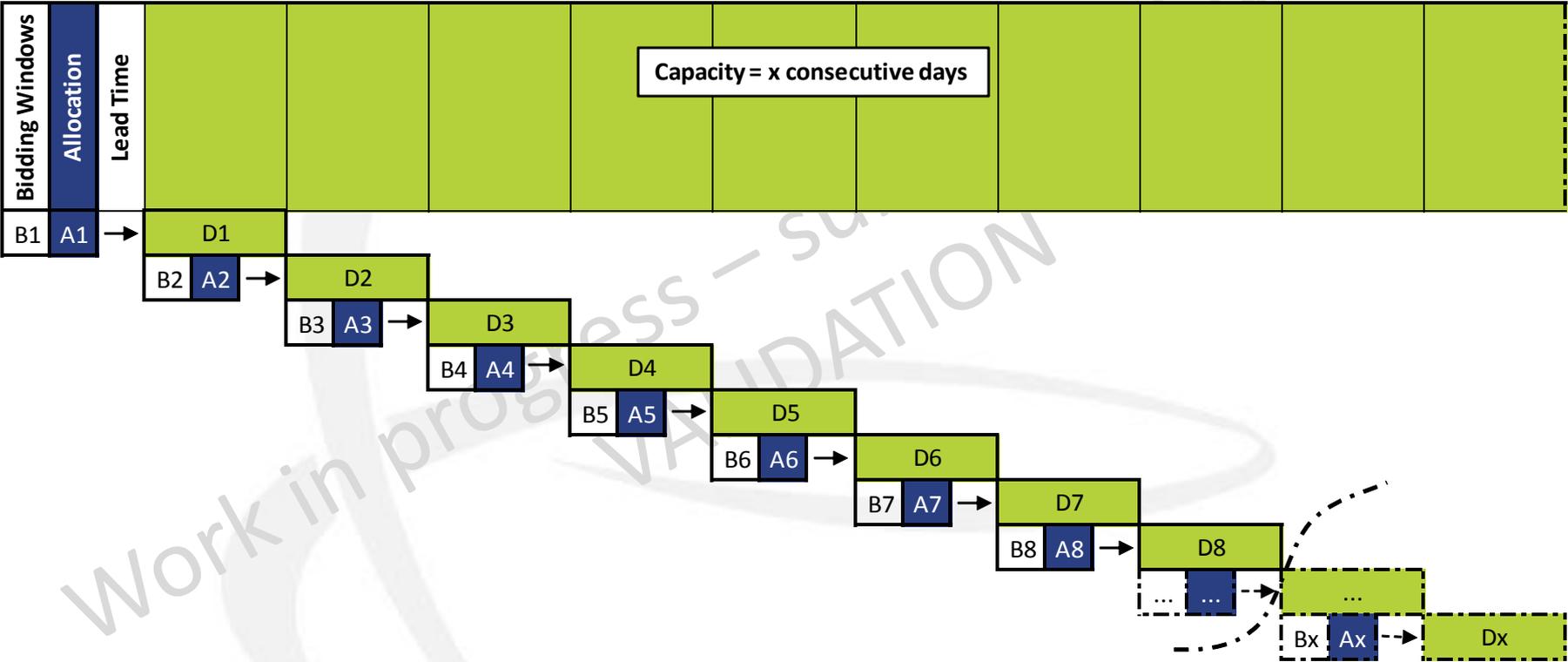
**Issue to be discussed prior to defining Reserve Price rules**

# 5. Auctioning process for different Products

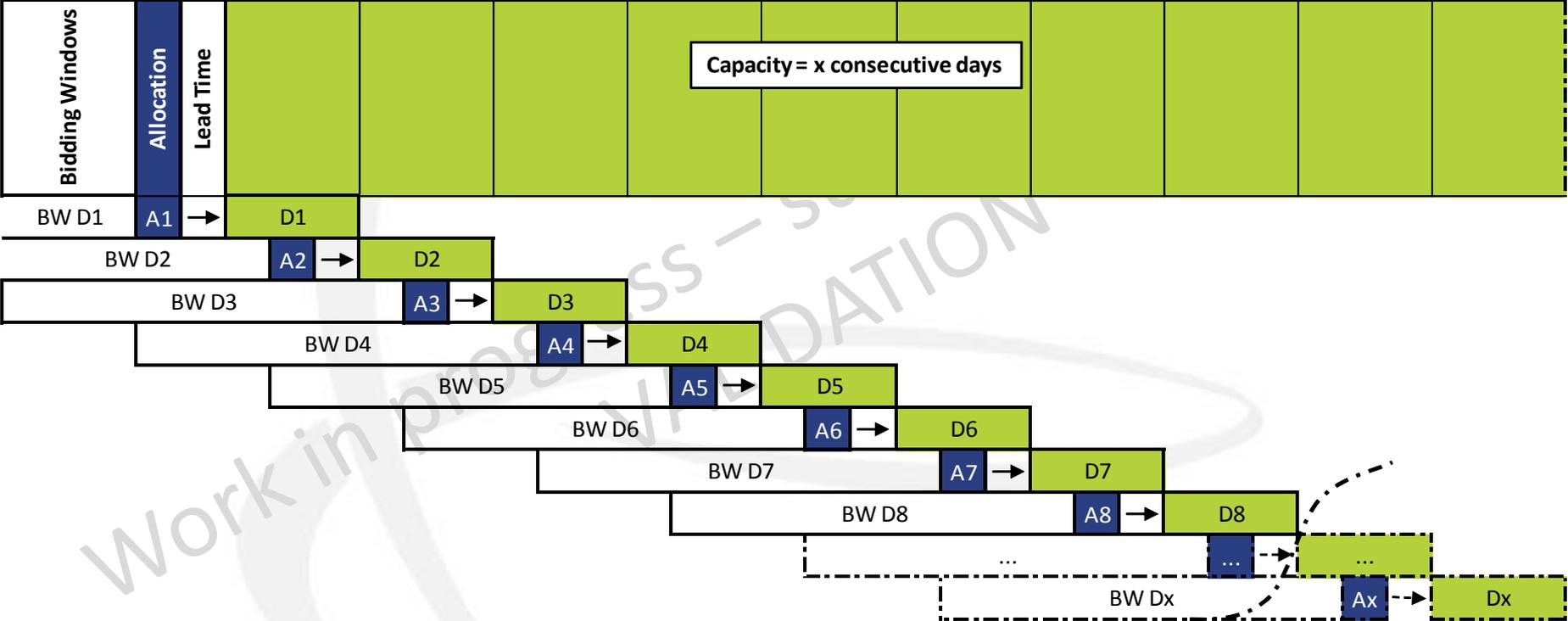
## Introduction

- Standard Capacity Products as an assumption from the interpretation of Draft CAM FG and the Letter by Eurogas, OGP, EFET
- Auction Options represent the current work stage
  - Mechanisms not approved within ENTSOG
- Subsequently, preferred Options are intended to be detailed (types of Auctions, Pay-As-Bid/Cleared-Price etc)

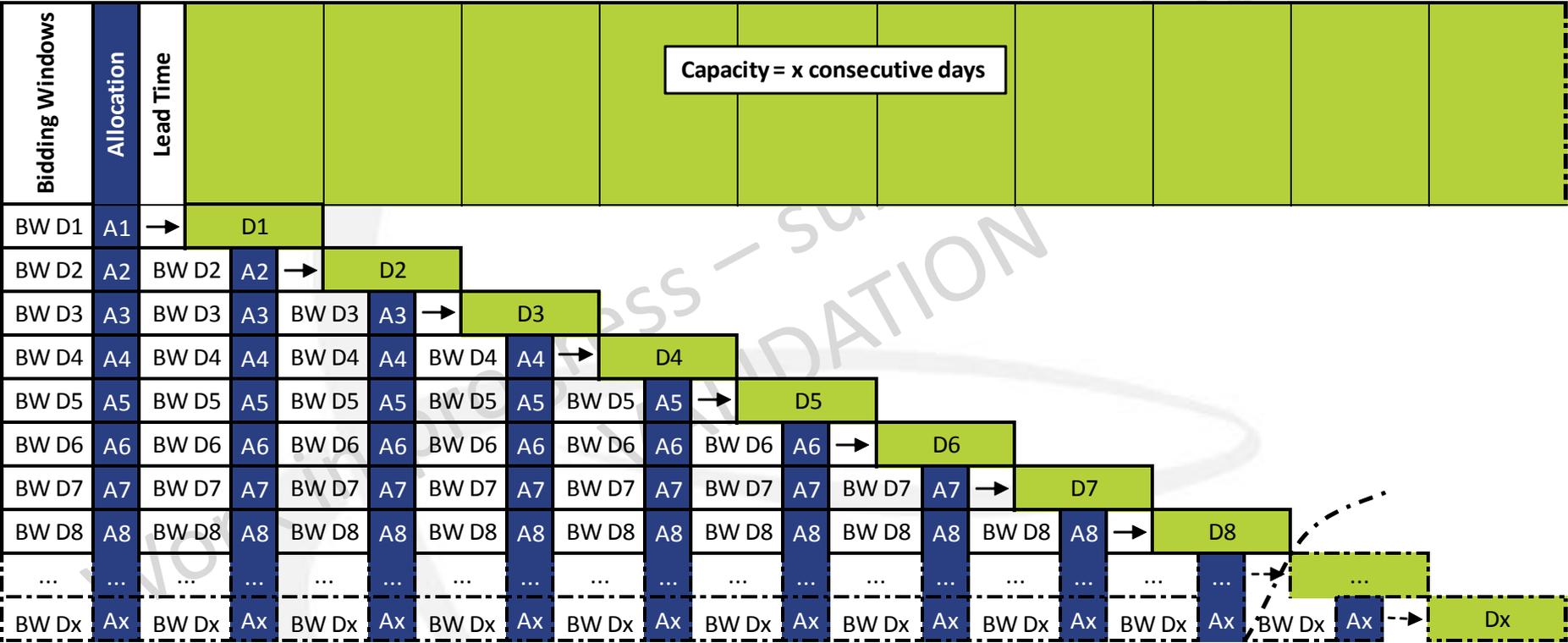
# 5.1 Auction of Daily Capacity – Option 1



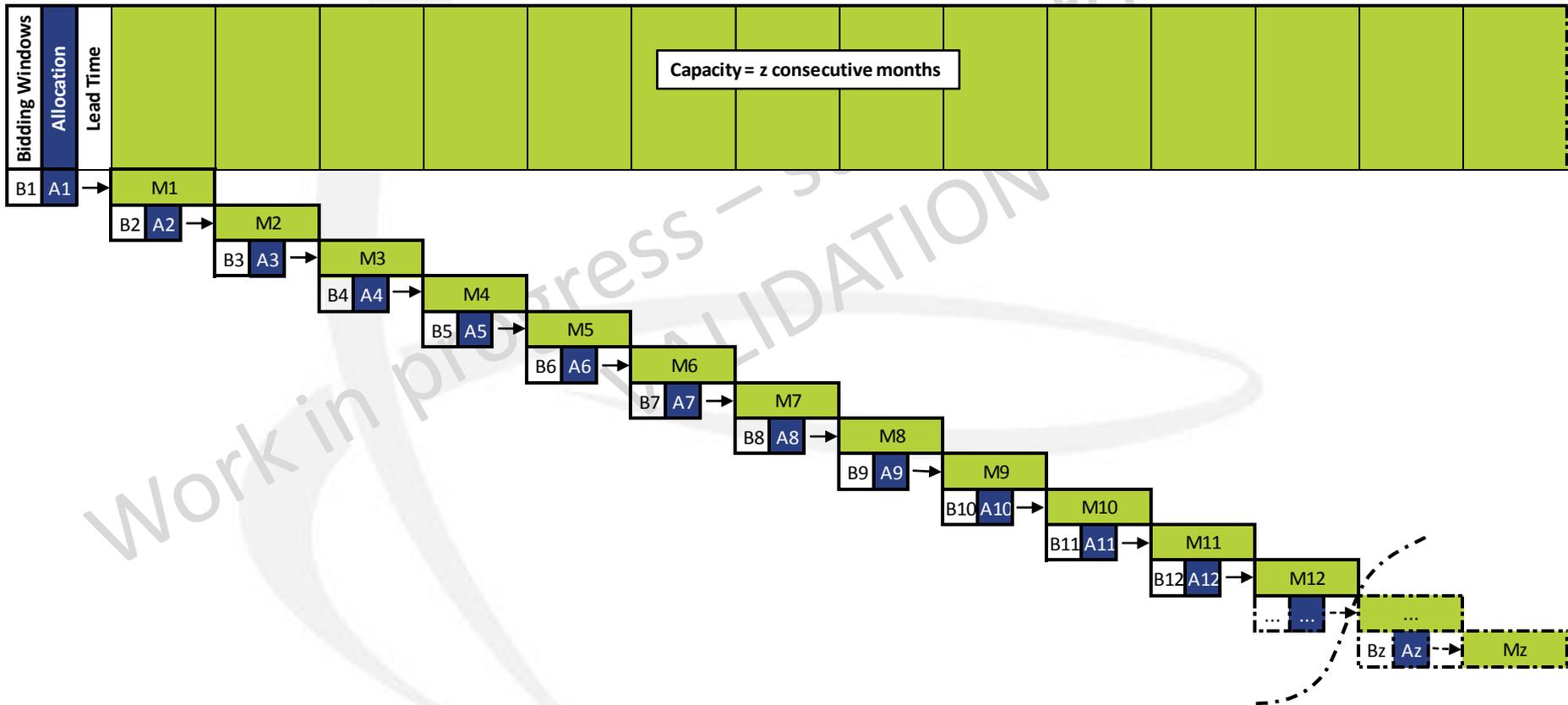
# 5.1 Auction of Daily Capacity – Option 2



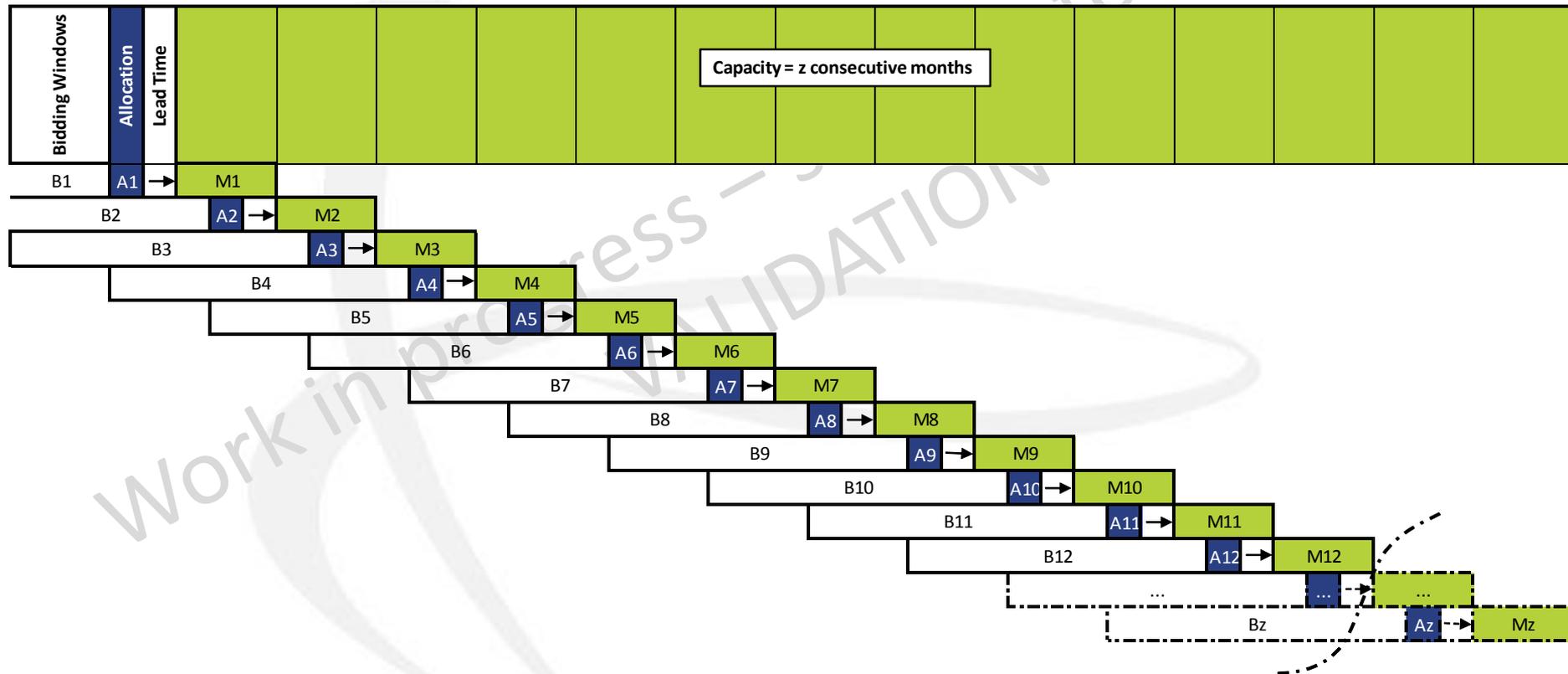
# 5.1 Auction of Daily Capacity – Option 3



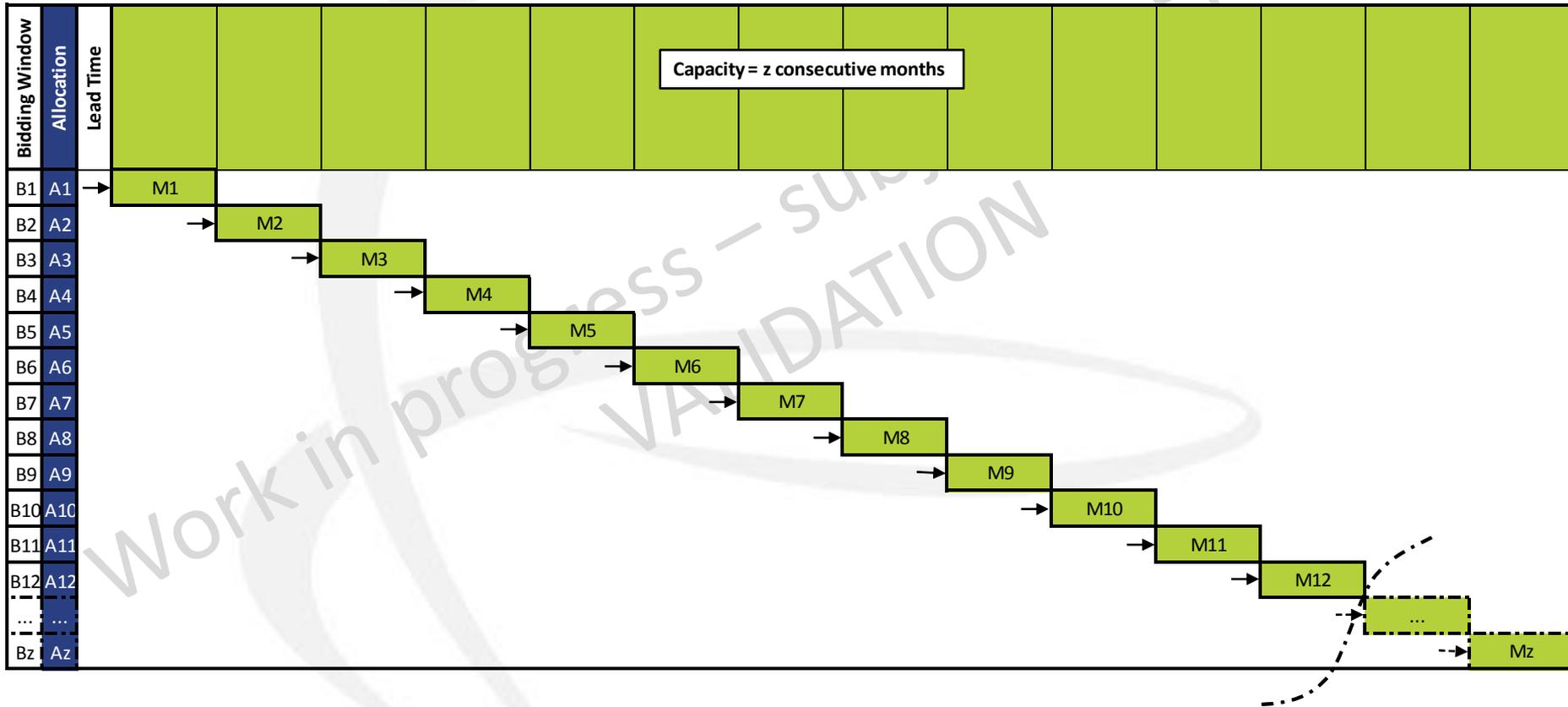
# 5.2 Auction of Monthly Capacity – Option 1



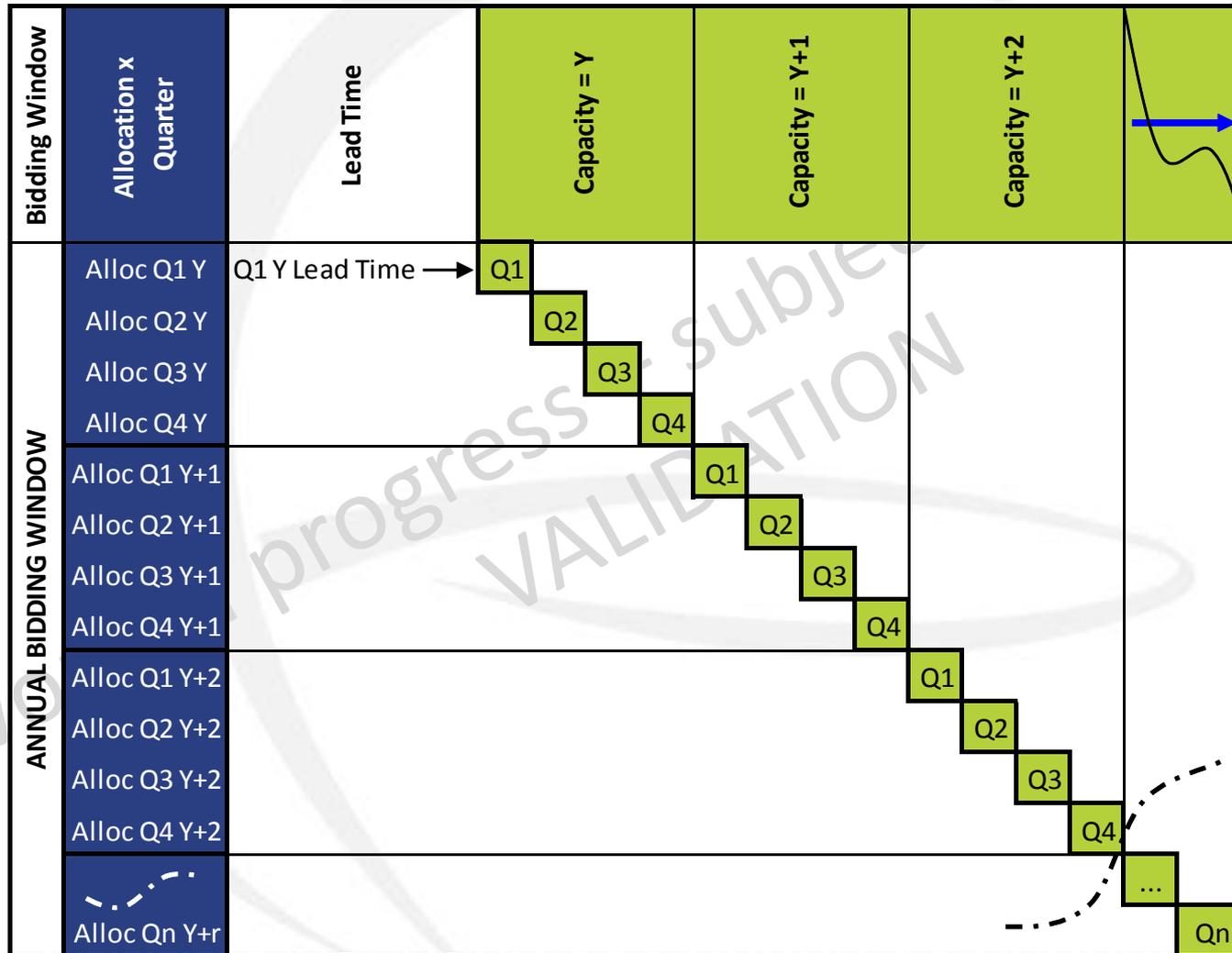
# 5.2 Auction of Monthly Capacity – Option 2



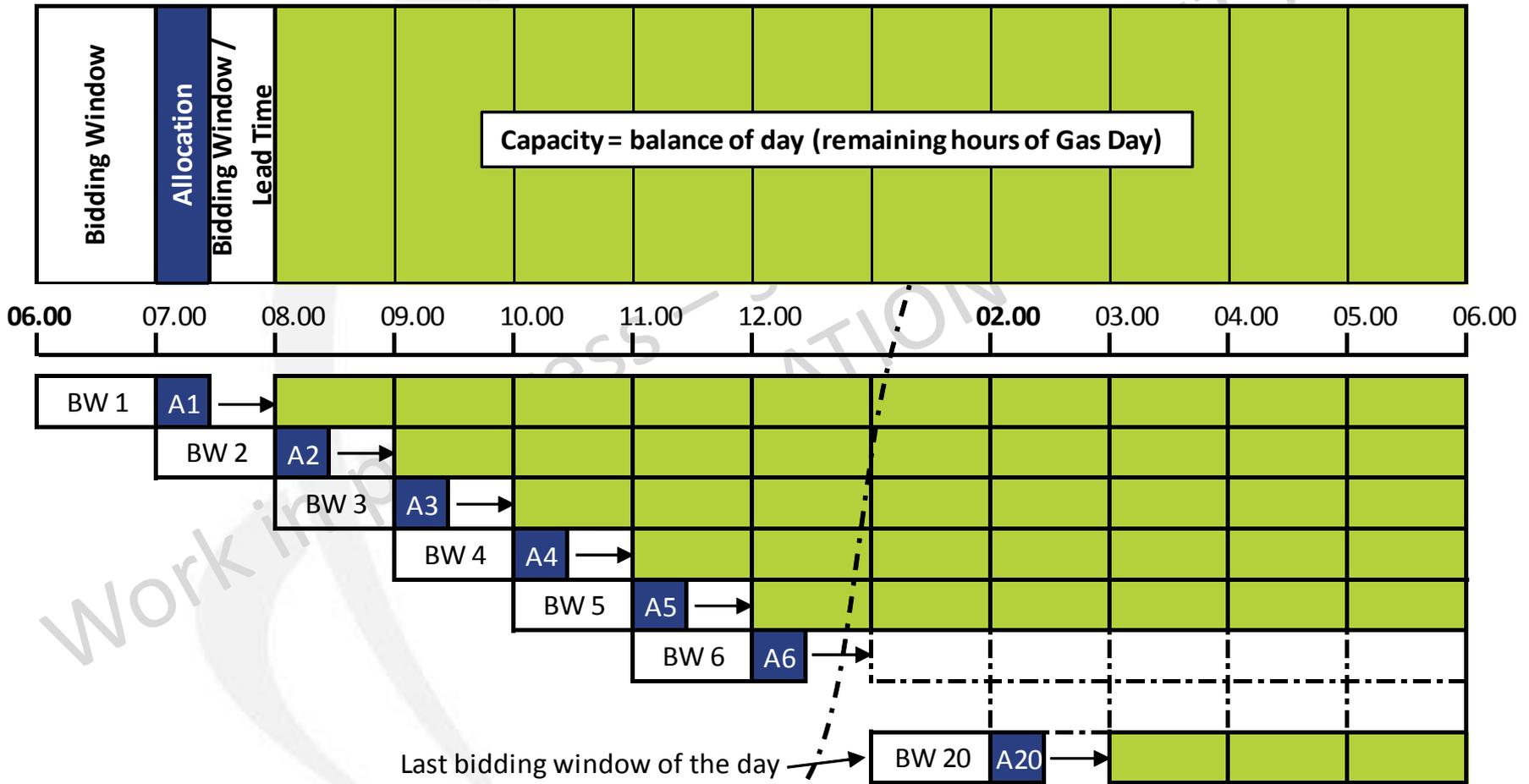
# 5.2 Auction of Monthly Capacity – Option 3



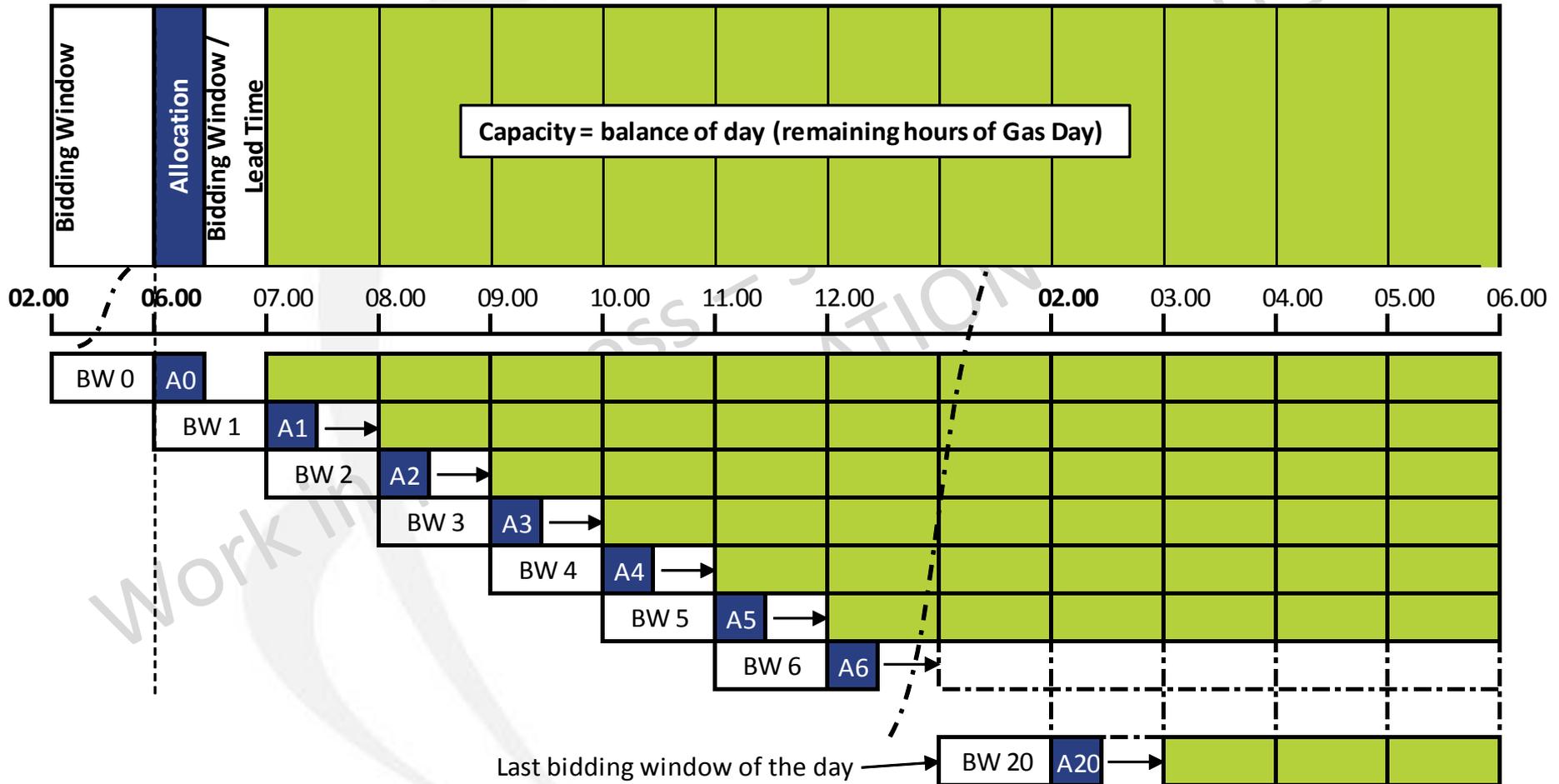
# 5.3 Auction of Quarterly Capacity



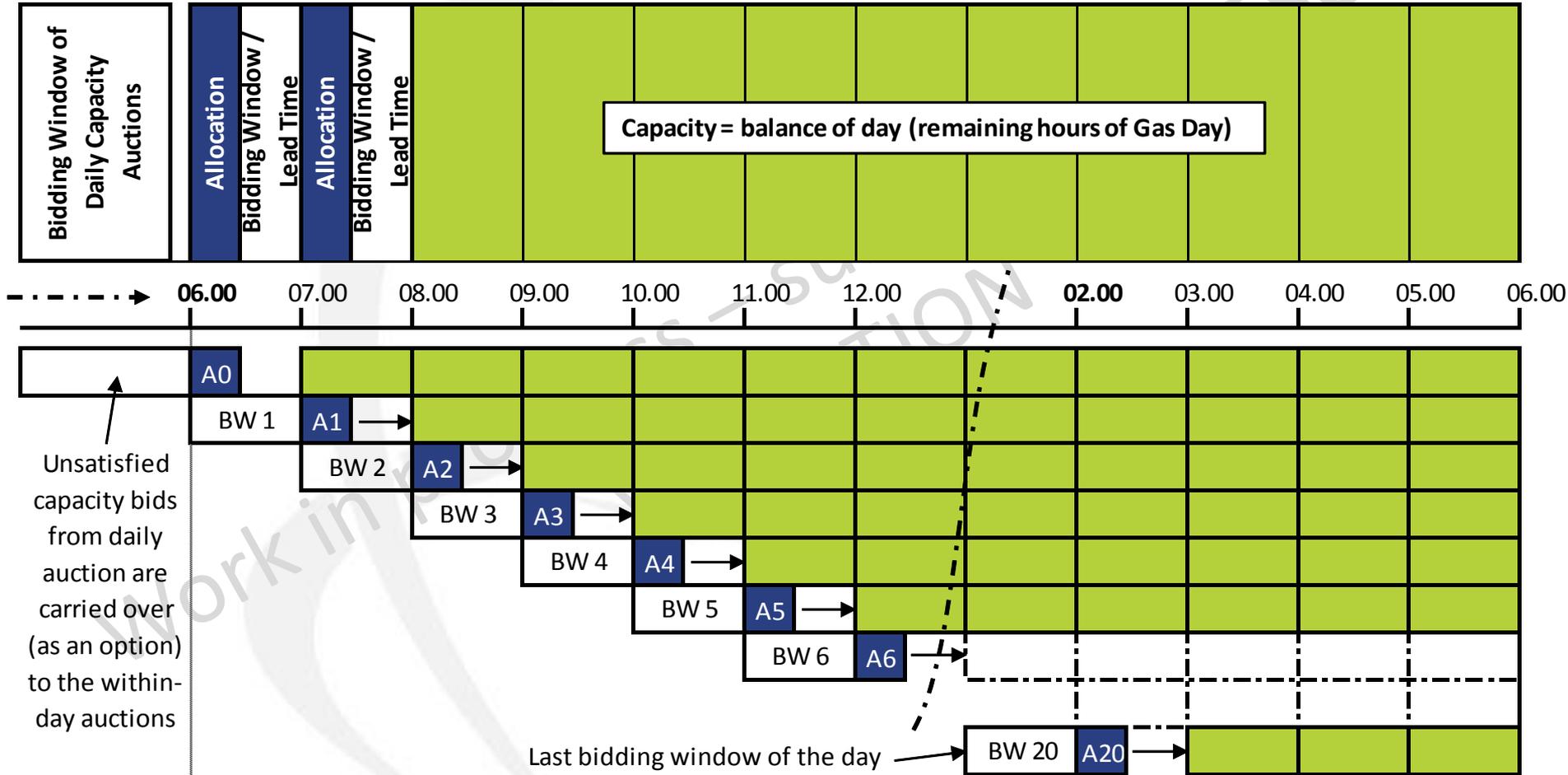
# 5.4 Auction of Within-Day Capacity – Option 1



# 5.4 Auction of Within-Day Capacity – Option 2



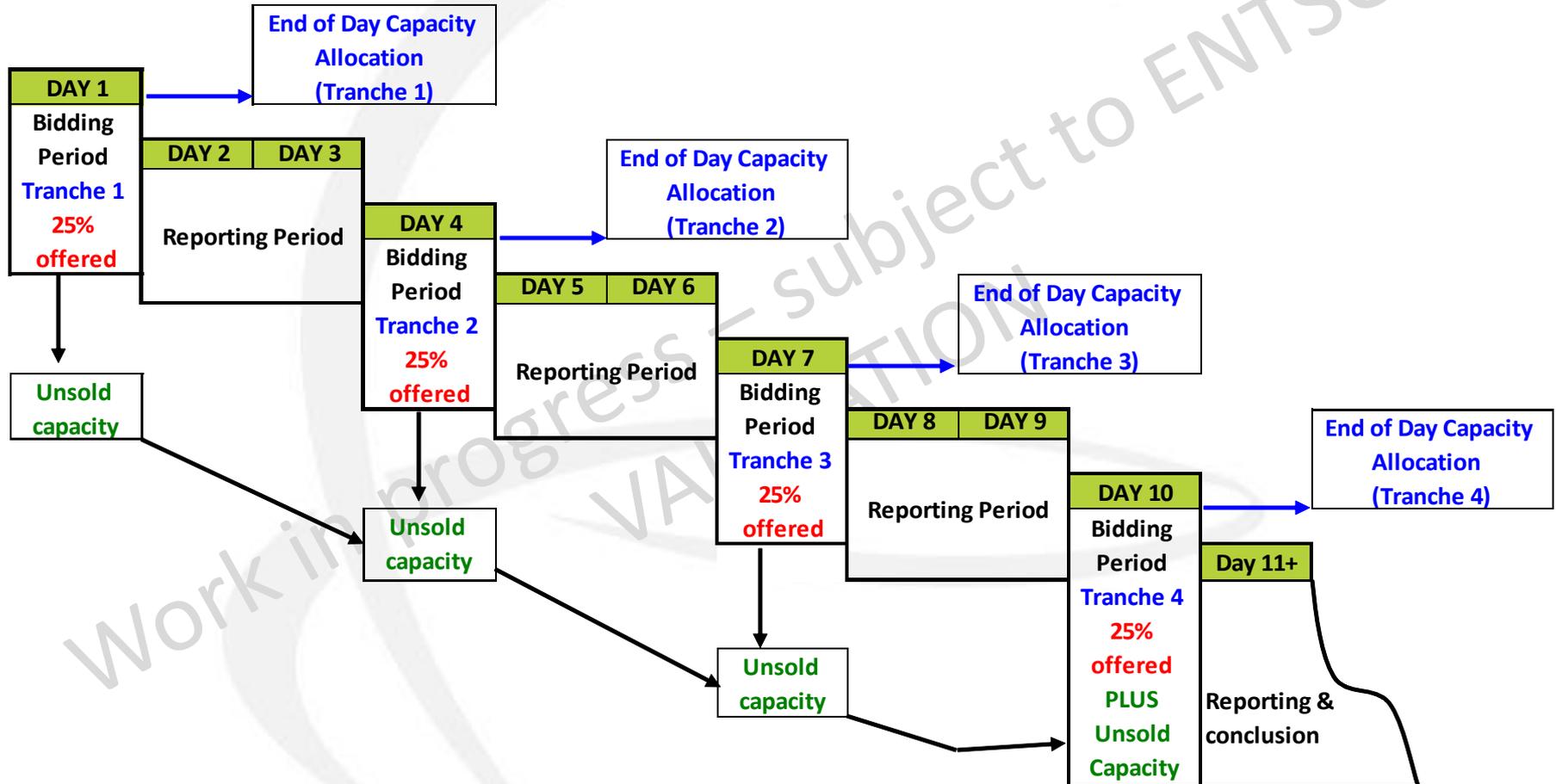
# 5.4 Auction of Within-Day Capacity – Option 3



## 5.5 Overview of Auctions for all durations

Type of allocation	Lead time and Bidding Window	Possible Service Duration	Standard Capacity Product	Share of total calculated capacity	Auction type
Annual Quarterly long term allocation	LT: X months before the start of the first quarter on sale	Any (combination of) quarters from x up to x+15 years out	Quarterly	Maximum x% of calculated available capacity on Long term	<u>Upcoming Discussions</u>
Annual monthly allocation	LT: X months before the start of the first month on sale	Any (combination of) months up to x months out	Monthly	Total calculated capacity minus allocated quantities from previous auctions	Sealed-Bid vs Open Bid
Rolling monthly allocation	LT: Month-ahead, xth of the month, prior to the month of service	One month	Monthly	Total calculated capacity minus allocated quantities from previous auctions	Single Round vs Multiple-Rounds Cleared-Price vs Pay-as-Bid
Rolling daily day-ahead allocation	LT: Day-ahead – x hours before 6am.	One day	Daily	Total calculated capacity minus allocated quantities from previous auctions	Reserve Price Definition
Within day allocation	LT: During the gas day, at least 3 hours taking renom lead-time into account	Remainder of the day	Daily (or balance of day)	Any remaining available capacity	FCFS vs Auctions

# 5.6 Example of Bidding Window organisation



## 6. Future collaboration between the parties

- How to best organise the collaboration?
- Topics for next meetings and homework?



Work in progress – subject to ENTSOG  
VALIDATION

**Thank you!**