



ENTSO-G Capacity Workshop

Stakeholder information session on the CAM NC

Vittorio Musazzi
General Manager

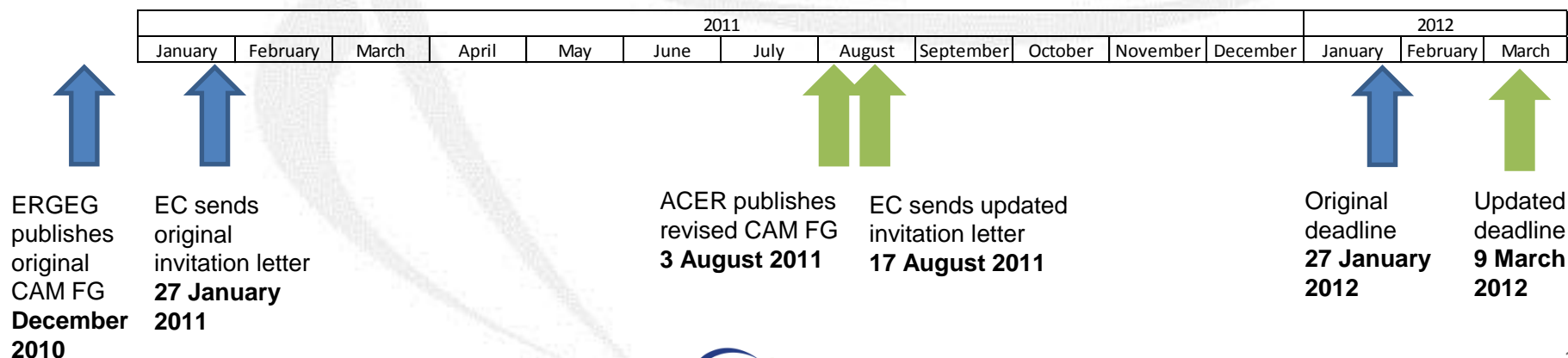
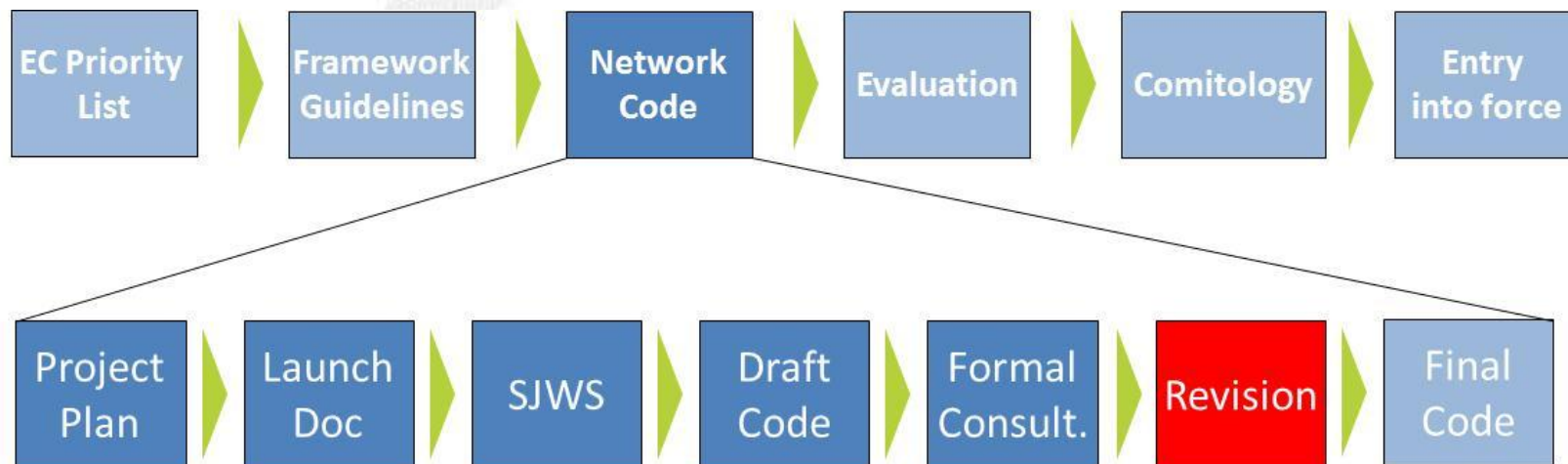
Brussels – 20th October 2011

Introduction - Objectives

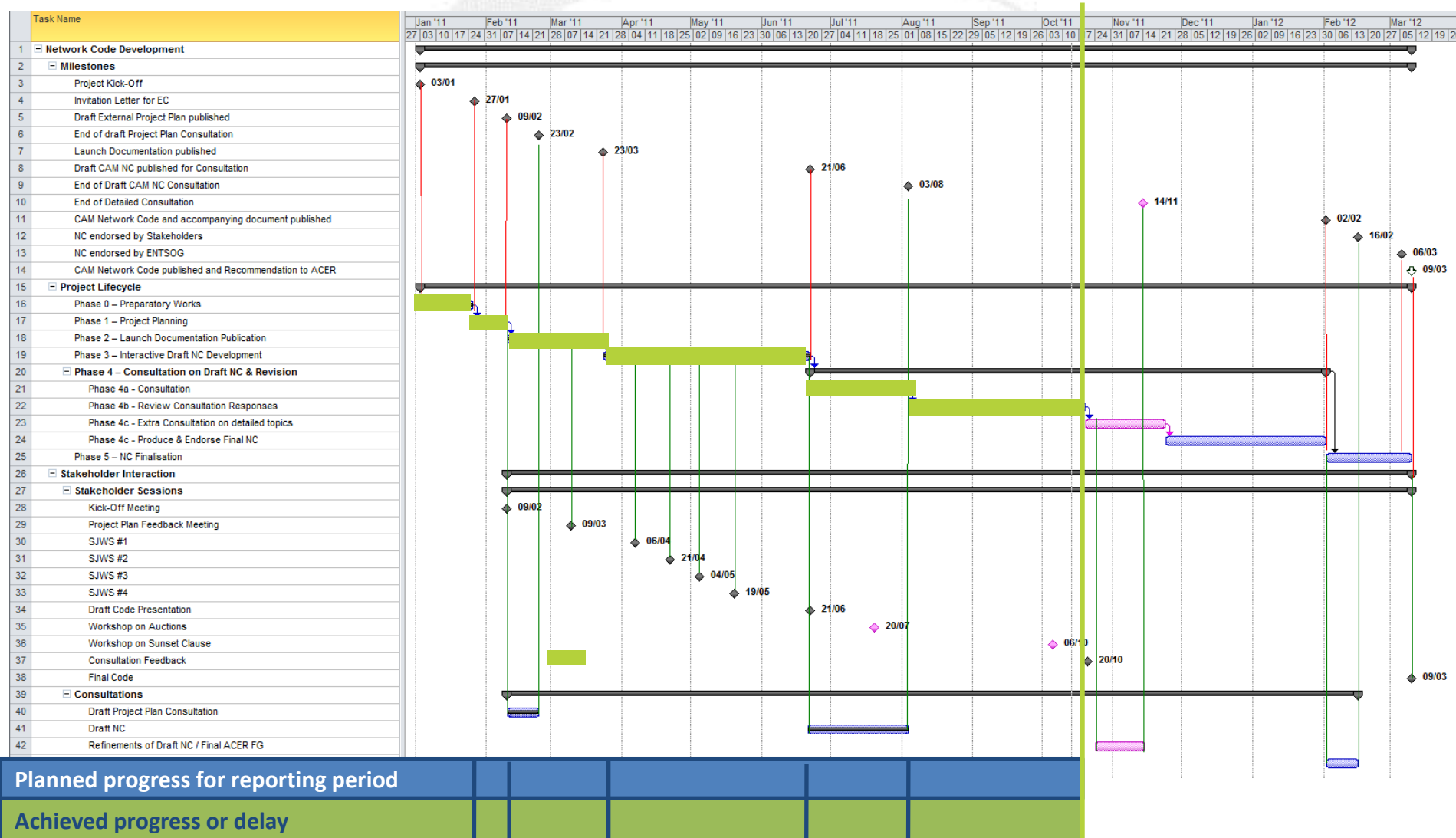
- Describe needed changes to be included into final NC from draft
 - As a result of final ACER FG
 - Following market consultation on draft NC
- Update on progress regarding CAM NC development
- Explain next steps

Ensure participants are fully informed about the key issues and are well placed to engage in the CAM NC process

Introduction – Project progress



Introduction – Planning



Introduction – Agenda

No.	Description	Time
1.	ENTSOG opening and introduction	10.30-10.45
2.	Auction design (+ open discussion)	10.45-11.45
	Coffee break	11.45-12.00
3.	Bundling, sunset clause and platforms (+ open discussion)	12.00-13.00
	Lunch Break	13.00-14.00
4.	Interruptible capacity (+ open discussion)	14.00-14.30
5.	Tariff issues (+ open discussion)	14.30-15.15
	Coffee break	15.15-15.30
6.	Development of the CAM NC – progress and next steps	15.30-16.00
7.	Workshop close	16.00



ENTSOG Capacity Workshop

Set of Capacity Products and Auction Algorithm

Oliver Altenhoff

Auctions Kernel Group Leader

20th October 2011

AGENDA

1. Set of Capacity Products

Set of products to be auctioned in the light of consultation outcomes and consequent allocation process

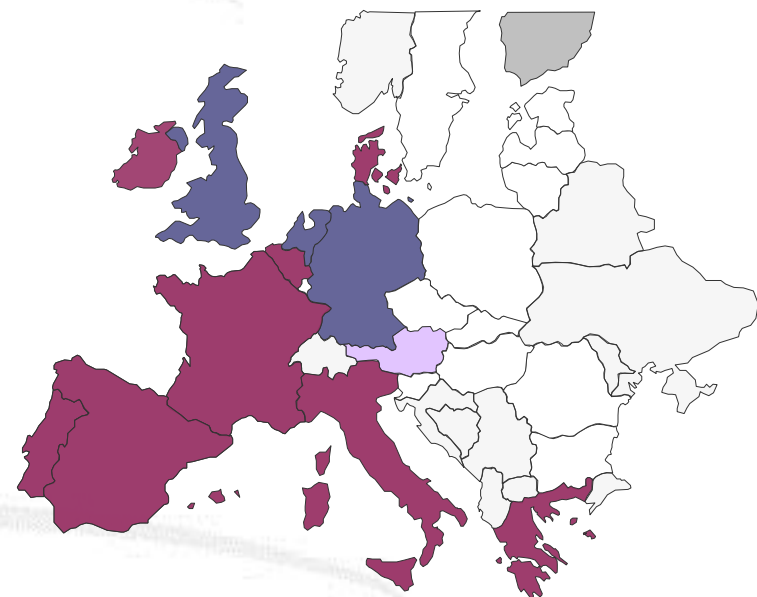
2. Auction Algorithm

- 2.1 Single-round approach including stability measures
- 2.2 Multiple round approach ascending clock auction
- 2.3 Measures for avoiding undersell

1. Set of Capacity Products

Capacity products: consultation results

	ENTSOG proposal		Preferred option for those who do not support ENTSOG proposal		No response/ not clear	Total
	Support	Do not support	Both annual and quarterly	Quarterly for nearby quarters, then annual		
EU	4	8	8		1	13
Austria	1	1	1		1	3
Belgium		1	1			1
Denmark		1		1		1
Finland					1	1
France		5	4	1		5
Germany	2	1		1		3
Greece		1	1			1
Ireland		1	1		1	2
Italy		4	3	1		4
Portugal		1	1			1
Spain		4	4		1	5
The Netherlands	3				1	4
UK	6	3	2	1		9
Total	16	31	26	5	6	53



- Alignment with ENTSOG proposal
- Half and half
- Integration of annual products
- Not clear
- No response

Stakeholders:

- Yearly products should be included
- Not too many auctions, keep it simple

Options – Set of Products

New consultation to be launched on 24th October 2011 will describe two options:

1

Long term capacity sold as quarterly only

- Long-term QP
- Annual MP
- Rolling MP
- Rolling DP

Consequences

- Allows seasonal profiling of products more than 1 year ahead
- Can be used to build up a contract of any duration
- Does not answer consultation respondents' requests for inclusion of yearly product
- 10% of capacity reserved for short term can be sold up to a year ahead.

2

Integration of Yearly product

- Long-term YP (substitute LT QP)
- Annual QP (substitutes Annual MP)
- Rolling MP
- Rolling DP

- Answers respondents' requests for inclusion of yearly product
- Fewer auctions
- Some loss of flexibility (can't build seasonally profiled product more than a year ahead)
- Requires EU-wide harmonization of start date for yearly product
- 10% of capacity reserved for short term is sold month ahead.

Other possibilities not considered appropriate, for example:

- Yearly product only, no quarterly
- "Linked quarters"
- Auction yearly and quarterly at same time
- Auction quarterly for the next available years, then annual for later years



Recommendation:

ENTSO-G recommends Option 2 (integrate yearly product)

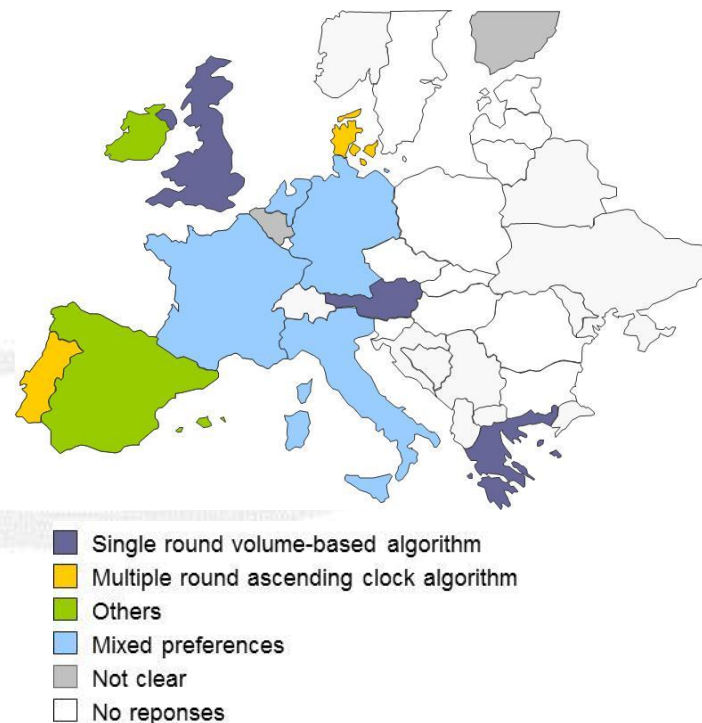
- Have developed a workable proposal in response to market requests
- But will consult further on the two options described

2. Allocation Mechanism

Auction design

- Almost all agree that **long term auction design needs modification**
 - Reflects difficulties observed at workshop on 20th July
- **Respondents divided on most appropriate LT design.**

	Draft NC proposal for single round volume-based algorithm		Preferred option for those who do not support draft NC proposal		No response/ not clear	Total
	Support	Do not support	Multiple Round Ascending clock	Others		
EU	5	1	1		3	9
Austria	2				1	3
Belgium					1	1
Denmark		1	1			1
Finland					1	1
France	1	2	1	1	2	5
Germany	2	3	3			5
Greece	1					1
Ireland		2		2		2
Italy	1	3	1	2		4
Portugal		1	1			1
Spain		4		4	1	5
The Netherlands	2	2	1	1		4
UK	9	1		1	1	11
Total	23	20	9	11	10	53



Two options are the most supported:

- Introducing stability measures to current code proposal
- Implementing a multi-round ascending-clock algorithm

2. Allocation Mechanism

2.1 Single-round model

Stability measures
Price discovery measures

Single-round model as initially proposed

- One bidding round with defined (and limited) number of price steps
 - Bidders bid volumes against announced prices
 - Auctions ends at predefined point of time
 - Bidding opening time + x days
 - Publication of aggregated demand within the round (price discovery)
 - Bidders are allowed to freely review their bids until last moment
 - Pro-rata at highest price step
- Value of capacity cannot be validated due to freedom to review bids, however stability measures can address this problem
- Pro-rata implies unwanted results

Single round model can be refined, to achieve better value discovery in line with multiple round ascending clock model

Stability/Value Discovery measures (1/2)

A) Early Closure of Bidding Window

Objective is to reveal a fair and true valuation from day 1

→ Early closure when stability in demand is reached or if demand is lower or equal to offer

Similar to ascending clock where auction closes when demand is lower or equal to offer

Proposal:

- “immediate closure rule”: BW closes after D_1 if $CP_{D_1} = P_0$ (this means demand \leq offer on the first day)
- “early closure rule”: BW closes if clearing price is unchanged from one day to the next

Stability/Price Discovery measures (2/2)

B) Limitation of bid revision

Enforce binding character of a bid

- In ascending-clock, you can choose to stay in the next round or step out.
 - If auction closes, you can't step out
 - If auction continues, you can decide to keep the requested volume or reduce it (eventually to 0), not raise it → the initial demand is the max
- Such revision cannot lead to the price suddenly “reducing”
- How binding is the bid on Day 1 if it can be freely amended, upwards or downwards?
- Price elasticity of demand does not change within the bidding window
 - The bidder would accept every quantity on the individual demand curve independently from other points

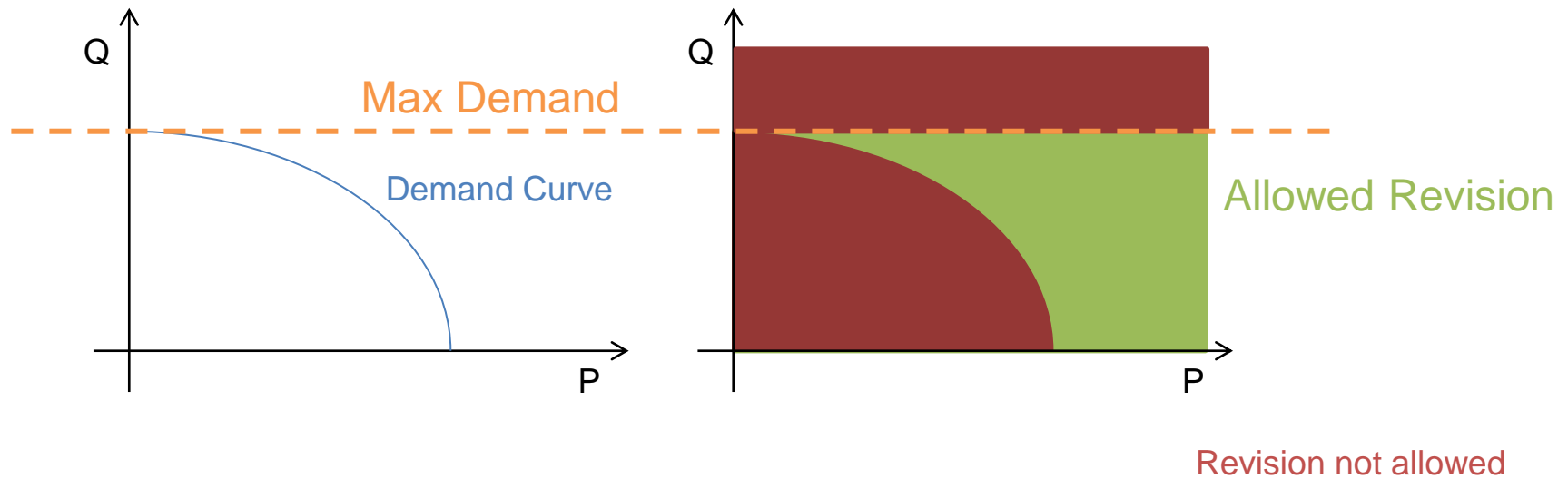
Proposal:

Quantity bid at any one price step cannot increase from one day to the next

Stability/Price Discovery measures (2/2)

B) Limitation of bid revision

Allowed bid revision within the round



2. Allocation Mechanism

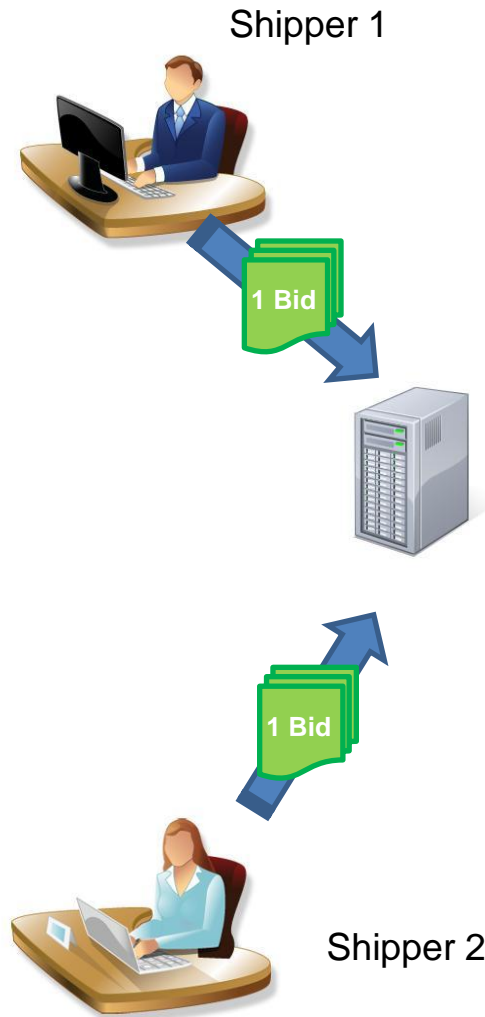
2.2 Multi-Round Model

Multiple round ascending clock model

Multiple-round model

- Several binding bidding rounds with ascending prices
- Bidders bid volumes against successively announced prices
- Auctions ends as soon as demand \leq supply
- Number of bidding rounds not defined, but quick convergence ensured through different/adjustable price steps
- Value of capacity can be validated due to publication of aggregated demand after each round
- Sold capacity can be lower than supply since demand can decrease significantly between rounds; small price steps can reduce this risk

Ascending clock approach



Price step	Quarter 6 (just as an example)			
	Avail. qty	S1	S2	Σ
5	120			
4	120			
3	120			
2	120			
1	120			

- Bidders need to actively place bids at every price step as long as they want to stay in the game

Ascending clock approach

Shipper 1



Price step	Q6			
	Avail. qty	S1	S2	Σ
5	120			
4	120			
3	120			
2	120			
1	120	120	100	220

Announced price step

Shipper 2



Ascending clock approach

Shipper 1



Price step	Q6			
	Avail. qty	S1	S2	Σ
5	120			
4	120			
3	120			
2	120	100	80	180
1	120	120	100	220

Announced price step

1 Bid



Shipper 2

Ascending clock approach

Shipper 1



Price step	Q6			
	Avail. qty	S1	S2	Σ
5	120			
4	120			
3	120	80	60	140
2	120	100	80	180
1	120	120	100	220

Announced price step

1 Bid

Shipper 2



Ascending clock approach

Shipper 1



Price step	Q6			
	Avail. qty	S1	S2	Σ
5	120			
4	120	70	40	110
3	120	80	60	140
2	120	100	80	180
1	120	120	100	220

Announced price step

- Auction clears once aggregated demand < supply

Shipper 2



Ascending clock approach

Shipper 1



Price step	Q6			
	Avail. qty	S1	S2	Σ
5	120			
4	120	70	40	110
3	120	80	60	140
2	120	100	80	180
1	120	120	100	220

Announced price step

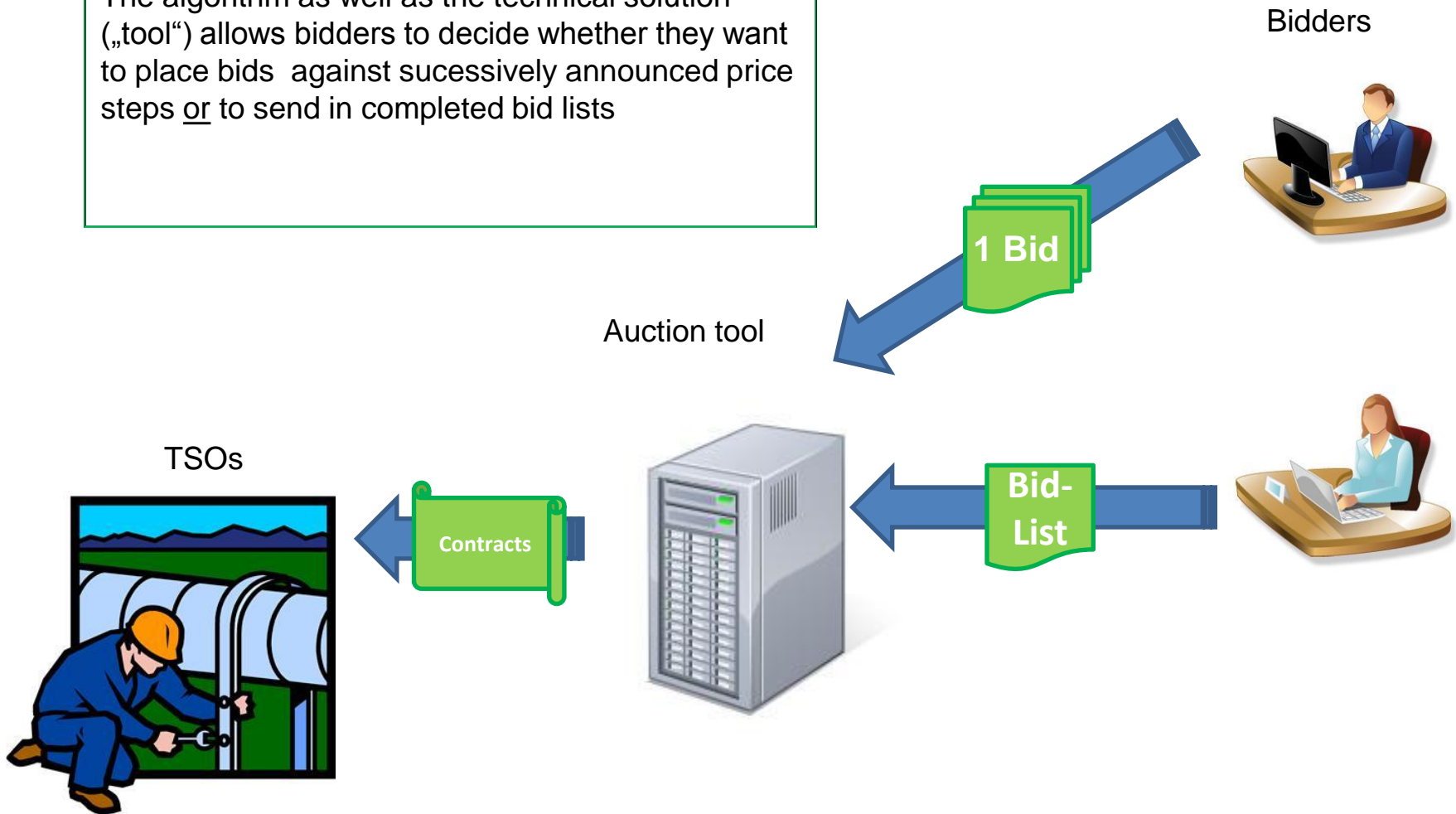
- Auction clears once aggregated demand \leq supply

Shipper 2



Bidders List

The algorithm as well as the technical solution („tool“) allows bidders to decide whether they want to place bids against successively announced price steps or to send in completed bid lists



Algorithm – Example

Shipper 1 bids
per price step



1 Bid



Price step	Quarter 4 (example)			
	Avail. qty	S1	S2	Σ
5	120			
4	120			
3	120			
2	120			
1	120			

Price step	Bid qty
5	0
4	40
3	60
2	80
1	100

Shipper 2 uses the
automatic bidding
assistant and sends
in a bid list



- Bid list to be sent completely to the tool only once
- Tool feeds bids into the relevant auction automatically

Algorithm – Example

S1



1 Bid



Price step	Q4			
	Avail. qty	S1	S2	Σ
5	120			
4	120			
3	120			
2	120			
1	120	120	100	220

Announced price step

Price step	Bid qty
5	0
4	40
3	60
2	80
1	100

S2



Algorithm – Example

S1



1 Bid



Price step	Q4			
	Avail. qty	S1	S2	Σ
5	120			
4	120			
3	120			
2	120	100	80	180
1	120	120	100	220

Announced price step

Price step	Bid qty
5	0
4	40
3	60
2	80
1	100

S2



Algorithm – Example

S1



1 Bid



Price step	Q4			
	Avail. qty	S1	S2	Σ
5	120			
4	120			
3	120	80	60	140
2	120	100	80	180
1	120	120	100	220

Announced price step

Price step	Bid qty
5	0
4	40
3	60
2	80
1	100

S2



Algorithm – Example

S1



1 Bid



Price step	Q4			
	Avail. qty	S1	S2	Σ
5	120			
4	120	70	40	110
3	120	80	60	140
2	120	100	80	180
1	120	120	100	220

Announced price step

Price step	Bid qty
5	0
4	40
3	60
2	80
1	100

S2





Recommendation:

ENTSO-G will consult on both single and multiple round models without making a recommendation

2. Allocation Mechanism

2.3 Number of price steps

Number of price steps

For either single or multiple round models:

- Some consultation respondents argued that number of price steps should be unlimited in order to avoid pro rata at the highest price step.
- Assuming incremental capacity not in scope of CAM, the options are:
 - Unlimited price steps (describe the price steps, but will leave the number of price steps open)
 - Limit the number of price steps and allow pro-rata at the highest price step if demand > supply

Recommendation: Unlimited price steps

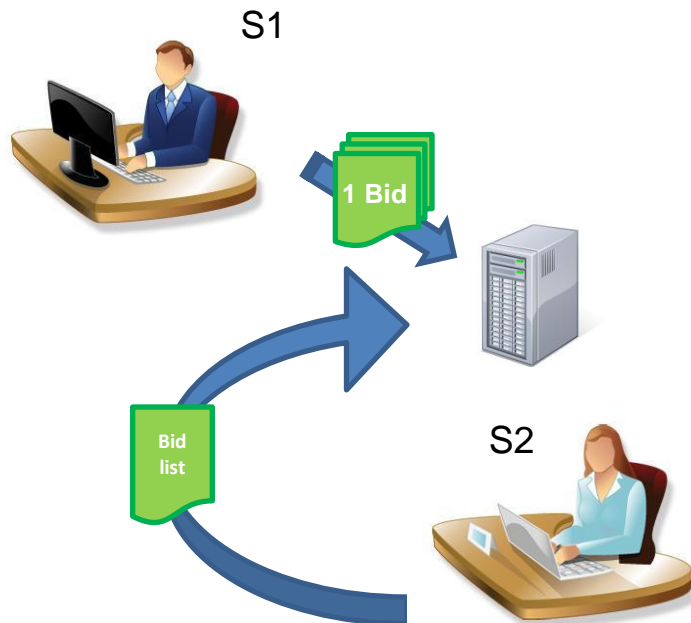
This approach limits or avoids the need to apply any pro-rata at the highest price step while still being volume-based auctions in which users place volume-bids against a range of prices.

2. Allocation Mechanism

2.4 Measures for avoiding undersell

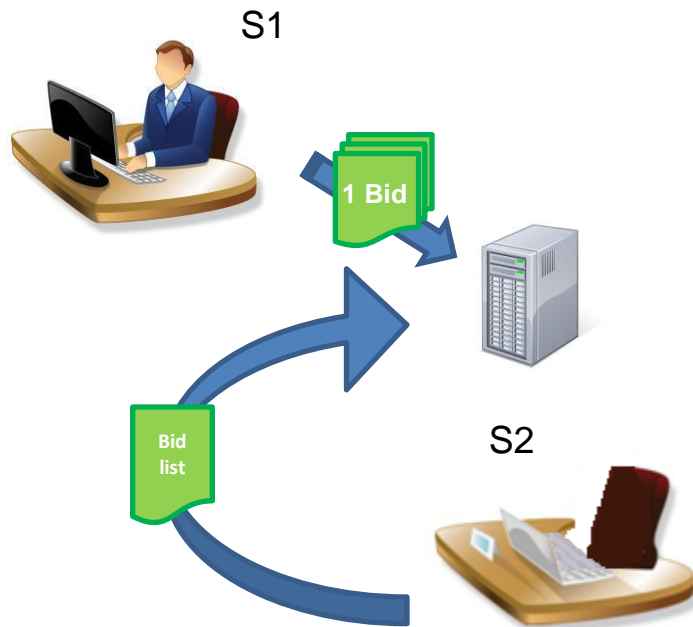
Small price steps

- In order to minimise underdemand while avoiding the application of a pro-rata rule, smaller price steps could be announced
- In order to save time, multiple price steps could be announced per round
- **Note:** this is shown applying to a multiple round auction. For single round the principle is the same but the system is much simpler: shippers would bid against small price steps during the bidding window



Round	Price step	Q6			
		Avail. qty	S1	S2	Σ
5	15	120			
	14	120			
	13	120			
4	12	120			
	11	120			
	10	120			
3	9	120			
	8	120			
	7	120			
2	6	120			
	5	120			
	4	120			
1	3	120	110	85	195
	2	120	115	90	205
	1	120	120	100	220

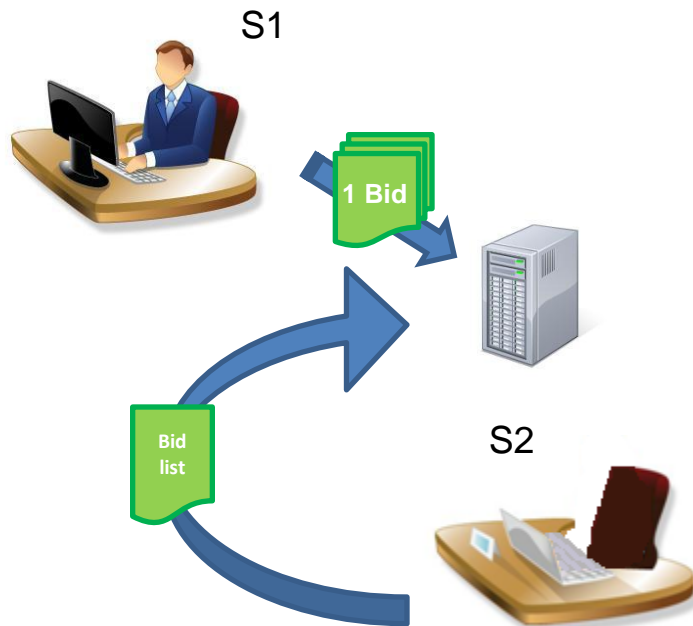
Small price steps



Round	Price step	Q6			
		Avail. qty	S1	S2	Σ
5	15	120			
	14	120			
	13	120			
4	12	120			
	11	120			
	10	120			
3	9	120			
	8	120			
	7	120			
2	6	120	85	65	150
	5	120	90	70	160
	4	120	100	80	180
1	3	120	110	85	195
	2	120	115	90	205
	1	120	120	100	220

Small price steps

- Smaller price steps result in a smoother shape of the demand curve and limit the probability of underdemand (e.g. no underdemand at all at the clearing price in this example)
- More price steps per round allow for faster allocation (e.g. in round 3 instead of round 4)

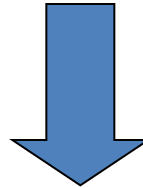


Round	Price step	Q6			
		Avail. qty	S1	S2	Σ
5	15	120			
	14	120			
	13	120			
4	12	120			
	11	120			
	10	120			
	9	120	75	45	120
3	8	120	80	50	130
	7	120	80	60	140
2	6	120	85	65	150
	5	120	90	70	160
	4	120	100	80	180
1	3	120	110	85	195
	2	120	115	90	205
	1	120	120	100	220

Allocation of all capacity

- The draft version of the NC on CAM establishes the auctions' clearing price as follows:

“All bids at the lowest price at which total demand is less than or equal to the available quantity shall be allocated the capacity requested [...]”



This implies that once the auction has been held, in most cases, not all the available capacity will be allocated even if there has been enough demand at the previous price step.

Allocation of all capacity

- The clearing price is the highest price (P_x) for which total demand is higher than or equal to the available capacity offered.
- All network users having placed bids at such P_x will be allocated as follows:
 1. If network users have bid at the subsequent price-step (P_{x+1}), all quantity requested at P_{x+1} shall be allocated to those bidders
 2. The remaining quantity to be allocated, being the difference between the available capacity offered and the total demand at P_{x+1} , shall be distributed amongst bidders at P_x , proportionally to the difference between their requested quantity at P_x and P_{x+1} .

Allocation of all capacity

450 units offered

Shippers submit volume bids against pre-defined price steps

Price step	Shipper 1	Shipper 2	Shipper 3	Shipper 4	Shipper 5	Total
P29	0	0	200	0	0	200
...						
P6	0	0	200	0	0	200
P5	50	0	200	10	0	260
P4	100	0	200	25	50	375
P3	100	0	200	25	100	425
P2	100	50	200	50	100	500
P1	100	100	200	50	150	600
P0	100	100	200	50	150	600

Clearing price for all shippers: P2

Total units allocated: 450

	Shipper 1	Shipper 2	Shipper 3	Shipper 4	Shipper 5	Total
Allocation	100	0+16.7	200	25+8.3	100	450

All capacity requested at P3 is allocated

Capacity requested at P2 is allocated by prorata

All the units offered are allocated

Recommendation:

ENTSOG will consult on whether to introduce both measures (within either a single or multiple round auction)



ENTSO-G Capacity Workshop

The Sunset Clause

Heather Glass

Capacity Advisor

Henrik Schultz-Brunn

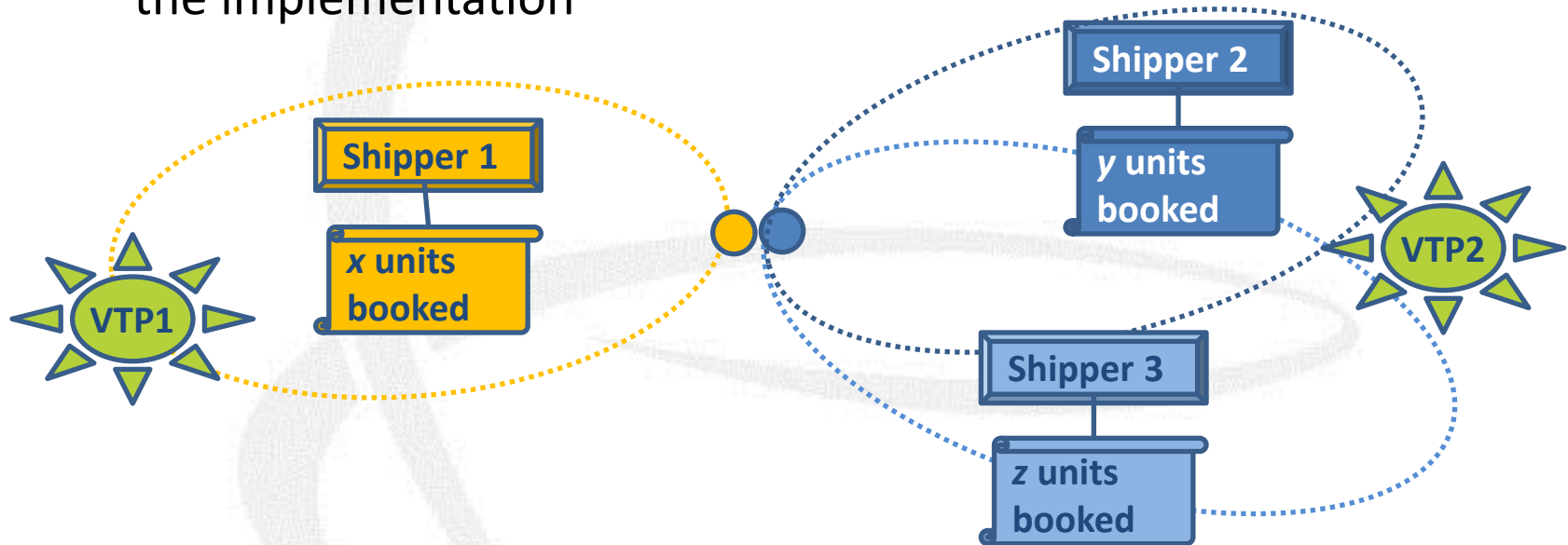
Adjacent TSO Kernel Group Leader

20th October 2011

ACER CAM FG: Sunset Clause

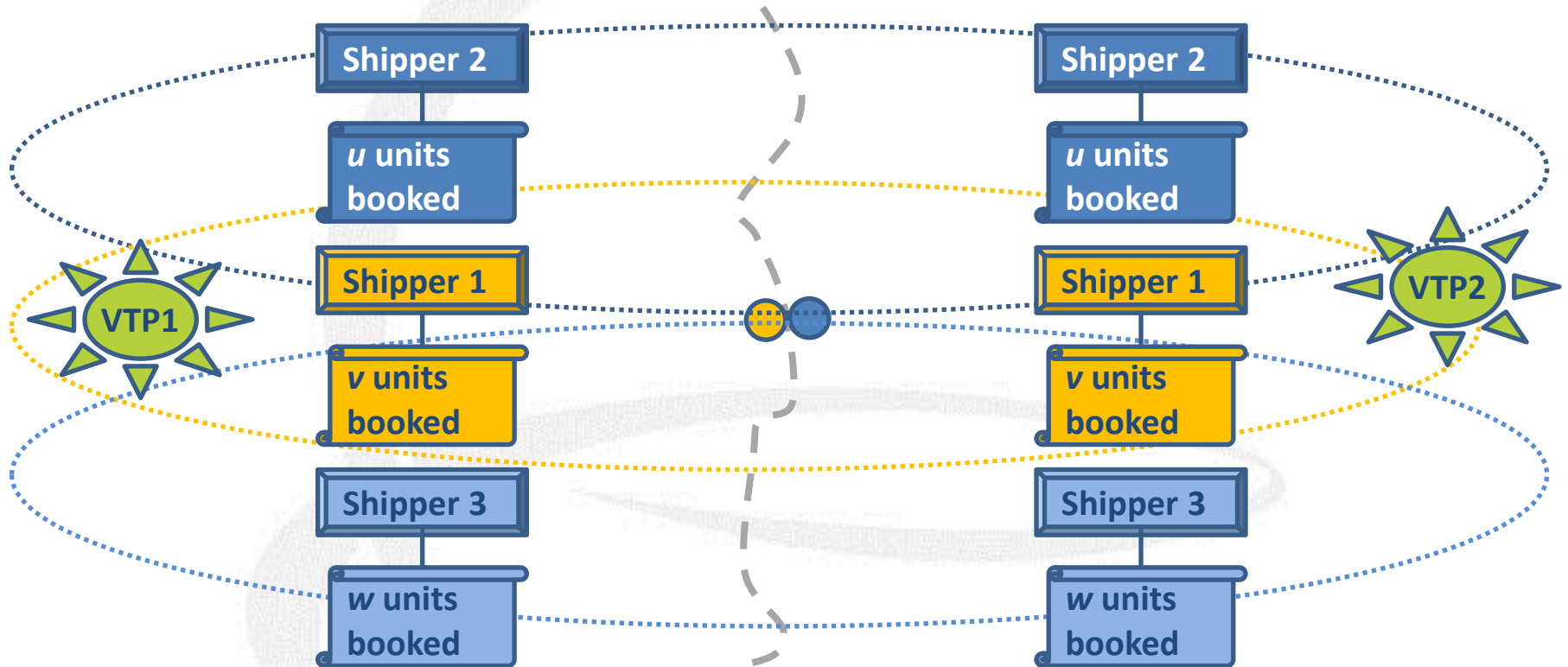
Sunset Clause

- All contracts to be transferred into bundled contracts 5 years after the implementation



- First attempt to reach agreement by involving all parties
- If this isn't possible, then apply the Default Rule (splitting rule)

ACER CAM FG: Sunset Clause



Sunset Clause

- After ACER CAM FG, ENTSOG is obliged to include the Sunset Clause
- Stakeholders, ENTSOG members and GIE are very concerned about the implications
- However ENTSOG will work with market participants to develop a Sunset Clause to be included in the final CAM NC
- A number of issues must first be resolved
- This issue was not covered by the previous CAM NC consultation

Sunset clause: Open Issues

- **Feasibility to bundle the contracted capacity**
 - Technical: quantity /multiple scenarios on an IP
 - Contractual: duration/multiple actors
- **Treatment of the remaining unbundled capacity**
 - Impact on revenues TSO/Shipper
 - Introduction of various schemes in parallel:
 - contractual: bundled/unbundled product ?
 - Commercialisation: auction/other?
- **Proportionality issue**
 - Non discrimination principle

Default Rule
often likely to
be necessary

Sunset clause: Open Issues

- **Role of the TSOs**
 - Cooperation of TSOs
 - Agreement among shippers /transparency
 - Consistency of implementation of agreements
- **NRAs' role**
 - Price of the product/ tariff/ commercialisation process
 - Intervention in the process + enforcement
- **Focus on transmission contract**
 - Supply agreement set apart
- **Legal issues**
 - Substantial issues still to be resolved e.g. translation of agreement(s) into contracts

Default rule

- When no agreement of the split between active shippers, a default rule shall apply in order to split capacity between original capacity holders proportionally to their capacity rights
- Questions to be answered in a 3-step-approach

Step	Question	Action
Step 1	What capacity is to be bundled?	Define what capacity is to be divided and allocated proportionally amongst concerned shippers
Step 2	How is not matching capacity treated?	Define how not matching capacity units are to be treated
Step 3	What does proportionally mean?	Determine a mathematical formulation about what “proportionally” means

Default rule – general principles

ENTSOG considers that any default rule should be based on the following principles

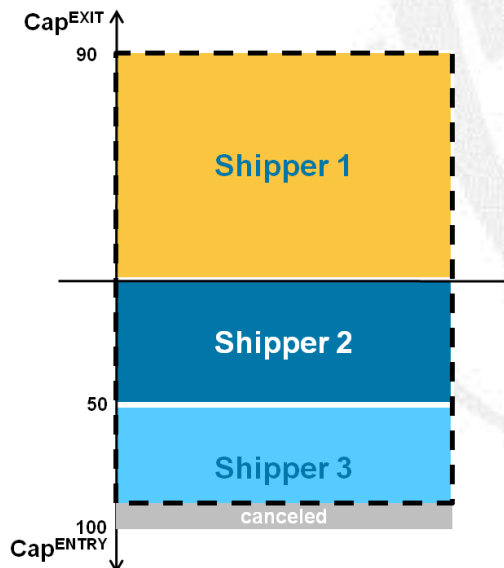
- Ensure a proportional and non discriminatory allocation of bundled capacity, in line with the requirements of the Framework Guideline; and
- Be without any room for interpretation; and
- Technical constraints shall always restrict the maximum amount of capacity to be bundled at a specific IP, i.e. technical lesser-of-rule always to be applied ahead of default-rule application

Default rule – Steps 1 & 2

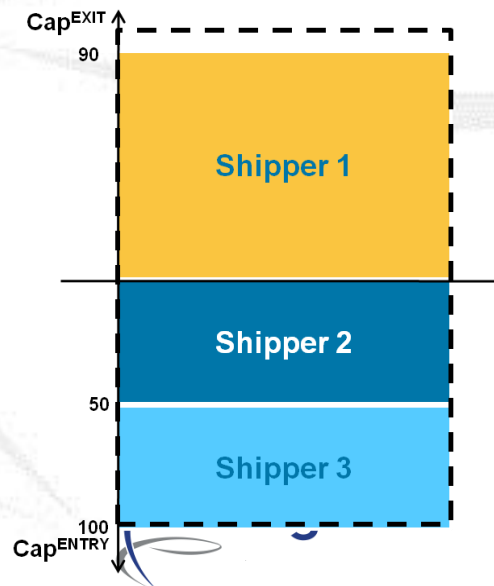
Step 1	What capacity is to be bundled?	<ul style="list-style-type: none"> • Minimum of aggregated bookings on either side of IP? • Maximum of aggregated bookings on either side of IP?
Step 2	How is not matching capacity treated?	<ul style="list-style-type: none"> • Cancelled? • Filled up with additional capacity? • Remains unbundled?

Theoretical approaches

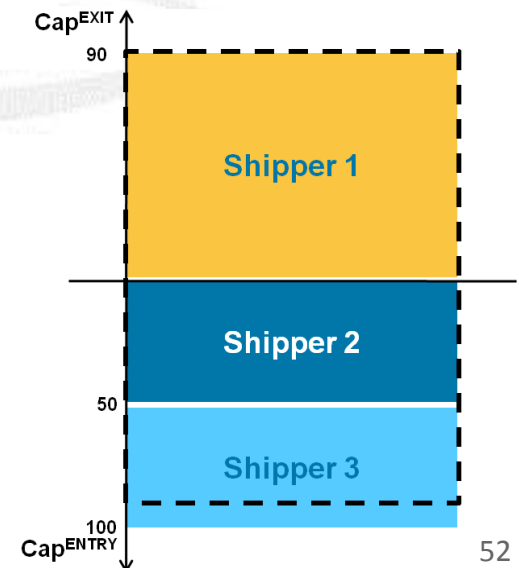
Minimum default rule



Maximum default rule



Partially unbundled def. rule



Default rule – Step 3

Step 3

**What does
proportionally mean?**

ENTSOG's proposal is a pure mathematical formula in order to ensure a proportional split and to eliminate any room for interpretation at the same time

Bundled capacity holdings shipper_i after default rule application =

$$\frac{(\text{Capacity holdings shipper before bundling})}{\sum_{j=1}^n (\text{Capacity holdings shipper}_j \text{ at entry and exit})} (\text{Capacity to be bundled})$$

Default rule - Analysis

Minimum default rule approach

	Exit (before bundling)	Entry (before bundling)	Exit (after bundling)	Entry (after bundling)
Techn. Cap.	90	120	90	120
Cap. to be bundled	90	90	90	
Booking S1	90	0	42.5	42.5
Booking S2	0	50	23.75	23.75
Booking S3	0	50	23.75	23.75
Sum	90	100	90	90

- Consequences
 - Booking levels not maintained
 - Risk of under-recovery which would need to be recovered from remaining users
 - Capacity booked before will be freed up and might subsequently be offered bundled – though demand is not guaranteed
- Conclusion
 - Not acceptable either for majority of workshop participants or for TSOs

Default rule - Analysis

Maximum default rule approach

	Exit (before bundling)	Entry (before bundling)	Exit (after bundling)	Entry (after bundling)
Techn. Cap.	120	120	120	120
Cap. to be bundled	100	100	100	
Booking S1	90	0	47.5	47.5
Booking S2	0	50	26.25	26.25
Booking S3	0	50	26.25	26.25
Sum	90	100	100	100

- Consequences

- Booking level is maintained; some users would be forced to take on additional units of capacity
- No under-recovery issue
- Capacity would be allocated outside the auction process in a potentially discriminatory manner
- In case of technical constraint (restricting maximum capacity to be bundled), alternative approach would be needed

- Conclusion

- ENTSOG won't recommend this approach to the market due to general rejection of sunset clause/default rule
- However, **ENTSOG willing to further elaborate on this approach**

Default rule - Analysis

Partially unbundled default rule approach

	Exit (before bundling)	Entry (before bundling)	Exit (after bundling)	Entry (after bundling)
Techn. Cap.	90	120	90	120
Cap. to be bundled	90	90	90	
Booking S1	90	0	42.5	42.5
Booking S2	0	50	23.75	23.75 + 5 unb.
Booking S3	0	50	23.75	23.75 + 5 unb.
Sum	90	100	90	90

• Consequences

- Booking levels are maintained; no user is would be forced to take on additional units of capacity
- No under-recovery issue
- Usefulness of remaining unbundled capacity questionable
- Flange trading may be possible

• Conclusion

- Applicability depends on legal feasibility, i.e. if unbundled capacity can exists according to FG or not
 - If yes, approach is possible
 - If not, remaining capacity needs to be filled up
- ENTSOG won't recommend this approach to the market due to general rejection of sunset clause/default rule
- However, **ENTSOG willing to further elaborate on this approach**

Default rule – Open questions

- How are more complex issues handled?
 - More shippers involved
 - Different number of TSOs involved on both sides of the IP
 - Same shipper holds capacity on both sides
- Are partial agreements possible during negotiations ahead of default rule application?
- Can not matching capacity remain unbundled after the application of the default rule?
- Will a bundle of firm and interruptible capacity be considered as bundled capacity?

Sunset Clause workshop on 6th October - Conclusions

- Most are against the application of the Sunset Clause
- No negotiation (already with the simplified scenarios) was successful – the Default Rule would have always been applied
- With all Default Rule options it remains unclear if users would not consider legal measures – they may always state to be in a disadvantaged situation compared to the capacity contract they had initially booked
- The meeting could not identify an appropriate Default Rule (solutions seem always un-sufficient for some users)

→ Neither, the negotiations nor any default rule satisfied the users

- “Partially Unbundled Rule” to be further elaborated



ENTSOG Capacity Workshop

Interruptible Capacity

Mark Hobbelink Wiekens

Interruptible Kernel Group Leader

20th October 2011

Interruptible Products

Regulation 715/2009:



Art. 16.3a: TSOs shall offer a day-ahead interruptible at IPs where firm capacity is sold out

Framework Guideline:

Alignment, not full harmonisation

The NC includes:

Joint sales process through auctions

Standardised lead time

Coordination of interruption processes

Defined sequence of interruptions

Interruptible and Within Day

Market Feedback:

- Majority questions the proposed interruption sequence. Respondents believe time stamp approach is complex and discriminatory.
- ⇒ Pro rata meets both support and resistance.
- No clear preference on how interruptible should be allocated
- NC should be clearer on interruptible products

KG actions:

- Within Day interruptible: FCFS vs Auctions
- Better explain the timestamp approach
- Include reasons for interruptions



Future role of interruptible uncertain because of impact CMP Guideline

General characteristics

- Interruptible capacity services can be offered by TSOs at any IP in both directions.
- The minimum obligation posed upon TSOs shall be to offer a day-ahead interruptible service at IPs where firm capacity is sold out
- At unidirectional points, backhaul capacity shall be offered at least on an interruptible basis.
- If offered, interruptible capacity services shall have the same durations as firm capacity services.
- If offered, interruptible capacity shall be allocated via an auction process

Within Day interruptible: FCFS vs Auctions

According to ACER FG Interruptible within day capacity should be allocated by entitling registered network users to submit nominations on an interruptible basis at any time within day.

ENTSOG is not including this process into the NC for reasons of:

- Clarity
- Implementation costs
- Limited added value
- Auctioning is market-based, more transparent and just as fast

WG opinion is that a combined solution, as proposed by the FG, would combine the worst of both options and lead to high costs and complexity.

Therefore, either a FCFS or an auction procedure should be applied for within-day, not a both.

ENTSOG preference is for AUCTIONS as is presented in the draft NC.

The timestamp approach

6.4. Defined sequence of interruptions

The order in which interruptions shall be performed is determined by the Contractual Timestamp of the respective Capacity Contracts. The Capacity Contract with the oldest Contractual Timestamp shall prevail.

This means that:

the contract of a longer duration will prevail over a contract with a shorter duration in case of an interruption , as all contracts resulting from the same auction will receive the same time stamp. In effect, this gives an advantage to day-ahead over within-day. After this pro rata is applied.

Reasons for interruption

Article 6.5 Reasons for interruptions

TSOs shall include reasons for interruptions either directly in their interruptible capacity contracts or in the general terms and conditions that govern these contracts.

Reasons for interruptions can include but are not limited to pressure, temperature, flow patterns, use of firm contracts, maintenance, up- or downstream constraints, public service obligations, capacity management deriving from CMP etc.

Impact CMP

Interruptible is a CMP measure aiming to utilise temporarily non-used capacity. Other CMPs aim to do the same thing. Under CAM capacity will be reserved for ST use.

CMP Guideline proposes:

- *Surrender*
- *Secondary market*
- *Overbooking and buy-back*
- *Restriction of renomination rights (possibly)*

ENTSOG foresees a diminishing role for interruptible products



ENTSOG Capacity Workshop

Tariffs

Johannes Heidelberg

Tariffs Subject Manager

20th October 2011

Tariffs

Essential provisions in the CAM NC

- **Tariff provisions are necessary to enable CAM rules to work**
 - *Later tariff codification, such as a tariff network code or a Commission guideline on tariffs, might bring more specific rules*

Principle from CAM Framework Guideline: Reserve Price = Regulated Tariff

- *However, further principles need to be specified in CAM NC already now:*
 1. **Clarification that both a « fixed » and a variable « floating » price regime are possible for the time being**
 2. **“Revenue Equivalence Principle”: reserve price structure along product durations (long vs. short term products)**
 3. **Split of auction revenues from bundled products**
 4. **Clarification that there needs to be over and under recovery mechanisms in place (as appropriate)**

Tariffs (1)

Fixed and floating auction prices

Both « fixed » and variable « floating » price regime shall be possible

- **Fixed price:** In the auction, the payable price is determined as:

Regulated price at the time of the auction + auction premium

potential effect: higher need for over and under recovery mechanisms in the longer run

- **Variable (floating) price:** In the auction, the price is determined as:

Regulated price at the time of potential capacity usage + auction premium

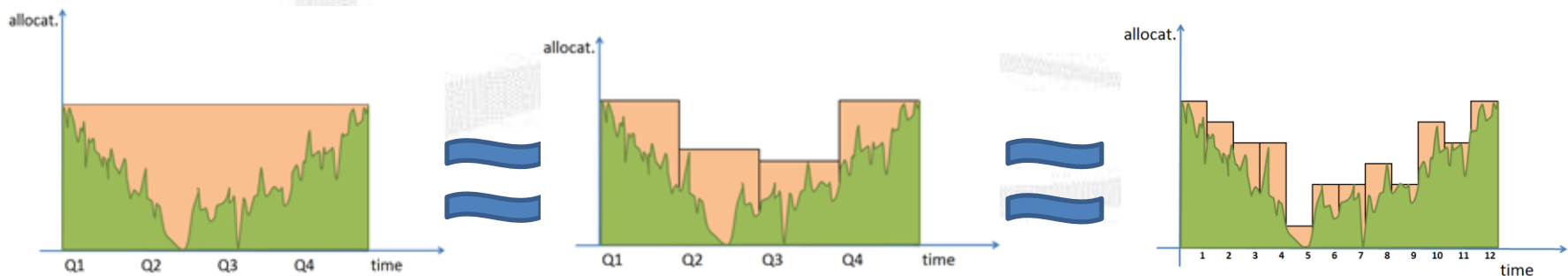
potential effect: higher uncertainty for users regarding capacity prices in the longer run

For the time being, NRAs and TSOs will have to opt for one of the schemes; no prejudice to further EU discussion

Tariffs (2a)

Regulated reserve prices throughout standard capacity products

*Revenue of flat long term booking approximately equal to revenue of profiled booking along actual flows, while not foreclosing sensible seasonal pricing.
(Revenue Equivalence Principle)*



Aim: Equity for all system users and avoidance of cross-subsidisation

Tariffs (2b)

Achieving equity between users of long and short duration products

- **Inherent incentive neutrality of revenue equivalence principle allows system users to procure capacity according to their identified need**
minimises any undue incentives to book long term capacity before such a need is identified and any undue incentives to wait for short term capacity auctions after such a need is identified.
- **Users who book longer term shall be put on equal footing with those who can book close to time of flow – no undue cross-subsidisation:**
Reserve prices for shorter term products to reflect further profiling opportunity closer to flow

Regulation 715 calls for tariffs not arbitrarily higher or lower than the standard annual tariff (Art. 14 (2))

Tariffs (3)

Split of revenues from auctions of bundled products

- **Regulated reserve price of a bundled product**
= \sum regulated reserve prices of capacities in the bundle
- Each TSO invoices the reserve price of their capacity in the bundle from successful bidder
- Receivables from auction premiums (when auctions clear above the regulated tariff) will be apportioned according to IP specific agreements. If no agreement is found, the default split will be proportional to the reserve prices.
 - *A few consultation respondents have noted that a proportional split could entail strange incentives to raise tariffs at congested points. **This issue will be re-consulted in the second consultation.***

Pragmatic solution for the apportionment of revenues from bundled products

Tariffs (4)

Over and under recovery

- CAM Framework Guideline mentions over recovery – the equally likely event of under recovery should also be reflected
- Over and under recovery mechanisms have to be in place within individual regulatory regimes
- Variety of regulatory regimes and diverse occurrence of, and reasons for, over and under recovery need to be addressed

Clarification that with new products and auctions, over and under recovery needs to be addressed

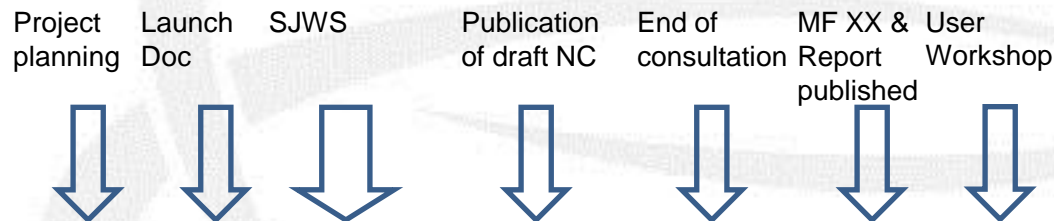
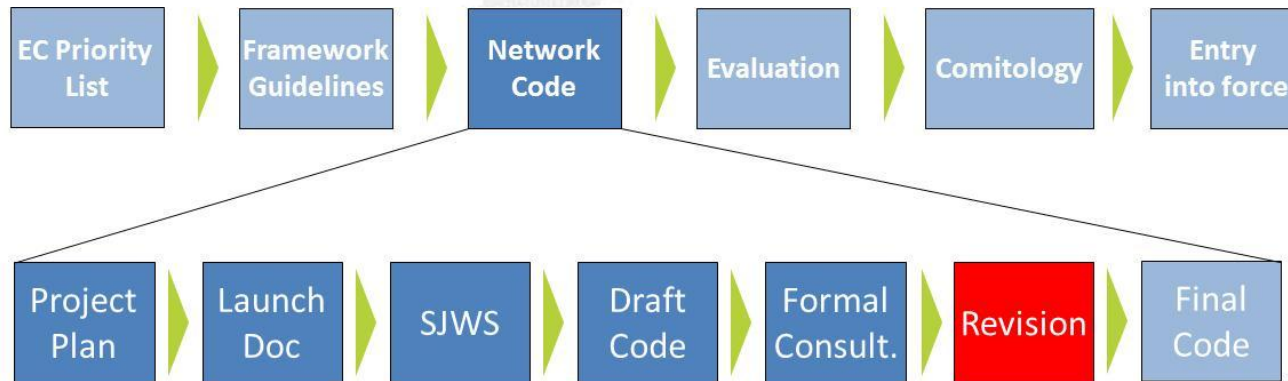
ENTSOOG Capacity

Development of the CAM NC – progress and next steps

Frank Roessler
Subject Manager

Brussels – 20th October 2011

Project progress



2011												2012		
January	February	March	April	May	June	July	August	September	October	November	December	January	February	March

↑
 ERGEG publishes original CAM FG
December 2010
 ↑
 EC sends original invitation letter
27 January 2011

↑↑
 ACER publishes revised CAM FG
August 2011
 EC sends updated invitation letter
17 August 2011



↑
 Original deadline
27 January 2012

↑
 Updated deadline
9 March 2012

Stakeholder Workshops

1. 9th February
2. 9th March
3. 6th April (SJWS 1)
4. 21st April (SJWS 2)
5. 4th May (SJWS 3)
6. 19th May (SJWS 4)
7. 21st June (draft NC)
8. 20th July (Auction simulation)
9. 6th Oct. (Sunset Clause)
10. 20th Oct. (**Code changes**)

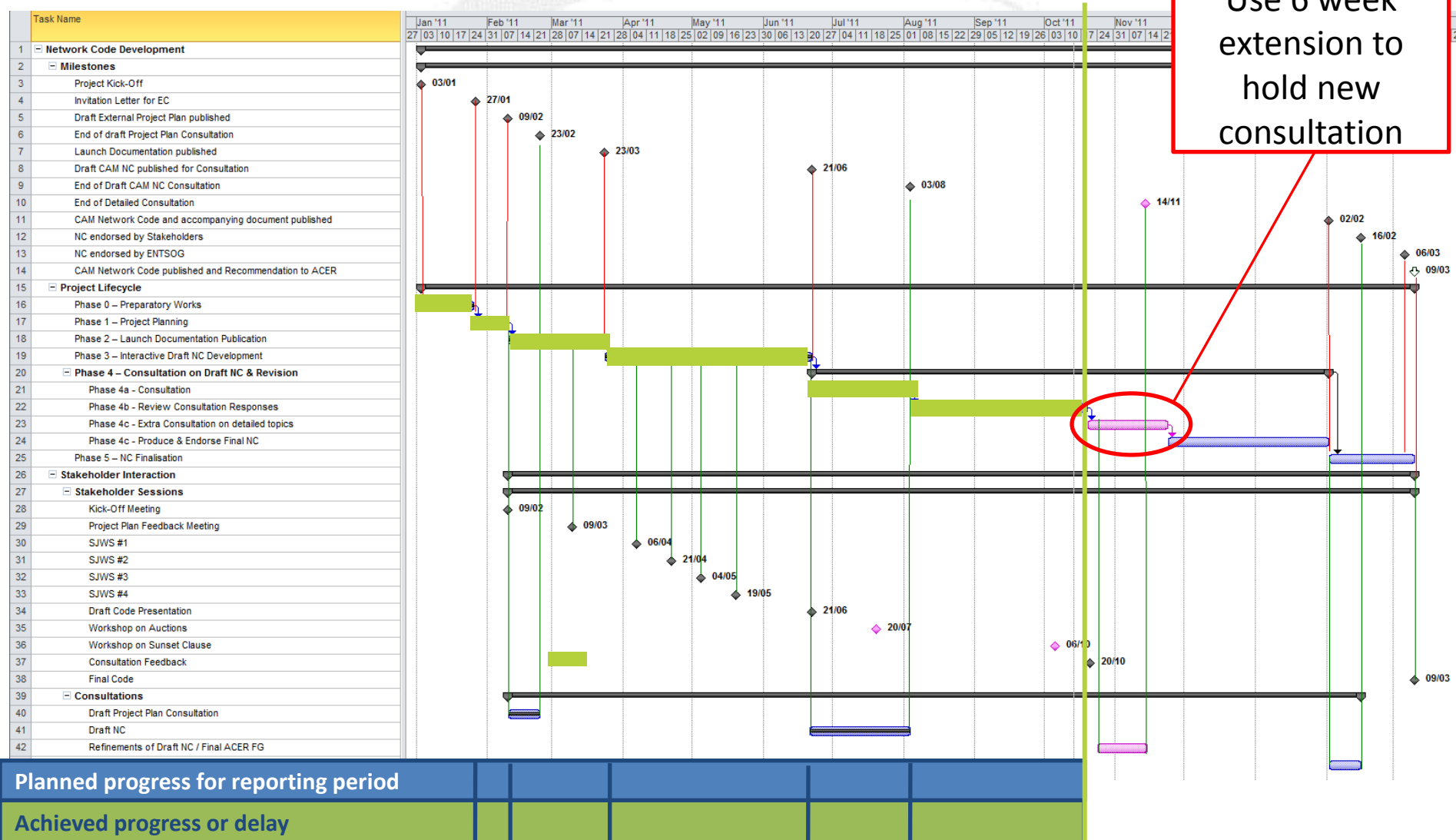
Additional sessions planned (auction design and further code update)

Recent developments

- **3rd August 2011:** Revised ACER FG published
- **3rd August 2011:** Draft CAM NC consultation closed
- **17th August 2011:** New invitation received from EC
 - New code deadline = 9th March 2012
- **26th Sept 2011:** Consultation Analysis Report published
- **6th October 2011:** Stakeholder workshop on Sunset Clause

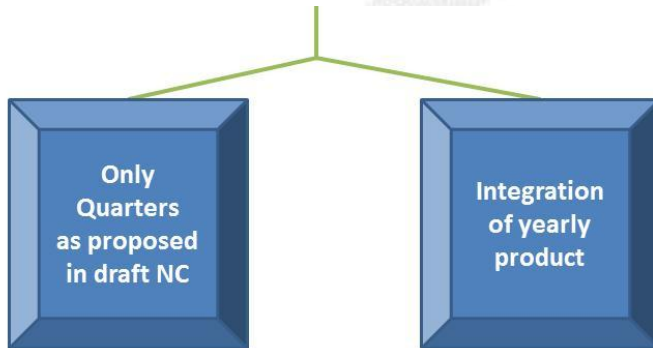
Planning

Use 6 week extension to hold new consultation



New consultation – after market feedback

Products



Auction Design

NB: Other options suggested by market, e.g. linked quarters or years & quarters in parallel, are not workable

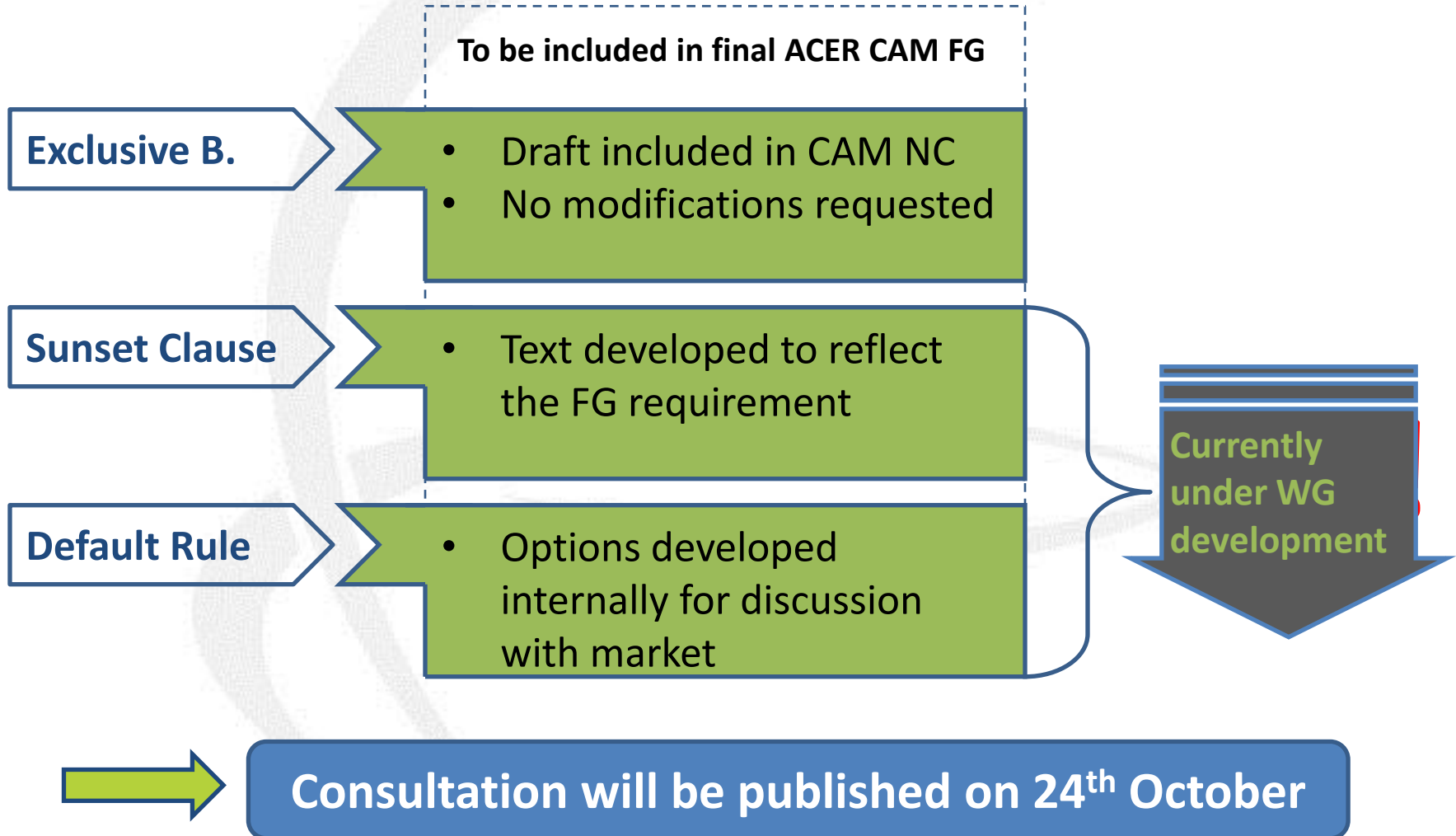
Single Round

Price Steps	Ship	Ship1	Ship2	Ship3	Ship4	Ship5	Total
P30	0	0	200	0	0	0	200
...
P6	0	0	200	0	0	0	200
P5	0	0	200	10	0	0	210
P4	50	0	200	25	0	0	275
...
P3	100	0	200	35	0	0	335
P2	100	0	200	50	250	600	600
P1	100	100	200	50	500	950	950
P0	100	100	200	50	500	950	950

Multi Round

Price Steps	Ship	Ship1	Ship2	Ship3	Ship4	Ship5	Total
P30							
...
P6							
P5							
P4							
...
P3	100	0	200	35	0	0	335
P2	100	0	200	50	250	600	600
P1	100	100	200	50	500	950	950
P0	100	100	200	50	500	950	950

New consultation – after new ACER CAM FG



Stakeholder comments on the CAM NC process

- Great satisfaction with transparency and inclusiveness of process
- Criticism on issues:
 - Parallel ACER FG consultation and Target Model process were not helpful;
 - Parallel process challenges arising from CAM, CMP and Target Model
- Many valuable suggestions for future code processes
- ENTSOG considers for CAM: e.g. email alerts for docs and events, and other suggestions

CAM NC process considered a good model for future codes



Great expectations by the market

Handbook debate

Update from discussion with EC

- In Madrid Forum Users, Commission, (ACER), Member States and ENTSOG supported the idea of handbooks
- EC lawyers' initial thinking:
 - NCs cannot make references to other documents to generate binding nature – seen as way around Comitology
 - Handbooks possible, but have to run through Comitology as well
- ENTSOG may consider if independent handbook(s) that all TSOs implement could be developed

Flexible code modification process to be further discussed

Next steps

Milestone	Date
Second market consultation on CAM NC concepts	24 th October – 14 th November 2011
Finalisation of NC text and accompanying document within Capacity Working Group	November – December 2011
Stakeholder update session	December 2011
ENTSOG Board approval	January 2012
Stakeholder support process	2 nd – 16 th February 2012
ENTSOG General Assembly approval	March 2012
Final NC submitted to ACER	9 th March 2012

Conclusions 1

Products

- ENTSOG will recommend to consider a yearly or a quarterly product for longer term sales

Auction design

- ENTSOG will consult on both single and multiple round models
- Consideration of unlimited price steps
- Mechanism to avoid undersell

Sunset Clause

- Sunset Clause work in progress
- Default Rule options to be consulted

Conclusions 2

Interruptible capacity

- Interruptible allocations follows firm procedure
- Interruption procedure clarified (time stamp, then pro-rata)
- Reasons for interruptions (non-exhaustive list)

Tariffs

- Reserve price = regulated tariff
- Floating vs. fixed price, split of auction revenues, over and under recovery, etc.

Handbook

- Work assuming there is no handbook but code mod critical

Thank You

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