entsog

european network
of transmission system operators
for gas

Brussels, 20 May 2015

Stakeholder Workshop I

On issues related to bundling of capacities

Brussels, 20 May 2015

Image Courtesy of Thyssengas

Disclaimer

- **This presentation does not reflect a commitment of ENTSOG to specific options put forward in this presentation.**
- **Options described are initial considerations for discussion with stakeholders and do not reflect concrete proposals of ENTSOG for implementation.**
- **Options described to address identified problems are not necessary compliant with the current regulatory framework and may therefore prove not be viable in the end.**

IN CASE OF EMERGENCY EVACUATION on C100 Ground floor

1. Leave your desk quietly (do not pack your stuff, leave it there)
2. Go to the closest emergency exit.
    - Emergency exit is at the front door
3. DO NEVER TAKE THE ELEVATOR OR GO TO THE GARAGE.
4. Leave the building calmly.
5. Once outside the building go right (downside) across the street to the mosque at the entrance of the park (meeting point).
6. Wait for your Safety person and register again.

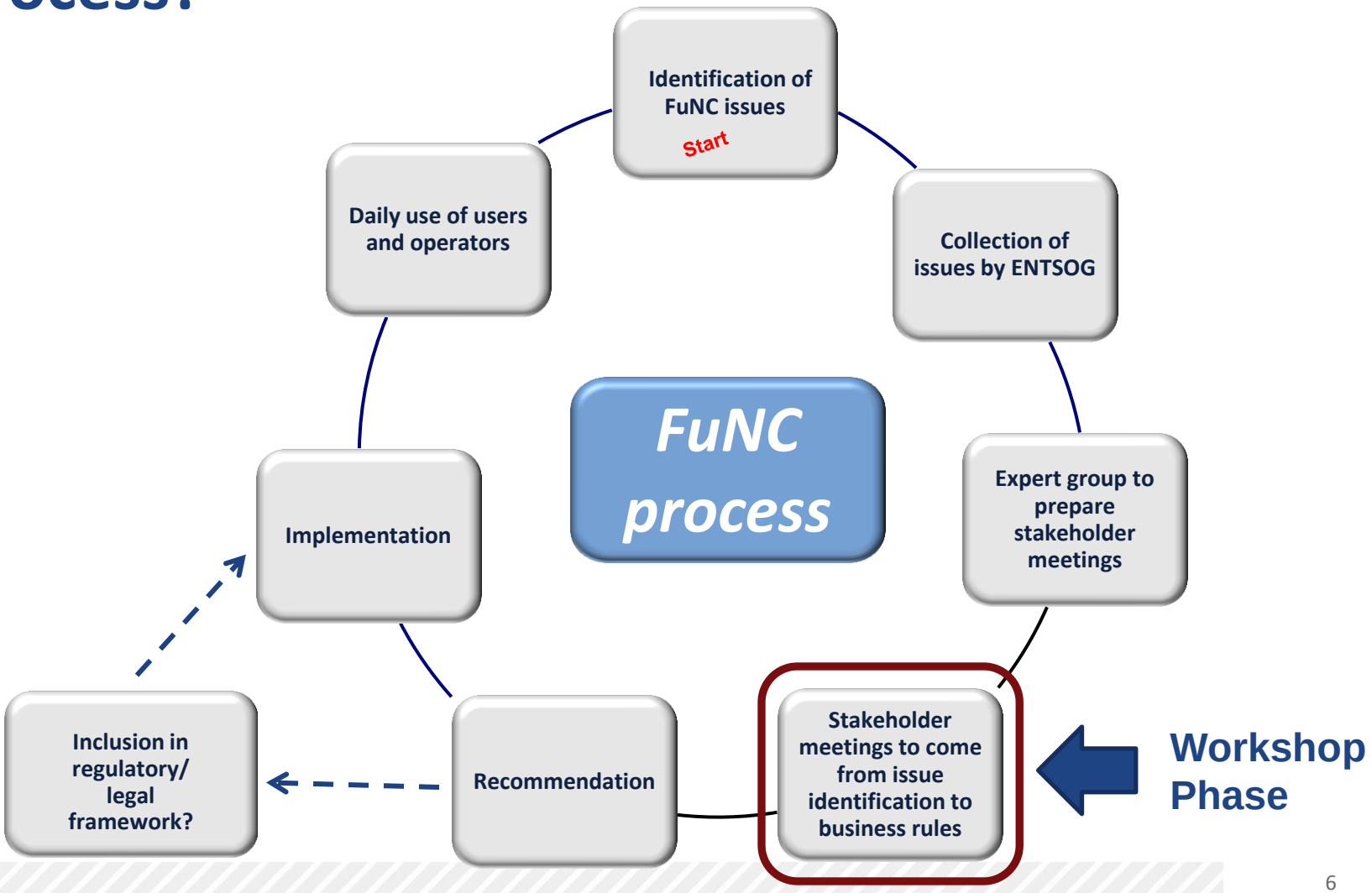
DO NOT:
Panic and run!
Pack your stuff before leaving!

Agenda of the Workshop I

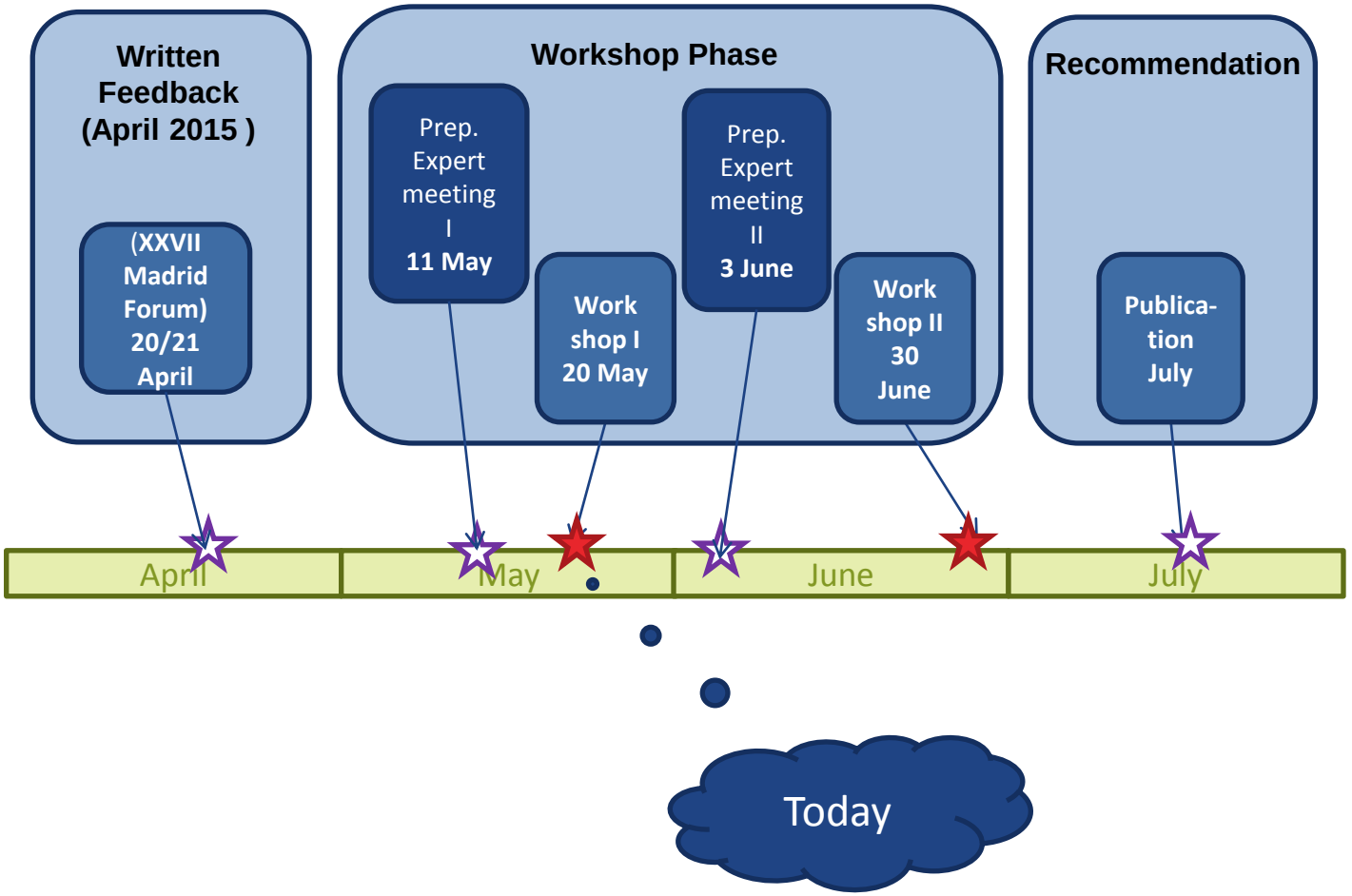
Nr	Session	Time
	Welcome Coffee	10:00-10:30
1	ENTSOG/EFET opening and introduction	10:30-10:40
2	Presentation of objectives, process	10:40-11:00
3	Already contracted unbundled capacity and offer of bundled products only ➢ Issue description and initial feedback ➢ Potential options ➢ Discussion and initial evaluation	11:00-13:00
	Lunch Break	13:00-14:00
4	CMP regulation and its consistent implementation across IPs ➢ Issue description and initial feedback ➢ Potential options ➢ Discussion and initial evaluation	14:00-14:45
5	Alignment of secondary marketing of bundled products ➢ Issue description and initial feedback ➢ Potential options ➢ Discussion and initial evaluation	14:45-15:30
	Coffee Break	15:30-16:00
6	Aligned procedures for the surrender of capacity ➢ Issue description and initial feedback ➢ Potential options ➢ Discussion and initial evaluation	16:00-16:45
7	Conclusions and way forward	16:45-17:00

Objectives and Process

What is the Network Code Functionality Process?



What is the process timeframe?



Aims of Workshops I & II

1st Workshop
20 May

- Focus on presentation of identified issues
- Presentation of initial options identified by ENTSOG and EFET
- Discussion on preferred ways forward and considerations of stakeholders and regulators

2nd Workshop
30 June

- Focus on presentation of selected options
- Presentation of proposals for business rules
- Agreement on proposed ways forward for addressing issues

Objective of Workshop I

To agree on the options to solve the identified issues which should be developed into recommendations.

- Step 1) Issue description and initial feedback
- Step 2) Potential options and their reasoning
- Step 3) Discussion and initial evaluation

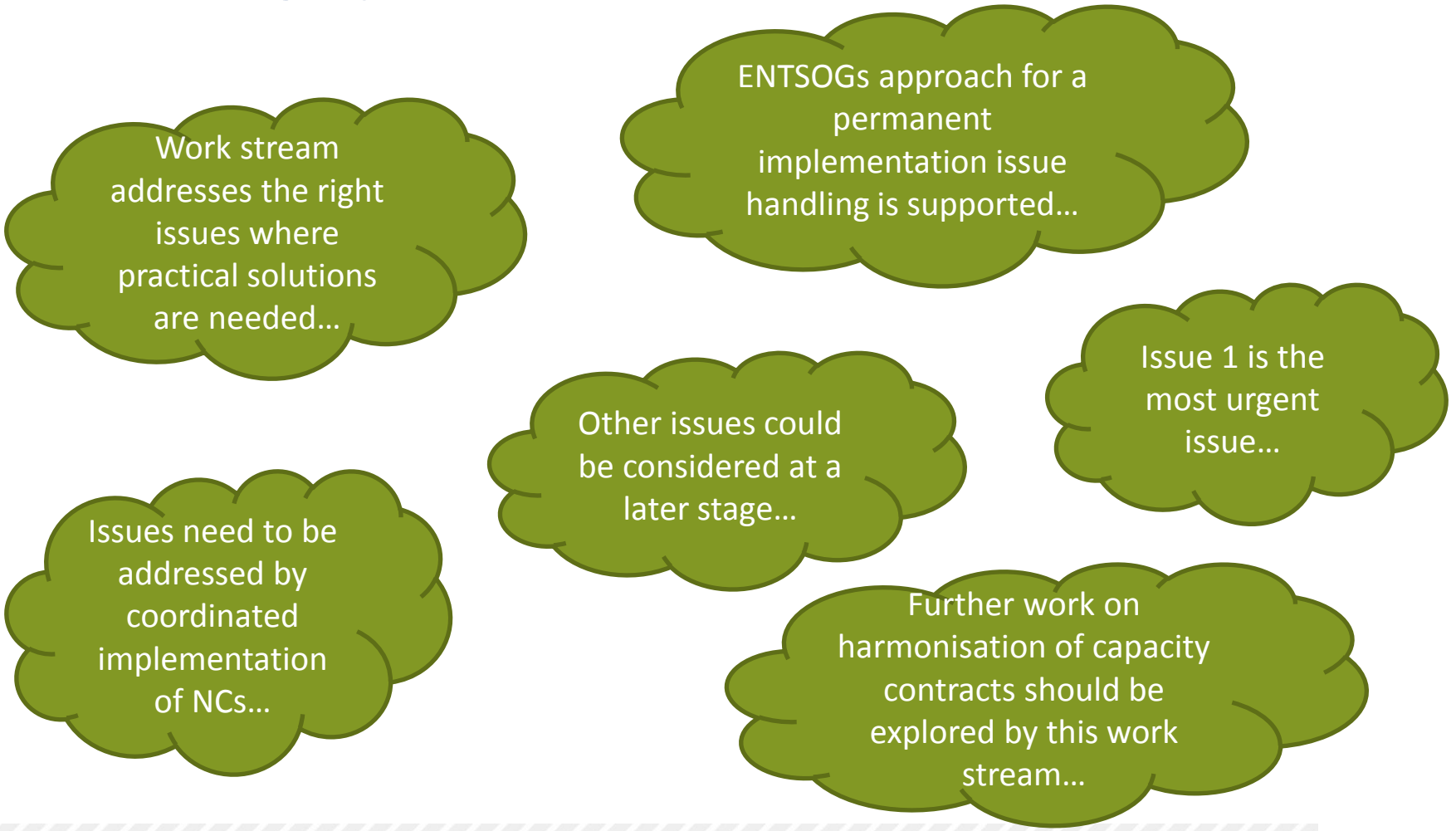
Recommendations for solutions will be presented for endorsement at Workshop II on June 30.

General principals to assess solutions

The following **assessment criteria** have been established to be taken into account when discussing how best to address the identified issues:

- **Effectiveness** in addressing the issue, (not necessarily one size fits all)
- **Compliance** with general principles and concepts of CAM/CMP
  - Maximisation of products on offer
  - Avoidance of discrimination
  - Ensuring level playing field
- Priority of **enhanced implementation** over amendment of regulations
- **Reduction of implementation efforts and costs**

Feedback- Do you consider the selection of the 4 issues which are mentioned in the Joint Paper to take the right priorities into account?

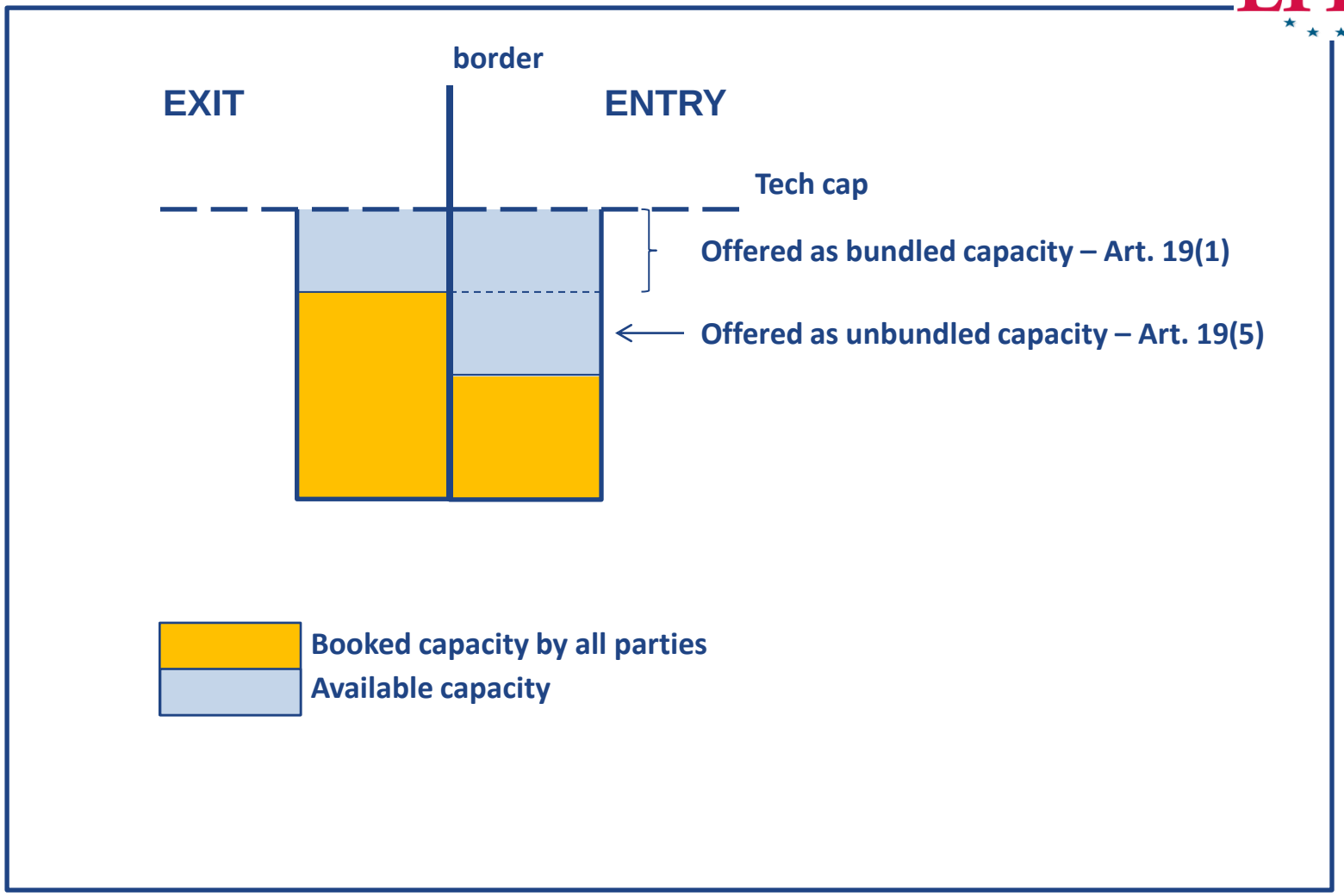


Issue 1 description:
Already contracted unbundled capacity and offer of bundled products only

Issue 1 – Introduction

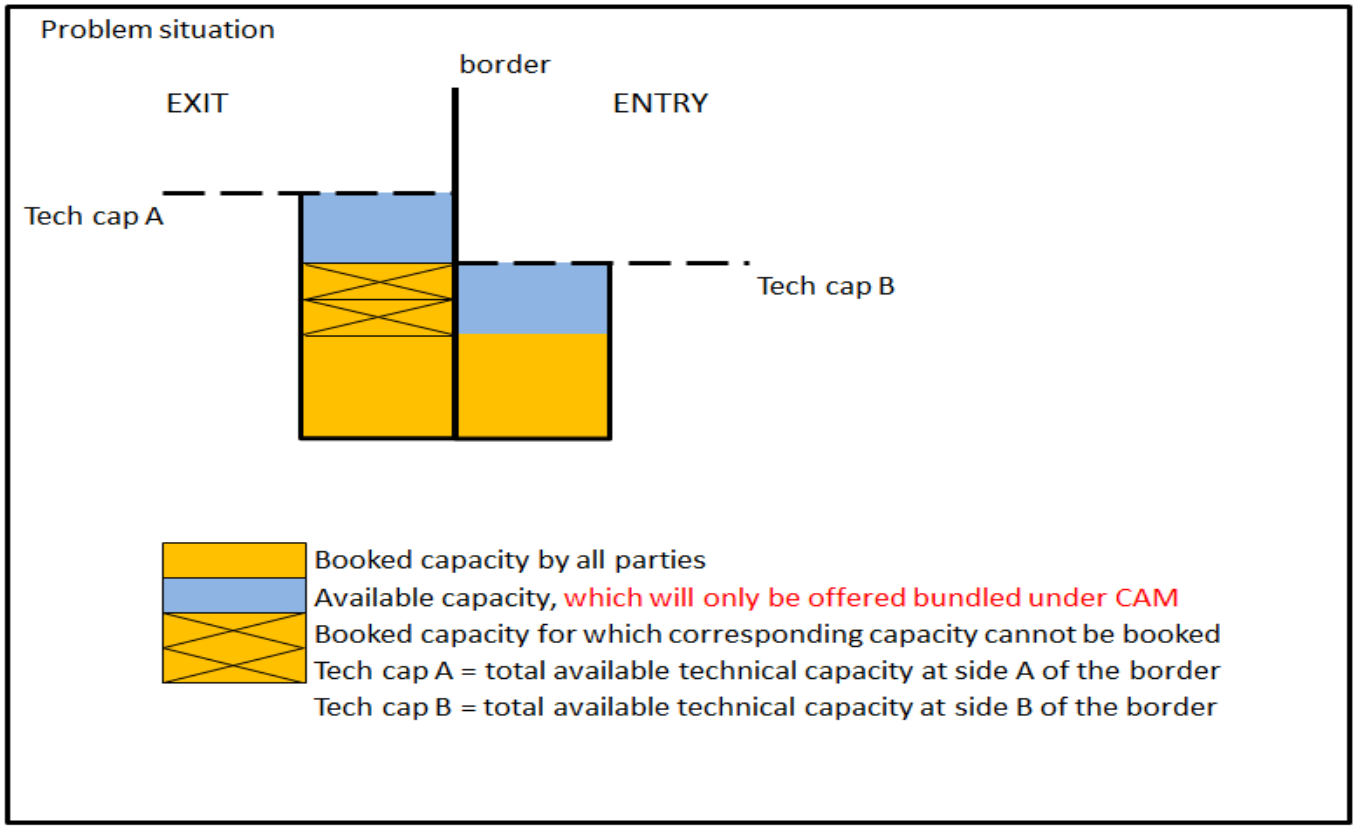
- **Why does NC CAM introduce capacity bundling?**
  - EC Impact assessment: “Separate bookings of entry- and exit-capacity causes unaligned bookings possibly resulting in inefficient use of the interconnection”
- **Bundling requires close co-operation of TSOs**
- **NC CAM Article 6 (Capacity calculation and maximisation) requires TSOs to apply a joint method**
  - In order to maximise the offer of bundled capacity through optimisation of technical capacity
- **First step is to determine the technical capacity for the IP**

Issue 1 – What were users expecting?



Issue 1: Already contracted unbundled capacity and offer of bundled products only

Lack of corresponding unbundled capacity to be matched with already existing contracts of unbundled capacity on the other side of the IP



Feedback- Do you find that the proposed solutions of identified issue no.1 are efficient to resolve the described issue?

Measures preventing such a situation in the first place should be preferred…

Supplementary measures should only be used if preventative cannot be applied…

Levels of technical capacities at IP should be aligned to the extent possible

Unbundled capacities that cannot be used after mandatory bundling have a reduced value. Therefore a mechanism has to be installed to restore their value.

Mechanism shall be market based and transparent.

Preventive options

Preventative options

- Maximisation of technical capacity at an IP in line with **Art 6 of CAM NC.**
- A bundling of existing contract according to **Art 20 of CAM NC.**
- Application of **over-subscription and buy-back** at the side of the IP with less technical capacity (if OSBB is already applied by TSO) and non-application of over-subscription and buy-back at the side of the IP with higher technical capacity (in case of no congestion at TSO's side with higher technical capacity).
- Offer of interruptible capacity products by TSO with less technical capacity.

Overview of Implementation status CAM NC Art. 6 as of February 2015

number of TSOs	Method for maximising technical capacity developed	In-depth analysis of technical capacities on both sides of an IP carried out	Frequency for dynamic recalculation of technical capacity set	Assessment of parameters as defined in Art. 6, 1(b) CAM NC made	Comments
31					
4					on-going discussion with adjacent TSOs regarding method + its application
1					agreeing on joint method with adjacent TSOs, but application presumably not before Nov 1, 2015
1					Elaboration of the methodology which shall be applied
10					

Legend	
	implemented
	in process of implementation
	not applicable, as regards scope, impl. date or derogation under Article 49 of Gas Directive
	not implemented

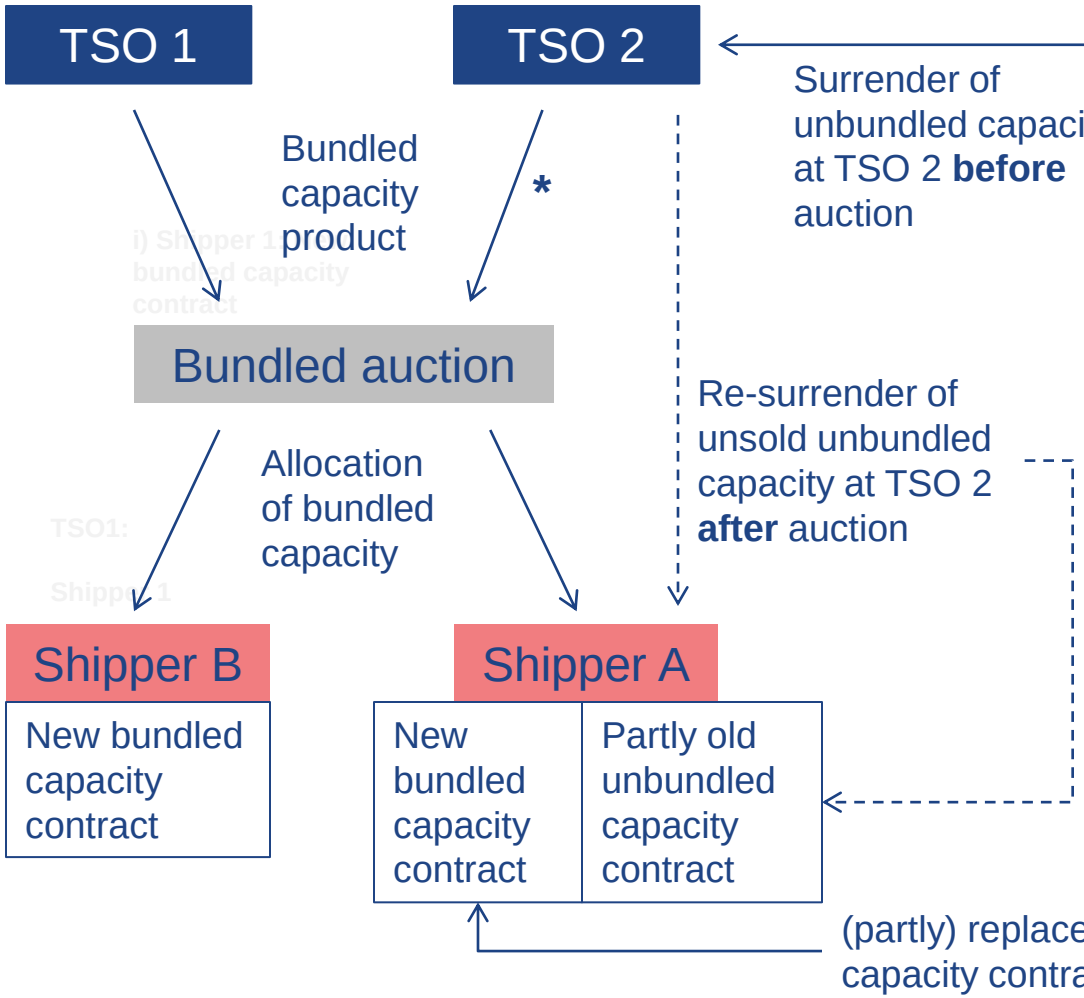
Option 1A:
Conditional surrender of unbundled capacity to obtain bundled capacity

General description

- Conditional surrender is the same as the regular surrender as defined in the CMP but has **one additional condition that can affect the re-allocation order of surrendered capacity.**

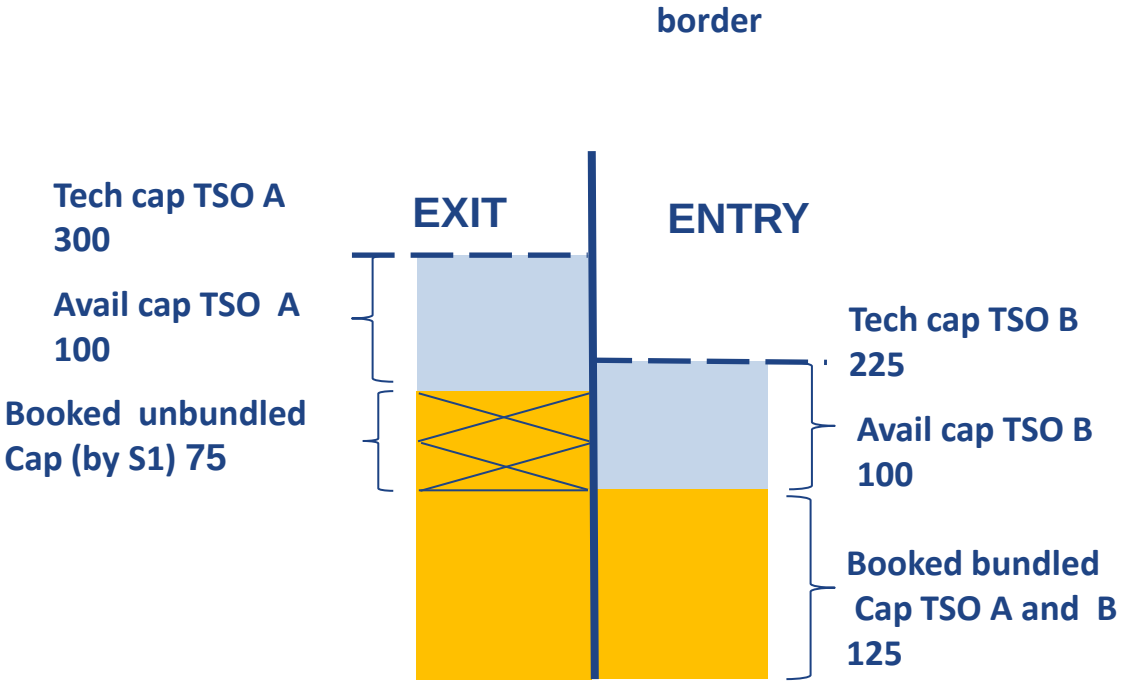
- When a shipper with unbundled capacity at one side of the border surrenders his capacity prior to the auction of bundled capacity and then successfully acquires bundled capacity at the auction, the **re-allocation of capacity surrendered by this shipper gets priority over the allocation of the TSO's available capacity** thereby replacing the unbundled capacity contract to the extent a **new bundled capacity contract is acquired.**

Option 1A: Conditional Surrender of unbundled capacity to obtain bundled capacity (flow chart)



*TSO 2 includes surrendered capacity into available capacity for bundling:
a) **Conditional Surrender :** preference of surrendered capacity over unsold technical capacity for allocation to Shipper A
b) **(regular) Surrender:** preference of unsold technical capacity over surrendered capacity for allocation

Conditional surrender: Base case



Base data:

TSO A		TSO B	
Avail. Cap A	100	100	Avail. Cap B
Booked unbundled Cap (S1)	75	0	Booked unbundled Cap
Booked bundled Cap A/B	125	125	Booked bundled Cap A/B
Total Tech. Cap A	300	225	Total Tech. Cap B

Three scenario's:

Shipper 1 (S1) surrenders all his unbundled capacity (75 units) and:

1) Aqcuires the same amount of bundled capacity (75 units)
2) Aqcuires no bundled capacity (0 units)
3) Aqcuires a limited amount of bundled capacity (50 units)

Case 1: No congestion

Conditional surrender: Scenario 1

Scenario 1:

Shipper 1 surrenders all unbundled capacity ; 75 units exit at TSO A
TSO A uploads 175 units to PLATFORM (75 SoC, 100 Avail Cap)
TSO B uploads 100 units to PLATFORM (100 Avail Cap)

Capacity upload

TSO A	TSO B
Total Avail. Cap A = 175	Total Avail. Cap B = 100

Product offer PLATFORM :
100 units bundled capacity plus 75 units unbundled exit capacity TSO A

Awarded bids at the auction:
Shipper 1 acquires 75 units bundled capacity (condition fulfilled)
Shipper 2 acquires 25 units bundled capacity

Product offer at PLATFORM

TSO A	TSO B
Bundled offer= 100	Bundled offer= 100
Unbundled offer= 75	

Result after auction:
TSO B no available capacity, 225 units booked as bundled capacity
TSO A 75 units exit available, 225 units booked as bundled

Shipper 1: no unbundled capacity, 75 units bundled capacity
Shipper 2: 25 units bundled capacity

Result after auction

TSO A		TSO B	
Avail. Cap A	75	0	Avail. Cap B
Booked unbundled Cap (S1)	0	0	Booked unbundled Cap
Booked bundled Cap A/B	225	225	Booked bundled Cap A/B
Total Tech. Cap A	300	225	Total Tech. Cap B

Conditional surrender: Scenario 2

Scenario 2:

Shipper 1 surrenders all unbundled capacity ; 75 units exit at TSO A
TSO A uploads 175 units to PLATFORM (75 SoC, 100 Avail Cap)
TSO B uploads 100 units to PLATFORM (100 Avail Cap)

Capacity upload

TSO A	TSO B
Total Avail. Cap A = 175	Total Avail. Cap B = 100

Product offer PLATFORM:
100 units bundled capacity plus 75 units unbundled exit capacity TSO A

Awarded bids at the auction:
Shipper 1 acquires 0 units bundled capacity (Condition not fulfilled)
Shipper 2 acquires 100 units bundled capacity

Product offer at PLATFORM

TSO A	TSO B
Bundled offer= 100	Bundled offer= 100
Unbundled offer= 75	

Result after auction:
TSO B no available capacity, 225 units booked as bundled capacity
TSO A no available capacity, 225 units booked as bundled, 75 as unbundled

Shipper 1 keeps 75 units unbundled capacity, no bundled capacity
Shipper 2: 100 units bundled capacity

Result after auction

TSO A		TSO B	
Avail. Cap A	0	0	Avail. Cap B
allocated unbundled Cap (S1)	75	0	Booked unbundled Cap
allocated bundled Cap A/B	225	225	Booked bundled Cap A/B
Total Tech. Cap A	300	225	Total Tech. Cap B

Conditional surrender: Scenario 3

Scenario 3:

Shipper 1 surrenders all unbundled capacity ; 75 units exit at TSO A
TSO A uploads 175 units to PLATFORM (75 SoC, 100 Avail Cap)
TSO B uploads 100 units to PLATFORM (100 Avail Cap)

Capacity upload

TSO A	TSO B
Total Avail. Cap A = 175	Total Avail. Cap B = 100

Product offer PLATFORM:
100 units bundled capacity plus 75 units unbundled exit capacity TSO A

Awarded bids at the auction:
Shipper 1 acquires 50 units bundled capacity (Condition partially fulfilled)
Shipper 2 acquires 50 units bundled capacity

Product offer at PLATFORM

TSO A	TSO B
Bundled offer= 100	Bundled offer= 100
Unbundled offer= 75	

Result after auction:
TSO B no available capacity, 225 units booked as bundled capacity
TSO A 50 units exit available, 225 units booked as bundled , 25 as unbundled

Shipper 1 keeps 25 units unbundled capacity plus 50 units bundled capacity
Shipper 2: 50 units bundled capacity

Result after auction

TSO A		TSO B	
Avail. Cap A	50	0	Avail. Cap B
Booked unbundled Cap (S1)	25	0	Booked unbundled Cap
Booked bundled Cap A/B	225	225	Booked bundled Cap A/B
Total Tech. Cap A	300	225	Total Tech. Cap B

Option 1A: Conditional Surrender: in case of congestion

- in case of **congestion** the example **does not change**. The shippers' willingness-to-pay determines the auction outcome.
- However we must consider **changed incentives to the willingness to pay** of the shipper who surrenders unbundled capacity.

Assumptions:
Regulated Tariff Bundled capacity = 40; Market value/Hub price differential = 50; Payment obligation unbundled capacity shipper A = 10

Shipper B:

10
40

Willingness-to-pay:
Up to market value = 50
As this would make him a profit

Shipper A:

10
40
10

Willingness-to-pay:
Up to market value = 50 would make him a profit, however his incentive is to bid up to 60 as this would still reduce his "loss".

Where NRAs decide that it is beneficial to prevent this inequality of incentives, option 1B is available.

Initial Considerations of option 1A

Advantages:

- TSO with sold unbundled capacity can solve problem independently from adjacent TSO ➔ No change in auction process/algorithm required.
- Shipper can bundle its surrendered unbundled capacity when he is successful in the auction for bundled capacity ➔ willingness to pay highest price.

Challenges:

- Change in re-allocation order of surrendered capacity → CMP change required
- In case of congestion:
  - ✓ the burden is on the TSO who maximizes capacity most along with the risks of cross-subsidies and stranded assets.
  - ✓ the certainty to surrender an unbundled contract if winning the auction – while paying it as a sunk costs if not winning the auction – distorts competition between shippers.

Option 1B:
Allocation of the CAM auction leftovers to the surrendered unbundled capacity

1B – Allocation of the CAM auction leftovers

As in option 1A, the CAM auction applies normally → available and surrendered capacities are offered simultaneously to all shippers.

Outcome of the 1st round:

- Demand ≤ Offer → capacity is allocated as in option 1A:
  all shippers receive the capacities wanted and shippers with unbundled contracts to surrender exchange them for new bundled contracts.

- Demand > Offer, i.e. not enough capacity to satisfy all shippers needs and applying option 1A would introduce a bias in the auction → alternative:
  - Auction goes on to next rounds until cleared and capacity is allocated according to CAM principles (no exchange of unbundled contracts for new bundled contracts) → guarantee no bias in the auction.
  - The leftovers of the auctions are then used to exchange the surrendered unbundled contracts for new bundled contracts, to the extent possible and based on time-stamps.

1B - Allocation of the auction leftovers to the surrendered unbundled capacity

Example 1:

S1 has 15 unbundled on TSO A side and wants to surrender it, TSO A has 100 available capacities, TSO B has 100 available capacities → 100 capacities offered bundled and 15 unbundled offered on TSO A side

	Demand (bundled – unbundled)	**Offer (bundled – unbundled)**
1st round (@ Reserve Price)	150 – 0	100 – 15
2nd round (@ RP + 1 Price Step)	120 – 0	100 – 15
3rd round (@ RP + 2 PS)	90 – 0	100 – 15

Results:

→ 90 capacities allocated bundled and the leftovers (10) are used to exchange as much unbundled capacities (15) as possible for bundled capacities (10 = Min [10;15])

→ TSO B has sold 100 at RP + 2 PS → TSO B has 0 available capacity left

→ TSO A has sold 100 at RP + 2 PS and received 10 unbundled capacities back (net sales = 90) → TSO A has 10 available capacities left

→ S1 has 5 unbundled capacities left

1B - Allocation of the auction leftovers to the surrendered unbundled capacity

Example 2:

S1 has 15 unbundled on TSO A side and wants to surrender it, TSO A has 100 available capacities, TSO B has 100 available capacities → 100 capacities offered bundled and 15 unbundled offered on TSO A side

	Demand (bundled – unbundled)	**Offer (bundled – unbundled)**
1st round (@ Reserve Price)	150 – 0	100 – 15
2nd round (@ RP + 1 Price Step)	115 – 0	100 – 15
3rd round (@ RP + 2 PS)	80 – 0	100 – 15

Results:

→ 80 capacities allocated bundled and the leftovers (20) are used to exchange as much unbundled capacities (15) as possible for bundled capacities (15 = Min [20;15])

→ TSO B has sold 95 at RP + 2 PS → TSO B has 5 available capacities left

→ TSO A has sold 95 at RP + 2 PS and received 15 unbundled capacities back (net sales = 80) → TSO A has 20 available capacities left

→ S1 has 0 unbundled capacity left

1B – Summary

- This proposal is a **variant to option 1A**: its purpose is to **tackle the problem of inequality of incentives in auctions** (described in previous slides) when applying option 1A in cases **where Demand > Offer.**
- Nonetheless, **scarcity of capacities means no perfect solution and necessary arbitrage** (until incremental capacity is built).

Comparison	Upside	Downside
Option 1A	More likely to fully solve the issue of shippers with unbundled contracts.	Change conditions of the auctions by providing an incentive to shippers with unbundled contracts to bid higher.
Option 1B	Guarantee fair access to bundled capacities for all shippers.	Less likely to fully solve the issue of shippers with unbundled contracts.

- In a nutshell, from a TSO perspective, **addressing the issue is not only solving the problem of one shipper but also finding the right balance for the shippers' community** under current regulation (Third Party Access, Transparency and Non-Discrimination) to avoid introducing biases in competition between shippers.

Initial Considerations

Advantages:

- If Demand ≤ Offer → Option 1B = Option 1A
- If Demand > Offer (congestion) → the TSOs:
  - accommodate the shippers with unbundled contracts as much as possible
  - guarantee equal access to the bundled capacities for all shippers (especially important in case of congestion)

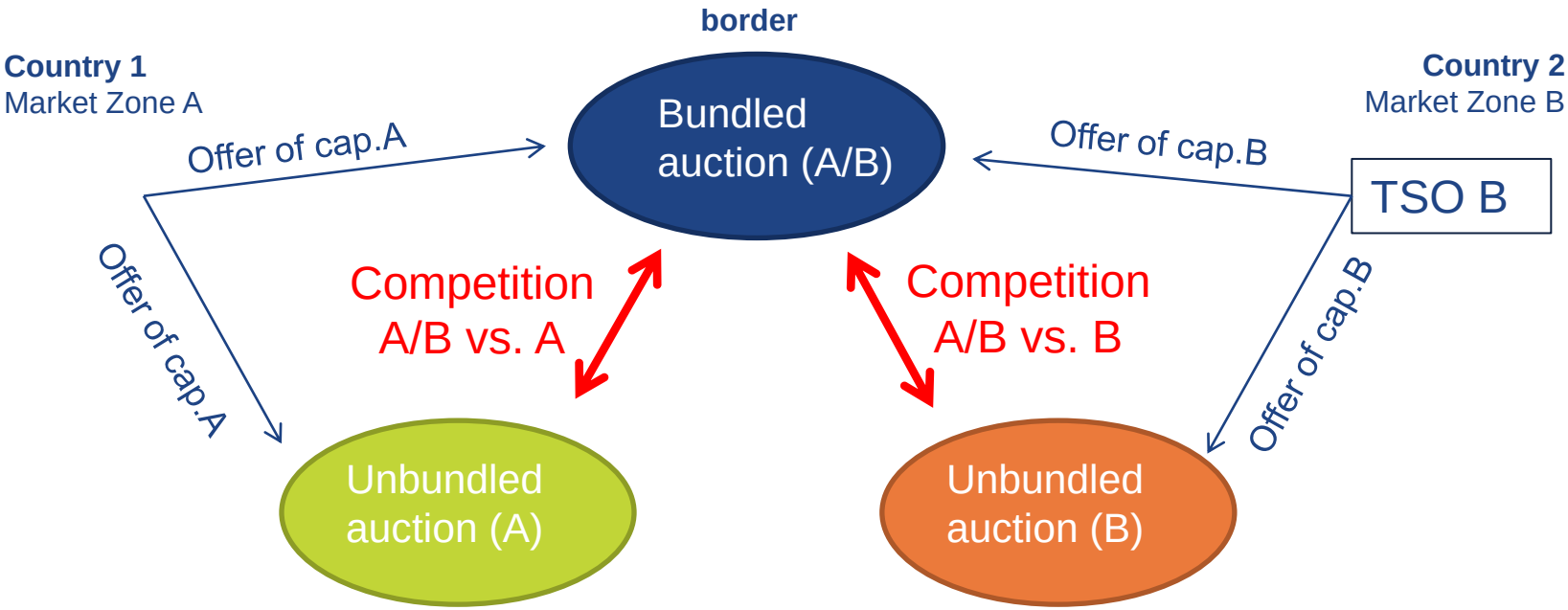
Challenges:

- Change in re-allocation order of surrendered capacity → CMP change required.
- In case of congestion (Demand > Offer), shippers with unbundled contracts may not always be able to bundle them fully → to be completed with other tools (e.g. interruptible, ST UIOLI, OSBB, etc.) in order to avoid unusable capacity.

Option 1C:
Offer of bundled and unbundled capacity in competing auctions

General description

- Principle idea is to leave it up to market participants to decide on the allocation of bundled/unbundled capacity by making use of **competing auctions**
- **3 auctions for a capacity product at an IP**: 1 bundled auction and 2 unbundled auctions that are respectively competing with the bundled auction



General description

Important: Aim is not to abolish or elude the priority of bundled capacity over unbundled capacity!

- Limitations to the participation in the unbundled competing auctions:

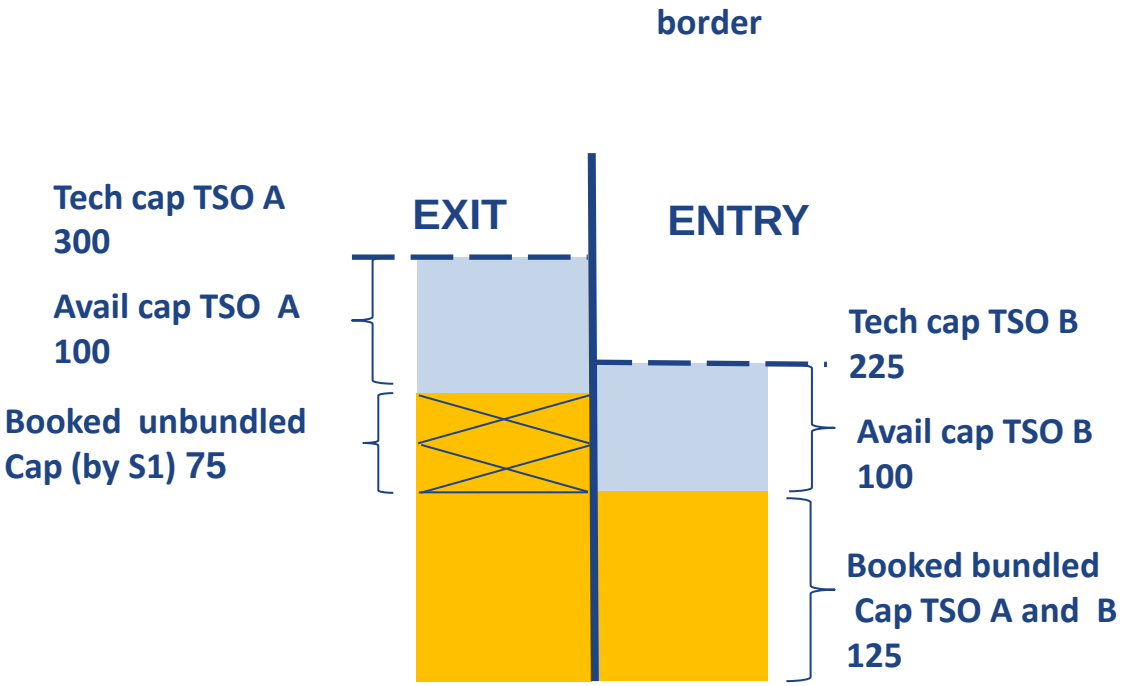
  (1) Only those NUs that **hold unbundled firm capacity on the other side** of the respective IP are allowed to participate;

  (2) Volume bid of a NU is **limited to the level of unbundled firm capacity held on the other side** of the respective IP.

- Capacity acquired by a NU in an unbundled competing auction **is immediately bundled** with the unbundled contract(s) held by the NU on the other side of the IP.

- Total level of bundled capacity is not less than if only bundled capacity would have been offered. No priority for unbundled capacity.

Competing auction: Base case



Base data:

TSO A		TSO B	
Avail. Cap A	100	100	Avail. Cap B
Booked unbundled Cap (S1)	75	0	Booked unbundled Cap
Booked bundled Cap A/B	125	125	Booked bundled Cap A/B
Total Tech. Cap A	300	225	Total Tech. Cap B

Option 1C: Competing auctions with parallel offer of unbundled and bundled capacity – Congestion Case

Basis data:	TSO A	TSO B
Level of technical capacity	300	225
Level of booked capacity	200	125
Available capacity	**100**	**100**
Tariff	4	3

Bundled auction (TSO A and TSO B)

	Price	Q1	Status
P(3) RP + 3 Price Step	10		
P(2) RP + 2 Price Step	9	50	cleared
P(1) RP + 1 Price Step	8	60	not cleared
P(0) Reserve Price (RP)	7	80	not cleared
Capacity on offer		**100**	**0**

3) Bundled auction clears as soon as competition with both unbundled auctions has been resolved.

Unbundled auction (TSO A)

	Price	Q1	Status
P(3) RP + 3 Price Step	5.5		
P(2) RP + 2 Price Step	5		
P(1) RP + 1 Price Step	4.5		
P(0) Reserve Price (RP)	4	20	cleared
Capacity on offer		**100**	**0**

2) Unbundled auction for TSO A clears if sum of bids for unbundled and bundled capacity for TSO A are below available capacity.

Unbundled auction (TSO B)

	Price	Q1	Status
P(3) RP + 3 Price Step	4.5		
P(2) RP + 2 Price Step	4	30	cleared
P(1) RP + 1 Price Step	3.5	60	not cleared
P(0) Reserve Price (RP)	3	80	not cleared
Capacity on offer		**100**	**0**

1) Network User with existing unbundled capacity wants to have access to unbundled capacity of TSO B.

Main functionalities

- An unbundled auction clears once the demand for the unbundled capacity and the demand for bundled capacity at the IP is below the capacity that can be offered.

- Once one of the unbundled auctions clears, the bundled auction and the other unbundled auction continue until competition between these is also resolved.

- The auction for bundled capacity can only clear once both unbundled competing auctions have cleared.

Simple case is described – in case of competitions between IPs, an additional competition between bundled and unbundled capacities could be too complex to manage in a CAM style auction.

Initial considerations

Advantages:

- Allows market participants to decide between ‘new bundle’ and ‘bundle with existing contract’ via willingness to pay.
- Irrespective of whether bundled or unbundled capacity wins in the competing auctions, the total level of bundled capacity is the same.

Challenges:

- NC CAM change required.
- High complexity of algorithm may lead to disproportionate implementation efforts and costs.
- No confirmation of applicability on 1:n IPs.
- Possible perception of giving the same priority to bundled and unbundled capacity.


KEEP
CALM
AND
TAKE A
LUNCH BREAK

Agenda of the Workshop I

Nr	Session	Time
	Welcome Coffee	10:00-10:30
1	ENTSOG/EFET opening and introduction	10:30-10:40
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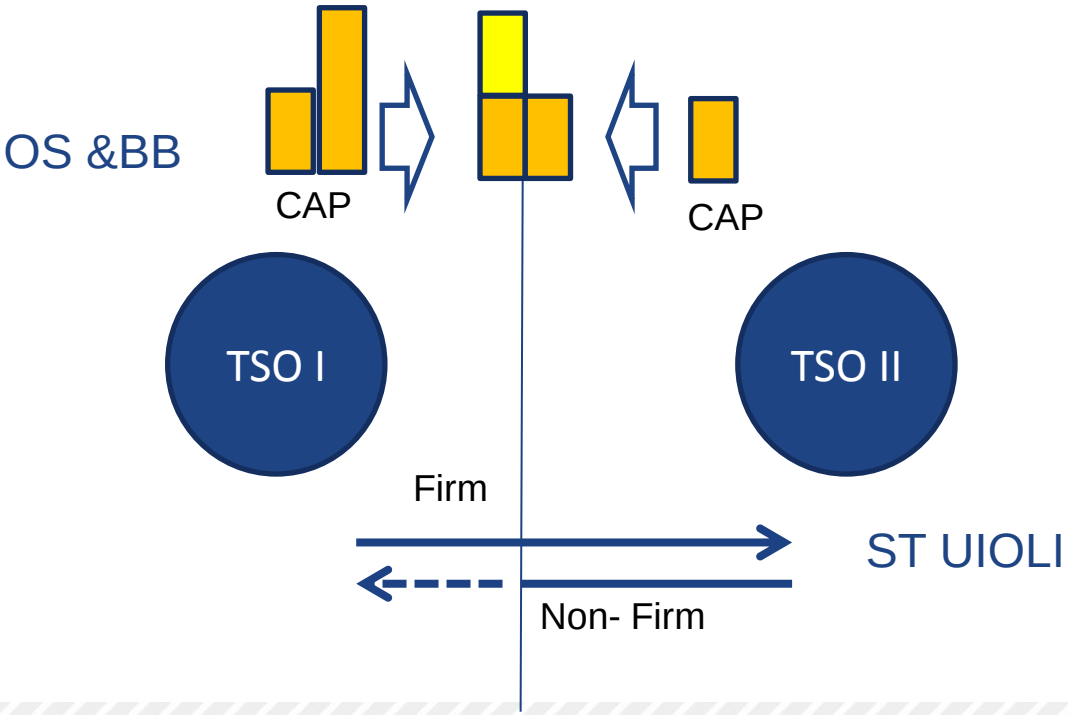
	Lunch Break	13:00-14:00
4	**CMP regulation and its consistent implementation across IPs** ➢ **Issue description and initial feedback** ➢ **Potential options** ➢ **Discussion and initial evaluation**	**14:00-14:45**
5	Alignment of secondary marketing of bundled products ➢ Issue description and initial feedback ➢ Potential options ➢ Discussion and initial evaluation	14:45-15:30
	Coffee Break	15:30-16:00
6	Aligned procedures for the surrender of capacity ➢ Issue description and initial feedback ➢ Potential options ➢ Discussion and initial evaluation	16:00-16:45
7	Conclusions and way forward	16:45-17:00

Issue 2 description:
CMP regulation and its consistent implementation across IPs

Issue 2: CMP regulation and its consistent implementation across IPs

An issue arises where at one IP, OSBB mechanism is applied on one side of the IP while on the other side a DA UIOLI mechanism is applied, as both mechanisms cannot unfold their full effectiveness.



Feedback- Do you find that the proposed solutions of identified issue no.2 are efficient to resolve the described issue?

Complexity and quantity of rules should not increase…

Appropriate consideration should be given to the Commission Guidance on best practices for CMP and to the preferences of network users…

We welcome a more coordinated CMP approach at IPs…

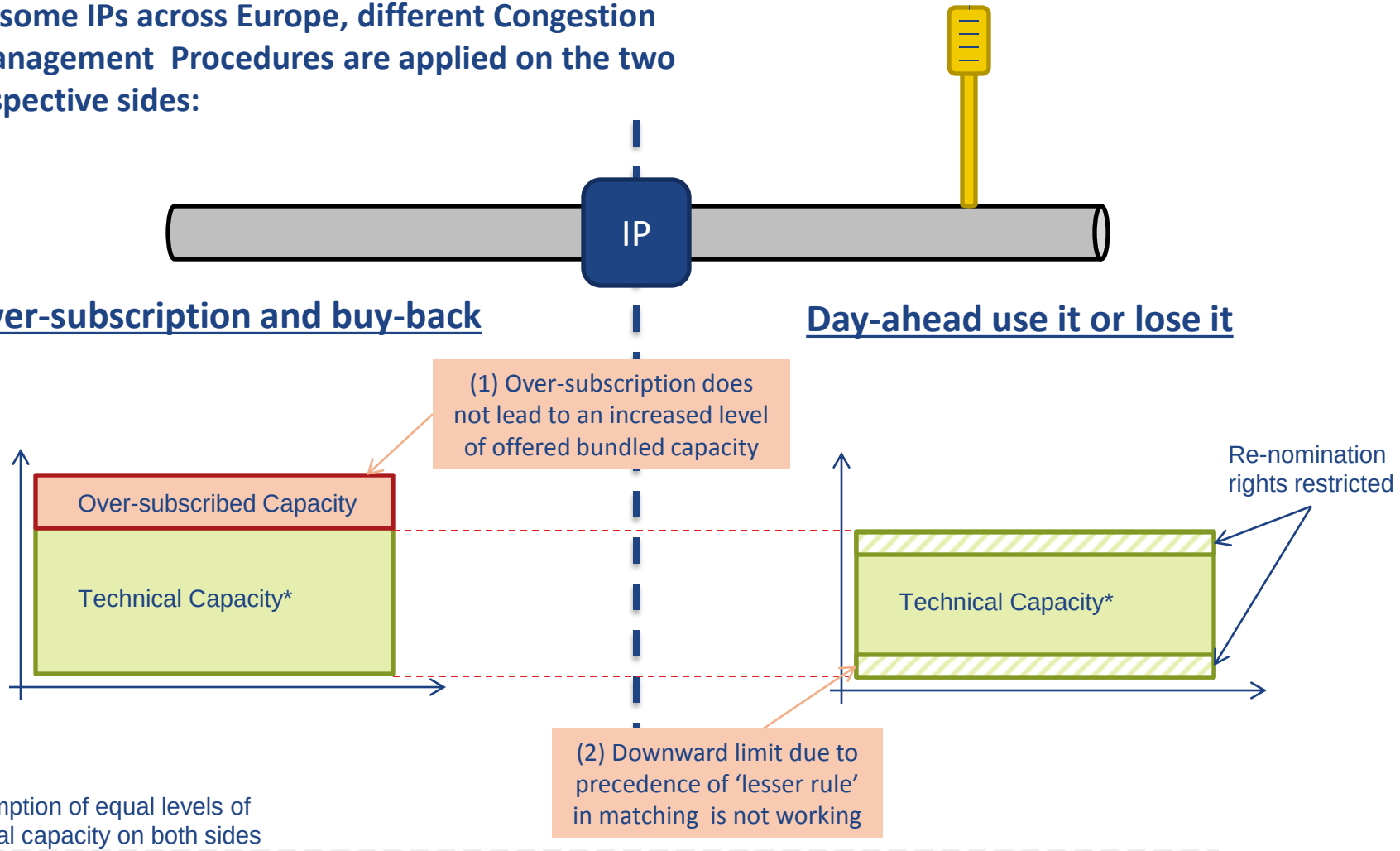
Use it or loose it should be the only CMP mechanism to be applied…

OSBB is preferred as it represents a market based solution…

Potential Options for issue 2

Issue 2: Introduction

At some IPs across Europe, different Congestion Management Procedures are applied on the two respective sides:



* Assumption of equal levels of technical capacity on both sides

EC Guidance on best practices for CMP

- EC Guidance for CMP provides tools that aim at reducing the issue by **making the two CMP mechanisms more compatible.**
- Where NRAs have decided to apply different mechanisms at the two sides of an IP, the following should apply:

  (1) In case of no congestion, **the downward restriction of re-nominiation rights shall not apply** and restricted capacity cannot be offered as firm backhaul;

  (2) In case of congestion and after 1 July 2016, **the downward restriction of re-nominiation rights shall apply** also on the side at which OSBB is applied.

  Note of caution: The re-nomination right restriction should apply to the counter direction of the congested direction.

- EC Guidance solves the most pressing compatibility issues, but does not address the increase of offered capacity.

General principles

- Due to the nature of the two CMP mechanisms, a full compatability of OSBB and DA UIOLI is not possible.

- All proposed options therefore aim at preveting a misalignment of CMP mechanisms at an IP:

  Option 1: Alignment per IP

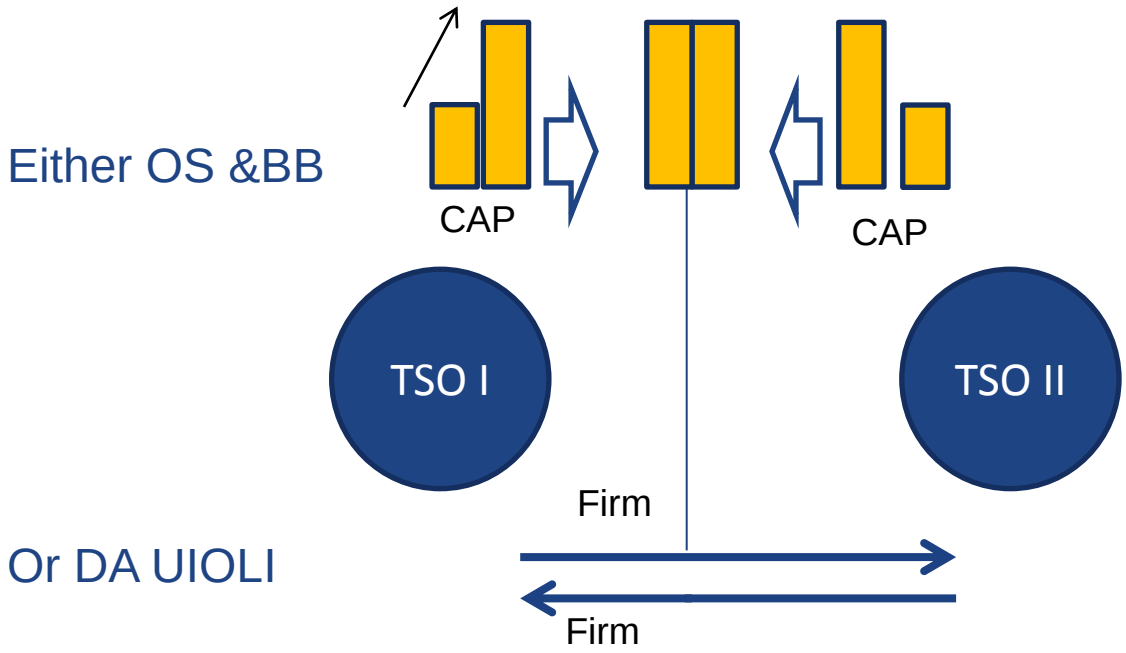
  Option 2: Alignment at IP per capacity product

- Misalignment would furthermore not cause problems if CMP mechanisms do not come into effect (if contractual congestions is avoided by e.g. a liquid secondary market).

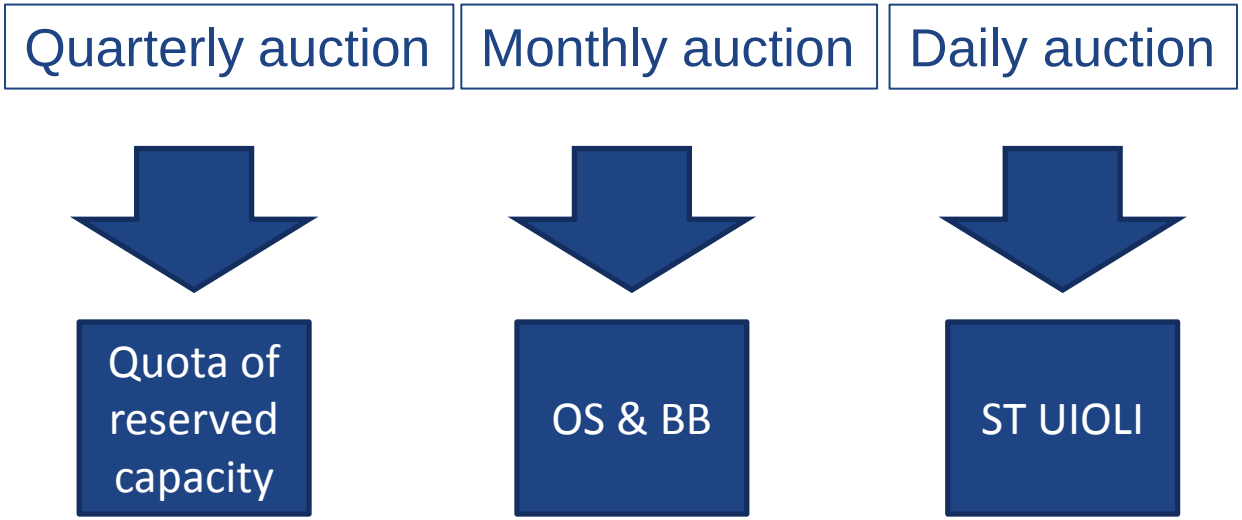
  Option 3: Reduced necessity for CMP mechanism due to liquid secondary market

Option 1: Aligned application per IP

CMP regulation and its consistent implementation across IPs



Option 2: Aligned application per standard product



Higher implementation burden and costs

Option 3: Liquid secondary capacity market reduce the need for CMP

Capacity hoarding is not a reality, if it occurs than LT UIOLI eradicates it.

Therefore no reasons for network users not to offer capacity they don't intend to use on secondary markets.

Functioning secondary markets enable network users to reduce congestion.

Initial considerations

- For option 1 and option 2, an **agreement and alignment between NRAs** at both sides of an IP is crucial and a precondition for success.

- Option 2 requires that both mechanisms are applied at an IP, causing increased implementation and operation efforts.

- Option 3 can be seen as a “no regret option”.

Issue 3 description: Alignment of secondary marketing of bundled products

Issue 3: Alignment of secondary marketing of bundled products

General description of secondary market situation

- Design and functionalities of secondary markets for capacity trades among network users still differs in the Member States.
- Network users can offer bundled or unbundled capacity products for various runtimes on secondary market.
- Bundled products to be offered at an IP need to be set up with both involved TSOs.
- Different secondary lead-times at both sides of an IP may lead to obstacles when offering bundled products.
  - Longer-lead times on one side can restrict the offer due to different deadlines for submitting secondary market offers to the TSOs.

Feedback- Do you find that the proposed solutions of identified issue no.3 are efficient to resolve the described issue?

Secondary market can further develop if lead times are standardized and shortened…

As the CAM NC requires that bundled capacity can only be resold in the secondary market as bundled products, rules and practices of the secondary market should be harmonized…

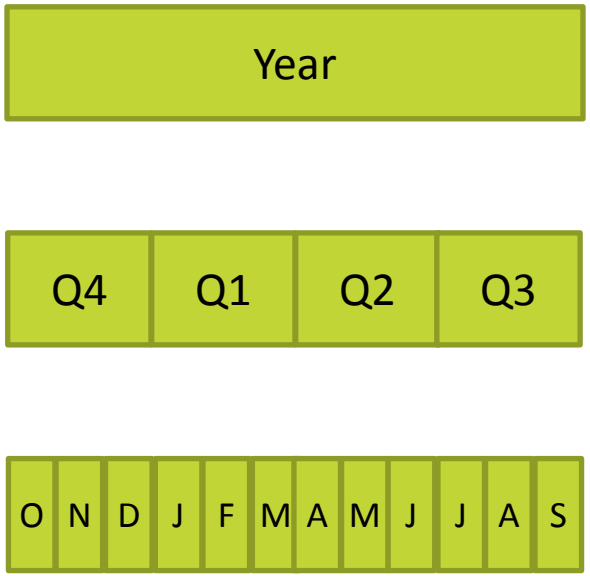
Harmonizing lead times for the trading of capacity seems indeed an important first improvement to better align secondary markets…

Need for CMP would be reduced by liquid secondary markets…

Option 1: Harmonisation of secondary trade lead-times to establish best practices of day-ahead secondary markets

Notification timelines for trading capacity products

TSO shall confirm and effectuate the trade if the Users notify the TSO at least:



- **5 working days** before first day of product runtime for **Yearly** capacity product
- **5 working days** before first day of product runtime for **Quarterly** capacity product
- **5 working days** before first day of product runtime for **Monthly** capacity product

* Confirmation shall be submitted by the TSOs in time to allow Network user to meet initial nomination deadline on D-1

For case: Resell & sublet of Y,Q,M capacity contracts

Notification timelines for trading capacity products

Considerations for DA products

- **For daily capacity products**, a trade on the secondary market should aim at providing the possibility to trade on the secondary market on **a working day-ahead basis.**

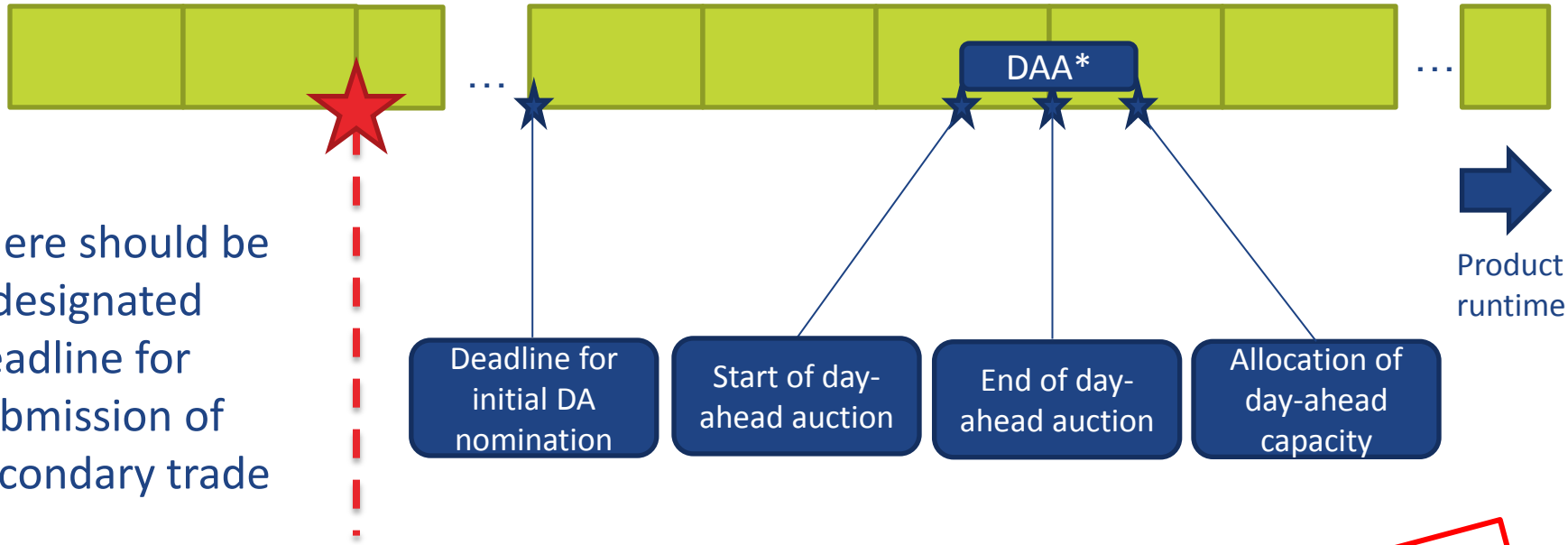
- **At least via sublet/transfer of use** of capacity, which requires a less intensive process than resell/transfer of the full contract.
  - Contract remains the same from TSO perspective
  - No additional credit checks/arrangements necessary

- Deadline for such a trade should be **before** the firm day-ahead capacity auction
  - **Before** firm auction: reduces contractual congestion but potential competition with primary capacity sales
  - Initial nomination deadline for day-ahead can be met

For case: Sublet of Day-ahead capacity contracts

Deadline for secondary DA trades before initial DA nomination deadline

- There should be a designated deadline for submission of secondary trade



For case: Sublet of Day-ahead capacity contracts

* Day Ahead Auction

Initial considerations

Proposal:

- Aligned lead-times allow simplified offer of bundled products on secondary market.
- Day-ahead deadline before firm auction allows reductions of contractual congestion. Initial nomination deadline for day-ahead can be met.

Coffee break

Agenda of the Workshop I

Nr	Session	Time
	Welcome Coffee	10:00-10:30
1	ENTSOG/EFET opening and introduction	10:30-10:40
2	Presentation of objectives, process	10:40-11:00
3	Already contracted unbundled capacity and offer of bundled products only ➢ Issue description and initial feedback ➢ Potential options ➢ Discussion and initial evaluation	11:00-13:00
	Lunch Break	13:00-14:00
4	CMP regulation and its consistent implementation across IPs ➢ Issue description and initial feedback ➢ Potential options ➢ Discussion and initial evaluation	14:00-14:45
5	Alignment of secondary marketing of bundled products ➢ Issue description and initial feedback ➢ Potential options ➢ Discussion and initial evaluation	14:45-15:30
	Coffee Break	15:30-16:00
6	**Aligned procedures for the surrender of capacity** ➢ **Issue description and initial feedback** ➢ **Potential options** ➢ **Discussion and initial evaluation**	**16:00-16:45**
7	Conclusions and way forward	16:45-17:00

Issue 4 description:
Aligned procedures for the surrender of capacity

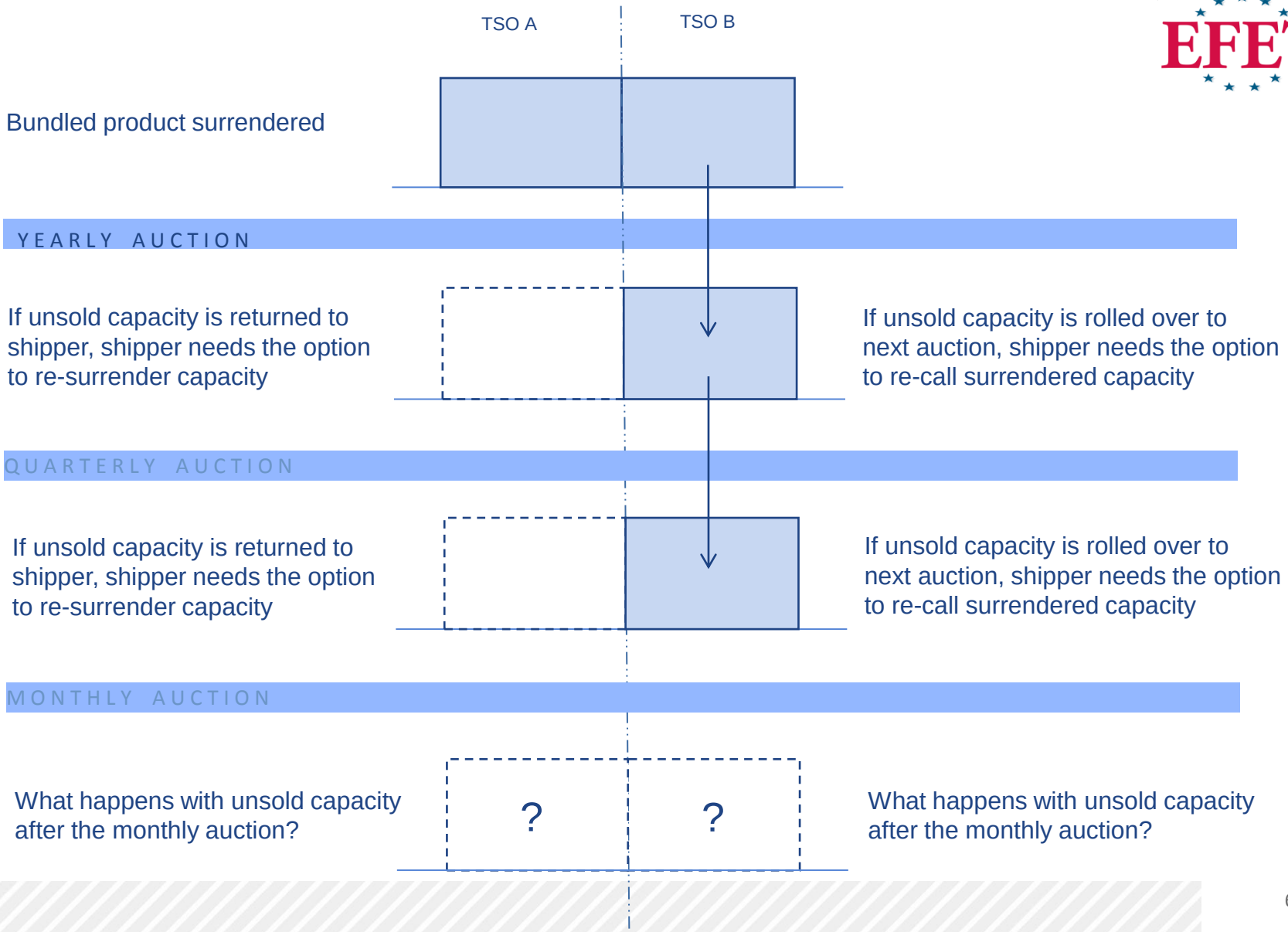
Issue 4: Aligned procedures for the surrender of capacity

General description of capacity surrender

- Network users have the opportunity to surrender capacity to the TSO according to CMP guidelines.
- TSO includes surrendered capacity into capacity products offered in the next auction(s).
- Once a network user surrenders capacity to a TSO, the amount of the capacity surrender cannot be changed.

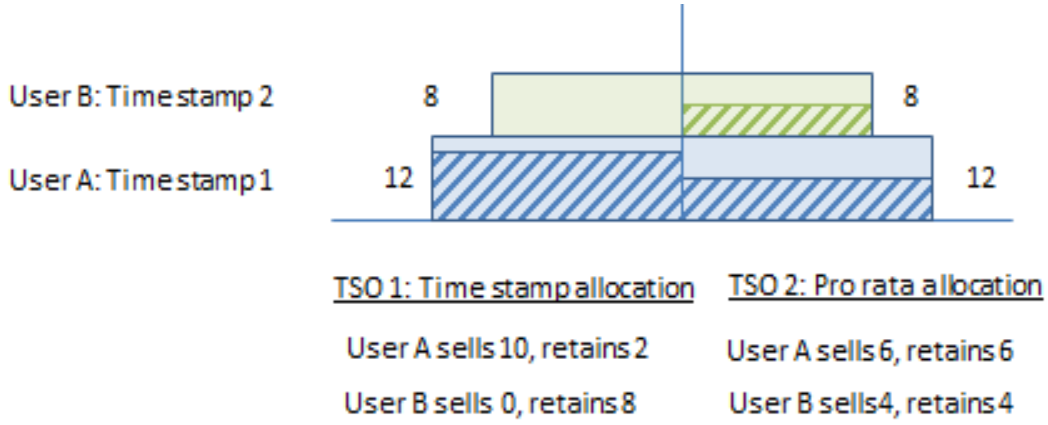
- 4.1 Different rules for the return of surrendered capacity to use
  - As currently applied, in some cases TSOs roll-over unsold surrendered capacity until the day-ahead auction.
  - In other cases, network users have the possibility to retain unsold surrendered capacity directly after the end of each auction.

Surrender of capacity for Y, Q, M auctions



Issue 4: General description (2)

- 4.2 Different rules for the allocation of surrendered capacity when sold in auction:
  - As currently applied, some TSOs allocate surrendered capacity in timely order of surrender (= time stamp approach).
  - In other countries, TSO allocate all surrendered capacities pro rata.



- Different treatment of surrendered bundled capacity on both sides of an IP → unbundling of originally bundled surrendered capacity with different amounts of re-surrendered capacity to network user.

Feedback- Do you find that the proposed solutions of identified issue no.4 are efficient to resolve the described issue?

Aligned procedures can help to avoid that network users who surrender a bundled product end up with an unbundled contract being returned…

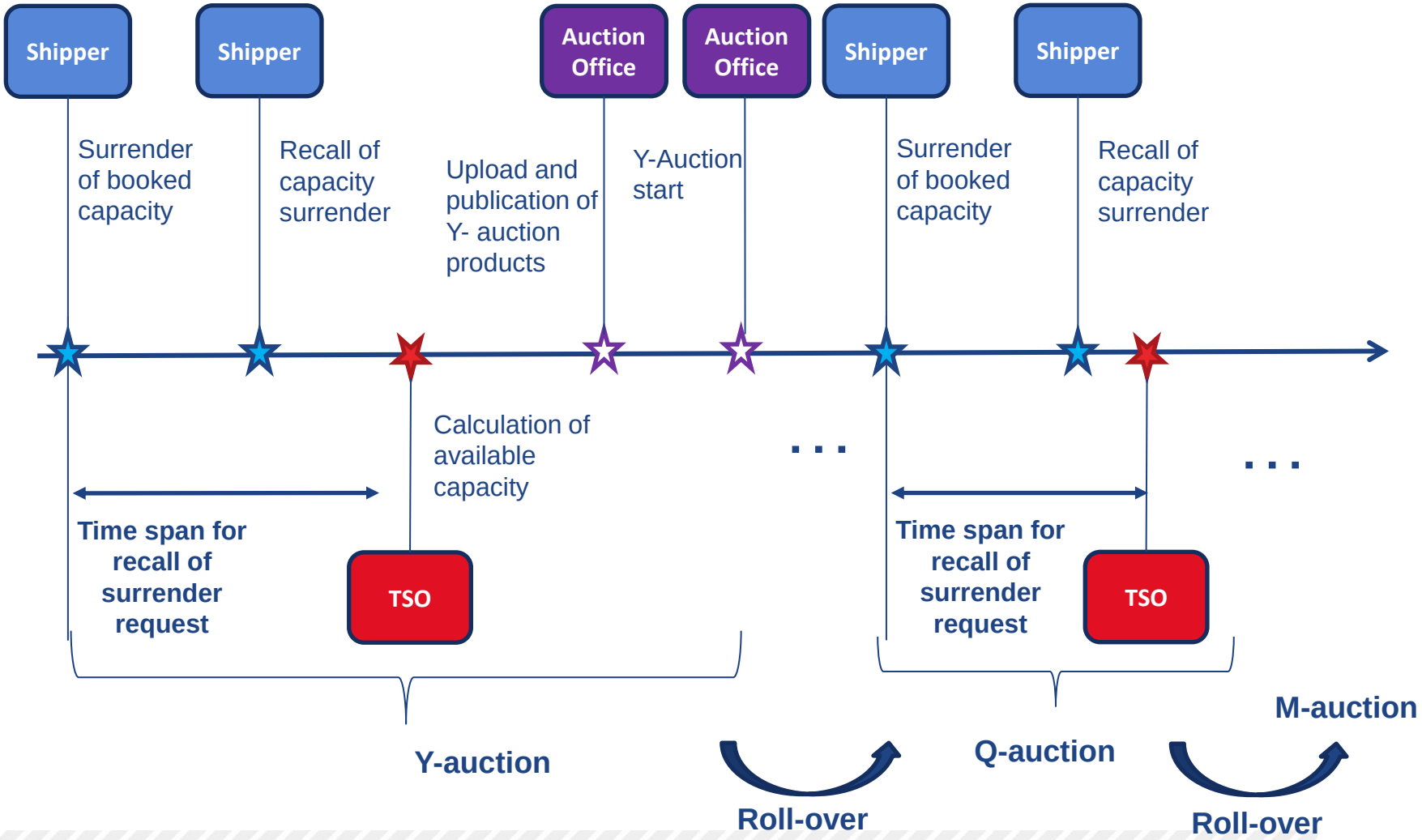
Aligned procedures for re-allocation of surrendered bundled capacity are necessary…

Time stamp preferred over pro-rata allocation…

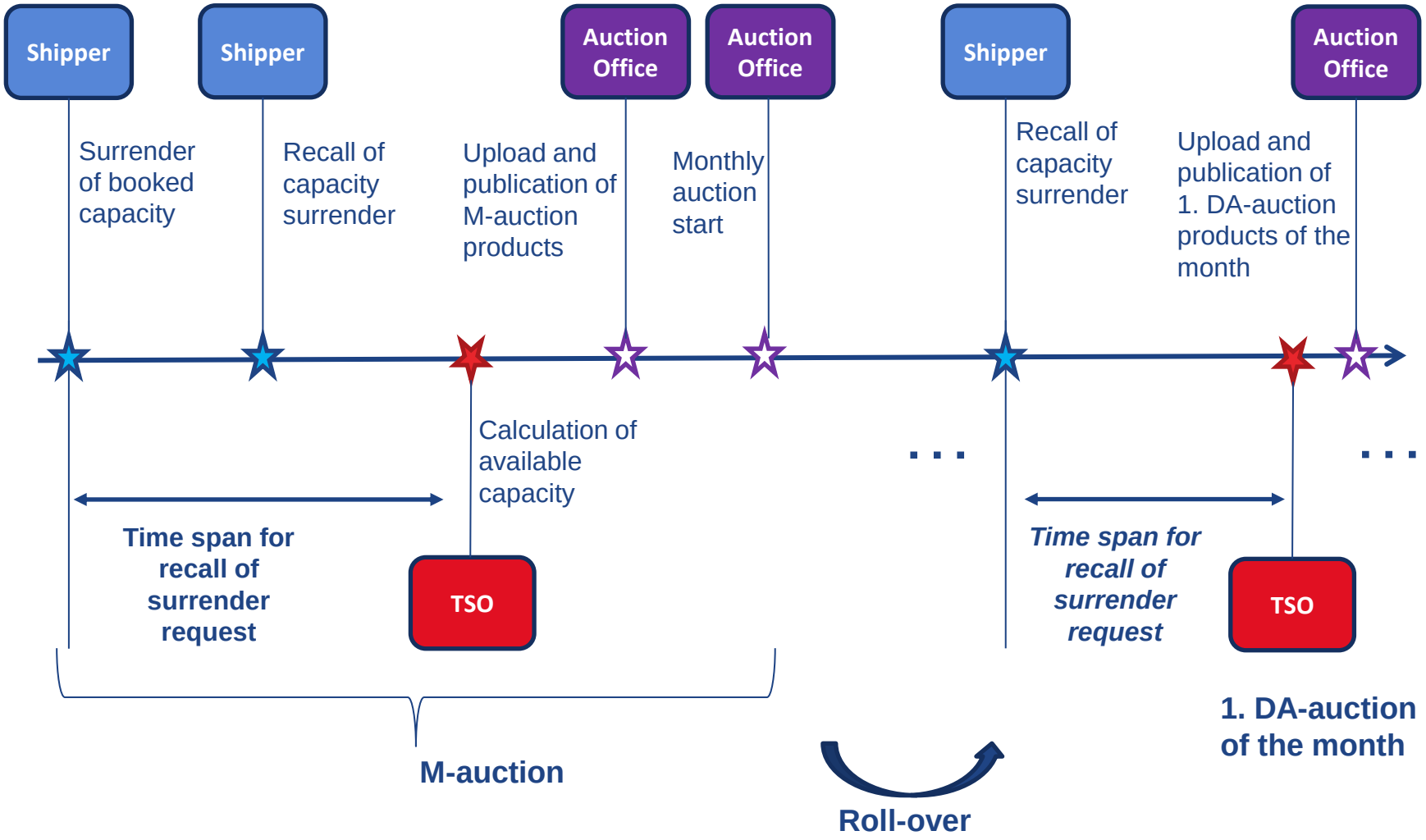
Time stamp leads to NUs surrendering very early and thus this approach is a dis-incentive for liquid secondary markets

Option 1:
Recall of capacity surrender

Option 1: Recall and roll-over of capacity surrender for Y, Q, M



Option 1: Roll-over of capacity surrender for DA



Initial Considerations

- Permits full flexibility for surrendering shipper regarding its use of capacity.
- Implementation of feature on TSO side necessary.

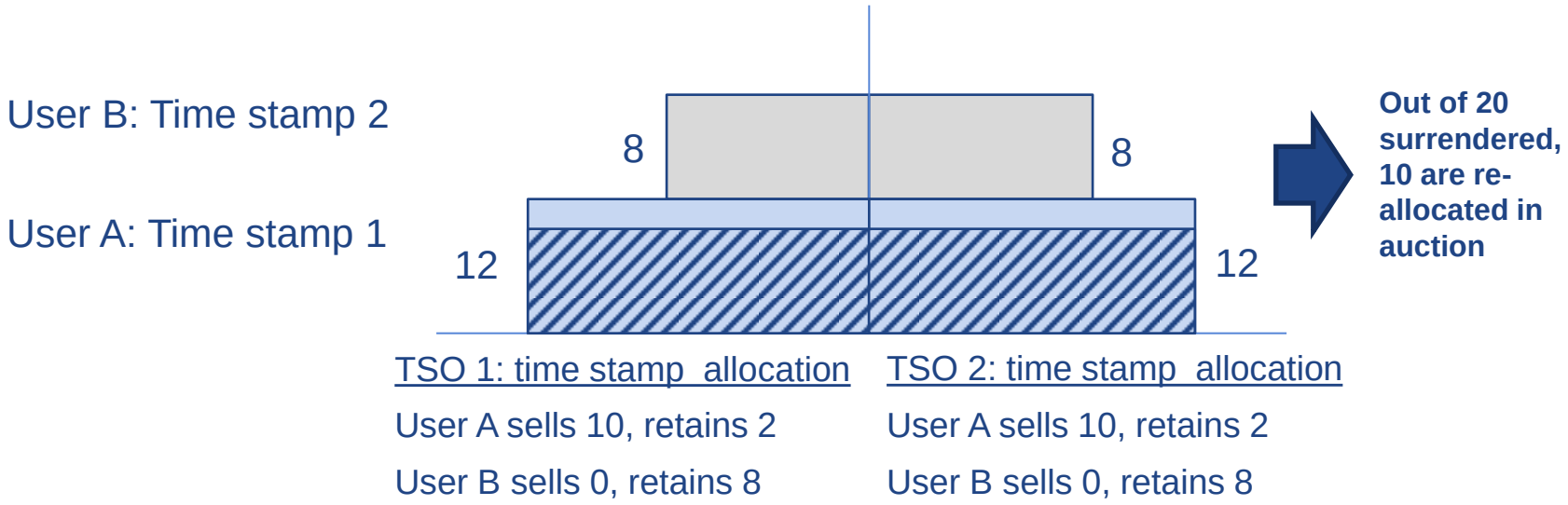
Proposal

- In order to enable network users to control the surrendered amount of capacity close to the publication of the auction, the **recall of capacity surrender** can be implemented.
- In case of the **automatic return** after monthly auctions, an option needs to be in place to surrender the entire month for offer in DA-auctions.
- In case both mechanisms are applied at one IP, the older time stamp within a bundle prevails.

Option 2:
Time stamp approach

Option 2: Time stamp approach

- Application of the same allocation method for surrendered bundled capacity products at both sides of an IP.
- Allocation of surrendered capacity in timely order of surrender (= time stamp approach).



- The time stamp approach is preferred to be implemented on both sides of an IP.

Conclusions

Summary of main discussion points

- Issue 1: Already contracted unbundled capacity and offer of bundled products only
  - Prepare concrete proposal based on Regulator feedback and presented options to convert unbundled into bundled capacity.

- Issue 2: CMP regulation and its consistent implementation across IPs
  - Pragmatic solution supported by EC, regulators. Network users prefer OSBB and are invited to provide arguments, if any, for necessity full harmonisation.

- Issue 3: Alignment of secondary marketing of bundled products
  - 5-day cap on lead-time to be developed that is valid for transfer of contracts for standard product longer than one day and non-standard products.
  - For daily capacity products, a proposal will be developed aimed at providing the possibility to trade on the secondary market on a working day-ahead basis at least via sublet/transfer of use.

- Issue 4: Aligned procedures for the surrender of capacity
  - Timestamp approach and re-call option

Next steps

- Invitation to Planning meeting on 3 June 2015 in Brussels.

- In case you are interested in participation, please send an email to
  Mark Wiekens Mark.Wiekens@entsog.eu or
  Jan Vitovsky Jan.Vitovsky@entsog.eu until **22 May 2015**.

- Experts will assess discussions and conclusions of first workshop.

- Experts will discuss concrete business rules / proposals for the four identied issues based on the conclusions from the workshop.

- Experts will prepare material and positions for second stakeholder workshop on 30 June.

Thank You for Your Attention

And see you again on 30 June

ENTSOG -- European Network of Transmission System Operators for Gas
Avenue de Cortenbergh 100, B-1000 Brussels

EML: info@entsog.eu
WWW: www.entsog.eu