ENTSOG: 4th Stakeholder Joint Working Session for the Incremental Proposal
25 March 2014

43 Members and 3 Associated Partners in 26 EU countries

4 Observers from EU affiliate countries
- Gassco AS (Norway)
- Swissgas AS (Switzerland)
- GA-MA AD (FYROM)
- Ukrtransgaz (Ukraine)
4th SJWS for the Incremental Proposal

25 March 2014

Mark Wiekens
Advisor, Market Area
Timeline for incremental proposal
Development and consultation overview

Main phases of activities of ENTSOG and stakeholders in BAL NC process

<table>
<thead>
<tr>
<th>ENTSOG</th>
<th>Stakeholders</th>
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<tbody>
<tr>
<td>Development of launch documentation and Project Plan</td>
<td>Kick-off Meeting</td>
</tr>
<tr>
<td>Development of draft Incremental Proposal in cooperation with stakeholders</td>
<td>SJWS 1, SJWS 2, SJWS 3, SJWS 4, SJWS 5</td>
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<td></td>
<td>Consultation period</td>
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<tr>
<td>Refinement of Incremental Proposal based on the feedback by stakeholders</td>
<td>Refinement Workshop, SSP</td>
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</table>

**SJWS 1**
- Coordination Requirements
- Information Provision
- Economic Test
- Tariff-related issues

**SJWS 2**
- When to Offer
- Auctions
- Open Seasons Procedures

**SJWS 3**
- Coordination Requirements
- Information Provision
- Economic Test
- Tariff-related issues

**SJWS 4**
- When to Offer
- Auctions (including auction simulation)
- Open Seasons Procedures

**SJWS 5**
- Content to be confirmed
Economic Test – from topic identification to legal text

**Topics:** When to offer, Auctions and Open Season Procedures

- **Kick Off Meeting**
  
  - **Topic identification**
  
  - **Topic exploration:** Discussions, stakeholder feedback
  
  - **Presentation of preliminary Business rules**
  
  - **Possible Business rule review at SJWS 5**

- **SJWS 2**
  - 26 Feb
  - ENTSOG formulates preliminary business rules, engages with prime movers

- **SJWS 4**
  - 25 March
  - ENTSOG refines formulated business rules, engages with prime movers

- **SJWS 5**
  - 8 April
## Agenda for today

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Time</th>
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<tbody>
<tr>
<td></td>
<td>Welcome coffee</td>
<td>10:00-10:30</td>
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<tr>
<td>1.</td>
<td>ENTSOG opening and introduction</td>
<td>10:30-10:45</td>
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<tr>
<td>2.</td>
<td>When to Offer Incremental/New Capacity</td>
<td>10:45-11:45</td>
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<tr>
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<td>➢ ENTSOG presentation of draft Business Rules</td>
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<td>➢ Discussion</td>
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<td>3.</td>
<td>Auction Procedures</td>
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<td>➢ ENTSOG presentation of draft Business Rules</td>
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<td></td>
<td>➢ Platform operators’ presentations</td>
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<td>Lunch Break</td>
<td>12:30-13:15</td>
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<td>4.</td>
<td>Auction Game</td>
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<td>➢ Auction simulation</td>
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<td></td>
<td>➢ Evaluation and discussion</td>
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<td>Coffee Break</td>
<td>14:45-15:00</td>
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<td>5.</td>
<td>Open Season Procedures</td>
<td>15:00-16:30</td>
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<td>➢ Discussion</td>
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<tr>
<td>6.</td>
<td>Conclusions</td>
<td>16:30-16:45</td>
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</tbody>
</table>

Next INC Stakeholder Meeting: 8th April 2014 → 5th SJWS for the Incremental Proposal
Housekeeping – recall general information

• Fire escape
  • In case of alarm: Down the staircases close to the entrance – through the lobby – meeting point in front of the mosque

• Attention to the wires from webcast people

• Webcast – questions via mail possible before and during the webcast

• The SJWS discussions (including webcast) are reserved for the stakeholders, but notes and presentations will be available for the press and the public shortly after the meeting
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SJWS 4 Incremental Proposal

When to offer incremental/new capacity

25 March 2014
Agenda

1. Revisiting topic exploration
2. Draft business rules on ‘when to offer’
3. Conclusions
Launching the process

Demand identified in TYNDP/NDP

No capacity on offer in long-term auctions

Non-binding indications

TSO assessment of potential offer scenarios based on ‘When to offer’ criteria

NRA approval of offer scenarios

Launch of offer process
Concept of non-binding indications

When Indicating a demand for incremental/new capacity, network users shall inform the relevant TSOs about:

- The location of demand
- The level of demand
- The duration of demand
- The direction of flow demanded
- Corresponding information that was/is given to other TSOs in case of linked requests (conditionalities, etc.)

These are minimum requirements for all TSOs – additional information requirements will be defined by TSOs individually.
When to indicate a demand

- Standard is an annual time window after the long-term auctions
- Start date: 10 calendar days after the start date of the annual long-term auctions
- End date: 2 months after start date
Agenda

1. Revisiting topic exploration
2. **Draft business rules on ‘when to offer’**
3. Conclusions
The process of designing possible offer scenario(s) for incremental or new capacity shall be launched by a TSO, if at least one of the following conditions is met:

1.1.1. In case the ENTSOG Ten Year Network Development Plan or a Network Development Plan of the respective Member State identifies in a reasonable peak scenario that a specific region is undersupplied and offering incremental or new capacity could close the supply gas;

1.1.2. In case no yearly capacity product linking two adjacent entry-exit-zones is available in the long-term annual capacity auctions for the year in which incremental/new capacity could be offered first and in the three subsequent years;

1.1.3. In case network users submit a non-binding demand indication fulfilling the requirements in 1.2.1. – 1.2.3., requesting incremental or new capacity for a sustained number of years;

- The process shall be launched if at least one of the conditions 1.1.1. – 1.1.3. is fulfilled

- Course of the process further described in the following business rules
With regards to 1.1.3., a non-binding demand indication shall be considered if the following criteria is met:

1.2.1. Other means for increasing the availability of technical capacity between two or more adjacent entry-exit-zones or along a ‘transportation route’ were exhausted;

1.2.2. The non-binding demand indication is submitted within the time window defined in 1.3.;

1.2.3. The non-binding demand indication contains at least the information defined in 1.4.;

- If all three are met, TSOs shall be obliged to consider the request when designing possible offer scenarios for NRA approval

- If at least one of the conditions is not met, the decision whether to consider an indication is to be taken by the relevant TSO
When to offer 3/6

1.3. The formal time window for submitting non-binding demand indication shall start annually 10 calendar days after the starting date of the annual long-term capacity auction as published by ENTSOG in accordance with Art. 11.4. of NC CAM and shall last for two months;

- Initial ENTSOG proposal foresaw the time window to start on the starting date of the annual long-term auctions
- Slight change of the starting date in order to await auction results
- Network users are able to indicate their demand for incremental/new capacity based on the actual allocation results of recent auction
- Provides more certainty to TSOs that demand is not invalid after allocation of existing capacity
When to offer 4/6

1.4. The non-binding demand indications shall at least contain the following information:

1.4.1. **The two or more adjacent entry-exit-zones** between which demand for incremental/new capacity exists and the requested direction of transport;

1.4.2. **The gas years** for which a demand for incremental/new capacity exists;

1.4.3. **The amount of capacity** demanded at the respective IP or along the respective ‘transportation route’;

1.4.4. **The corresponding information** (IPs, amount of capacity, etc.) that was or will be submitted to any other TSO(s), in case the non-binding indications are in any way linked to each other or (at least partially) mutually exclusive;

 ➢ 1.4.4. shall include all relevant information that is necessary in order to trigger a co-ordinated process with all relevant TSOs including routes, conditionalities, etc.
When to offer 5/6

1.5. **TSOs may charge fees for the submission of non-binding demand indications in case the regulatory framework does not allow an alternative mechanism for the recovery of costs associated with technical design studies. These fees shall be reimbursed if the network user is contracting incremental/new capacity when offered;**

- TSOs shall have the possibility to charge fees for submitting non-binding indications to cover the associated study costs
- Fees shall however be reimbursed in case of actual allocation

1.6. **TSOs shall make public a specified format and a point of contact for network users to submit non-binding demand indications;**

- Proposal foresees one point of contact per TSOs
- TSOs shall co-ordinate their activities based on information submitted by network users to offer common projects
When to offer 6/6

1.7. When designing offer scenarios, TSOs shall assess the conditions defined in 1.1. in combination and propose the offer scenarios to the relevant NRA for approval;

- Business rule based on process proposed at the earlier SJWS
- Each WTO conditions can launch the process of offering incremental/new capacity individually
- TSOs shall however consider all conditions when designing potential offer scenarios
- TSOs shall propose the offer scenarios (including the information on which the proposal is based) to the relevant NRAs for approval
- Final decision on offer scenarios is subject to NRA approval
Agenda

1. Revisiting topic exploration
2. Draft business rules on ‘when to offer’
3. Conclusions
Conclusions

- ENTSOG prefers a combined assessment of the conditions in order to ensure an efficient and transparent process.

- Based on stakeholder feedback, ENTSOG included a rule that each criterion in itself is sufficient to initiate the start of the incremental process.

- Current proposal reflects a compromise with all conditions being able to launch the process individually and NRA approval on the scenarios to be offered.

- TSOs will take into consideration all views when designing potential offer scenarios.
SJWS 4 Incremental Proposal

Auction Procedures

25 March 2014
Agenda

1. Revisiting topic exploration
2. Draft business rules on auction procedures
3. Presentations by platform operators
4. Auction simulation
5. Conclusions
Parallel bidding ladders approach

Parallel bidding ladders for incremental/new capacity auctions at an IP:

- One bidding ladder for the offer of existing capacity, without any incremental capacity
- One bidding ladder for each incremental/new capacity scenario, offering existing capacity plus the respective amount of incremental/new capacity

Shipper bidding for bundled capacity at one IP with incremental capacity on offer

<table>
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<th>Bidding Ladder Level 1 (Existing plus 25 INC):</th>
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<tr>
<th>Bidding Ladder Level 2 (Existing plus 50 INC):</th>
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<tr>
<td>Price</td>
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<td>Z</td>
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Possible principle for bid revision

- **Scenario 4** reflects the ceiling of demand, however the economic test is failed. Scenario 3 has a positive outcome, however clears with a premium.

**Bid revision to be considered** in order to give choice to users, whether higher volume bid at reserve price is preferable.

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**Bid revision could be allowed if:**
The bidding ladder with the highest level of increment resulting in a positive economic test outcome clears with an auction premium (including ‘base case’ bidding ladder).

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**Bidding Ladder for which revision of bids could be allowed:**
A revision of bids should only be allowed for the bidding ladder reflecting the next highest level of increment which initially had a negative economic test outcome.
Agenda

1. Revisiting topic exploration
2. Draft business rules on auction procedures
3. Presentations by platform operators
4. Auction simulation
5. Conclusions
In case an auction is chosen as allocation mechanism for incremental capacity, the involved TSOs shall offer the incremental capacity together with the existing capacity at an IP as bundled products to the extent possible, in accordance with NC CAM Article 8;

- Integrated offer of incremental and existing capacity

- Article 8 of the NC CAM refers to the methodology used for the allocation of firm capacity (including quotas for the reservation of technical capacity for short term auctions and independence of auctions)

- Aim of the incremental process should be to create/remain harmonised levels of capacity on both sides of an IP thus maximising the amount of bundled capacity

- Incremental/new capacity shall therefore be offered as bundled capacity to the extent possible
The offer of incremental capacity together with existing capacity at an IP in an auction procedure shall be made in a transparent, non-discriminatory and cost efficient manner, taking into account willingness to pay of network users;

- Defines the requirements of the auction process as requested in the ACER Guidance
- In line with the current auction procedure defined in the NC CAM

For each offer scenario, one bidding ladder shall offer existing capacity at an IP and/or the respective level of incremental capacity. The bidding ladders shall run in parallel and independent to each other;

- Parallel bidding ladders with each bidding ladder offering the respective level of increment plus the available existing capacity
Agenda

1. Revisiting topic exploration
2. Draft business rules on auction procedures
3. Presentations by platform operators
4. Auction simulation
5. Conclusions
Incremental Capacity

25 March 2014
Agenda

- Introduction to PRISMA
- Incremental Capacity Auctions
PRISMA. From idea to launch in less than a year.

- **March 2012:** ENTSOG presents the future market rules (NC CAM) to ACER

- **April 2012:** Signing of a Memorandum of Understanding
  - to create a joint platform…
  - which fulfils the future European requirements of the NC CAM already two years ahead of its time

- **1 January 2013:** 19 TSOs from Austria, Belgium, Denmark, France, Germany, Italy and the Netherlands founded the PRISMA company

- **1 April 2013:** Start of the first national & cross-border auctions on PRISMA

- **1 January 2014:** Start of secondary capacity trading at PRISMA
PRISMA has already reached significant acceptance and utilization in the market.

- 356 shippers with more than 1,000 users are using the platform to book transport capacity across European borders.
- More than 45,000 auctions have taken place since the platform start.
- PRISMA held a public consultation on the platform functionalities and new GT&Cs.

The majority of the shippers are using PRISMA daily to buy capacity.
PRISMA has implemented almost all of the NC CAM requirements. Two years ahead of time.

- **Capacity products**
  - Bundled products between hubs
  - Unbundled products
  - Products as defined in the CAM Network code
  - Firm & Interruptible

- All products available on one platform

- **Allocation primary capacity** – Auction mechanisms as described in the NC CAM for primary market
  - Uniform price auction: day-ahead products
  - Ascending clock algorithm: monthly, quarterly and yearly products

- **Integrated secondary market functionality**
  - Trading procedures: Over-the-counter, FCFS, Call-for-Orders

- The platform can also handle regional specificities, ensuring that European TSOs comply with their national regulation until NC CAM comes into force.
PRISMA offers a variety of functionalities to all registered users.

**PRISMA Platform**

- **Shipper registration**
- **Credit Limits**
- **Network Point Overview**
- **Balancing groups and portfolios**
- **Display of contract positions**

**Primary capacity**
- **Auctions**
- **FCFS Bookings**
- **Capacity Bundling, Upgrade, Surrender**

**Secondary capacity**
- **Shippers can create Trade Proposals**
  - **OTC (bilateral)**
  - **Call for Orders**
  - **FCFS**
Introduction to PRISMA

Incremental Capacity Auctions
ENTSOG Launch Documentation for the Incremental Capacity Proposal foresees parallel bidding ladders using the auction algorithm for long-term auctions as defined in the CAM NC.

- Ascending clock auction algorithm for long-term auctions already implemented and in use on the PRISMA platform.

- Parallel bidding ladders currently not possible. PRISMA platform supports one auction per capacity category at the same time.

- High complexity of multiple parallel auctions might require usability improvements of the user interface.

- Subsequent processes like sending of booking confirmations, secondary trading etc. need to be amended or introduced (e.g. economical test).

The closer the concept for incremental capacity is to the current CAM NC, the lower the impact on the PRISMA platform will be.
Possible impacts of incremental capacity on PRISMA

PRISMA Platform

Shipper registration
Credit Limits
Network Point Overview
Balancing groups and portfolios
Display of contract positions

Primary capacity
- Auctions
- FCFS Bookings
- Capacity Bundling, Upgrade, Surrender

Secondary capacity
- Shippers can create Trade Proposals
- OTC (bilateral)
- Call for Orders
- FCFS
Feasibility of the Parallel Bidding Ladder
From a Platform Operator’s Point of View

INC SJWS IV
Brussels, 25 March 2014

Balázs Tatár
Business Development Manager
FGSZ Ltd
Background

Early implementation of CAM NC

- FGSZ (the Hungarian TSO) and Transgaz (the Romanian TSO) started a pilot project for CAM Network Code early implementation
- Vision: to fulfil 984/2013/EU adding significant value to NUs and TSOs
  - Product bundling concept (the capacity product is also bundled, not only the allocation process)
  - Same qualities in the bundle (product harmonisation)
  - Same usage conditions (usage harmonisation)
  - Offer a tool for bundled capacity booking and usage (nomination, CMP etc.)
- Challenges
  - What is a bundled product?
  - How does bundling it fit into two (or more) regulatory (legal) systems?
  - „How to do” the joint booking platform?
  - A brand new platform was easier to develop for the CAM NC functions and certain specific regulatory requirements than changing an existing system
Way more is needed than providing a joint booking platform

**Scale of Challenges**

- **Arrangements for „Rules for Trade”** (bundling principles, product quality and usage, licencing etc.)
- **Tariffs arrangements** (short term tariffs, single clearing price, etc.)
- **Regional Booking Platform development**
- **INC proposal**
- **CAM NC implementation** (harmonised legislative acts on gas markets of different maturity)

**Two-tier concept**

1) enabling CAM NC (and more NCs) in different national legislations
2) IT solution based on the above consideration
Regional Booking Platform (RBP) developed by FGSZ

- Full CAM compatibility
- User-friendliness
  - Thin client solution for both TSOs and network users (quick and easy access)
- IP-based applicability (does not require exclusivity from TSOs)
- Robust IT solution
  - Ability to service a high number of IPs
  - 24/7 availability guaranteed by the platform operator
  - Standard SOAP/xml-based edig@s data exchange formats are supported but the usage of national formats are not excluded
- Customisable functionality for TSOs and network users
  - Allocation of bundled products, unbundled products and tailored (non-standard) capacity products,
  - Route bundling (for interconnector-like entities or longer routes) under development
  - The feasibility of parallel bidding ladder’s core functions are examined
- NRA supervision of platform operation
Regional Booking Platform – Portal

- Publication portal for auction results and other information related to the RBP

**Present**

RBP stands for ‘Regional Booking Platform’, which is an electronic auction and trading platform developed for the easy and cost-efficient implementation and continuous support of the new European gas rules on capacity allocation mechanisms (Regulation 964/2013 EU or CAM NC). RBP offers CAM NC compliant capacity booking procedures for bundled and unbundled capacities for transmission system operators and network users.

RBP has two modules, the ‘RBP Application’ for capacity booking and allocation and the ‘RBP Portal’ for publication.

The Operator of the RBP is FGSZ, the Hungarian gas TSO.

**Historic**

With the final investment decision dating back to September 2011, RBP is FGSZ’s answer to the challenges of the CAM Network Code. Both RBP Application and the RBP Portal represent a greenfield development. FGSZ took the following design principles into account when creating RBP:

- full compliance with the provisions of the CAM NC from the very beginning,
- robust, secure and performing IT solution,
- flexibility in terms of functionality and change management,
- cost-efficiency in development, operation and maintenance,
- full compliance with European interoperability rules,
- allowing users with different IT systems to use the platform,
- no dependencies arising from any particular national legislation or existing IT design
- no compatibility issues and no need to invest in existing IT infrastructure,
- fair business model.

**Future**

The Regional Booking Platform is open for all interested network operators and network users who would like to do business on the platform. The applicable terms and conditions for accessing the RBP is published by the RBP Operator on the Portal.
Regional Booking Platform – Application

- TSOs set up auctions online on RBP, where all auction features are flexible parameters (auction calendar, NU access control, price steps, currency etc.)
How Does the Parallel Bidding Ladder Fit in RBP?

- It is already possible to offer parallel bidding ladders on RBP, because
  - The ascending clock algorithm is the same,
  - RBP can handle a high number of auctions simultaneously (100,000 transactions/sec),
  - Parametering of the auctions in RBP already enable:
    - Setup of offer scenarios,
      - Including the logical link between auctions belonging to a scenario,
    - Coordinated publishing of the auction results,
    - Bid revision in case of unsuccessful offer scenarios (more at the Concerns…)}
Parallel Bidding Ladder – All Auctions in the Scenarios

- All auctions were set up by the TSOs online on RBP
- The auctions below are those belonging to ENTSOG’s (original) auction game
Parallel Bidding Ladder – Bid Ladder 1 (Y1 to Y5) of NU1

- RBP allows bidding for 6 auctions per tab
- The number of tabs are not limited
Parallel Bidding Ladder – Bid Ladder 2 and 3 (Y3 to Y5) of NU1
Parallel Bidding Ladder – Bid Ladder 4 (Y1 to Y5) of NU1
What Needs to be Done in RBP to Improve PBLs?

- If parallel bidding ladders are offered on a regular basis on most IPs, an immense amount of data has to be overviewed by network users, e.g. for 1 IP, existing capacity (for 15 years) + 3 offer scenarios (also for 15 years) add up to 60 auctions!
- **Feasible solutions**
- TSOs can offer multi-annual capacities using the CAM auction algorithms (currently not envisaged in CAM-type auctions but it may be worth thinking about),
- All auctions could be launched as parallel bidding ladders. Where this function is not needed, the number of offer scenarios could be set to be 1.
- New SOAP interface for parallel bidding ladders could be developed
  - For both network users (to bid) and TSOs (to set up auctions)
  - Interfaces may differ depending on TSOs’ / network users’ requirements but one single format would be desirable
- Publication of the results of offer scenarios, i.e. besides the individual auction results, aggregated results of the offer scenarios (market test) also should be published
Concerns

- Of the Platform Operator
  - FGSZ is highly concerned about bid revision because it requires human interaction in an automated auction procedure, which goes against the principles of CAM NC,
  - Auction results are known to the NU participants (without publishing the results!), they also can reasonably forecast the results of the economic test
  - How is bid revision envisaged?
    - Who? (multiple bidders – game theory… or coordinated bidding?)
    - Are new bidders allowed for the concerned auctions?
    - Which auctions are reopened in the scenario?
    - How are other IPs affected?
    - Is upward revision enabled only? (reallocating resources between IPs?)
- Of the TSO
  - Conditionality of offers should be reflected upon
    - How long are bids binding?
    - What is the legal status of the offer scenarios? (if bids are binding, should successful offer scenarios also be binding?)
Thank you for your kind attention!

Contact: rbp@fgsz.hu or btatar@fgsz.hu
Backup slides
Diverse market needs are taken into account

<table>
<thead>
<tr>
<th>Booking Platform users</th>
<th>NRAs</th>
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<td>Network Users</td>
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<td>TSOs</td>
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<td>Time and cost efficient implementation</td>
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<td>Fully complying with Regulation 984/2013</td>
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<tr>
<td>Offer services that platform users need</td>
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<td>Leave no regulatory and legal questions open</td>
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What are the consequences of product bundling?

A bundled capacity product (product bundling concept):

- Allows hub-to-hub trade
- Does not allow flange (border) trade
- Always offers the same value to network users
  - In terms of product quality (firm-firm, interruptible-interruptible)
  - In terms of interruption rules
- Can be used by single nomination only
- Unbundled usage of bundled capacity is legally (but also technically) impossible
- Requires the Network User to be registered (and eligible) network user in both hub’s entry-exit zone
- RBP’s auction confirmation automatically effectuates the capacity contract

This approach requires the extensive cooperation of TSOs with each other and with the NRAs
Agenda

1. Revisiting topic exploration
2. Draft business rules on auction procedures
3. Presentations by platform operators
4. Auction simulation
5. Conclusions
Framework of Auction Simulation

Base Case:
- Existing Capacity at IP AB on offer (Bidding Ladder 0)

Three incremental capacity offer scenarios:
- Low increment on offer (Bidding Ladder 1)
- Medium increment on offer (Bidding Ladder 2)
- High increment on offer (Bidding Ladder 3)
# Capacity on offer and economic test parameters

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<th>Year 3</th>
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<tr>
<td>Low Increment Scenario</td>
<td>10.000</td>
<td>0.7</td>
<td>7000</td>
</tr>
<tr>
<td>Middle Increment Scenario</td>
<td>19.000</td>
<td>0.7</td>
<td>13.300</td>
</tr>
<tr>
<td>High Increment Scenario</td>
<td>23.000</td>
<td>0.7</td>
<td>16.100</td>
</tr>
</tbody>
</table>
Assumptions for simulation

In order to reduce the complexity of the auction simulation, some simplifications were made:

- No application of small price steps (auctions clear at first time undersell)
- Booking horizon is only 5 years with a lead-time for incremental capacity of 2 years
- The tariff used for the economic test is the current reference price that is applied in the auction for all years
- In order to ensure that “key issues” of the parallel bidding ladder approach actually materialize during the simulation, stakeholder will act in predefined roles
Agenda

1. Revisiting topic exploration
2. Draft business rules on auction procedures
3. Presentations by platform operators
4. Auction simulation
5. Conclusions
Conclusions

- Standardised auctions shall be the defaults mechanism for the allocation of incremental/new capacity.

- For the standard, the complexity of the approach should be kept to the minimum necessary.

- In case additional factors (e.g. conditional requests, etc.) are required for specific projects, these should be covered in an OSP instead of the standardised auction approach.

- Parallel bidding ladders will increase the complexity of the auction process, hence at least the following questions should be jointly answered after auction simulation:
  - Parallel bidding ladder approach in general right way to go?
  - Degree of complexity and level of flexibility appropriately balanced?
  - Bid revision necessary?
4th SJWS for the Incremental Proposal

Open Season Procedures
Agenda for presentation of business rules of Open Season Procedures

AGENDA

1. Summary of SJWS 2 topic exploration
2. Feedback from SJWS 2
3. Draft business rules
   1. Products on offer in Open Season Procedures
   2. Applicability of Open Season Procedures
   3. Principles & processes of Open Season Procedures
   4. Allocation rule
4. Conclusions
Summary of topic exploration 1/3
Examples of when OSP>Auctions

ACER guidance stated: “[…] requires an investment project of such size and complexity […] that the procedure described in section 2.e) (auctions) could appear not to be a robust approach.” […] “ENTSO-G is requested to elaborate on provision (ii) in terms of when this is the case.”

<table>
<thead>
<tr>
<th>#</th>
<th>Examples of when Open Season Procedures&gt; auctions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Shipper can express conditionalities (fill-or-kill; capacity for a certain period; capacity bids among multiple IPs)</td>
</tr>
<tr>
<td>2.</td>
<td>Highly interconnected networks where the incremental projects involve more than one IP</td>
</tr>
<tr>
<td>3.</td>
<td>When the horizon of user commitments that is necessary to pass the economic test is expected to be higher than the 15 years ahead provided in the auctions</td>
</tr>
<tr>
<td>4.</td>
<td>The range of potential projects is too wide to come to an efficient outcome in an auction</td>
</tr>
<tr>
<td>5.</td>
<td>When the number of prospective customers is expected to be very low and non-standard flexibility is strongly improving the likelihood of securing requested level of commitment</td>
</tr>
</tbody>
</table>
Summary of topic exploration 2/3
CAM Amendments

CAM amendment example I
5+ 15 years principle &
15 + 5 years principle

* The 5 year lead time is a hypothetical example. Each project has its own timeline.

CAM amendment example II
Inclusion of existing capacity products in offer for new or inc. capacity
Summary of topic exploration 3/3
Allocation mechanisms

ACER Guidance: Mentions Willingness-to-pay or pro-rata

GGPOS Article 41:
“Different capacity allocation methods can be used, but the method that the sponsor chooses must be transparent and non-discriminatory. The NRA must ensure that this is the case.”

- Objectives:
  - Aim of an Open Season should always be to satisfy all demand on the condition of the economic test being passed
  - As long as offer > demand the allocation mechanism is of minor importance
  - Goal is to strike the right balance between economic viability and competitiveness
Stakeholder feedback from SJWS 2

• Open Season Procedures part should be more prescriptive with timelines – more clarity is needed regarding who decides and when the decision is taken.

• ENTSOG should find workable compromise between WTP per unit of capacity and allowing conditionalities between different bids.

• Stakeholder focus on market competition as well as the need for Long Term commitment for an investment to take place.
I. Products on offer in Open Season Procedures

All relevant provisions of the NC CAM on capacity products apply to products on offer in Open Season Procedures. The following deviations from the NC CAM are admissible:

1.1. **Network user commitments for capacity can be obtained for 15 years as of the capacity becoming useable. Beyond that, commitments for an additional period of up to 5 years can be obtained.**

1.2. **If existing capacity is still available at an Interconnection Point for the years for which binding bids for incremental and new capacity are invited, these capacity products can be included in the offer of incremental and new capacity.**

- Network user commitments for capacity can be obtained for 15 years
- Existing capacity that is still available can be included in the offer for incremental and new capacity
I. Products on offer in Open Season Procedures

1.3. Conditional commitments, for instance across a number of years requested, including or excluding bids at other Interconnection Points, or for a minimum amount of capacity required (fill-or-kill) can be obtained in open season procedures.

1.4. Other deviations than mentioned in articles 1.1, 1.2 and 1.3 will be subject to approval of the concerned National Regulatory Authorities

- Conditionalities should be allowed in Open Season Procedures
- Other deviations should be subject to NRA approval
II. Applicability of Open Season Procedures

The use of Open Season procedures is applicable in cases where an auction process as set out in chapter XX appears not to be a robust approach for realising incremental or new capacity.

2.1.

Open Season Procedures shall be applied when size and complexity are such that the investment decision for incremental and new capacity requires coordination with adjacent Transmission System Operators and network users to manage the inherent risks of the infrastructure that cannot be sufficiently dealt with in an auction procedure. The National Regulatory Authorities shall assess the applicability of open season procedures taking into account each project's uniqueness. The following non-exhaustive list of situations calls for the use of Open Season Procedures instead of auctions:

- OSP can be applied when size and complexity are such that auctions procedures are not sufficient
II. Applicability of Open Season Procedures

The following non-exhaustive list of situations calls for the use of Open Season Procedures instead of auctions:

2.1.1 When the project for incremental/new capacity involves more than one Interconnection point extended across 
more than two market areas;

2.1.2 When conditional bidding is envisaged as described in article 1.4.

2.1.3 When the range of projects is too large to efficiently accommodate all potential market scenarios in an auction;
II. Applicability of Open Season Procedures

The following non-exhaustive list of situations calls for the use of Open Season Procedures instead of auctions:

2.1.4 When a **larger horizon** of user commitments is required as stated in article 1.1.

2.1.5 When an **iterative approach** as described in article XX (3.5.3. in the single economic test chapter) is chosen.

2.1.6 When the development of new or incremental capacity is linked to or influenced by the realisation of an **exempted infrastructure**.
II. Applicability of Open Season Procedures

2.2 TSOs to provide public assessment subject to NRA approval

The involved Transmission System Operators shall provide a public assessment whether an Open Season Procedure is applicable. The decision to use an open season procedure requires the approval of the concerned national regulatory authorities.
III. Principles and processes for the use of Open Season Procedures

The Open Season Procedures shall offer incremental and new capacity in a way that is accessible to the market on a transparent and non-discriminatory basis.

3.1. Open Season Procedures shall aim to satisfy all expressed market demand as long as it passes the Economic Test described in article XX.

3.2. The involved national regulators shall monitor the Open Season Procedures until the conclusion of the project.

- OSP shall aim to satisfy all expressed market demand
- Shall be monitored by the NRAS throughout the process
III. Principles and processes for the use of Open Season Procedures

3.3. The Open Season Procedure shall consist of two phases: a preparatory, non-binding phase and a binding phase.

3.4. To ensure the transparency of Open Season Procedures, the Transmission System Operators in cooperation with the relevant national regulatory authorities shall consult all relevant stakeholders on Open Season Procedures;

3.4.1 With the consent of relevant stakeholders the consultation can be considered sufficient to move directly to the binding phase of the Open Season Procedures

- OSP consists of a non-binding and binding phase
- Transparency must be ensured via the consultation of stakeholders
- Via stakeholder consent possible to move directly to binding phase of OSP
III. Principles and processes for the use of Open Season Procedures

A notice describing the Open Season Procedure shall be publicised to attract interest from stakeholders and be available at least in English. The notice shall contain at least the following general information:

3.5.1. Arrangements in place to assure the confidentiality of the information received from open season participants;

3.5.2. The start and end dates of the time windows for making non-binding and binding bids; How to make non-binding and binding bids;

3.5.3. The Economic Test parameters if available, otherwise the date at which they will become available.

3.5.4. The procedure applied to decide the level of capacity to be offered;

3.5.5. The allocation rules applied;

3.5.6. The date on which capacity allocations will be communicated to Open Season participants;
III. Principles and processes for the use of Open Season Procedures

A notice describing the Open Season Procedure shall be publicised to attract interest from stakeholders and be available at least in English. The notice shall contain at least the following general information:

3.5.7. **Draft of the legally binding agreements**

3.5.8. **The procedures and timetable for the ensuing regulatory approvals**;

3.5.9. **Regional coordination aspects**;

3.5.10. **Mechanisms to deal with cost-overruns**;

3.5.11. **Penalties applied to the Transmission System Operator if capacity is not delivered on time**;
IV. Allocation in case of more market demand than available incremental or new capacity in Open Season Procedures

In the binding phase of the Open Season Procedure the network users express their demand to the Transmission System Operators(s) via bids. These bids contain: the amount of capacity requested, the premium on top of the reserve price they are willing to pay if any, the conditionalities in accordance with 1.4 if any. In case all market demand can be met, all requested capacity will be allocated;

4.1. In case not all market demand expressed via bids can be met while passing the Economic Test, an allocation rule needs to be applied. The allocation rule must be transparent and non-discriminatory.

4.2. When applying the allocation rule, TSOs rank the bids according to the principle of willingness –to-pay.

- In the binding phase users express demand to the TSO via bids.
- TSOs rank these bids
IV. Allocation in case of more market demand than available incremental or new capacity in Open Season Procedures

4.3. When allocating capacity according to willingness-to-pay per year is sufficient to pass the Economic Test, no other allocation rule is required.

4.4. When allocating capacity according to willingness-to-pay per year is insufficient to pass the Economic Test the allocation rule will be willingness-to-pay-per-user meaning the aggregated Net Present Value of all bids of the same network user reflecting the conditionalities, if any, between bids.

- Willingness-to-pay per year is first priority
- Willingness-to-pay per user is second priority
IV. Allocation in case of more market demand than available incremental or new capacity in Open Season Procedures

4.5.

An alternative allocation rule may be applied if the allocation rules are an obstacle to economic viability.
Allocation mechanism - example I

Willingness-to-pay per year (Business rule 4.3)

Regular auction

1) 50 of units are offered in the Open Season, 2 shippers

2) User A requests 15 units for 5 years

3) User B requests 40 units for 20 years and has fill-or-kill

4) User A has the highest bid, but the Economic test fails because User A's bid is not sufficient to pass the test

5) Another allocation rule is needed to proceed with the project
Allocation mechanism - example II

Willingness-to-pay per user (Business rule 4.4)

Regular auction

1) 50 of units are offered in the Open Season, 2 shippers

2) User A requests 15 units for 5 years

3) User B requests 40 units for 20 years and has fill-or-kill

4) NPV of user B is higher than NPV of user A

5) Result: Economic test is passed in case shipper B is allocated all requested capacity

6) Result: Shipper A is allocated all the remaining capacity during the 5 years bid, unless it has a fill-or-kill
Alternative allocation rule is applied

Business rule 4.5

1) 50 units are offered in the Open Season, 2 shippers
2) User A requests 15 units for 5 years
3) User B requests 40 units for 20 years and fill-or-kill is allowed if a shipper gets less than 85% of total requested capacity
4) A is allocated 15 units during 5 years
5) B is allocated 50-15=35 units during first five years and 40 after
6) fill-or-kill is not applicable since B is allocated more than 85% of its request -> Shipper is committed
Conclusions

• Focus on the products on offer in OSP

• Examples of when to use OSP instead of auctions have been refined

• Processes and principles have been further elaborated

• Allocation rule including WTP principle further developed