europex
association of european energy exchanges

Response by Europex

to the

Public consultation by ACER on "Framework Guidelines on Capacity Allocation Mechanisms for the European Gas Transmission Network"

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Answers to questions relevant to the Gas Exchanges

EuroPEX welcomes the Public Consultation by ACER on "Framework Guidelines on Capacity Allocation Mechanisms for the European Gas Transmission Network" and thanks for the opportunity to take part in the consultation.

EuroPEX believes that CAM needs rules and measures that provide a clear framework for the allocation and the creation of interconnection capacities to achieve the objective of a well-functioning, efficient and open internal market.

A sufficient level of cross-border gas interconnection capacity should be achieved and market integration fostered in order to complete the internal market in natural gas.

Gas Exchanges are prime actors in the development and the management of gas and balancing markets in Europe. Therefore, efficient market-based CAM should be designed taking into account the need of harmonizing and integrating the CAM with the gas and balancing markets.

Capacity services

Capacity between interconnected balancing zones (and hubs) should be offered through a common set of firm capacity products, allocation procedures and nomination rules.

Europex agrees on the importance of defining a set of standard products that ensures a mix of long term, medium term and short term available capacity. These products should be defined on a common gas day in Europe which, at a first step, should be the existing EASEE-gas standard, which is implemented by several Member States, namely from 6 A.M to 6 A.M. (CET, GMT+1).

According to the ACER's CAM framework guidelines (article 2.1) the set of standardisation firm capacity services must include yearly, quarterly, monthly, daily and intra-day products. Europex believes that the set of firm capacity products should be harmonised with the set of products traded in the gas markets. In this way, market participants could easily integrate their positions in capacity products with their positions in the gas markets and, consequently, benefits can be obtained in terms of higher liquidity and competition in the wholesale markets.

Europex supports the introduction of a EU-wide definition of interruptible capacity products, which includes a clear identification of standard procedures and cases in which interruptions can take place. Yet, Europex believes that commercialisation of interruptible products should be progressively limited as these products do not participate to the creation of a liquid and efficient wholesale market. TSOs should be encouraged to have a clear vision on the capacity they can make available in order to replace part of the interruptible capacity products by firm capacity products. In case firm capacity products are auctioned via a primary market and a liquid secondary market (or a liquid commodity market) exists, TSOs should be able to buy back capacity that is not available anymore (i.e. in case of curtailment due to not scheduled maintenance, unavailability of an IP or other network conditions issues) through market-based mechanisms (i.e. through secondary markets or gas markets) and, as a consequence, interruptions could be efficiently managed and priced without using interruptible products (as it currently happens for electricity capacity products). In this case, more firm capacity is available for the market participants and TSOs are encouraged to improve their prevision tools. Therefore, existence of interruptible capacity products should be limited to specific cases or to borders where liquid markets for capacity are not developed yet.

Europex agrees that an adequate amount of capacity should be reserved for firm short-term capacity products, in order to lower barriers for new entrants, discourage capacity hoarding and foster wholesale market liquidity. The assessment of the share of capacity reserved to short-term capacity products should be done per each border, according to the peculiarities and other elements of each market.

The capacity offered through each product should be increased by not-allocated capacity during previous auctions of longer-term products, while capacity offered with day-ahead products should be increased by not-allocated capacity during previous auctions of longer-term products and by a part of not nominated capacity.

The allocation procedures set out by the NC shall ensure to offer all available capacity in a transparent and non-discriminatory manner with adequate allocation mechanism as long and short-term firm capacity services and as interruptible capacity services as long

as possible (par. 2.3). That prevents that TSOs stop allocation after a minimum number of auctions irrespective the cases when capacities would be still available on a day-ahead/within-day basis. Hence, the efficiency of capacity allocation could be enhanced and markets could be coupled in a longer timeframe.

Cross-border services

Europex believes that capacity at interconnection points should be allocated as bundled products, supported by the adoption of an entry-exit system in each hub (no allocation for single IP).
By integrating several IPs in the same allocation and nomination procedure, bundled products reduce complexity for shippers, help to reduce transaction costs in cross-border trading and facilitate the integration between adjacent markets.
In order to progressively bundle the entire technical capacity at a given border, allocation of capacity products for single IPs should be allowed only during a pre-defined transitory period and subject to NRA's approval.

Capacity allocation

Europex believes that allocation of cross-border capacity should be based on market-based mechanisms, which increase competition, enable not discriminatory access to network and provide system users with clear and efficient pricing signals.
Auctions are the most economically efficient allocation method for capacity and can be implemented both in form of explicit and of implicit methods (market coupling).
Impact of introduction of market-based CAMs on TSOs' congestion revenues should be taken into proper account in the network tariff design, in order to maintain sufficient revenues to invest in new capacity infrastructures.
Explicit auction should be used for long term and short term products, with exception for day-ahead and within-day frame.
With regard implicit methods (market coupling), by integrating capacity allocation and gas trading in the spot market, is the most efficient method for short-term (day-ahead and within-day) capacity product allocation and for congestion management. As real time approaches, it becomes increasingly difficult for market participants to coordinate their gas and capacity positions if these are defined on separate markets, as it is the

case with explicit auctions. By integrating capacity allocation and gas trading, implicit methods overcome these inefficiencies, provide consistent price signals and ensure that the available transfer capability is fully used, subject to demand.
The design of implicit methods should reflect peculiarities of gas markets and should be developed on the basis of the experience and the outcomes of pilot projects and on the basis of market participants' needs.

However, the scope of NC(s) has/have to be limited to auctions of capacity products only. If auctions for gas trading are subject directly or indirectly (implicit auctions) that would affect market parties, particularly Energy Exchanges, beyond the jurisdiction of NCs and FGs (par. 3.1.1)

In order to foster the flexibility and liquidity of the capacity products and of the secondary capacity markets, a cascading and shifting mechanism for longer term products should be adopted. Under the cascading mechanism, a longer term product, when it comes into its delivery period, is split into its corresponding shorter-term products (i.e. a position on the yearly contract is split into equivalent positions on contracts with shorter maturity, monthly and quarterly).

Reserve price in auctions of firm and interruptible capacity should be limited to the allocation of long term capacity products. No reserve price should be used for short term capacity products (par. 3.1.2).

Within-day capacity could be introduced at every border and offered by combining adjacent continuous trading gas-markets (eventually without congestion rent for not congested borders). FCFS should be limited to the case where not all capacity is allocated via the previous auction. It should be taken into account that FCFS is time-preferred in contrast to the price-preferred auction.

Efficient market-based CAMs for capacity could rely on centrally cleared market platforms, possibly integrated at EU level, following a step by step towards a single pan-European booking platform. Moreover, capacity booking platform(s) should be eventually integrated with wholesale gas markets, provided by Gas Exchanges, in order to ensure reduction in transaction costs to market participants.

Europex considers important the adoption of an interim period before the implementation of the final design for the CAM, provided that this interim period is clearly pre-identified, in terms of duration and procedure, with a clear roadmap towards the implementation of the final design and subject to NRA's approval.