


ACER

 Agency for the Cooperation
of Energy Regulators

Pilot project: Bundled capacity allocation at Austria/Italy IP

Updates on project and outcomes of
consultation



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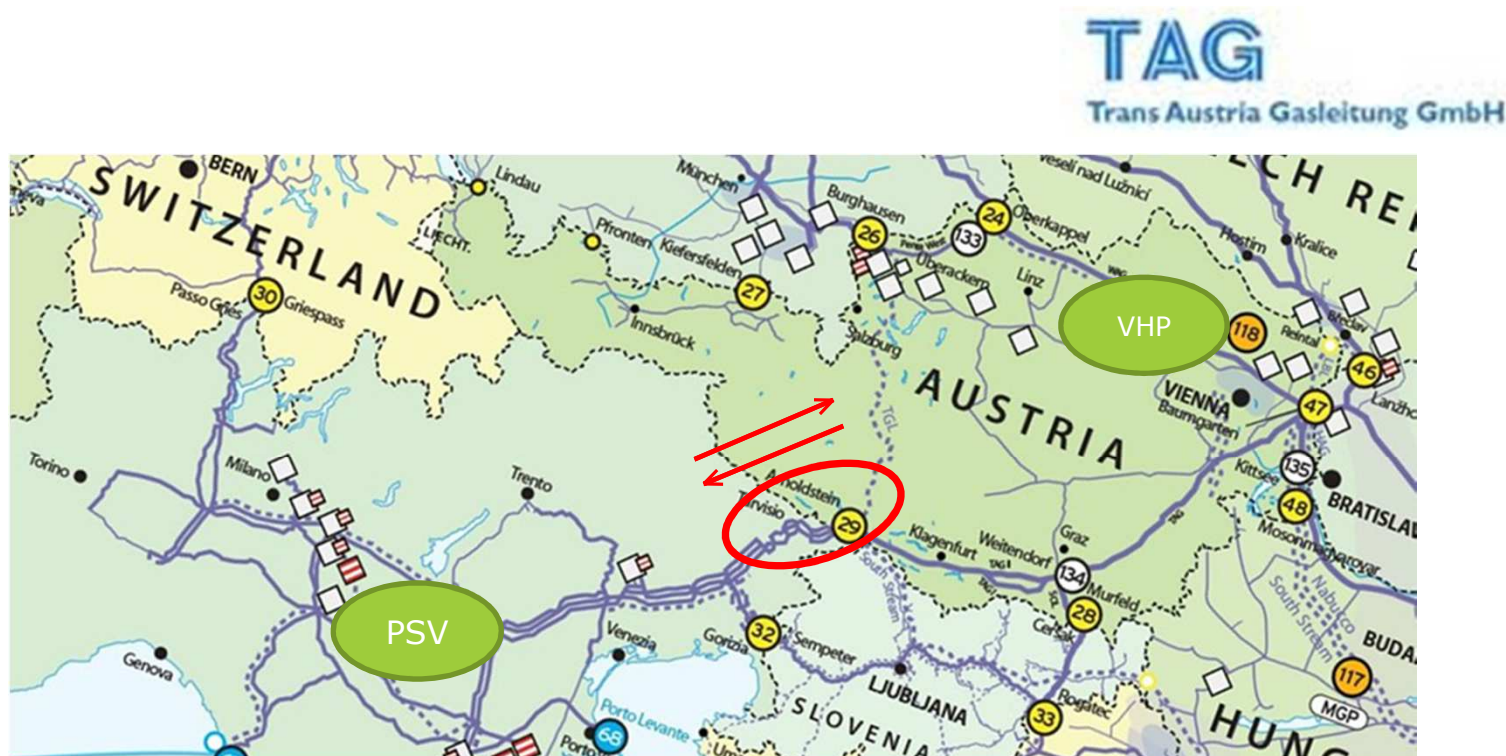
GRI SSE – MILAN, 5 December 2012

05/12/2012

The GRI SSE work program

- Proposal for a coordinated allocation of daily capacity **in 2012**
- Definition of a bundled capacity product to be allocated by explicit auctions in order to connect PSV and Baumgarten **in 2013**
- Strong involvement of the 2 involved TSOs: TAG and Snam Rete Gas

- **On the Austrian side:** TAG started auctioning day ahead interruptible capacity
- **On the Italian side:** modification of the rules to use the entry capacity at Tarvisio so to allow shippers to nominate extra amount of capacity according to the results of the TAG's daily auction
- Good acceptance by shippers, some price convergence measured between VHP Austria hub and PSV



SNAM RETE GAS

Guidelines by NRAs

- E-Control Austria and AEEG joint task force agreed on the guidelines
- The Guidelines were sent to TAG and SNAM for comments
- Parallel market consultation for 3 weeks

Guideline milestones

- Based on **CAM NC**
- **Joint booking platform** with primary and secondary functionalities
- **Capacity on offer:**
 - ✓ Firm Daily (made available by primary shippers and by TSOs)
 - ✓ Interruptible if no daily firm capacity available or sold out
- **Auctions** based on **reserve price** (sum of regulated tariff on both sides) as starting price
- **Auction revenues:**
 - ✓ The revenues from the Reserve Price of Bundled Capacity shall be attributed to the TSOs proportionally to the Reserve Prices of their capacities in the Bundled Capacity.
 - ✓ The revenues from the auction premium from Bundled Capacity above the Reserve Price shall be split according to agreement between the TSOs, approved by the relevant national regulatory authority.
 - ✓ In case of no agreement, the revenues from the auction premium shall be attributed to the TSOs in equal proportions and shall be used according to the decision of the relevant National Regulatory Authority.

Guidelines 'questions

Q1. What kind of secondary market functionalities would you recommend to be made available to market participants? How should the outcomes of secondary trading be integrated in the primary capacity auctions?

Q2. The timing of the auctions will follow the current timing set in the network code on CAM (15.30 – 16.00 CET), do you consider it appropriate according to the usual trading activities at the interconnected hubs?

Q3. With reference to point 7.3*, do you consider appropriate the proposed economic arrangement in case of surrendered capacity?

Q4. Do you consider instead more appropriate, that the whole clearing price of the auction will be granted to the primary shippers in order to stimulate their surrendering of unused capacity?

- 10 comments (2 classified confidential)
- market participants: 2 Austrian shippers, 4 Italian, 1 German, 1 Norwegian, 1 Danish, 1

**Shippers that have surrendered capacity according to point 2.2.4 of Annex I to Regulation (EC) No 715/2009 and whose surrendered capacity has been allocated, shall be released from their payment obligations under the capacity contract.*

Q1. What kind of secondary market functionalities would you recommend to be made available to market participants? How should the outcomes of secondary trading be integrated in the primary capacity auctions?

- Primary and secondary market should be strictly separated although the trading outcomes should be fully integrated
- European Capacity Platform (“NewCo”) should be used:
- One auction (day-ahead capacity) in the secondary market each day.
- For long term capacity it should be possible to sell unused capacity back to the TSO or transfer capacity to other traders using a recognized auction platform where capacity can be split in time and volume.
- no need to establish secondary market
- As a starting point TRAC-X: auction, buy-it now, search and keyed sale/buy procedures; traders list to restrict trading to selected counterparties; standardized sublet/assignment contracts;
- the secondary market functionalities comprise both a bulletin board where shippers can freely publish announcement of capacity subletting they are auctioning on their own and some trading formats (e.g. SMP auction, uniform price auction, multi-round ascending clock auction) allowing for capacity trade directly on the platform

Q2. The timing of the auctions will follow the current timing set in the network code on CAM (15.30 – 16.00 CET), do you consider it appropriate according to the usual trading activities at the interconnected hubs?

- the timing set in the network code on CAM is generally appropriate since the NC comes into effect (**all mp**)
- Until then, the full benefits of day ahead bundled capacity release are unlikely to materialise, as even in the most competitive markets liquidity currently tails off significantly after 17:00 CET. Propose for a slightly earlier timing of the auctions (for instance, 15.00-15.30). This would in turn allow traders to act on the basis of the auction results when day-ahead markets are still open, granting shippers more flexibility and ultimately increasing market efficiency and liquidity. (**8 mp**)
- the proposed timing (15:30 – 16:00 CET) is appropriate and interruptible capacity auctions should start afterward (**2 mp**)

Q3. With reference to point 7.3, do you consider appropriate the proposed economic arrangement in case of surrendered capacity?

Q4. Do you consider instead more appropriate, that the whole clearing price of the auction will be granted to the primary shippers in order to stimulate their surrendering of unused capacity?

- to recognize the **clearing price** (whole or a part of it) **to the shipper** in order to stimulate the functioning of the mechanism. **(4 mp)**
- We support in particular arrangements that **maintain an incentive on primary holders to offer unused capacity** on the secondary market, therefore any solution that may have a **distortionary effect** or to remove the incentive to offer unused capacity on the secondary market **should be avoided**. **(1 mp)**
- It should be **avoided** in particular that shippers are incentivized to book long term capacity in excess to their needs on the basis of the fact that this activity produces **extra-profits** **(1 mp)**
- For **short-term capacity** does not support the introduction of reserve prices, → **against market-based principles** and the concept **of market value for capacity**. In case of reserve prices to recover only the actual costs incurred for the previously booked capacity and not the whole clearing price arising from a secondary allocation. **(1 mp)**
- any premium proceedings should be used to either **lower the regulated tariff** or to **increase the availability of capacity**. **(1 mp)**

Constraints underlined by shippers:

- SNAM network code requires that a network user has in place an 'import contract' when submitting a request for capacity allocation.
- Italian legislation requires network users to declare at least 30 days in advance their intention to 'import' gas into Italy and ex-post a declaration of in flowed gas
- Network users are not able to re-nominate entry capacity at the Austrian/Italian border after 13:00 CET on D-1. (Re-nominations are possible until 19 only in case of reformulations of the programs asked by Snam for operative problems in order to meet minimal requirement of TAG day-ahead)

Regulators: The current regulatory/legislative framework in Italy needs to be amended in order to introduce efficient day ahead allocations, AEEG is already working in removing potential constraints

Other requests:

- **SNAM should offer** network users and traders a **time window after conclusion of the day ahead bundled auctions** to register transactions at PSV.

Regulators: Already today this possibility is offered to market participants (Italian intraday and Balancing markets)

- The **timeline set in the CAM NC** and the proposed day-ahead auction guideline, cannot be supported due to the **lack of liquidity of spot markets in the late afternoon**. Bringing forward of at least one hour and a half the timing of the auctions, would allow traders to start re-nominations earlier and give shippers more flexibility and ultimately increase market efficiency and liquidity.

Regulators: Preferable to keep the same timing as set in the CAM NC and adopted by the Joint Platform, market liquidity will follow

Next steps:

- **Joint formal approval** of the guidelines by NRAs and request to the TSOs to comply with them
- **Implementation** and monitoring of TSOs activities 1Q 2013
- 1.4.2013 **go live** of bundled day-ahead product allocation



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THANK YOU !



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BACK UP

Main concerns on the current situation

- It is not a coordinated mechanism (auction management, capacity calculation, interruptions management...)
- Only interruptible capacity available at present
- Auction at D-1 on the basis of primary shippers nominations at D-2
- Auction design not fully in line with CAM provisions (pay as bid)

the way followed

- E-Control Austria and AEEG have established a joint task force to design the main features of the evolution of the current arrangement
- The target is clear and based on the CAM network code (text not yet binding)
- Not all the provisions of the CAM code are implementable in the short term → need to identify also an intermediate step of development
- The intermediate step is going to be developed by the TSOs on the basis of joint guidelines issued by the regulators upon consultation of mkt participants