

Robert Spencer
Head of Gas Regulation, NMA
By email



5th November 2012

Dear Robert,

CEER Consultation on Implicit Auctions

We welcome the opportunity to respond to your consultation on Implicit Auctions and look forward to the presentation of your conclusions at the forthcoming GRI meeting. To begin with, we would like to congratulate the NMA and the presenters for an engaging workshop on the subject in mid October; the format worked very well to get lively discussion on what could be a dry subject, and we would encourage other workshops to be run in a similar manner. In summary, we favour waiting to see the effectiveness of CMP in making capacity available before considering progressing the idea of a pilot for Implicit Auctions.

We support the idea within the Gas Target Model of the development of liquid regional trading hubs, but do not consider that Implicit Auctions (IA) will maximise their development. Indeed, one of our primary concerns is that by creating theoretical "trading perfection", discretionary gas that is available to the short term market (DA, WD) will mainly be absorbed at the Day Ahead stage. This will reduce activity and liquidity in the critical within day market, which should set the reference "Market Average Price" for gas. Proper consideration of the impact of IA on the Balancing Network code needs to take place.

Secondly, the experience of GRTgaz / Powernext for their PEG Nord / PEG Sud IA is dependent on the TSO transacting through an exchange, rather than having full access to the best market prices. This creates a market distortion, because OTC transactions are dominant in most markets (even in France, the split is roughly one third exchange; two thirds OTC) and likely to have better bids / offers on most occasions. The best available market prices should be utilised rather than only considering a suboptimal subset of prices available. It is also not compelling that the TSO needs to be one of the contractual parties to (as opposed to the need to facilitate) the transaction and this is an area where it would be useful to discuss further. We observe that GRTgaz capacity constraints also appear to lead to premium prices being earned for the capacity being released through the Implicit Auctions.

Finally, we are concerned that the reserve price being used to justify the welfare benefit is zero. We do not support the use of zero reserve prices, because it serves to undermine the capacity rights (and ability to trade on the secondary market) of long term holders of capacity. It also tends to lead to a "flight from firm" which in turn leads to revenue under-recovery by TSOs and the need to recover costs in a manner which tends to discriminate against the long term holders of capacity (i.e. paying twice, either through commoditisation or higher annual tariffs).

We trust these comments are helpful, but please feel free to get in touch if you would like a further discussion on these issues.

Yours sincerely

Mark Dalton
European Regulation Manager