

ACER - ENTSOG Public Consultation

on

**the FUNC issue: how to ensure greater flexibility to
book firm capacity at interconnection points**

PC_2022_G_06

Evaluation Report

11 October 2022

1. INTRODUCTION

1.1 Background

The evaluation of the responses was prepared following the survey of ACER/ENTSOG in the framework of the workshop held on 27 June 2022 on the FUNC issue ID 01/2020: “How to ensure greater flexibility to book firm capacity at interconnection points”. The link to the survey is the following: https://surveys.acer.europa.eu/eusurvey/runner/EFET_WSsurvey

1.2 Purpose and objectives

This survey was designed to collect data and information from stakeholders to evaluate options presented at the workshop and collect additional information.

1.3 Intended users and use

The workshop discussions and the information collected through this survey form input, in addition to other materials and the legal framework, for ACER and ENTSOG to complete the FUNC issue in the form of a solution note.

1.4 Evaluation team composition

Evaluation team consists of ACER and ENTSOG.

1.5 Timeline

The survey lasted from 1 July to 18 August 2022.

2. PROCESS

On 27 June 2022, the EU Agency for the Cooperation of Energy Regulators (ACER) and the European Network of Transmission System Operators for Gas (ENTSOG) hosted a **workshop** to discuss possible solutions to address the FUNC issue: “How to ensure greater flexibility to book firm capacity at interconnection points”. Additionally, the urgency of making a change in capacity allocation was also discussed.

To assist in the decision-making process, ACER and ENTSOG opened a public consultation to continue the collection of more detailed inputs from stakeholders. Feedback on the points mentioned below was particularly welcomed:

- how to assess the potential costs and benefits of the proposed solutions
- how to assess the examples demonstrating how a change would benefit the market
- assessment of how a more adequate capacity allocation can address the current gas market challenges

3. STAKEHOLDER ANSWERS

10 responses were received, out of which 2 were excluded from analysis

- 1 TSO
- 1 fake participant

The 8 valid responses were provided by:

- 6 shippers (Equinor, Engie, ENI, and 3 respondents who wish to remain anonymous)
- 1 association (EFET)
- 1 gas exchange platform

The public consultation included both questions where the participants were asked to provide a rating or vote (statistical question) and questions where participants were asked to provide free text answers that were then interpreted by ACER and ENTSOG to categorise them (interpreted question). The different types of questions, 'statistical' or 'interpreted', have been marked throughout the report.

The respondents were asked to evaluate the different proposals to have greater flexibility for booking firm capacity at interconnection points.

EFET proposal: Supplementary Uniform Price Algorithm (UPA) auctions for yearly, quarterly, and monthly products would be held for any capacity remaining unsold after the first relevant CAM NC Ascending Clock Algorithm (ACA) auction, up to the point where the capacity becomes usable. Monthly ACA auctions are scheduled earlier, on the 1st Monday of the month.

ENTSOG Proposal 1 – Shorten the bidding rounds of ACA: With shorter bidding rounds¹, more bidding rounds could be held within the same timeframe. The concrete runtimes of bidding times might not have to be defined in the code; NC CAM could state they have to be published in connection to when the auction calendar is produced, for example. This would make NC CAM more flexible, and we could more easily/faster react to changed market conditions.

ENTSOG Proposal 2 – “Light” alternative to EFET proposal: Adjust the CAM NC auction calendar dates by postponing the annual yearly, quarterly and monthly ACA auction closer to the start of the product. Can be combined with:

- Additional monthly auctions
- Subsequent to ACA or by using UPA in substitution of ACA (If ACA stays, shortening rounds could also be considered (see proposal 1))

ENTSOG Proposal 3 – “Full” alternative to EFET proposal (respecting current cascading rules): Follow the current CAM NC calendar for yearly, quarterly and monthly products and introduce additional auctions. Maintain auctioning through ACA of the annual yearly auction, then offer yearly products on a continuous² basis till the auction date of the

¹ for example 30 min instead of 1 hour between bidding rounds and/or reduce the time of the first bidding round from 3 to 1 hour, and the subsequent ones from 1h to 30 min.

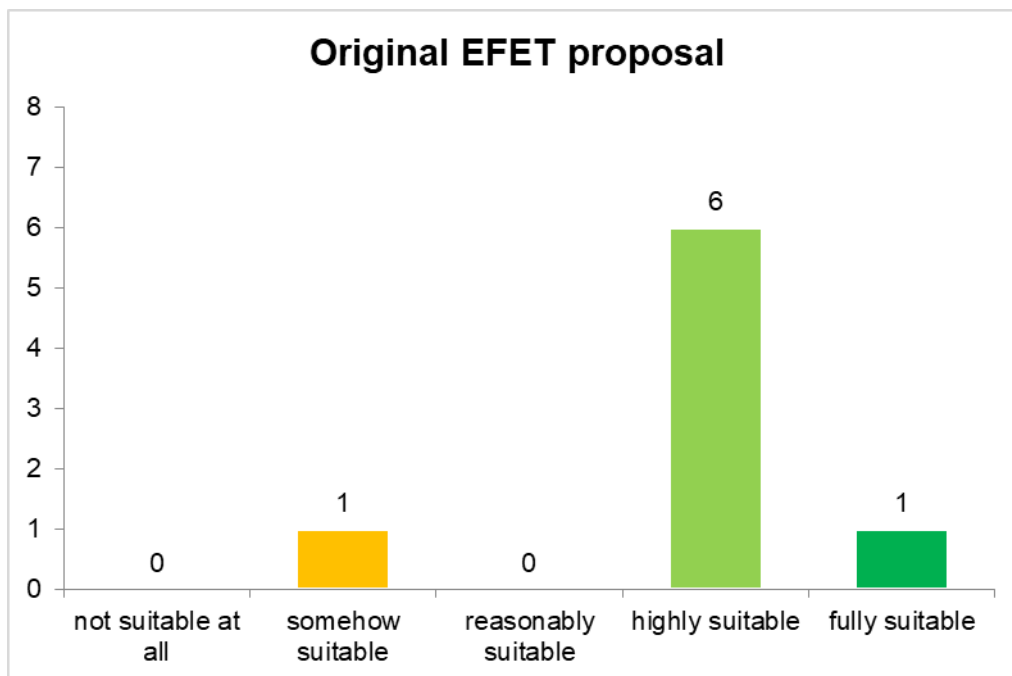
² Continuous auctions = while there is still available capacity, sell in successive sessions – continually – after the initial ACA.

next shortest product starts. Monthly³ and quarterly products would be offered through UPA from the start and then also be offered on a continuous basis. DA and WD auctions remain the same. No changes to set-aside rules. Interruptible could also still be offered if firm capacity is not offered at all, sold out or sold with auction premium.

Q.1.1. Original EFET proposal: please rate the proposal from 1 to 5. How do you evaluate the proposal? (statistical)

- 1 “somewhat suitable” (Equinor)
- 6 “highly suitable” (AP1, AP2, EFET, Engie, ENI, AP4)
- 1 “fully suitable” (AP3)

The EFET proposal provides the most flexibility/opportunity (all), one respondent was in favour of having M auctions organised as early as possible in M-1 (AP2) while another prefers having M auctions in the second half of M-1 (ENI), another participant stressed that too repetitive UPA can weaken competition (AP4).



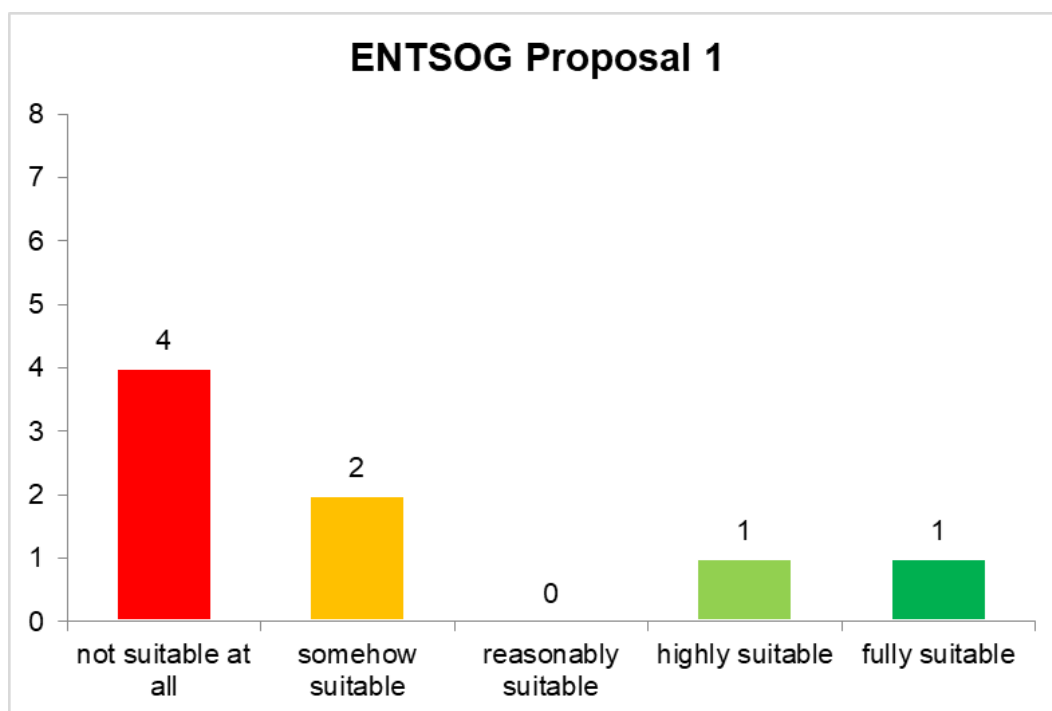
Q.1.2. ENTSOG Proposal 1 “Shorten the bidding rounds of ACA”: please rate the proposal from 1 to 5. How do you evaluate the proposal? (statistical)

- 4 “not suitable at all” (Equinor, EFET, Engie, ENI)
- 2 “somehow suitable” (AP2, AP4)
- 1 “highly suitable” (AP3)
- 1 “fully suitable” (AP1)

Some participants are in favour of shorter bidding rounds (AP1, AP3), others not (Equinor, AP2, Engie, ENI, AP4) as it could become challenging for shippers bidding at several IPs, and also makes the

³ The auctions for the monthly products cover the period of the previous longer-term product, e.g., after ending the offer of Q4, M10, M11, M12 would be offered at the same time (at ‘original’ offer date of M10).

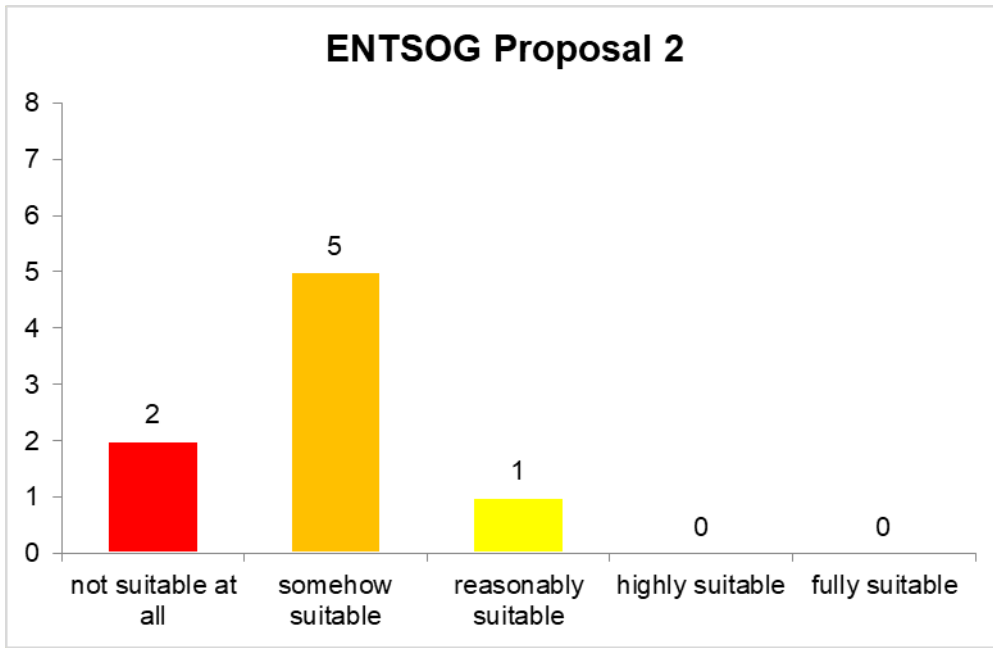
allocation process more vulnerable to errors. Some participants have mentioned that revised price steps are better to tackle the issue of ACA lasting too long (EFET, Equinor).



Q.1.3. ENTSOG Proposal 2 “Light” alternative to EFET proposal”: please rate the proposal from 1 to 5. How do you evaluate the proposal? (statistical)

- 2 “not suitable at all” (Equinor, AP4)
- 5 “somehow suitable” (AP2, EFET, Engie, ENI, AP3)
- 1 “reasonably suitable” (AP1)

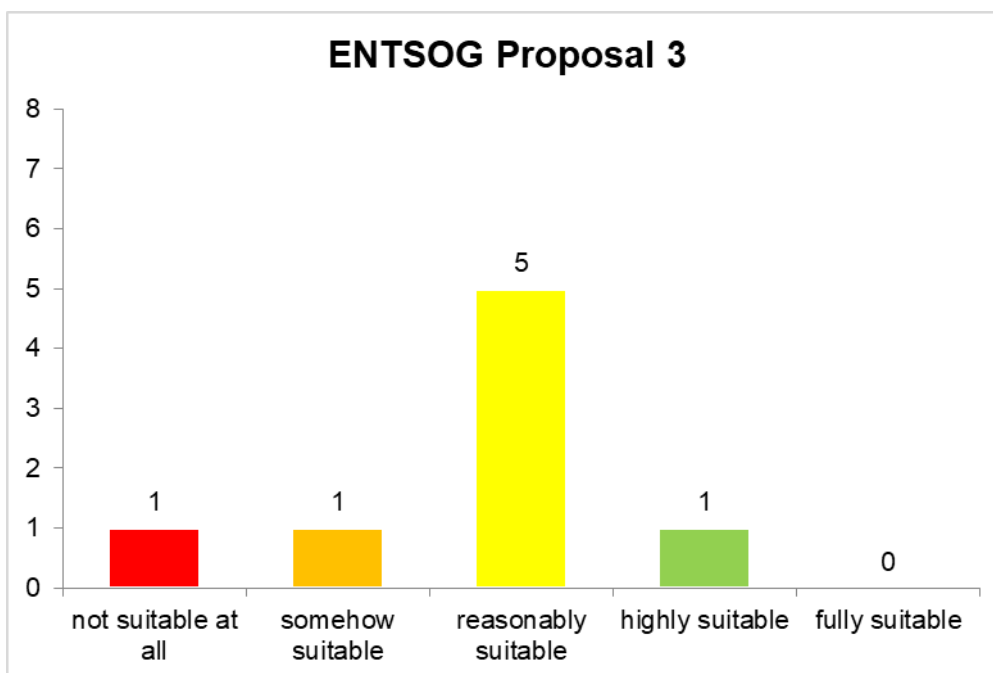
Most participants are not in favour of postponing ACA auctions (Equinor, EFET, Engie, AP3, AP4, AP2, ENI), some believe it is better to keep the initial dates and add additional auctions (EFET, Engie). Some respondents expressed themselves in favour of postponing Y & Q (ENI) and even M auctions (AP2).



Q.1.4. ENTSOG Proposal 3 “Full” alternative to EFET proposal: please rate the proposal from 1 to 5. How do you evaluate the proposal? (statistical)

- 1 “not suitable at all” (Equinor)
- 1 “somehow suitable” (AP1)
- 5 “reasonably suitable” (AP2, EFET, Engie, ENI, AP4)
- 1 “highly suitable” (AP3)

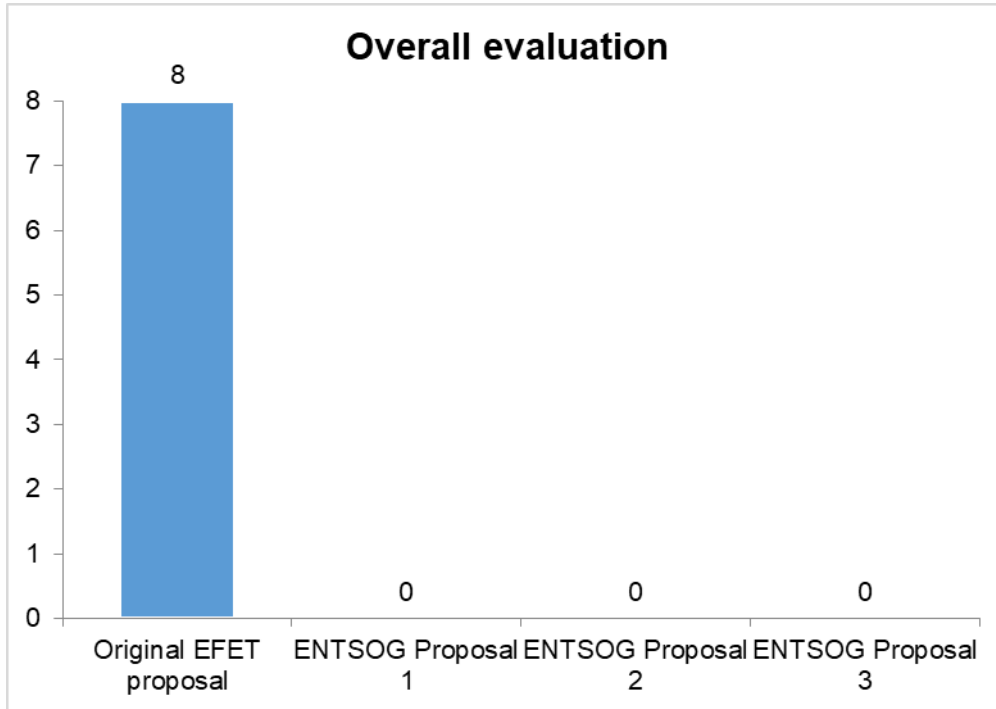
Although some participants are positive to aspects of the proposal (additional auctions, additional UPA on continued basis), all oppose replacing the initial ACA with UPA, as it removes the element of price discovery & bid adjustment (highly valued by shippers). Some participants especially welcome the proposal to auction of all M products within a Q after the initial offer of that Q (EFET, Engie, and ENI).



Q.2. Overall, which proposal covers your needs in the best way? (statistical)

All respondents believe the EFET proposal overall covers their needs in the best way.

The EFET proposal is considered by the participants as striking the right balance and offering additional opportunities and flexibility for shippers while safeguarding the current CAM rules.



Q.3. Do you believe any of ENTSOG’s additional proposals could optimise capacity allocation in the current market situation?

Brief introduction to ENTSOG's additional proposals:

- UPA for all products from the beginning (replacing ACA), but no additional auctions
- For ACA with long duration, step out from the ACA, opening a UPA
- UPA rules: replace pay-as-clear (UPA) with single round pay-as-bid or pay-as-clear UPA with one bid
- WD auctions: first round of WD auction for 24h products to finish earlier and introduce additional WD24 after

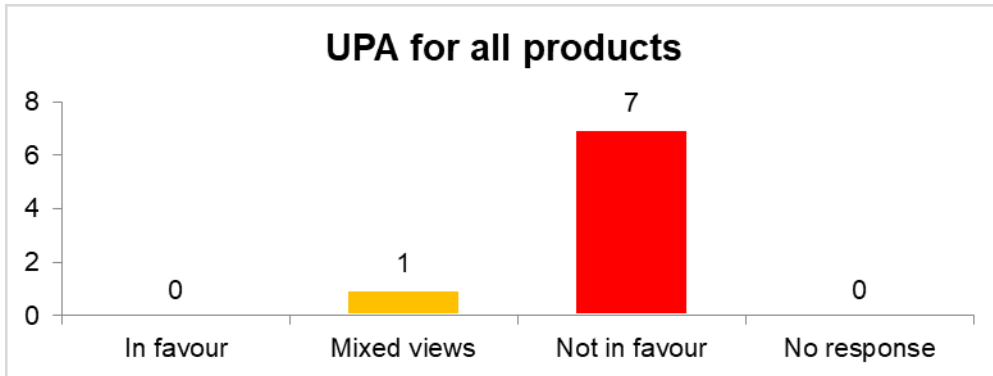
Options addressing request for seasonal products and additional runtimes:

- Add auctions for remaining days of the month on a day-ahead basis
- Auctions spanning 2 gas years

Q.3.1. UPA for all products from the beginning (replacing ACA), but no additional auctions. (interpreted)

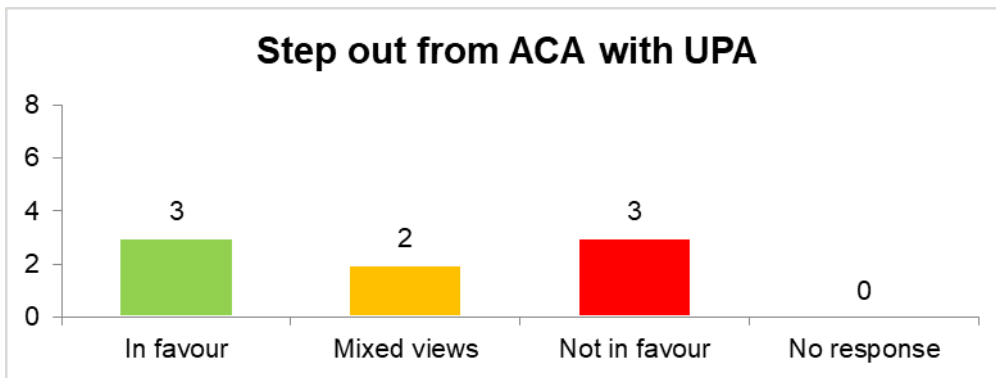
All but one (AP4) of the respondents are opposed to eliminating the ACA auctions and replacing it with UPA. There is a clear consensus to keep ACA as it is seen as providing elements of price detection and bid adjustments, which is highly valued by shippers and

traders. AP4 expressed mixed views, estimating that removing ACA could optimize the allocation process by accelerating it.



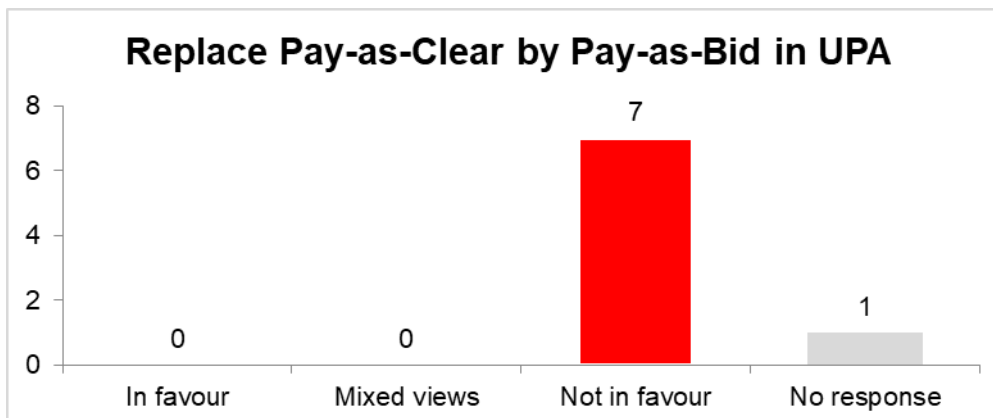
Q.3.2. For ACA with long duration, step out from the ACA, opening a UPA (interpreted)

3 respondents tend to agree with this proposal, stating it is worth analysing (AP2, AP3) or a highly suitable proposal (AP4). 3 respondents are not in favour (AP1, Equinor, ENI) and 2 have no clear opinion (EFET, Engie), the reason being that they consider more appropriate and efficient to have a more dynamic approach to the setting of the level of price steps.



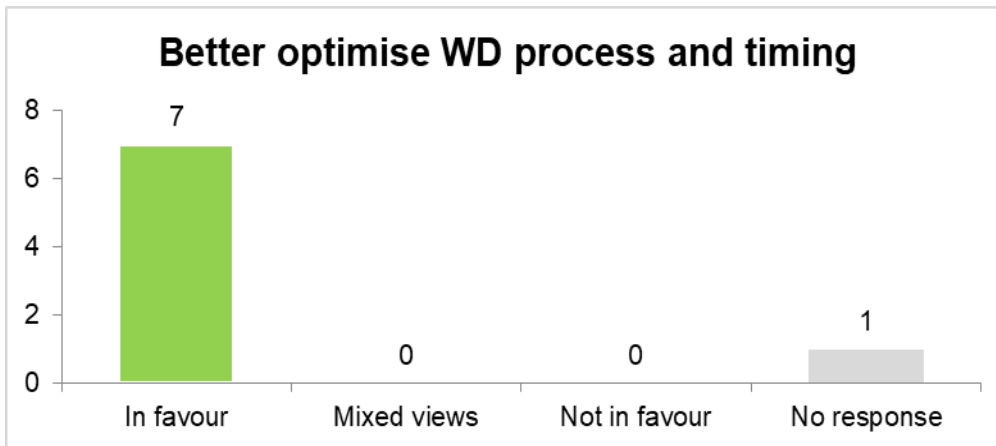
Q.3.3. UPA rules: replace pay-as-clear (UPA) with single round pay-as-bid or pay-as-clear UPA with one bid (interpreted)

None of the respondents is in favour of moving away from pay-as-clear in UPA auctions. There is a clear consensus to keep pay-as-clear in UPA auctions: pay-as-bid would end-up allocating the same product at different prices (Equinor, EFET, Engie, AP3) which is considered discriminatory (EFET, Engie, AP3, AP4).



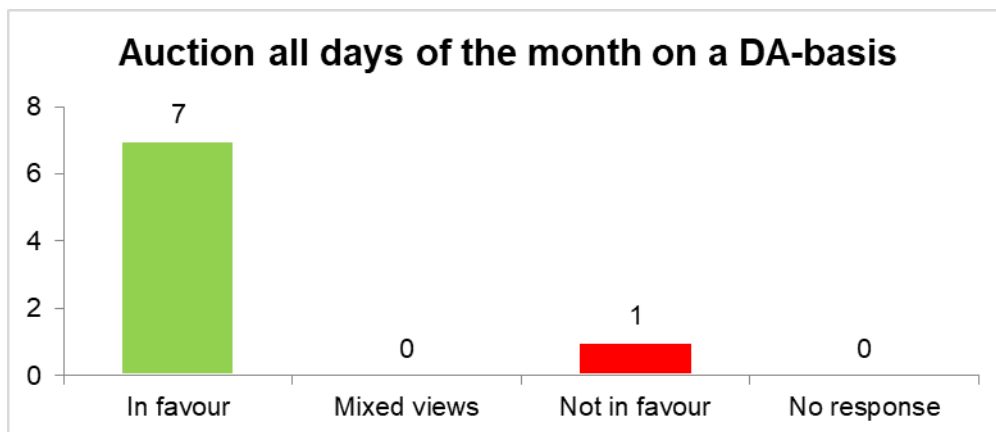
Q.3.4. WD auctions: first round of WD auction for 24h products to finish earlier and introduce additional WD24 after (interpreted)

All but one of respondents are in favour of reviewing the WD auctioning timing in order to better optimise it. AP4 has no opinion as it states it does not participate to WD process.



Q.3.5. Options addressing request for seasonal products and additional runtimes: Add auctions for remaining days of the month on a day-ahead basis (interpreted)

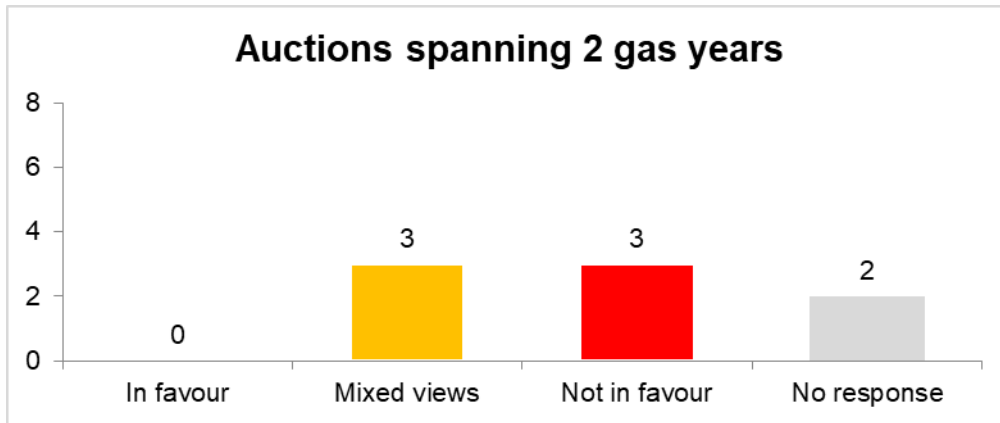
All but 1 of the respondents are in favour of introducing auctions for all remaining DA products within a month, seen as enhancing capacity booking flexibility and allowing a better matching with commodity markets. Only one respondent is not in favour of this proposal, as it sees it as introducing too much complexity (Equinor).



Q.3.6. Options addressing request for seasonal products and additional runtimes: Auctions spanning 2 gas years (interpreted)

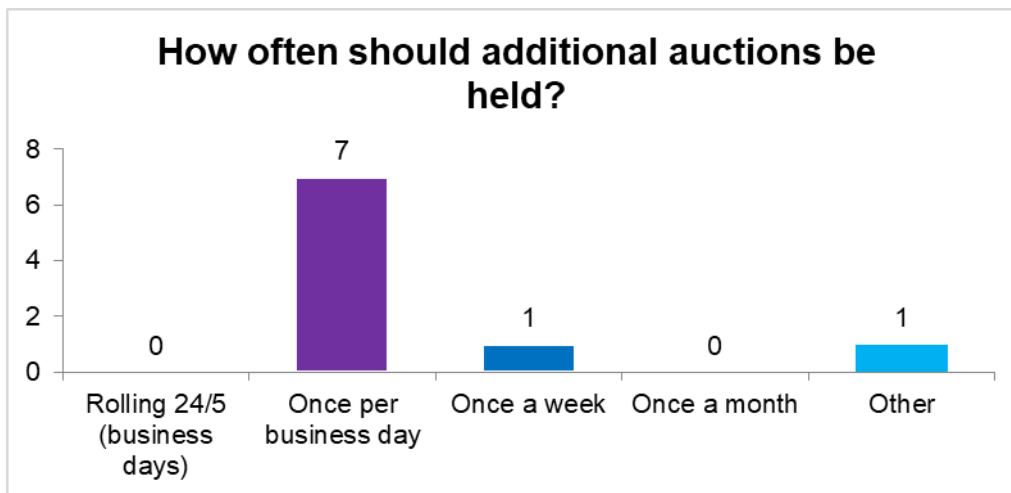
3 respondents are clearly not in favour of this proposal (AP1, Equinor, AP3). Among the 3 other respondents, EFET and ENI see merit in auctioning Q products up to 2 years in advance, but see this would undermine the cascading principle. AP2 does not understand the novelty of the proposal (already possible to book multi annual Y products).

Overall, no clear favourable opinion was expressed, however, given the nature of some responses, some respondents might have partially misunderstood the proposal.



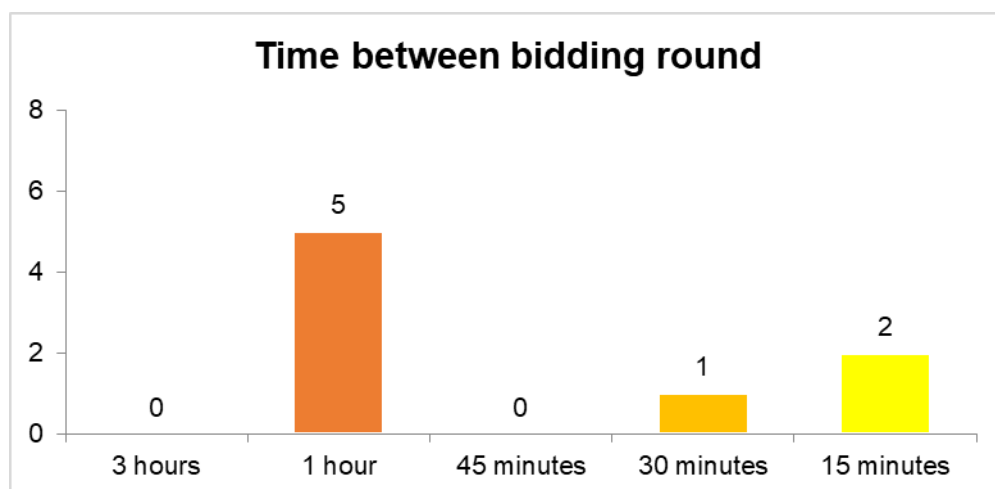
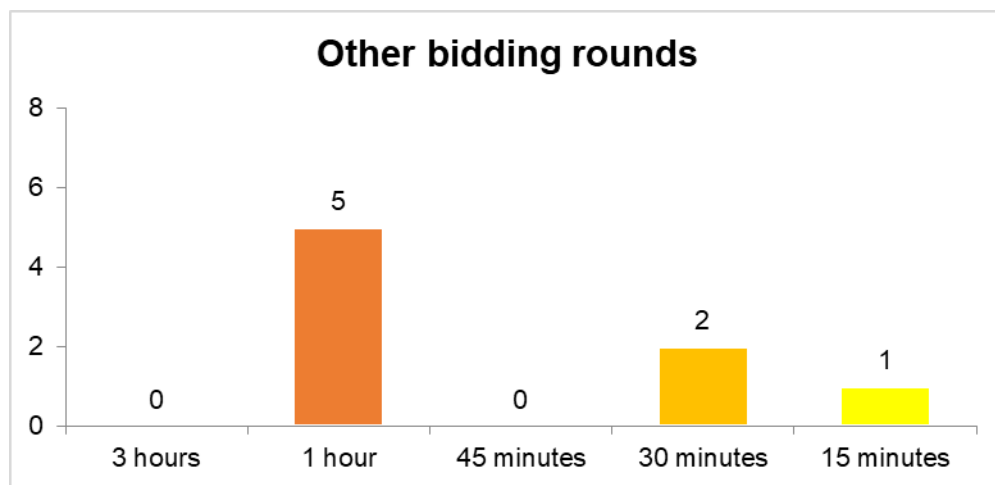
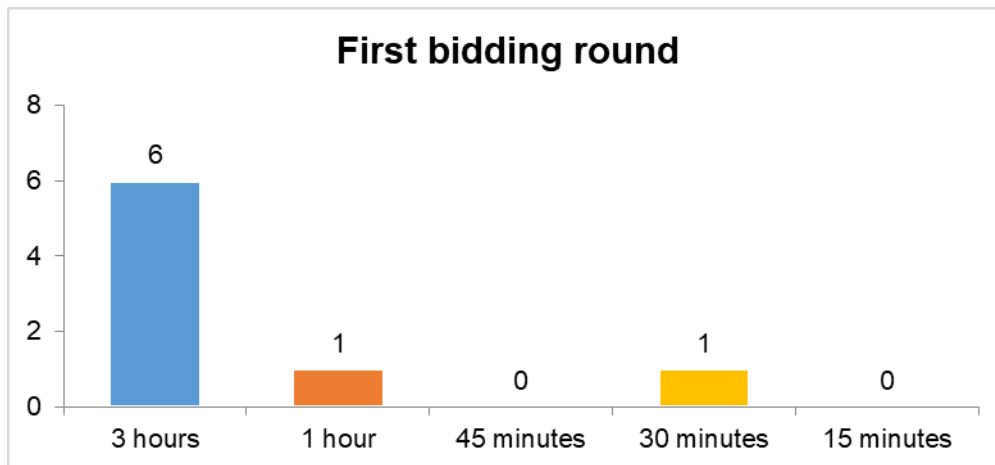
Q.4. If additional auctions were to be introduced, how often should they be held? (statistical, multiple choice)

Most of the respondents are of the opinion that additional auctions should be held once per business day; it is seen as striking the right balance, in line with the day-to-day evolution of spreads, allowing to react to price signals. While most respondents only chose one option, AP4 answered “once per business day” but also “once a week”. EFET proposes, alternatively, to have additional auctions “once a week” for Y&Q, and “once a business day” for M products, if it is deemed too complex to implement once a business day for all products. EFET also sees “rolling 24/5” as equivalent to a first-come-first-served (FCFS) allocation. One respondent (AP1) believes the frequency should depend on the product.



Q.5. Most appropriate sequence of bidding rounds to organise an ACA. (statistical)

Overall, respondents consider current timings as appropriate (Equinor, AP2, EFET) and see more value in better-set price steps (EFET, Engie). Only AP3 calls for shorter bidding rounds as a better option than larger price steps.



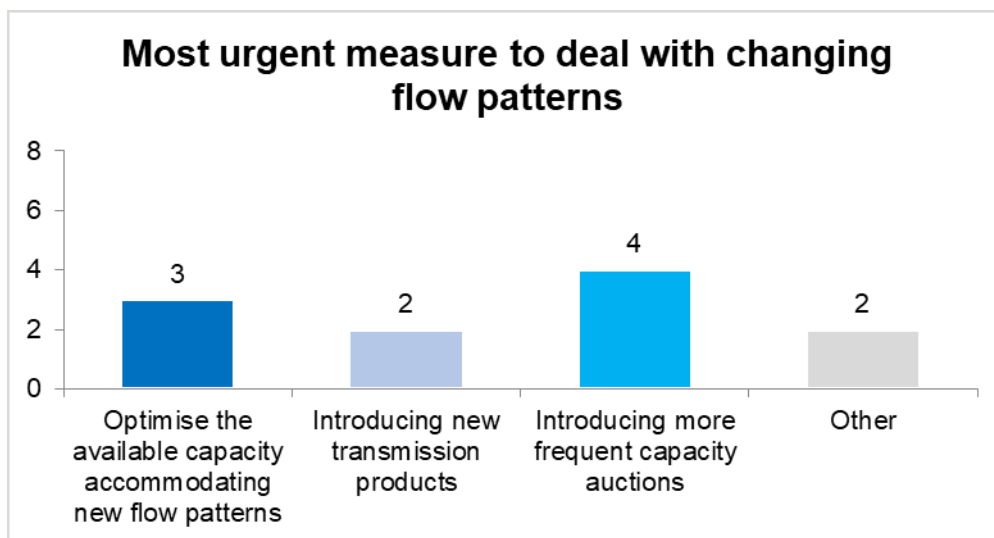
Q.6. What challenges do you see in the changed supply pattern that increasingly relies on LNG imports? How could CAM & CMPC rules optimise the use of the existing transmission network to bring LNG to the markets in case of changed flow patterns? Which measures would help to facilitate increased LNG imports? (interpreted)

- Dynamic reallocation of capacity is considered appropriate by 2 respondents (AP1, AP2), while one (Equinor) finds it not sufficient to cope with the issue, calling for more investments in new capacity.
- One respondent (AP1) considers systematic use of DA-UIOLI relevant.
- For two respondents (Equinor, EFET), current allocation rules are seen as largely fit for purpose to cope with changing supply/flow patterns.
- One respondent (ENI) sees an issue with transport products not matching with regasification schedules.
- One respondent (Engie) points at the need for enhanced transparency on reallocation of capacity and on LNG terminals, and generally calls for a level-playing-field between pipe&LNG flows.

Q.7. Most urgent element to address in transmission capacity auctions to deal with changing flow patterns (e.g. due to LNG imports)? (statistical, multiple choice)

Although the question asked for the most urgent element, most participants picked more than one option. This made the results difficult to interpret, the results were the following;

- **Optimise the available capacity accommodating new flow patterns** was picked 3 times,
- **Introducing new transmission products** was picked twice,
- **Introducing more frequent capacity auctions** was picked 4 times,
- **'Other'** was picked twice.



Q.8. What benefits have been missed due to the current allocation processes and how could additional flexibility of capacity allocation have unlocked those benefits? (interpreted)

2 respondents pointed at missed opportunities in the past:

- EFET points at missed opportunities during auctions at FR-ES IP Pirineos

- AP3 explains there have already been cases in the past of missed arbitrage possibilities, which kept spread artificially high.

The other respondents did not specifically address the question of missed benefits but provided general comments:

- Current allocation process and calendar are appropriate (Equinor), if additional auctions may provide more flexibility, transparency and predictability should be preserved.
- Implicit allocation increases social welfare and should be applied to DA and WD products (AP2).
- Currently, TSOs bear no price risk and skim off most of the spreads while traders bear the whole of the risk (AP1).
- Transport capacity products should match regasification schedules (ENI).

Q.8.1 Have the missed benefits increased under the current market conditions? (interpreted)

Respondents did not point to clear examples of increasing missed benefits linked to CAM rules:

- Financial security required by TSOs should be revised in order to prevent shippers from having to deposit huge amounts (AP1).
- No missed benefits (Equinor, ENI).
- EFET's proposal to add auction dates would help boost liquidity and smooth the current volatile market conditions (AP2, AP3, EFET).
- Failure of allocation processes, ending up in allocation via DA auctions (Engie).

Q.9. Are there any measures related to capacity allocation that you want to bring to regulators' and TSOs' attention that can alleviate the effects of an extended and severe supply disruption (interpreted)

- Application of CMPs like the UIOLI (AP1) or OSBB (AP3).
- Need to build new interconnection capacity to link LNG terminals and resolve congestions (Equinor).
- Solidarity arrangements (AP2).
- More transparent and dynamic information from TSOs on capacity availability (Engie).
- Dynamic setting of price steps by TSOs, even between rounds (EFET).

Q.10. If only one change was to be made to the allocation rules, what would you like it to be? (statistical)

- Mandatory DA and WD implicit allocation (AP2)
- Introduction of additional auctions (EFET, Engie, ENI, AP3)

Q.11. Any other comments?

- Implementation of the EFET proposal on a voluntary basis, amendment of NC CAM after (EFET, Engie)
- Investigate implicit allocation (AP3)

4. MAIN TAKE AWAYS

From the answers to the survey, the following main takeaways can be drawn:

- A clear call is expressed for additional auctions – the EFET proposal is ranked 1st, followed by ENTSOG proposal 3, both proposals offer additional auctions
- The EFET proposal is seen as a way to enhance liquidity and reduce volatility, ENTSOG proposal 3 is also extending booking possibilities, but participants prefer to keep ACA for initial auctions
- There is a clear consensus to keep ACA for Y, Q and M CAM auctions
- The participants see more dynamic setting of price steps by TSOs as a more efficient mean for ACA auctions to work well, rather than shortening the bidding rounds or introducing UPA to close the ACA process
- There is a preference to keep pay-as-clear UPA, compared to pay-as-bid which is considered discriminatory by some of the survey participants because the same product would be sold at different prices
- A review of WD auction timings is welcomed by several participants
- A strong support is expressed for introducing auctions for all remaining days of the month, on a DA basis
- Respondents believe additional auctions should be organised once per business day. As an alternative, if too complex, Y and Q auctions could be held once a week while M auctions should be organised once a day
- There is a consensus that the current ACA timing of rounds is appropriate, suggesting no change is required
- Many respondents argued that changes to CAM NC would reduce pressure in current market conditions. However, only few of them did provide concrete examples or elements to support an *urgent* need of a change of the CAM rules
- Participants have also suggested measures that could be taken within the current legal framework (such as, e.g., a more dynamic (re)allocation of capacity at IPs, a more dynamic setting of price steps in ACA auctions to ease capacity allocation in high-spreads context, make use of CMP mechanisms to ensure availability of unused capacity).

Annex I: List of Respondents

No.	Organisation	Role
1	Anonymous participant 1 (AP1)	Shipper
2	Equinor ASA	Shipper
3	Anonymous participant 2 (AP2)	Gas exchange platform
4	European Federation of Energy Traders	Association
5	ENGIE	Shipper
6	Eni S.p.A.	Shipper
7	Anonymous participant 3 (AP3)	Shipper
8	Anonymous participant 4 (AP4)	Shipper