ACER
Agency for the Cooperation of Energy Regulators

Position Paper on the feasibility of implicit allocation of capacity and results of the consultation

23/11/2012

Position Paper

- Process
  - Gas Target Model
  - Brattle report
  - Drafting of position paper by the RCC
  - Public consultation + workshop
  - Presentation SG meetingand Madrid forum 2013

- Contents
  - Is there added value in introducing implicit allocation of capacity in the NWE region?
  - If there is added value, how should the implicit allocation mechanism be designed to suit the (North West) European market?

Current Issues in the NWE gas markets

- Allocation and use of capacity is inefficient
  - Long term capacity booking instead of profiled booking ➔ Contractual congestion
  - First come first served ➔ Capacity is not allocated to shippers who value it the most
  - Secondary capacity markets are not functioning ➔ Shippers cannot sell their unused capacity
  - Observation: Gas flows do also occur against price differences and prices between hubs do not align for 100% even without physical congestion
- Lack of liquidity day ahead and within day in some markets

Proposal to solve existing capacity allocation problems

- CAM
  - Auctioning of (short term) capacity ➔ Shippers are able to do profiled capacity bookings against a market based price
  - Bundling of capacity ➔ Trading is easier
- CMP
  - UIOLI ➔ more day ahead capacity
  - OBB ➔ more short term capacity

Future issues in NWE

- Shift to short term trading and capacity booking (profiled booking)
  - More day ahead and within day capacity will become available due to CAM/CMP
  - Renewables will increase the demand for short term capacity and commodity

- Introduces additional problems
  - Coordination problem: arranging commodity and capacity separately
  - Transaction costs: the closer to real time, the more difficult it is to trade (partly solved by bundling and harmonization)

Benefits of implicit allocation of capacity

- Capacity is automatically allocated to bids and offers with largest price differences, so flows will not go against price differences
- IA allows parties to trade cross-border without owning cross-border capacity
- Implicit allocation solves the coordination problem taking away trading risks
- IA lowers transaction costs

Contribution of CAM/CMP and IA to existing and future problems

	CAM/CMP	IA
Current Issues		
Flows against price differences	+, due to better availability of capacity	++, does not allow flows against price differences
Lack of liquidity	+, due to better availability of capacity	++, no capacity needed for trading
Future Issues		
Coordination Problem	--, increases coordination problem	++, solves the coordination problem

Most important stakeholder feedback

- Implicit allocation could raise liquidity, improve use of capacity and lower price differences
- At the same time, CAM and CMP measures are likely to achieve the same results
- Assess added value of implicit allocation once CAM and CMP are fully up and running
- For now: focus on implementing network codes
- No coordination problem exists or is likely to exist once CAM/CMP are in full swing
- Gas fired plant is back up for renewables: not to be sourced (implicitly) on short term basis

Conclusions of NRAs within GRI NW (1)

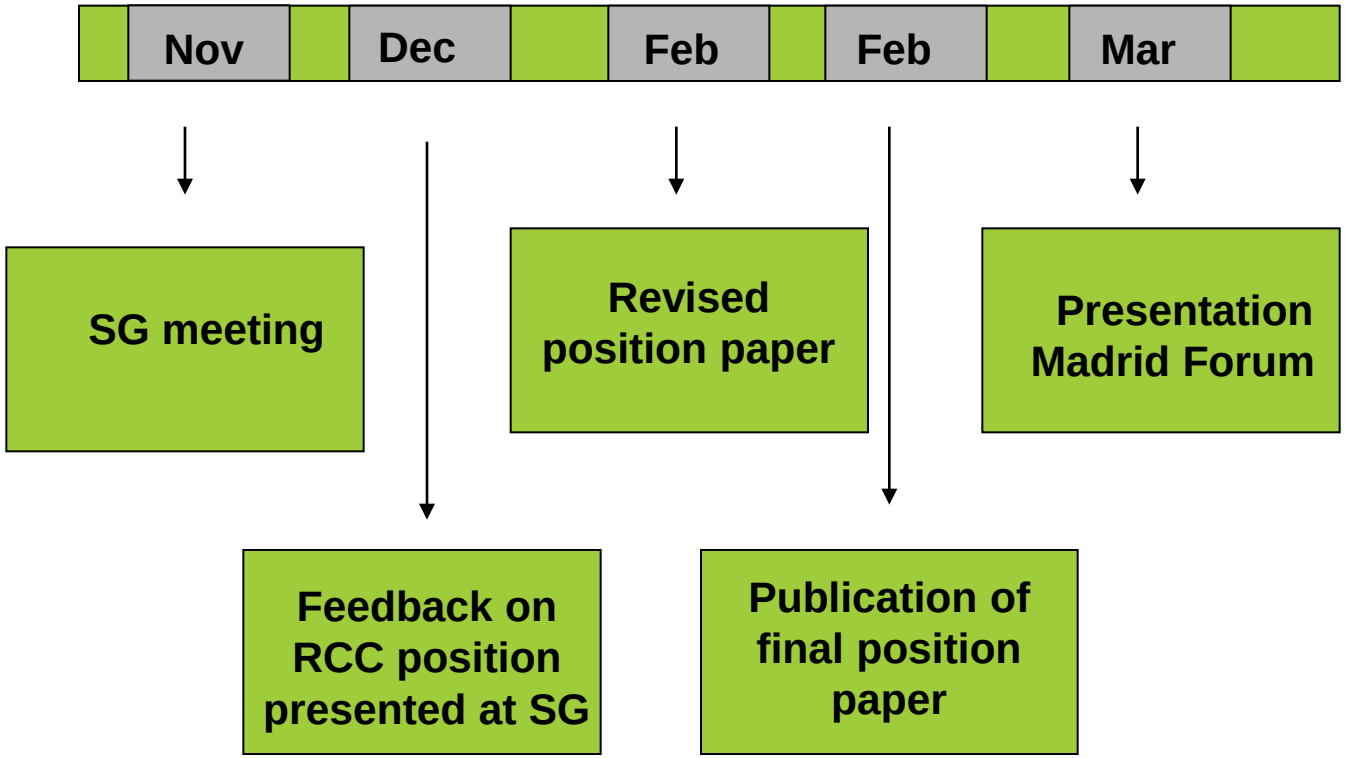
- CAM and CMP could indeed solve issues related to allocation and use of capacity
- The coordination problem is still theoretical, but could become a problem once CAM/CMP take effect: time will tell

➔ Wait for CAM/CMP to take effect and then re-evaluate IA.

Conclusions of NRAs within GRI NW (2)

- Implicit allocation could have added value under certain conditions: e.g. sufficient price differences, inefficient use of capacity and severe congestion
- NRAs will identify such conditions in the final position paper. If met, implicit allocation (via pilots) should ideally be explored on that border
- NRAs also consider that implicit allocation can serve as an optimization tool for gas fired plants under certain circumstances (to be identified)

Next steps


Nov
Dec
Feb
Feb
Mar
SG meeting
Feedback on RCC position presented at SG
Revised position paper
Publication of final position paper
Presentation Madrid Forum