

The logo for EFET, consisting of the letters 'EFET' in a bold, red, sans-serif font.

European Federation
of Energy Traders
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ACER-ENTSOG Workshop on EFET's FUNC Proposal

27 June 2022

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Summary of EFET's FUNC Proposal (1)

Background

- Implementation of CAM NC in Nov 2015 made IP capacity booking more efficient
 - standardised products, auction timetable and allocation mechanisms
 - smaller number of booking platforms
 - bundled capacity

- CAM NC has contributed positively to market development by
 - reducing contractual congestion
 - narrowing price spreads and increasing price correlation
 - increasing liquidity

- Despite this CAM NC limits opportunities for efficient price arbitrage across the forward curve
 - spreads > transport costs outside the Y/Q/M capacity auction windows or < when the windows are open, reducing opportunities for traders to buy and TSOs to sell IP capacity
 - merchant TSOs (IUK and BBL) have successfully used a form of implicit allocation to flexibly offer capacity at times when it is commercially attractive to book it, maximising their revenue

Summary of EFET's FUNC Proposal (2)

The proposal

- FUNC proposal raised in Jan 2019 to make firm IP capacity more available, via supplementary uniform price allocation (UPA) auctions on top of ascending clock allocation (ACA) auctions
- Y/Q/M capacity that remained unsold after the relevant ACA auction would be offered daily through UPA auctions until it becomes usable
- UPA auctions start 3rd business day after the initial ACA auction and end 3rd business day before capacity becomes usable
 - separate 1 hour booking windows for Y/Q/M capacity each day at 10:00, 12:00 and 14:00 CET
 - consistent in principle with the CAM NC but not fully compliant in a couple of small aspects
 - TSOs and booking platforms could choose whether to hold UPA auctions or not, possibly on a trial basis, to speed up possible implementation

Summary of EFET's FUNC Proposal (3)

Experience to date

- Whilst we appreciate the work ENTSOG/ACER have done evaluating our proposal, over 2 years on we're still discussing options and are no nearer to making IP capacity more readily available
- Over the last nine months EU wholesale gas market prices and volatility have skyrocketed, widening spreads dramatically and unpredictably e.g. Winter 22/3 spreads > €15Mwh THE-TTF
- EFET's proposal would greatly help to facilitate efficient arbitrage between EU hubs and boost liquidity in extremely challenging market conditions
- In these unprecedented times EU/ACER should endorse the use of the EFET proposal on a voluntary basis until the CAM NC can be amended to reflect a harmonised EU wide solution

Reaction to ENTSOG's proposals (1)

Proposal 1 – Shorten the bidding rounds of ACA auctions

- Shorter bidding rounds may help traders know sooner whether they have been allocated capacity, particularly in volatile markets, but:
 - ACA auctions close quickly when there is no congestion and can avoid being drawn out by setting market related price steps (i.e. reflecting price spreads)
 - may be challenging for TSOs, booking platforms and small shippers to respond within ½ hour
- Doesn't offer any new opportunities to auction capacity outside the existing auction calendar
- Will still require a CAM NC change (article 17.2)

Reaction to ENTSOG's proposals (2)

Proposal 2 – light alternative to EFET proposal

- Pushing the Y and Q capacity auction dates back closer to their start dates may suit some shippers but not others
- Additional M capacity auctions after the now mid-month ACA auction offer more flexibility to sell monthly capacity, but for one week less than the EFET proposal
- Unrealistic to run supplementary ACA auctions for M capacity, so CAM NC change (Article 13.2) still needed for monthly capacity UPA auctions

Reaction to ENTSOG's proposals (3)

Proposal 3 -Full alternative to EFET proposal

- Y capacity UPA auctions on a continuous basis after the initial ACA auction is consistent with EFET's proposal but does not allow for Y capacity UPA auctions after the first Q ACA auction
- Individual Q capacity UPA auctions after the initial ACA auction is consistent with the EFET proposal
- M capacity via UPA auctions after the initial ACA auction and for all remaining months of the Q exceeds the EFET proposal, but limits new opportunities for the first month of each quarter
- Replacing initial ACA auctions with UPA auctions for Q & M capacity removes the element of capacity price discovery and bid adjustment, which some shippers/traders value highly
- Arguable if it better complies with the cascading rules compared to EFET's proposal as e.g. Nov 22 capacity could be bought via a UPA auction before it would otherwise be offered in an ACA auction

Reaction to ENTSOG's proposals (4)

Additional proposals

- UPA auctions replacing ACA auctions from the beginning removes the element of capacity price discovery and bid adjustment, which some shippers/traders value highly
- UPA auction step out from long drawn out ACA auctions is worthy of consideration assuming TSOs do not improve setting price steps which are relevant for market conditions
- UPA auctions run as pay-as-bid rather than pay-as-clear are not appropriate, particularly for Y, Q and M products, as they would allocate the same capacity at different prices (discriminatory?)
- First round of WD auctions (for the full 24hrs) currently closes at 02:30 CET on the preceding gas day. Could be merit in offering separate bidding rounds between 19:00 and 02:00 CET, but as additional day-ahead auctions not within day auctions
- Additional run times for BOM and weekend capacity could have merit as could auctions spanning 2 gas years, but may add complexity to the auction calendar and undermine cascading rules

Reaction to ENTSOG's proposals (5)

Concluding remarks

- ENTSOG's proposals are interesting, especially proposal 3, but none of them are materially better than the EFET proposal
- Over two years on it is disappointing that we are still discussing options and do not have a clear view on whether TSOs and booking platforms are willing and able to implement such options, or by when
- The absence of an EU network code change procedure is a serious regulatory flaw which must be addressed, as the FUNC process is not an adequate replacement.
- EFET's proposal to enhance the existing CAM NC auction process had benefits two years ago but is even more beneficial now whilst we are experiencing unprecedentedly high gas prices and volatility
- ACER/EU should endorse the EFET proposal and allow interested TSOs and booking platforms to implement it, at least on a trial basis, by the end of this year.

Thank You

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