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ACER workshop on Capacity Allocation Mechanisms Network Code: achievements and the way forward

12 December 2023

PUBLIC

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Housekeeping rules

Questions shall be posed using the Slido tool within Microsoft Teams

Use direct link: https://app.sli.do/event/vaN7VmzcsLAmbaoKPKUbHh

Keep your microphone muted unless the chair gives you the floor

Questions from other participants can be 'liked' to increase their visibility

Slides from this webinar will be uploaded to ACER website

Substance-related questions will be addressed during the relevant Q&A session; although they can be posed at any point

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AGENDA	
09:00 - 09.10	**Introductory Remarks** - Riccardo GALLETTA (ACER) **Core principles for gas transmission capacity allocation** Edouard LE BRET (CRE-Chair of ACER CAM Task Force)
09:10 – 10.00	**Maximizing the capacity offered** - Nico KEYAERTS (ACER) **Panel discussion with Q&A** Nico KEYAERTS (ACER), Claude MANGIN (ENTSOG), Stephen ROSE, (EFET), Edouard LE BRET (CRE-chair of ACER CAM TF, moderation)
Break – 10 minutes	
10.10 – 11.00	**Improving the allocation of capacity** - Edouard LE BRET (CRE - Chair of ACER CAM Task Force) & Karolina GOLONKA (ENTSOG) **Panel discussion with Q&A** Edouard LE BRET (CRE - Chair of ACER CAM TF), Karolina GOLONKA (ENTSOG), Stephen ROSE (EFET), Nico KEYAERTS (ACER, moderation)
11.00 – 11.45	**Other aspects of capacity allocation mechanisms** - Nico KEYAERTS (ACER) **Q&A**
11.45 – 12.00	**Closing Remarks**

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Core principles for gas transmission capacity allocation

Edouard LE BRET (CRE-chair of ACER CAM TF)

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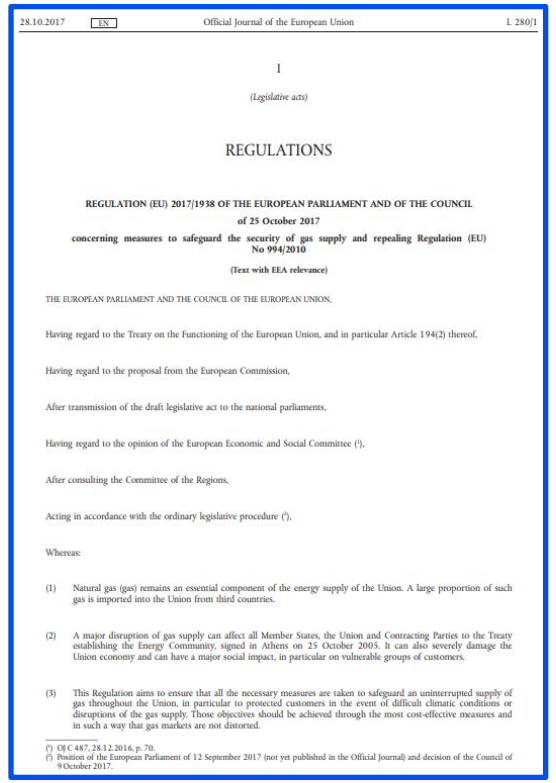
EU Gas Regulation

- **Regulation (EC) No 715/2009** on conditions for access to the natural gas transmission networks (Gas Regulation) provides in Article 16 for the **principles for capacity allocation** :
  - Maximize available capacity to market participants
  - Transparent and non-discriminatory allocation mechanisms which shall:
    - ✓ Provide economic signals
    - ✓ Be compatible with markets and trading hubs
    - ✓ Be capable of adapting to evolving market circumstances
    - ✓ Be compatible with national network access systems
- Currently discussed **Recast Gas Regulation** does not amend these principles (Article 9 in the Recast proposal).



28.10.2017 EN Official Journal of the European Union L 280/1

I

(Legislative acts)

REGULATIONS

REGULATION (EU) 2017/1938 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
of 25 October 2017
concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 194(2) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee (1),

After consulting the Committee of the Regions,

Acting in accordance with the ordinary legislative procedure (2),

Whereas:

(1) Natural gas (gas) remains an essential component of the energy supply of the Union. A large proportion of such gas is imported into the Union from third countries.

(2) A major disruption of gas supply can affect all Member States, the Union and Contracting Parties to the Treaty establishing the Energy Community, signed in Athens on 25 October 2005. It can also severely damage the Union economy and can have a major social impact, in particular on vulnerable groups of customers.

(3) This Regulation aims to ensure that all the necessary measures are taken to safeguard an uninterrupted supply of gas throughout the Union, in particular to protected customers in the event of difficult climatic conditions or disruptions of the gas supply. Those objectives should be achieved through the most cost-effective measures and in such a way that gas markets are not distorted.

(1) OJ C 487, 28.12.2016, p. 70.
(2) Position of the European Parliament of 12 September 2017 (not yet published in the Official Journal) and decision of the Council of 9 October 2017.

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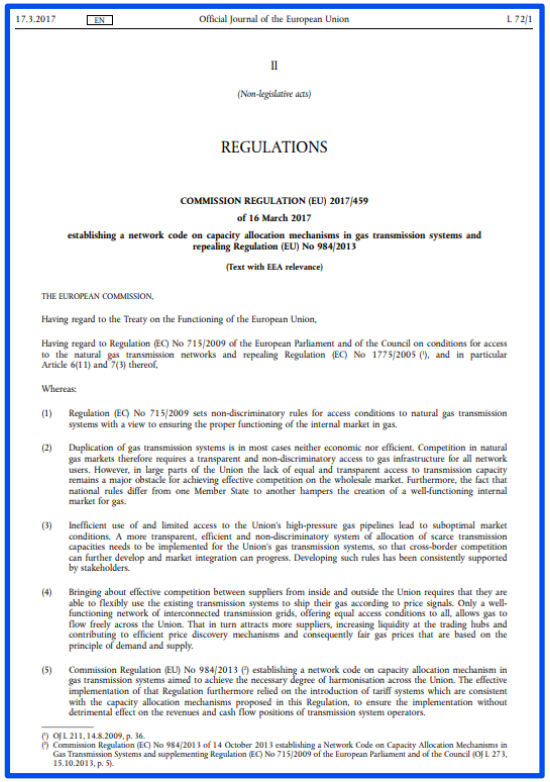
Capacity Allocation Mechanisms Network Code



17.3.2017 EN Official Journal of the European Union L 72/1

II

(Non-legislative acts)

REGULATIONS

COMMISSION REGULATION (EU) 2017/459
of 16 March 2017
establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013
(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 (1), and in particular Article 6(11) and 7(3) thereof,

Whereas:

(1) Regulation (EC) No 715/2009 sets non-discriminatory rules for access conditions to natural gas transmission systems with a view to ensuring the proper functioning of the internal market in gas.

(2) Duplication of gas transmission systems is in most cases neither economic nor efficient. Competition in natural gas markets therefore requires a transparent and non-discriminatory access to gas infrastructure for all network users. However, in large parts of the Union the lack of equal and transparent access to transmission capacity remains a major obstacle for achieving effective competition on the wholesale market. Furthermore, the fact that national rules differ from one Member State to another hampers the creation of a well-functioning internal market for gas.

(3) Inefficient use of and limited access to the Union's high-pressure gas pipelines lead to suboptimal market conditions. A more transparent, efficient and non-discriminatory system of allocation of scarce transmission capacities needs to be implemented for the Union's gas transmission systems, so that cross-border competition can further develop and market integration can progress. Developing such rules has been consistently supported by stakeholders.

(4) Bringing about effective competition between suppliers from inside and outside the Union requires that they are able to flexibly use the existing transmission systems to ship their gas according to price signals. Only a well-functioning network of interconnected transmission grids, offering equal access conditions to all, allows gas to flow freely across the Union. That in turn attracts more suppliers, increasing liquidity at the trading hubs and contributing to efficient price discovery mechanisms and consequently fair gas prices that are based on the principle of demand and supply.

(5) Commission Regulation (EU) No 984/2013 (2) establishing a network code on capacity allocation mechanism in gas transmission systems aimed to achieve the necessary degree of harmonisation across the Union. The effective implementation of that Regulation furthermore relied on the introduction of tariff systems which are consistent with the capacity allocation mechanisms proposed in this Regulation, to ensure the implementation without detrimental effect on the revenues and cash flow positions of transmission system operators.

(1) OJ L 211, 14.8.2009, p. 36.
(2) Commission Regulation (EC) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council (OJ L 273, 15.10.2013, p. 5).

- CAM NC was established by Commission Regulation (EU) No 984/2013 of 14 October 2013 and repealed by Regulation (EU) 2017/459 of 16 March 2017.
- It aims at an **equal, transparent and non-discriminatory access** to transmission capacity in order to foster effective competition and achieve a well-functioning internal gas market.
- Explicit allocation of capacity is provided for as default rule in Article 2(2), while possibility for implicit allocation schemes is provided for under Article 2(5).
- To do so, CAM NC sets **detailed harmonised rules and mechanisms** for technical implementation of capacity allocation mechanisms applied at each interconnection point:
  - maximising capacity (Art. 6)
  - bundling of capacity (Art. 19, 20, 21)
  - cascading principle (Art. 8(3))
  - ‘set aside’ rule (Art. 8(6)&(7))
  - standardised capacity products (Art. 9 to 15)
  - common auction calendar (Art. 12 to 15)
  - auctions with common algorithms (Art. 16, 17, 18)

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Towards amendment proposals of CAM NC

- While the implementation of the CAM NC has delivered good results, a **reassessment of the degree of adaptation of the CAM NC** to the evolved market context and market participants' needs is justified.
- ACER will work, in the coming months, on the preparation of an **amendment proposal to the CAM NC**, to be submitted to the European Commission.
- This work will take stock of past ACER policy papers and proposals, joint ENTSOG-ACER FUNC issue solution proposals and any additional substantiated suggestions stakeholders may submit during the current consultation process.
- During this work, ACER and NRAs will aim to safeguard the core regulatory principles supporting the internal market, and will aim at achieving:
  - ✓ **Effectiveness** of instruments for capacity allocation that can accommodate changing market conditions;
  - ✓ **Efficiency** of changes proposed in terms of feasibility and cost-efficiency from the point of view of all stakeholder categories, with a view to deliver value to users;
  - ✓ **Transparency** of market rules, including simplicity and readability ;
  - ✓ **Prevention of market fragmentation.**

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Session 1
Maximising the capacity offered

Introduction: Nico KEYAERTS (ACER)

Panel: Nico KEYAERTS (ACER), Claude MANGIN (ENTSOG), Stephen ROSE (EFET) - Moderation: Edouard LE BRET (CRE-chair of ACER CAM TF)

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Maximising capacity underlying principles and objectives

Gas market regulation, Article 16
The maximum capacity at all relevant points […] shall be made available to market participants, taking into account system integrity and efficient network operation

CAM NC, recital (3)
Inefficient use of and limited access to the Union's high-pressure gas pipelines lead to suboptimal market conditions

CAM NC, recital (4)
Only a well-functioning network of interconnected transmission grids, offering equal access conditions to all, allows gas to flow freely across the Union

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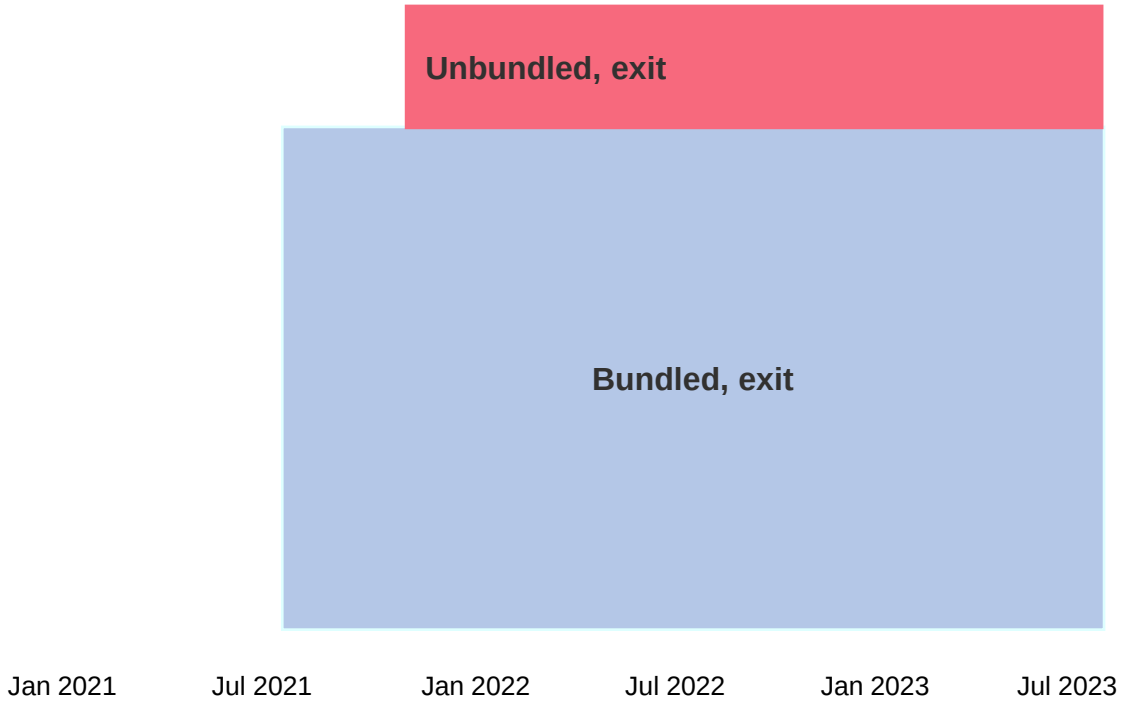
Maximising capacity through better coordination

Weakening of coordination leads to inefficiencies when maximising the capacity offering

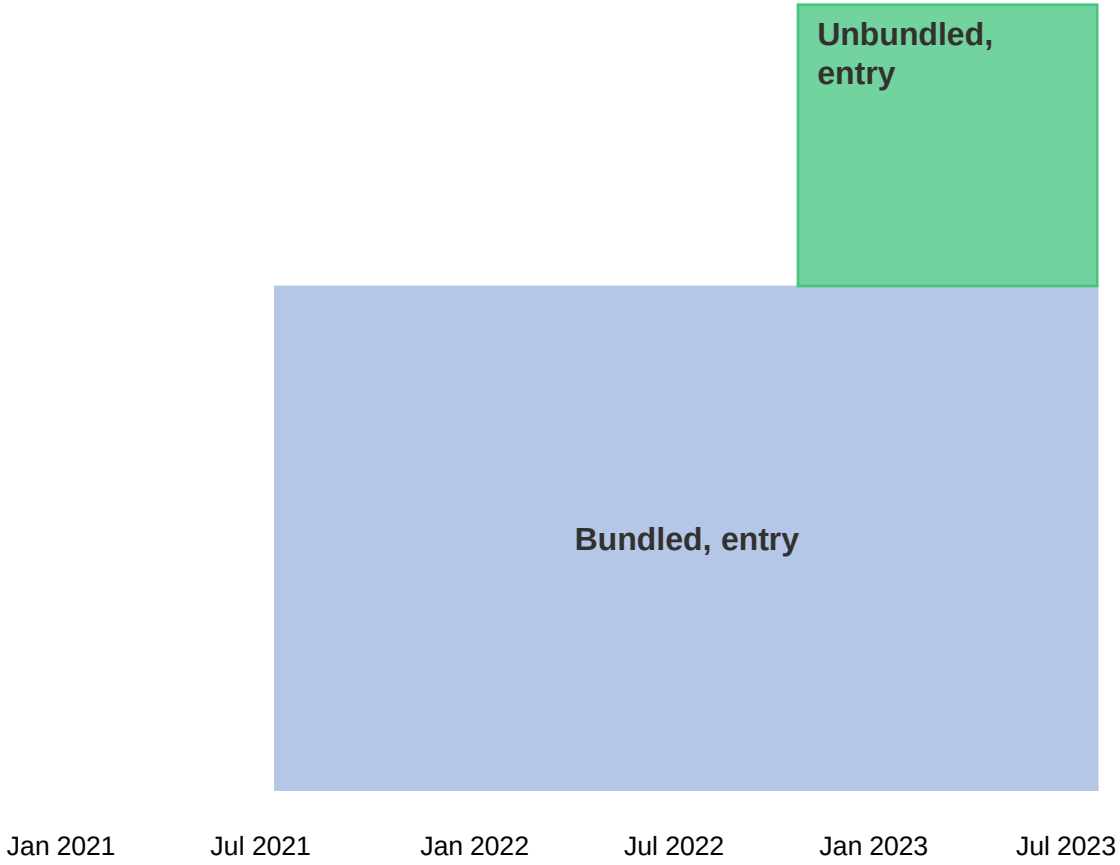
- example

Weakening of coordination leads to inefficiencies when maximising the capacity offering

Contracted **firm capacity <u>exit</u>**

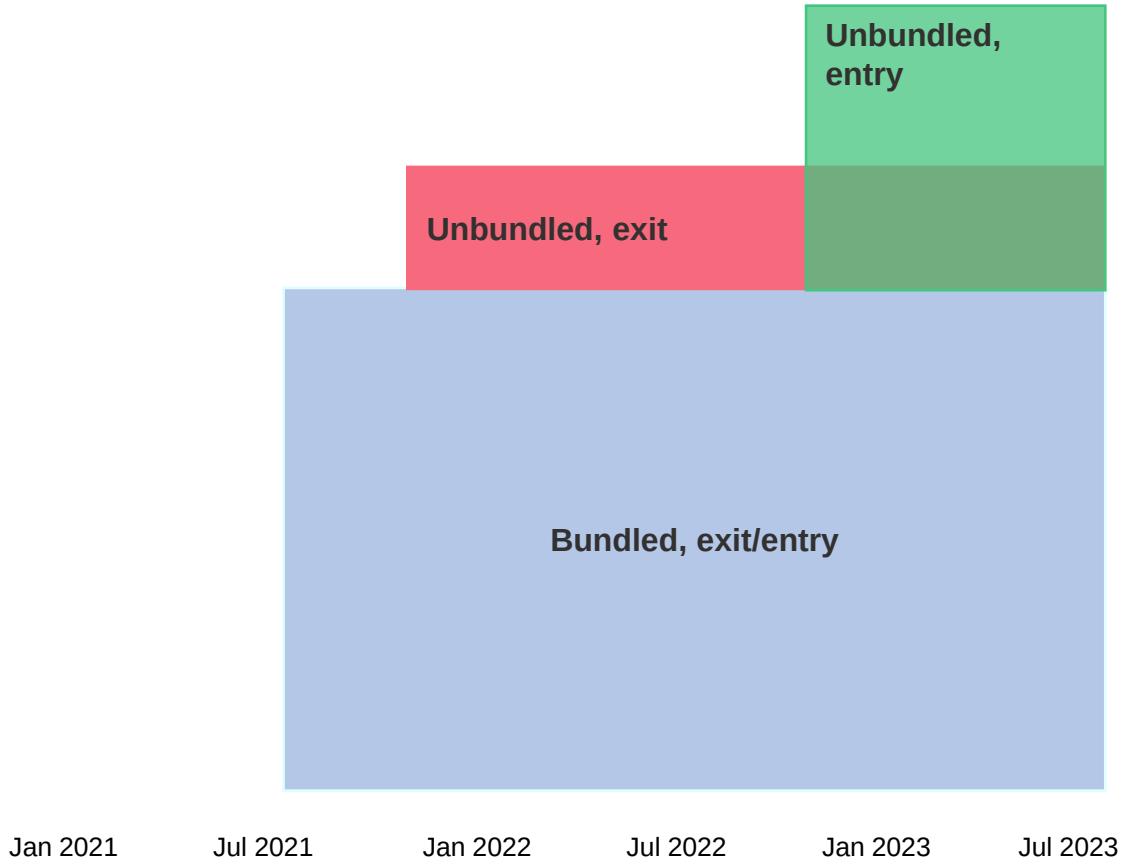


Contracted **firm capacity <u>entry</u>**



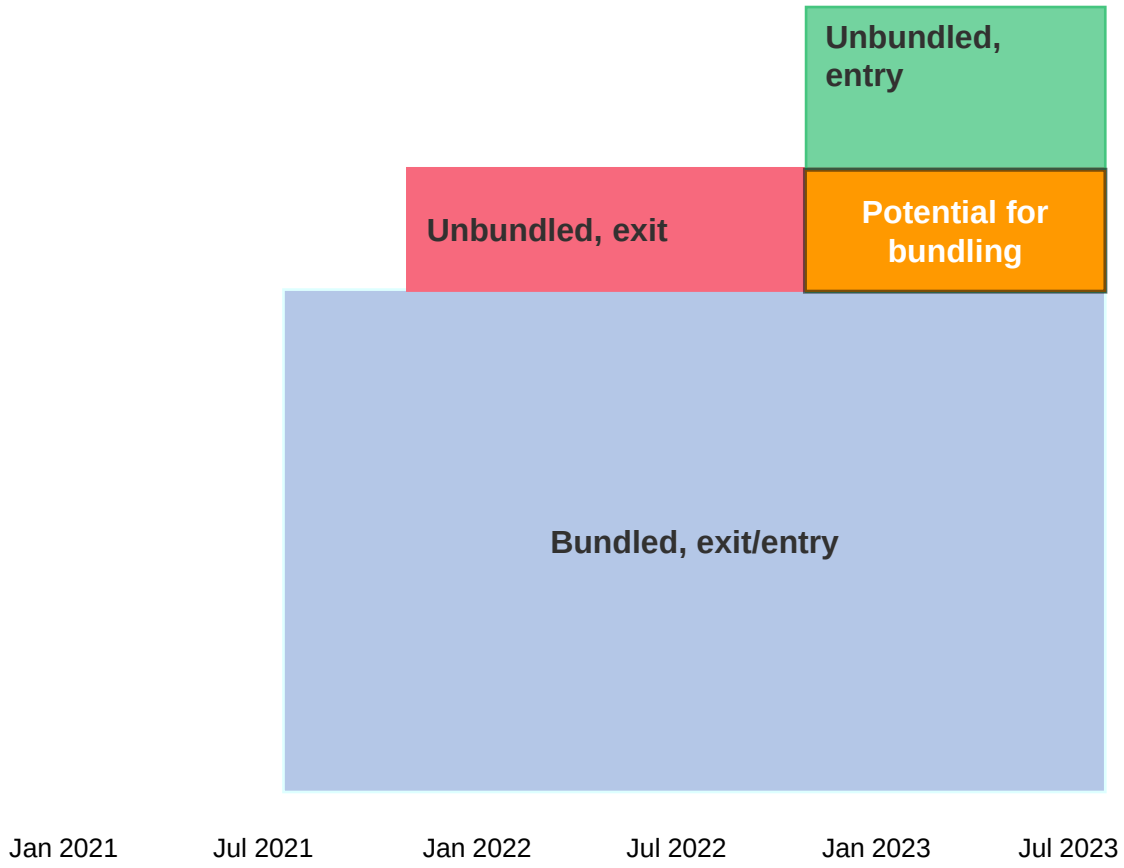
Weakening of coordination leads to inefficiencies when maximising the capacity offering

Contracted **firm capacity <u>exit and entry</u>**



Weakening of coordination leads to inefficiencies when maximising the capacity offering

Contracted **firm capacity <u>exit and entry</u>**



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Maximising capacity through better coordination

Weakening of coordination leads to inefficiencies when maximising the capacity offering

- example

TSOs to extensively coordinate

- Jointly **optimise the network**
- Jointly maximise marketing of **firm bundled capacities**;
- **Optimise the sale of interruptible capacities** considering the ‘technical capacity’; and
- Efficiently **bring back unused capacities** (~ Guidelines on congestion management procedures)

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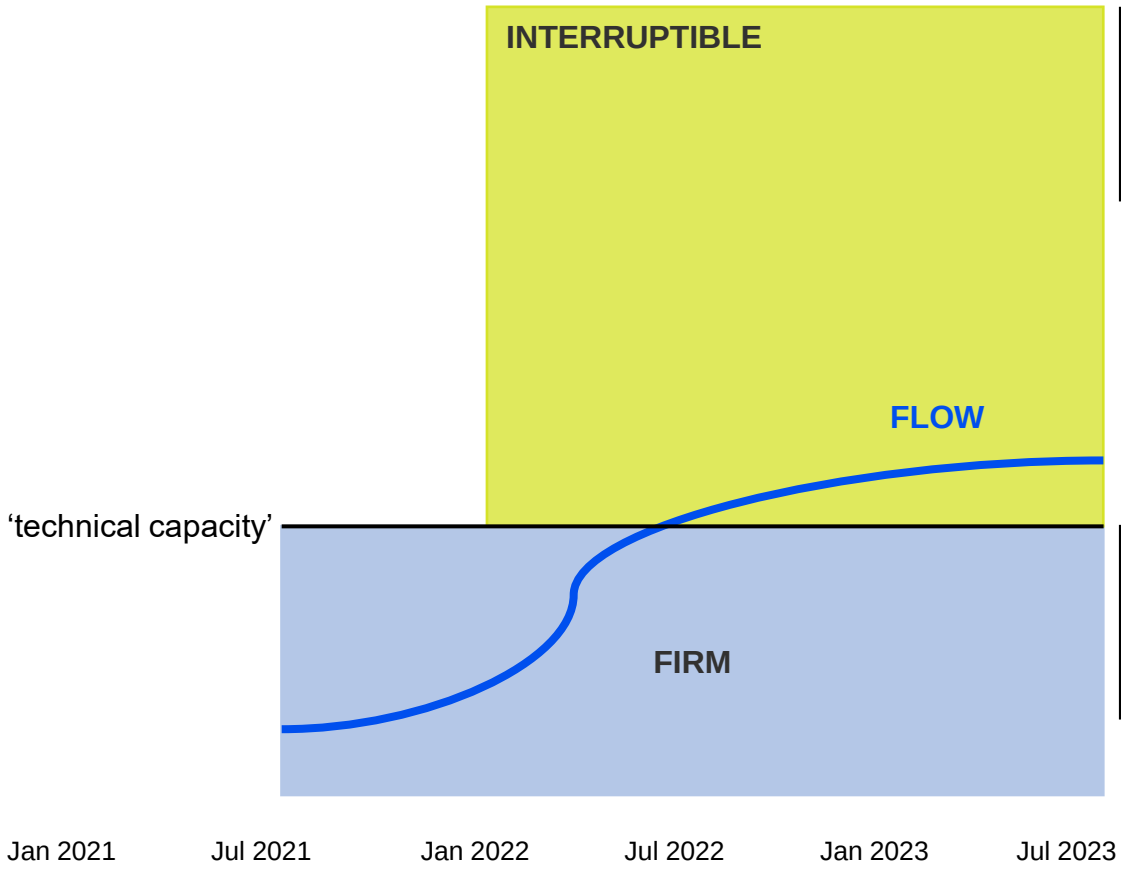
Maximising capacity better information availability

Lesser information availability reduces market transparency and hinders effective market monitoring

- example

Weakening of information availability when maximising the capacity offering

Contracted **firm and interruptible capacity**



Interruptible capacity offered and contracted above the effective flow potential

Flow consistently above firm 'technical capacity'

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Maximising capacity better information availability

Lesser information availability reduces market transparency and hinders effective market monitoring

- example

Better information availability - Transparency of capacity calculation

- Review the concept of **'Technical Capacity'** (with input from ENTSOG and TSOs); and
- Improve the **availability of information** (~ Guidelines on transparency)
  - on the use of the network;
  - on capacity availability; and
  - on capacity bookings

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Maximising the capacity offered
Summary of ACER's areas of improvement

Preamble	Principles of capacity maximization, and coordination
Article 3	Definitions - "technical capacity"
Article 6	Capacity calculation and maximisation
Article 19-21	Bundling of capacity
Article 32	Interruptible capacity

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Q&A session

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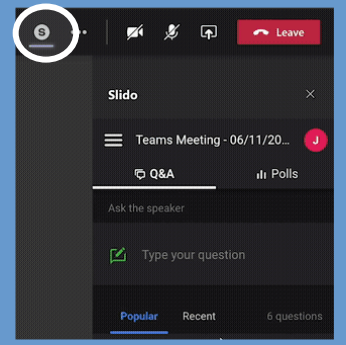

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Break – 10 minutes

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Session 2
Improving allocation of capacity

Introduction: Edouard LE BRET (CRE-chair of ACER CAM TF), Karolina GOLONKA (ENTSOG)

Panel: Edouard LE BRET (CRE-chair of ACER CAM TF), Karolina GOLONKA (ENTSOG) and Stephen ROSE (EFET) - Moderation: Nico KEYAERTS (ACER)

Introduction

- Session 2 mainly addresses (but is not limited to) topics and proposals investigated by ACER and ENTSOG and published in the joint Issue Solution proposals to the EFET FUNC issue (n°2020-01).

Additional booking opportunities

Adding flexibility to CAM rules

Review of set-aside rules

Auction calendar and timings

Advance offer of M products

Improving efficiency of ACA algorithm

Advance offer of DA products

Review of rules for offer of interruptible capacity

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GasNCFunc Issue Solution Supporting Doc
Greater flexibility to book firm capacity
ID: 01/2020
31 May 2023

Annex 1 – Issue Solution Supporting Note

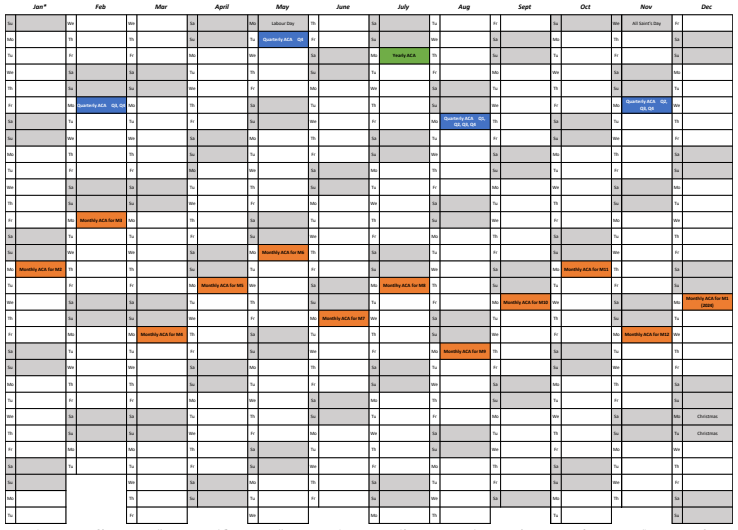
Evaluation of FUNC Issue 01/2020

"Greater flexibility to book firm capacity at IPs"

Additional booking opportunities

Only limited booking opportunities in CAM auction calendar

- **Only 17 auction windows** for Y (1), Q (4) and M (12) capacity products;
- Y products can be bought 15Y in advance, all 4 Q products are available after Y auctions, but M products can only be bought a few days ahead of product start.



Proposals from joint ACER-ENTSOG Issue Solution Supporting Note to EFET FUNC issue:

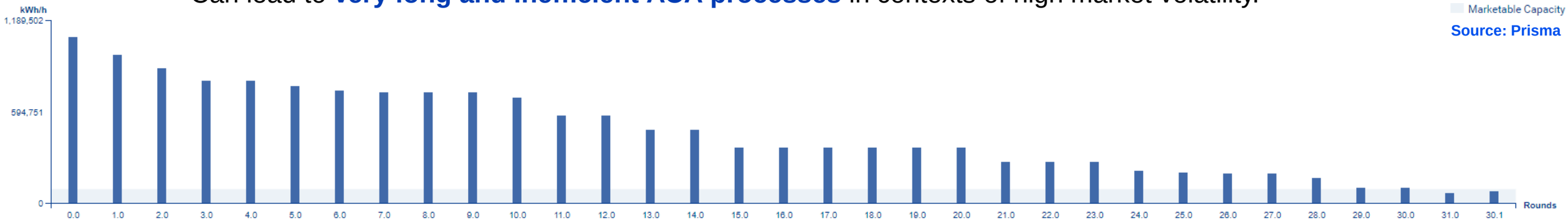
NC CAM articles 11-13, 16

- Introduce **additional auctions**, via **UPA**, after each Y, Q, M ACA auctions to offer remaining firm capacity, once a week (on Thursdays);
- **Replicate how Q products are offered today on M products**: within a given Q, all 3 M products would be offered ahead of the quarter, at current ACA M auction dates;
- Once a product has been offered via UPA, it can no longer be offered via ACA.

Improving efficiency of Ascending-Clock auctions

Y, Q and M products are offered using the ascending-clock algorithm (ACA)

- Successive bidding rounds are launched, with price steps, until capacity demand equals or subceeds offer;
- **Level of price steps is set before auction starts** and cannot be readjusted during the auction process;
- Can lead to **very long and inefficient ACA processes** in contexts of high market volatility.



Proposals from joint ACER-ENTSOG Issue Solution Supporting Note to EFET FUNC issue:

NC CAM article 17

- Allow TSOs to jointly decide, at a given IP, to **amend the (large and small) price steps during the auction process**, between rounds (e.g. once a day), to accommodate changing market conditions during the auction;
- Provide for a **termination deadline to ACAs** which would allow additional UPA auctions to be launched.

Allocation rules for interruptible capacity

Rules for offer of interruptible capacity are strict and delays are tight

- **Interruptible capacity can only be offered once firm capacity has been sold out** and volumes of available INT capacity may never be offered;
- Interruptible capacity products are sold using the same algorithm as corresponding firm capacity (ACA for Y, Q, M ; UPA for DA)
- Auction calendar provides a **limited number of days for interruptible capacity auctions**

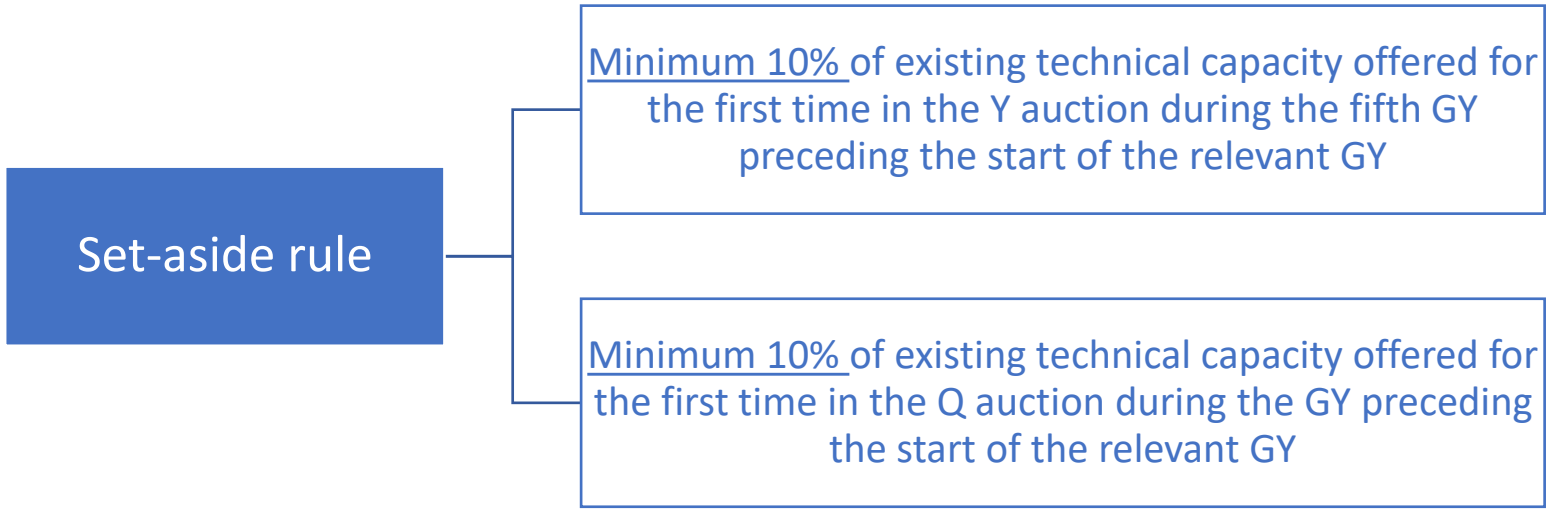
ACER would see merit to work on:

NC CAM article 32

- Possibility to hold interruptible capacity auctions must be safeguarded (taking into account proposals on additional UPA auctions);
- Introduction of **UPA to allocate remaining firm capacity** may likely help trigger more interruptible capacity auctions;
- In the interest of time and efficiency, it may be appropriate to use **UPA to offer all interruptible capacity** products.

Set-aside rule

Set-aside rule (Art. 8.6 & 8.7) – current status



Proposal from joint ACER-ENTSOG Issue Solution Supporting Note to EFET FUNC issue:

- Additional auctions must also respect set-aside rule
- ACER and ENTSOG considered need to revise set-aside rules to avoid selling out capacity for short-term products. Although already provided for in current code text, the official amendment process could consider whether specific larger capacity volumes should be set aside and/or a specific set-aside rule should apply to each short-term product

Annex 1 – Issue Solution Supporting Note

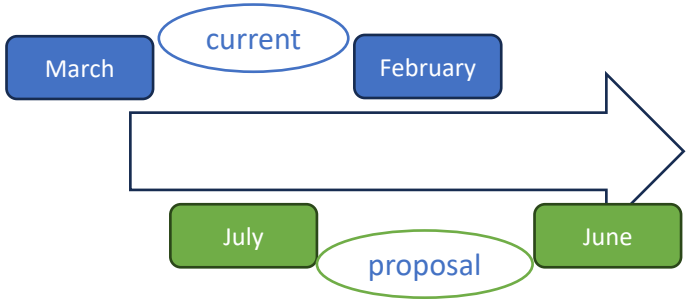
Evaluation of FUNC Issue 01/2020

"Greater flexibility to book firm capacity at IPs"

Realign auction calendar & Closing hour of WD24 product

Realign auction calendar – current status

- Auction calendar period covering March - February (Art. 3.15)
- Does not align well with current order of cascading auctions (Y auction moved from March to July since CAM NC revision of 2017)



Proposal from joint ACER-ENTSOG Issue Solution Supporting Note to EFET FUNC issue:

- Adjust definition of "auction calendar": period to run from July – June (*aligned with start Yearly auction*)

Closing hour of WD24 – current status

- First bidding round of within-day capacity product (WD24) closes at 1.30 UTC (wintertime)

Proposal from joint ACER-ENTSOG Issue Solution Supporting Note to EFET FUNC issue:

- Bring closing of the WD24 forward to 21.00 UTC D-1 (wintertime)
- Allows network users earlier knowledge of their capacity allocation
- Additional time for TSOs to conduct system maintenance

Annex 1 – Issue Solution Supporting Note

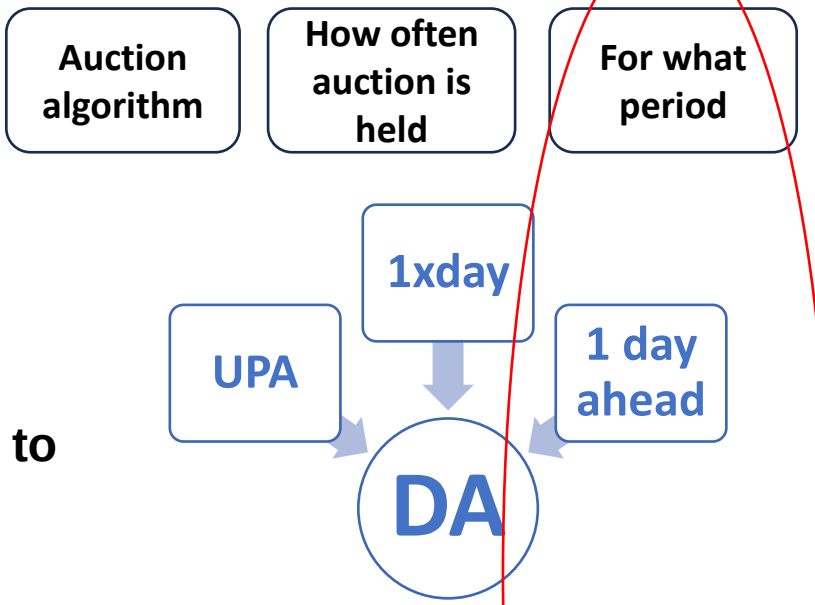
Evaluation of FUNC Issue 01/2020

"Greater flexibility to book firm capacity at IPs"

Advance booking of DA products

Booking of DA products, current status

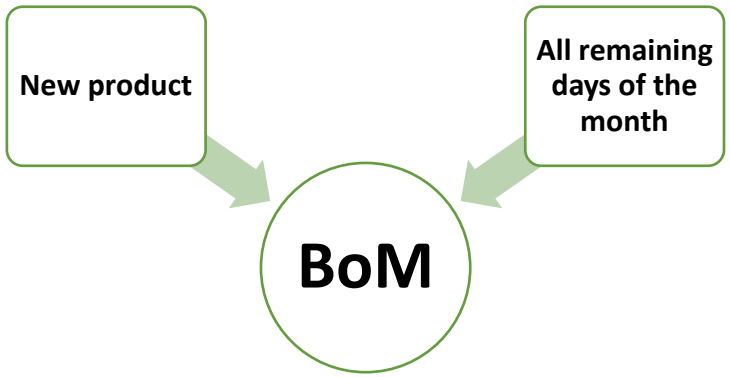
- Limited horizon: individual gas days can only be booked a day in advance
- Does not align well with commodity products currently available to the market (week, weekend, balance-of-week, etc.)



Proposals from joint ACER-ENTSOG Issue Solution Supporting Note to EFET FUNC issue:

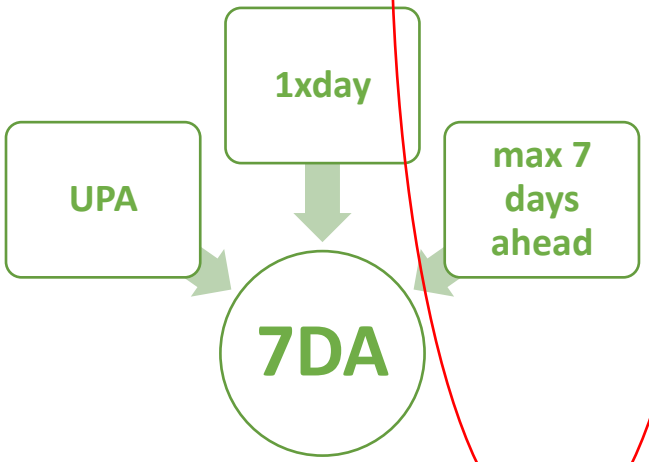
Balance-of-Month (BoM):

daily auction of all remaining gas days of month. Requires implementation of new standard capacity product in which network user must commit to all remaining days. Implications for product algorithms and pricing (TAR NC)



Seven days ahead (7DA):

daily offering of all individual DA capacity products for following seven gas days on rolling basis until end of relevant month. Towards end of month, number of days offered decreases to 6 days until end of month, 5 days until end of month, etc.



More flexibility to adapt selected auction rules & parameters

All rules and parameters are precisely defined in NC CAM, with very limited room for deviation

- Auction parameters are set precisely and cannot be deviated from, unless NC CAM is amended;
- **CAM rules very rigid** and **poorly adaptable to changing market conditions** and SHs' needs;
- **Article 16(2) of Regulation** (EC) 715/2009 provides that capacity allocation mechanisms shall be "*flexible and capable of adapting to evolving market circumstances".*

Proposals from joint ACER-ENTSOG Issue Solution Supporting Note to EFET FUNC issue:

- Some rules could be amended without undergoing the NC amendment process (Comitology) but upon ACER decision (after due assessment and consultation);
- This **flexibility clause** would not concern core CAM principles and rules
- It would make NC CAM more compliant with article 16(2) of Gas Regulation and more **future-proof**.

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Improving capacity allocation
Summary of ACER's areas of improvement

Article 3	Definitions - "auction calendar"
Article 8	Set-aside rule
Article 9	Standard capacity products
Articles 11, 12, 13	Y, Q, M auctions
Articles 14, 15	DA & WD auctions
Article 16, 17	Auction algorithms
Article 32	Allocation of interruptible products
Possible new articles (13A, 37A)	BoM, Flexibility

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Q&A session

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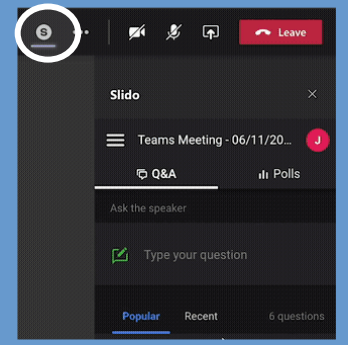

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Session 3
Further aspects of CAM NC

Introduction: Nico KEYAERTS (ACER)

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Further aspects
Implicit allocation

Ensure compliance of **implicit allocation (IA) with key principles of CAM NC**

Summary of proposals:

- Review the **definition** and align it with **key principles**, particularly bundling

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Further aspects Incremental capacity

Existing process of incremental capacity is burdensome for TSOs and NRAs and did not lead to capacity development in the past ICP-cycles

First incremental capacity process cycle 2017 – 2019: zero capacity developed

Second incremental capacity process cycle 2019 – 2021: zero capacity developed

Third incremental capacity process cycle 2021 – 2023: zero capacity developed, one ongoing project

Summary of proposals:

- **Reduce the burden**, e.g., review the obligation to repeat the incremental-capacity cycle every two years for all IPs (given the limited expectations on the future gas consumption)
- **Remove incremental capacity** chapter from NC

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Other Aspects: Booking platforms

Booking platform selection process lacks efficiency

Summary of proposals:

- Review the **future involvement of ACER** in a commercial TSO contracting process
- **Reassess the rules with respect to the (NRAs/ACER) selection procedure** of a booking platform

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Q&A session

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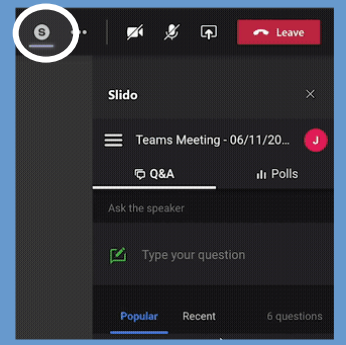

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Closing remarks

Nico KEYAERTS (ACER)
Edouard LE BRET (CRE-ACER CAM TF chair)
Riccardo GALLETTA (ACER)

Next steps

- **Respond to the public consultation**

After concluding on the ‘areas of improvement’

- 2024 Q1, ACER will consult on its technical policy paper
- 2024 Q1, ACER will propose a scoping for amending CAM NC to the European Commission
- 2024 Q2-Q3, ACER will prepare a reasoned recommendation with a proposal to amend CAM NC

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Thank you.
Any questions?

The contents of this document do not necessarily reflect the position or opinion of the Agency.

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