



Market-based mechanisms for capacity allocation

The regulatory perspective

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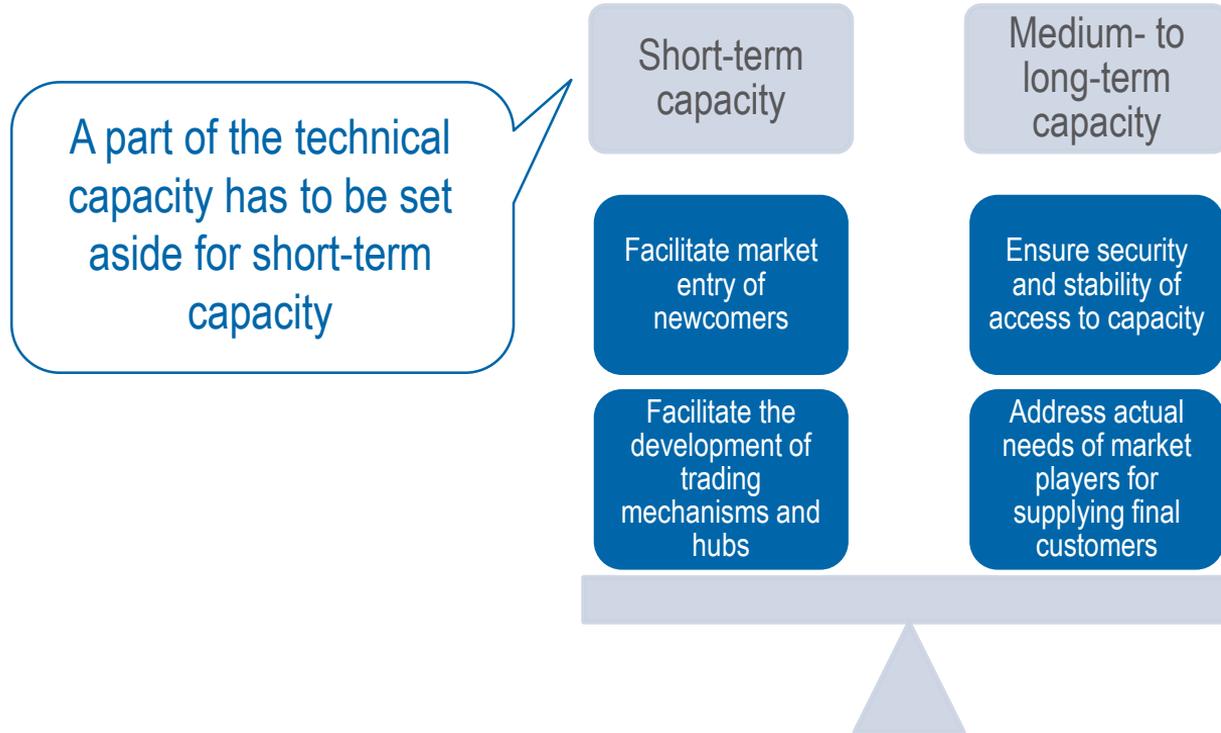
Setting the scene

Starting point for EU harmonisation of capacity allocation and congestion management

- Developing cross border compatibility of capacity allocation mechanisms (CAM) and congestion management procedures (CMP)
 - Appr. 60% of the gas consumed in the EU crosses one or more borders
 - 28 countries all applied specific CAM and CMP
 - Heterogeneity of CAM and CMP at national level was a major obstacle to cross border gas trade development
- Last but not least: aim at enhancing the utilisation of infrastructure and removing contractual congestion
 - Place unused capacity back on the market
 - Remove capacity hoarding

Guiding principles

Appropriate balance between short term flexibility and longer term security and stability



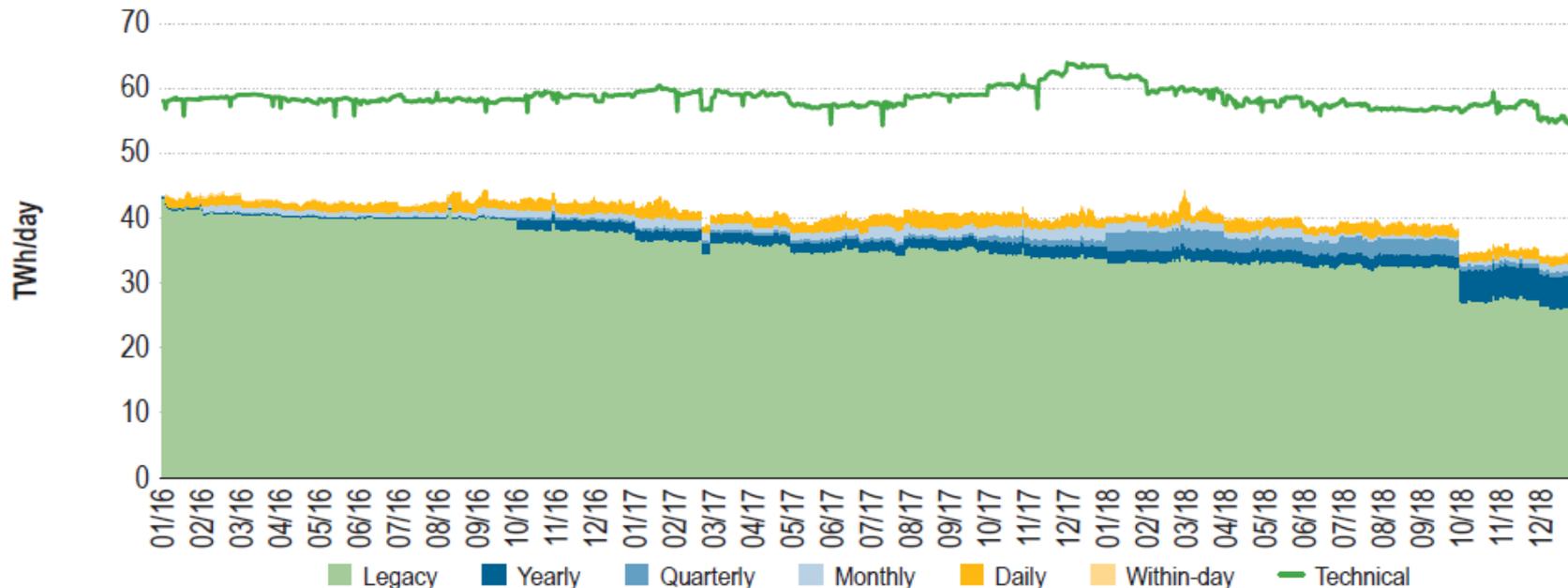
Shippers' needs and time horizons

Time horizon	Capacity quality	Capacity allocation	Congestion mgmt.
intraday day ahead	firm and interruptible	uniform price auction	interruptible capacity, short-term UIOLI overbooking and buy-back (secondary market)
month	firm and interruptible*	ascending clock auction	overbooking and buy-back, surrender of capacity, secondary market
quarter	firm and interruptible*	ascending clock auction	overbooking and buy-back, surrender of capacity, secondary market
year	firm and interruptible*	ascending clock auction	long-term UIOLI, surrender of capacity secondary market
up to 15 years	firm and interruptible*	ascending clock auction	long-term UIOLI, surrender of capacity secondary market

* If firm capacity has been sold out or was sold with a premium

Development of bookings per capacity product

Type of capacity booked at selected CAM-relevant EU IP sides for the period 2016–2018 (TWh/d)



Source: ACER calculation based on data from GSA, PRISMA, RBP, ENTSG TP

Notes: PRISMA covers products auctioned in 2016, 2017 and 2018; GSA 2015, 2016, 2017 and 2018 while RBP from May 2017 to end of December 2018

Oversubscription and buy-back (OS & BB)

- Shall be designed as effective system that provides additional **firm** capacity

Firm day-ahead us-it-or-lose-it (FDA UIOLI)

- NRAs can choose to apply instead of OS&BB
- Mandatory, in case of contractual congestion

Capacity surrender

- allows for capacities to be handed back by network users
- TSO is only obliged reallocate the capacity if all other capacity is allocated

Long term UIOLI

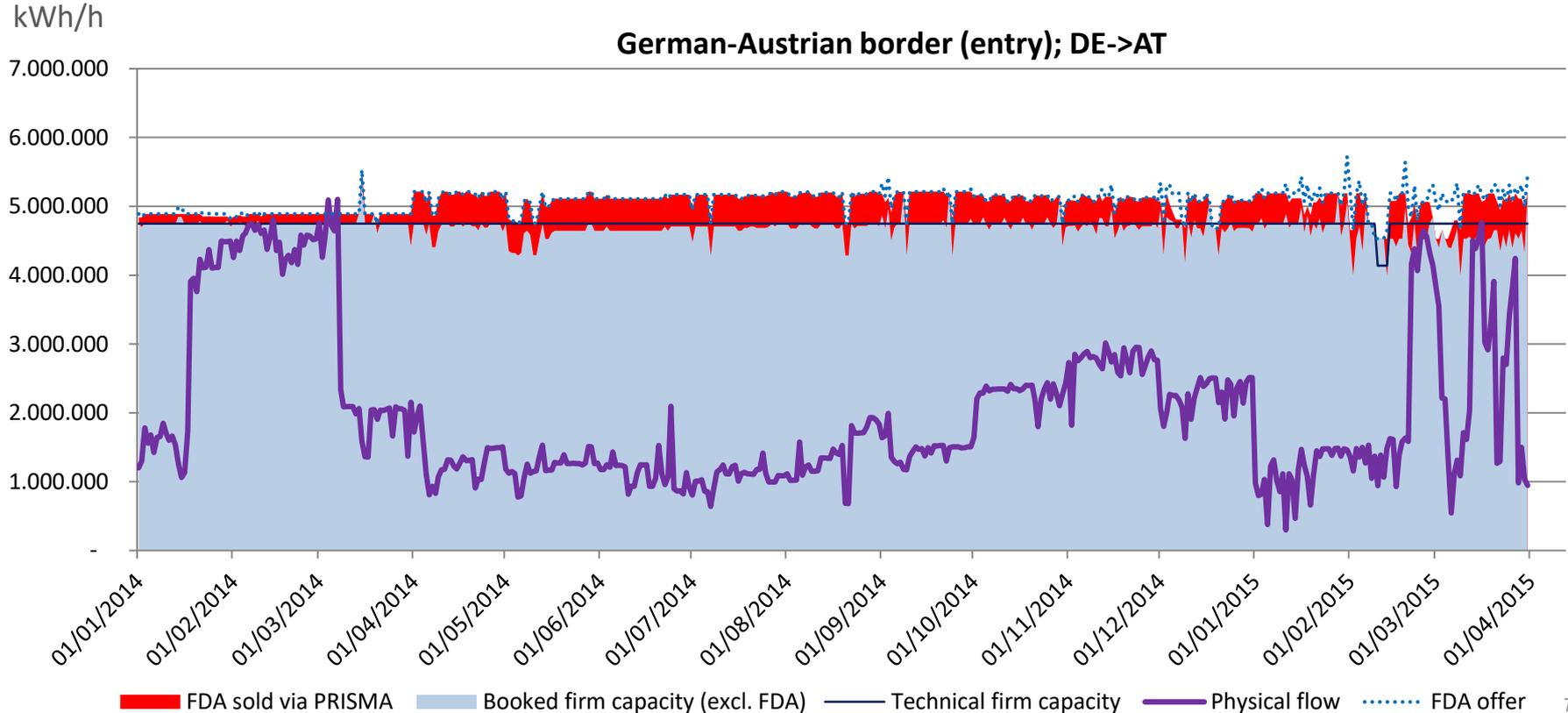
- anti-hoarding measure which kicks in in case there is evidence that the booked capacity is systematically underutilised

EU-wide central transparency platform

- set up by ENTSOG to provide data in a downloadable format allowing for quantitative analysis

Example: effects of short-term UIOLI

*This mechanism freed up 10% of technical capacity
Firm capacity successfully allocated in day ahead auction*



- CAM and CMP implemented in the EU have proved to be effective to ensure non-discriminatory and transparent access to capacity
 - Their development was based on an extensive consultation process involving all stakeholders
- In addition to the regulatory framework for CAM and CMP, capacity releases forced by competition authorities helped to overcome capacity hoarding and strategic foreclosure of certain markets
- Interruptible capacity can contribute to providing new entrants access to a market but should not be the only tool
- A joint platform for allocating capacity should be used by TSOs
 - To avoid lengthy discussions on which platform to use, e.g. Austrian-Hungarian and German-Polish border

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Auctions as standard allocation mechanism

For firm and interruptible capacity products

- Auctions take place at different predefined times, depending on the product type
 - The auction calendar provides an overview of the auction times – published on ENTSOG’s website
 - Auctions are published in due time before the start of the respective auction – on booking platforms
- Long-term products (yearly, quarterly, monthly): Ascending Clock Algorithm
 - Auctions have (multiple) bidding rounds, the number of bidding rounds depends on the demand
 - A bid for a certain amount of capacity at a given price can be submitted in each bidding round
 - The price steps of the auction are set by the TSOs
- Short-term products (day-ahead, within-day): Uniform Price Algorithm
 - Auctions have one single bidding round
 - All bids by all shippers are evaluated in a descending order according to their surcharge
 - The lowest surcharge of all successful bids is considered the clearing surcharge

- **Key auction dates are:**
 - Annual yearly transport capacity auction (firm capacity) – 1 July 2019
 - Annual yearly transport capacity auction (interruptible capacity) – 15 July 2019
 - Quarterly transport capacity auctions (firm capacity) – 5 August 2019, 4 November 2019, 3 February 2020 and 4 May 2020
 - Quarterly transport capacity auctions (interruptible capacity) – 2 September 2019, 2 December 2019, 2 March 2020 and 1 June 2020
 - Monthly transport capacity auctions (firm capacity) – third Monday of M-1
 - Monthly transport capacity auctions (interruptible capacity) – fourth Tuesday of M-1
 - Daily transport capacity auctions (firm capacity) – D-1, 14:30 (UTC)
 - Daily transport capacity auctions (interruptible capacity) – D-1, 15:30 (UTC)
 - With-In Day transport capacity auctions (firm capacity) – Each hour for the period starting from +4 hours until the end of the gas day
 - Within-day interruptible capacity shall be allocated by means of an over-nomination procedure.