

31 January 2013

Public consultation of the French Energy Regulatory Commission (CRE) on the early implementation of the CAM Network Code for the sale of monthly capacity products at the entry point Obergailbach and of daily capacity products at the entry points Taisnières H and Obergailbach

1. Context and purpose of the consultation

In accordance with articles 6 and 8 of the Regulation 715/2009, the European Network of Transmission System Operators in Gas (ENTSOG) has drafted a Network Code on capacity allocation mechanisms (CAM), on the basis of the Framework Guidelines adopted by the Agency of Cooperation of the Energy Regulators (ACER) on 3 August 2011. Following ACER's recommendation, the European Commission (EC) launched in January 2013 the comitology process during which the Member States and the EC will examine the Network Code in the view of its adoption as Regulation of the Commission. The final adoption of the text should occur in summer 2013, which would require that it is implemented in all Member States by the first quarter of 2015.

The CAM Network Code foresees that capacity at interconnection points (IP) between entry-exit systems within the European Union is allocated by auctions, in the form of products with standard durations and according to a common calendar. To the extent that firm capacities are available on both sides of an IP, these should be offered as bundled capacities. The code also foresees that booking platforms jointly operated by transmission system operators (TSOs) are set up. If several platforms may coexist at the time of the entry force of the code, ENTSOG is given the task to establish an action plan for the implementation of a unique booking platform at the EU level.

Building on their respective experiences with the platforms Capsquare, Link4Hubs and TRAC-X, sixteen TSOs of North-West Europe, including GRTgaz, have announced in April 2012 their project of anticipating the implementation of the network code by creating a joint booking platform. This project has been initiated in the North-West region but is open to other TSOs and puts forward its European ambition. The Austrian and Italian TSOs have recently joined the initiative. In addition, during the Stakeholders Group meeting of 27 September 2012, the South Gas Regional Initiative has expressed its support for the efforts of TIGF and of the Spanish and Portuguese TSOs to join the common platform within the shortest delays.

The common platform will be operated by the company PRISMA, created on 1 January 2013 and of which the 19 TSOs are shareholders. The PRISMA platform will be operational as of April 2013 and will allow for the allocation of all capacity products defined in the CAM Network Code, with the exception of intra-day products for which the allocation will not be possible via PRISMA before 2014.

As founding member of the project, GRTgaz proposes, in collaboration with Fluxys, Open Grid Europe (OGE) and GRTgaz Deutschland, to allocate by auctions, as of April 2013, monthly capacities at the Network Interconnection Point (PIR) Obergailbach and daily capacities at the PIR Obergailbach and Taisnières H via the PRISMA platform.

CRE, as well as the Belgian regulator (Commission de Régulation de l'Electricité et du Gaz) and German regulator (Bundesnetzagentur), welcome the TSOs' proposal to implement the CAM Network Code at an early stage. This project fulfills the request of the Madrid Forum, which encouraged the launch of pilot projects on capacity allocation during its meeting on 2-3 October 2012. Indeed, the auctioning of interconnection capacities has been identified as a key step towards the integration of the European gas market and the gradual implementation will allow network users to acquire better comprehension of the new rules before their full application in the course of 2015. CRE intends to ask GRTgaz and TIGF to submit a provisional calendar, detailing the steps which will lead to the implementation of auctions for all types of capacity products defined in the CAM Network Code.

The present consultation aims at gathering the views from market players on GRTgaz' proposal (attached to the present document) to proceed to the early implementation of the CAM Network Code, as well as on the specific conditions for the auctioning of monthly capacities at the PIR Obergailbach and of daily capacities at the PIR Obergailbach and Taisnières H as of April 2013.

2. Early implementation of the CAM Network Code at the entry points Taisnières H and Obergailbach

2.1. Auctioning of monthly capacities at the PIR Obergailbach

2.1.1. Capacity products offered

GRTgaz proposes to sell the following bundled monthly products starting on 1 May 2013, via the PRISMA platform:

- Firm bundled monthly product OGE (NCG VTP)¹ / GRTgaz (PEG North) in the main direction (4.56 GWh/d*);
- Firm bundled monthly product GRTgaz Deutschland (NCG VTP)² / GRTgaz (PEG North) in the main direction (42.48 GWh/d*);
- Backhaul bundled monthly product OGE (NCG VTP) / GRTgaz (PEG North) (4.2 GWh/d*);
- Backhaul bundled monthly product GRTgaz Deutschland (NCG VTP) / GRTgaz (PEG North) (82.8 GWh/d*).

In addition, GRTgaz proposes to sell in an unbundled way (75.96 GWh/d* of firm entry capacities and 13.88 GWh/d* of backhaul) and via the PRISMA platform the monthly capacities available at the PIR Obergailbach, which could not be bundled, because of a lower amount of available firm capacity on the German side. Bundled and unbundled monthly capacities will be allocated according to the same procedures and the auctions for both types of products will be held simultaneously.

Interruptible entry capacities at the PIR Obergailbach will be sold unbundled using the same auction mechanism as for firm capacities. These auctions will be held in a different bidding window, which is to be open after the closure of the auctions for firm capacities. These capacities will only be offered in case all the firm monthly capacities have been sold.

(indicative and non-binding data)*

2.1.2. Allocation rules for the auctioning of monthly capacities

In accordance with the provisions of the CAM Network Code, GRTgaz plans to sell month-ahead products via a multi-stage auction algorithm for which the reserve price is equal to the regulated tariff

¹ The different types of firm capacity products offered by OGE are described under section 9 of the General Terms and Conditions of the Entry/Exit Contract and the supplementary term of conditions that are published on OGE's website: http://www.open-grid-europe.com/cps/rde/xbcr/SID-7447CA98-9C15C92C/open-grid-europe-internet/SEAV_engl_01012012.pdf

² The different types of firm capacity products offered by GRTgaz Deutschland are described under section 9 of the General Terms and Conditions of the Entry/Exit Contract and the supplementary term of conditions that are published on GRTgaz Deutschland's website: <http://www.grtgaz-deutschland.de/en/content/downloads>

and the price increments are predefined. The main features of the auction procedure as defined in the CAM Network Code are described hereafter:

- The offer takes place on the third Monday of month M-1 for monthly capacities starting on the first day of month M;
- Ascending clock multi-stage auctions with the following main features:
 - Reserve price equal to the regulated tariff applicable, that is 14.084€/MWh/d for firm monthly capacity and 2.817€/MWh/d for interruptible and backhaul monthly products on GRTgaz' side;
 - If demand is equal to or lower than the capacity offered at the reserve price, the capacities are allocated at the regulated tariff;
 - As long as demand is higher than the capacity offered, the price is increased by large price increments with a predefined value (large price increments defined below);
 - As soon as demand is lower than the capacity on offer, a small price increment (small price increments defined below) will be added to the large price increment which was valid in the bidding round preceding the first time undersell and a new bidding window will be opened;
 - Capacities are allocated at the last price for which demand was equal to or lower than the capacity offered, this price is identical for all shippers;
 - The potentially unsold monthly capacities will be offered in the form of daily capacities.

With regards to bundled capacity products, the reserve price is equal to the sum of the reserve prices of the products proposed by each TSO.

2.1.3. GRTgaz' proposal on price increments

GRTgaz proposes to set the level of the large price increment at 0.418€/MWh/d, which amounts to 3% of the regulated tariff applicable as of 1 May 2013. This level, in absolute value, is the same as the one used by German TSOs.

With regards to the small price step, GRTgaz proposes to use a $1/5^{\text{th}}$ ratio between the large and the small price increments, which is in line with the ratio PRISMA plans to use for all auctions. If appropriate, this level may be adjusted at a later stage for all auctions carried out via PRISMA. The application of a $1/5^{\text{th}}$ ratio leads to small price steps of 0.0836€/MWh/d for monthly capacities.

With regards to bundled capacity products, the reserve price is equal to the sum of the price increments of the two capacity products concerned.

GRTgaz indicates that a certain level of flexibility should be kept for the definition of price increments for future auctions, so that they can be adjusted after return on experience.

The proposed rules are intended to replace the capacity allocation rules currently in place.

2.1.4. CRE's preliminary assessment

At this stage, CRE is in favour of the proposal from GRTgaz to proceed to the early implementation of the CAM Network Code for the sale of monthly capacities at Obergailbach.

The definition of price increments is of significant importance for the smooth running of the auctions. These parameters should be set in a way that allows the auctions to close within a reasonable timeline, while minimizing the volume of capacity not allocated.

With regards to the large price increment, CRE considers that it should be proportional to the regulated tariff applicable on the one hand, and to the level of congestion at the interconnection point concerned. Hence, CRE is of the view that large price increments should be differentiated according to products (firm, interruptible or backhaul) so that they can be proportionate to the reserve prices. The large price increments used for interruptible and backhaul would thus be set respectively at 50% and 20% of the level defined for firm capacities, in consistency with the corresponding regulated tariffs.

In general, in the absence of substantial congestion, CRE considers that a large price increment of 5% of the reserve price (instead of 3% as proposed by GRTgaz) provide more guaranties, with regards the length of the auction process while limiting the volume of capacity that is potentially not allocated.

As a consequence, CRE intends to ask GRTgaz to adopt the following levels of price increments:

- 0.70 €/MWh/d for the large price increment used for auctions of firm capacities, corresponding to 5% of the monthly regulated tariff applicable as of 1 April 2013;
- 0.14 €/MWh/d for small price increments used for auctions of firm capacities, corresponding to 1/5th of the large price increment;
- 0.35 €/MWh/d for the large price increments used for auctions of interruptible capacities, corresponding to 5% of the monthly regulated tariff applicable as of 1 April 2013;
- 0.07 €/MWh/d for small price increments used for auctions of interruptible capacities, corresponding to 1/5th of the large price increment;
- 0.14 €/MWh/d for the large price increments used for auctions of backhaul capacities, corresponding to 5% of the monthly regulated tariff applicable as of 1 April 2013;
- 0.03 €/MWh/d for the small price increments used for auctions of backhaul capacities, corresponding to 1/5th of the large price increment.

CRE intends to ask GRTgaz to provide a return on experience, on the basis of PRISMA's evaluation report, after the sale of monthly capacities starting on 1 October 2013.

Q1: Are you in favour of the early implementation of the provisions of the CAM Network Code of CAM at the PIR Obergailbach for the sale of monthly capacities starting on 1 May 2013?

Q2: Are you in favour of the levels of price increments as defined by CRE?

2.2. Sale of daily capacities at PIR Obergailbach and PIR Taisnières H

2.2.1. Daily capacity products offered

GRTgaz proposes to sell, as of April 2013, the following bundled daily products via the PRISMA platform:

- Firm day-ahead product OGE (NCG VTP) / GRTgaz (PEG Nord) in the main direction;
- Firm day-ahead product GRTgaz Deutschland (NCG VTP) / GRTgaz (PEG Nord) in the main direction;
- Firm day-ahead product (ZTP) / GRTgaz (PEG Nord) in the main direction;
- Backhaul day-ahead product OGE (NCG VTP) / GRTgaz (PEG Nord);
- Backhaul day-ahead product GRTgaz Deutschland (NCG VTP) / GRTgaz (PEG Nord);
- Backhaul day-ahead product Fluxys (ZTP) / GRTgaz (PEG Nord).

In addition, GRTgaz proposes to sell in an unbundled way and via the PRISMA platform the daily capacities (including backhaul) available at PIR Obergailbach and PIR Taisnières H, which could not be bundled, because of a lower amount of available firm capacity on the German and Belgian sides. Bundled and unbundled capacities will be allocated according to the same procedures and the auctions for both types of products will be held simultaneously.

The potentially unsold daily capacities will be offered via the "Use-It-And-Buy-It" mechanism.

2.2.2. Allocation rules for the auctioning of daily capacities

GRTgaz plans to start offering these capacities as of the first week of April 2013. In accordance with the provisions of the CAM Network Code, GRTgaz plans to sell the day-ahead products via a uniform price auction algorithm, which would be run from 16.30 to 17.00, with a reserve price equal to the applicable regulated tariff, which is of 0.469€/MWh/d.

The main features of the auction procedure as defined in the CAM Network Code are described hereafter:

- Any shipper can submit up to ten bids, consisting of an amount of capacity and the price at which the shipper would like to acquire this capacity amount;
- The bids are ranked according to their bid prices : capacities are allocated starting from the highest price;
- A pro rata is applied if, for a given bid price, capacity demand is higher than the residual capacity offered;
- The price at which the capacities are billed is the same for all shippers.

With regards to bundled capacity products, the reserve price is equal to the sum of the reserve prices of the products proposed by each TSO.

The proposed rules are intended to replace the capacity allocation rules currently in place.

2.2.3. CRE's preliminary assessment

At this stage, CRE is in favour of the proposal from GRTgaz to proceed to the early implementation of the CAM Network Code for the sale of daily capacities at Obergailbach and Taisnières H.

Q3: Are you in favour of the early implementation of the provisions of the CAM Network Code of CAM for the sale of daily capacities at PIR Obergailbach and Taisnières H as of April 2013?

3. Distribution of potential revenues from the auction premium

GRTgaz proposes to bill separately the amount corresponding to the regulated tariff and the potential amount resulting from a higher clearing price.

In the case of bundled products, the potential revenues derived from a clearing price higher than the reserve price (sum of the regulated tariffs) will be shared between the relevant TSOs. In case there is no agreement between the relevant TSOs on a rule for sharing these revenues, the default rule currently foreseen in the CAM Network Code is a distribution in equal proportions (50/50 split).

CRE points out that, in accordance with the provisions of its decision on tariffs of 13 December 2012, the over-revenues allocated to GRTgaz and deriving from capacity auctions as of 1 April 2013 will be refunded to network users through the *Compte de Régularisation des Charges et Profits* (regulatory account). As for auctions of capacities starting on 1 April 2014, rules relating to the use of the potential over-revenues will be defined by CRE on the basis of a proposal from the TSOs and discussion within the "Concertation Gaz" group.

Q4: Are you in favour of the rule for sharing the potential over-revenues from bundled products as proposed by GRTgaz?

Questions:

Q1: Are you in favour of the early implementation of the provisions of the CAM Network Code of CAM at the PIR Obergailbach for the sale of monthly capacities starting on 1 May 2013?

Q2: Are you in favour of the levels of price increments as defined by CRE?

Q3: Are you in favour of the early implementation of the provisions of the CAM Network Code of CAM for the sale of daily capacities at PIR Obergailbach and Taisnières H as of April 2013?

Q4: Are you in favour of the rule for sharing the potential over-revenues from bundled products as proposed by GRTgaz?

CRE invites all interested parties to submit their contribution, at the latest by 18 February 2013:

- by e-mail to the following address: dirgaz.cp1@cre.fr ;
- by submitting their contributions directly on CRE's website (www.cre.fr), under the section "Documents /Consultations publiques";
- by regular post: 15, rue Pasquier - F-75379 Paris Cedex 08 ;
- by entering into contact with the Directorate for Gas Infrastructures and Networks: + 33.1.44.50.41.44

We invite you to indicate explicitly whether your contribution has a confidential dimension.