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## South Gas Regional Initiative – CAM ROADMAP

### Decisions taken by the regulators on CAM NC early implementation 2014

#### Regulators' paper - ERSE-CNMC-CRE

**November 2013**

*As decided in the 24<sup>th</sup> IG meeting, this paper presents a preliminary analysis of the topics agreed in order to progress on the early implementation of CAM NC in the SGRI.*

*The principles established hereafter will apply for the following planned auctions:*

- *Every year, in March, it will be sold the yearly product for the following year at the Portuguese-Spanish border and yearly products for the following 15 years at the French-Spanish border.*
- *Every year, in June, quarterly products from October that year to September the following year, will be sold on both borders.*
- *Every month since September 2014, firm monthly products will be sold on both borders.*
- *Every day, at least since November 2015 and when available capacity exists, day-ahead and intraday capacity will be sold on both borders.*

*The following list of topics has been elaborated considering that the allocations will take place via PRISMA platform.*

#### **CAPACITY ALLOCATION RELATED TOPICS**

1. **Bundled capacities:** TSOs will offer as much bundled capacity as possible, i.e. to the extent there is available firm capacity on both sides of the interconnection point (IP). Capacity to be sold will be calculated according to the formula described in the CAM NC for each capacity product, which include capacity released by CMP application.

The CAM Network requires that, where there is more available firm capacity on one side than on the other, this firm capacity is offered as an unbundled product. This offer shall not exceed the amount and duration of the corresponding transport contract on the other side if any. If not, the offer shall be limited to a maximum period of one year. These rules imply that TSOs exchange the necessary information on the capacity booking situations on both sides of the IP.

2. **Split of the capacity to be offered:** The CAM NC requires that an amount at least equal to 10% of the technical capacity is set aside and offered no earlier than in the annual quarterly capacity auction and another amount at least equal to 10% is set aside and offered no earlier than in the yearly capacity auction held during the fifth gas year preceding the start of the relevant gas year. If the available capacity is less than the proportion of technical capacity to be set aside, the whole of any available capacity is to be set aside, in priority for the quarterly capacity auction (10%) and for the yearly capacity auction. The remaining available capacity could be sold as yearly products up to year n+15.

At the PT-ES border, an amount at least equal to 10% of the technical capacity shall first be offered no earlier than the annual quarterly capacity auction. If the available capacity is less than the previous amount, all available capacity shall be offered no earlier than the annual quarterly capacity auction. The remaining capacity shall be offered on a yearly basis, through yearly products for the next year. At the FR-ES border, the general rule is 80% of the available capacity will be sold as yearly products until year n+15, 10% will be sold as yearly products for the year n+1 to n+5 and 10% will be sold as quarterly products). Currently only 1.9GWh/d of capacity would be available in the direction France to Spain for the mid-term quota (annual capacity up to Y+5), the general rule will be followed.

3. **Interruptible capacity:** TSOs will offer firm products in the auctions. The CAM NC requires that interruptible products are offered, at least on a day-ahead basis.

Interruptible products will be offered at the PT-ES border when all the firm bundled capacity offered has been already allocated in each auction (there is a need to specify a criterion because the use of the CAM algorithm often generates small quantities of undersell capacity, because of the price steps. One option could be to use a threshold and say that interruptible has to be offered when the amount of capacity remaining unsold does not exceed X% for instance)

TSOs will propose the amount and duration of capacity than could be sold on interruptible basis in both directions, at the FR-ES border and at the PT-ES border (considering that, on the French side, in the direction FR to ES, 3GWh/d of Interruptible capacity is currently offered from November to March and, as of December 2015, 60GWh/d of interruptible capacity will be made available in the direction FR to ES).

Potential rules for converting interruptible capacity subscribed into firm capacity (currently done in the French market, for example) or alternative measures need to be discussed in order to avoid interfering with the amount of firm bundled capacity products TSOs can offer.

4. **Virtual Interconnection Point:** Capacity will be commercialized in a VIP at both borders, the PT-ES and the FR-ES.

The physical interconnection point Larrau and Biriadou will be merged into a single FR-SP VIP in the course of 2014. By October 2014, capacity bookings, publications and nominations will refer to the VIP only.

By October 2014 the existing access contracts at physical interconnection points will be adapted to the VIP.

5. **Users registration for participating in the auctions and shipper codes:** Since the allocation is going to be performed via PRISMA, users will have to register at PRISMA as “shippers” to participate in the auctions. The requirements for registration are established in the PRISMA General Terms and Conditions (currently under revision so new version of GTCs from 1st January 2014).

The first requirement for registration is to have a valid Energy International Code(EIC). The EIC consists of 16 characters given to a market party to be identified in the Internal Energy Market in a harmonized way. Since 1 March 2013, ENTSOG is acting as Local Issuing Office for

the EIC. The code shall be globally unique: only one code is allocated per organization (business group); the same shipper on both sides of the border will have the same EIC code.

According to PRISMA GTCs, the registration process of the shipper and its first user requires the following information to be provided to PRISMA. :

- Energy Identification Code of the shipper (EIC).
- Company name and address of the shipper.
- User information: title, last name, first name, telephone number, e-mail address
- Other shipper information: billing address, IBAN, BIC, legal representatives and VAT number.
- Additional identification code if requested by TSO.

TSOs have to be also registered in PRISMA to carry out their functions in relation to transmission.

To get a successful registration, adjacent TSOs on both side of a border must approve users' registration request. At this stage, TSOs must confirm that the shipper is allowed to operate in their country, according to the regulation national framework (if the shipper has trading license where required, etc...).

By successful registration, a Platform Usage Contract is established between the Shipper and PRISMA. The shipper receives from PRISMA an Access Key (non-transferable) by registered letter upon successful TSO approval. Only after receiving an Access Key, booking and trading of capacities can be performed via PRISMA.

The use of the PRISMA Capacity Platform is free of charge for the Shipper.

**6. Financial guarantees:** Two types of guarantees are discussed at this section:

- Financial guarantees to participate in the auction, which aim at giving firmness to shippers' bids and preventing shippers' withdrawal once the capacity has been allocated. (In PRISMA the TSOs can choose to use or not what it is called the "credit limit check" for their auctions. In case the TSO wants to use it, he has to upload the financial limit of the concerned shippers in advance and then, during the auction, while the shipper is trying to submit his bid, the platform checks the value of the bid against the uploaded limit. If the value exceeds the limit, then the bid is rejected by the platform and the shipper user is directly informed)
- Financial guarantees associated to contract, which aim to cover possible unpaid TPA tariffs to some extent. These shall remain as currently in place in each country.

**7. Auction process:** General rules and principles for auctions will be those governing PRISMA.

The methodology for the capacity allocation will be the one established in the CAM NC:

- Yearly, quarterly and monthly products: an ascending clock auction algorithm, with multiple bidding rounds.

- Day-ahead and intra-day products: a uniform-price auction algorithm, with a single bidding round.

8. **Prices:** The reserve price for all bundled capacity auctions will be the sum of the regulated prices defined on each side of the interconnection point. The payable price will comprise the reserve price and the auction premium, the latter being determined through the auction process according to the CAM NC and PRISMA rules.

The auction premium over the reserved price will be shared 50/50 between the TSOs at the interconnection point.

According to the CAM NC, for the yearly, quarterly and monthly products, a large price step and a small price step must be defined per interconnection point and per standard capacity product and published in advance of the relevant auction. 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. In particular, the large price step needs to be proportionate, on one hand, to the reserve price and, on the other hand, to the level of congestion observed at the network point.

For example, the following rules are currently used at some other IPs in Europe:

*Yearly auctions: large price step = 10 ct/kWh/h/Runtime, small price step = 2 ct/kWh/h/Runtime*

*Quarterly auctions: large price step = 2.5 ct/kWh/h/Runtime, small price step = 0.5 ct/kWh/h/Runtime*

*Monthly auctions: large price step = 1 ct/kWh/h/Runtime, small price step = 0.2 ct/kWh/h/Runtime*

Nevertheless a proposal taking into consideration the principles outlined need to be made by TSOs

9. **Contracts:** In the PT-ES previous auctions, auctions participants had to sign, previously to the auction, two standard contracts, one with the Spanish TSO and one with the Portuguese TSO, which contained all the rights, obligations and conditions of the access, except the contracted quantities. The contracted quantity was completed after the auction, once the user knew and accepted the allocated capacity, via annexes to the standard contracts.

For the new auctions, in order to prevent shippers from renouncing to the capacity allocated in the PRISMA auction, the development of standard contracts to be signed before the auction, one with the TSO on the side of the border and a second one with the TSOs on the other side of the border need to be developed. These standard contracts, after the auction, would be completed with the allocated quantities via annexes.

10. **Capacity transfer to affiliates:** Once the capacity is allocated, Shippers have to sign access contracts (or annexes, depending of what decided in point 9).

Only the company that has been allocated the capacity can sign the contracts/annexes with TSOs on both sides of the border.

11. **Monitoring:** Regulators will be responsible for monitoring that the allocation processes have been developed in a transparent, objective and non-discriminatory way.

To perform the monitoring task, NRAs must have access to auctions information. NRAs could request information to TSOs (at least confidential information) and NRAs will have access to PRISMA. NRAs would need to access to the same information than others. (Through the

“Auctions” area directly checking the details of each past or future auction. Among other information, it can be retrieved the final surcharge and the global marketed capacity that was sold during the auction. Also access to the monthly report is possible, on the previous month. In this report all the information about the past auctions is available including the number of price steps, the total demanded capacity for each of them etc. This report is accessible under “Customer center / Download / Auction reports”)

Coordination of NRAs at this stage is needed, since the result of the monitoring may affect the allocated capacity.

12. **Stakeholders Information:** TSOs must provide users and potential users with the appropriate information before and after the auction. According to the CAM NC:

- Annual yearly capacity auctions: One month before the auction starts, TSOs notify network users about the amount of technical capacity to be offered for each year for the upcoming annual yearly capacity auction.
- Annual quarterly capacity auctions: Two weeks before the auction starts, TSO notify network users about the amount of capacity to be offered for each quarter for the upcoming annual quarterly capacity auction.
- Rolling monthly capacity auctions: One week before the auction starts, TSOs notify network users about the amount of capacity to be offered for the upcoming rolling monthly capacity auction.

They also must communicate results of the auctions: aggregated results to the market and allocated capacity to each participant.

Regarding capacity that is auctioned, aggregated auctions results and communication to participants of their allocated capacities, TSOs websites will publish a link to PRISMA in order to inform that this will be the platform to allocate capacity at the European borders and where information on the auctions can be found. These results will be translated into the TSO’s regular publication.

13. **Capacity not allocated in auctions:** Capacity not allocated in the yearly products auction will be offered in the quarterly and monthly products auctions as long as it remain available. Similarly, capacity not allocated in the quarterly products will be offered in the monthly products auctions. Until the full implementation of auctions for all types of products, capacities not allocated in the monthly products auction, will be sold as day ahead and intraday capacity using the mechanisms in force in each country but only in the VIP.

14. **Secondary market:** Primary capacity holders will be able to sell, only as bundled capacity in the VIP, the total allocated bundled capacity or part of it. For this purpose, the shipper buying/receiving the capacity must be authorized to operate in both countries. Any sell must be communicated to affected TSOs. Only CAM NC products will be sold

The sell can also be placed at PRISMA platform, according to PRISMA GTCs. PRISMA allows transferring the capacity use (and not the rights and obligations) or also the rights and obligations. When transferring rights and obligations, capacity will be transferred in form of a CAM NC product. Capacity will be transferred for part of the period for which it was allocated when transferring only the right to nominate.

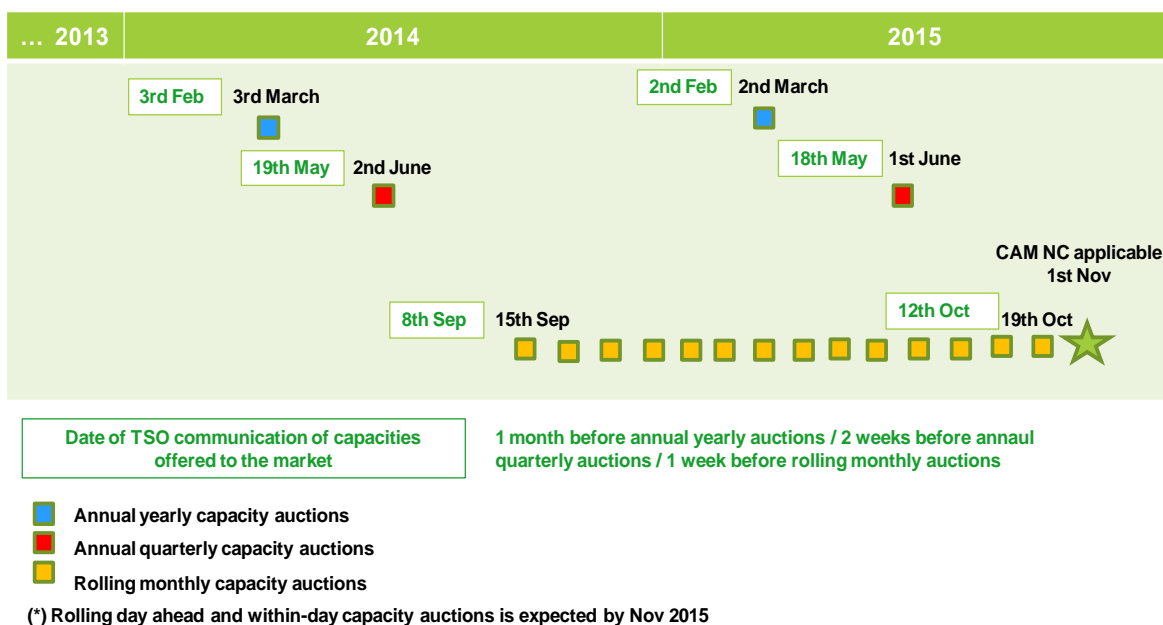
The PRISMA secondary facility will be available beginning of 2014. An agreement needs to be found on when secondary trades will be made possible for the FR-ES and ES-PT borders. Additionally, the publication requirements relating to secondary trades of bundled products will need to be defined.

15. **Interim period:** Until the first auction in early 2014, available capacity will be booked via the processes currently in force.

Until full implementation of CAM NC in November 2015, daily and intra-day capacity could be allocated outside PRISMA using the mechanism in force in each country in the VIP.

16. **Interaction with other capacity allocations in the region:** Shippers may be interested in booking access along corridors inside the Region. TSOs (and NRAs) will make their best to coordinate the schedule of the allocations inside each country and, in any case, will inform shippers about other capacity allocations in each country as soon as possible.

17. **Calendar:**



## INTEROPERABILITY ISSUES

A common approach of the following aspects would help the CAN NC implementation and facilitate users' and TSOs' daily operation. Currently, these issues are not crucial for planned auctions, but will be more relevant when day-ahead and intra-day capacity will be auctioned.

1. **Gas day:** two options are possible till November 2015, i.e. when the application of the CAM NC becomes mandatory:
  - To unify the gas day at the international connections according to what is established in the CAM NC in order to simplify TSOs' and users' capacity management.
  - To keep the current gas day in the three countries, as currently. There are currently agreements among TSOs to convert nominations, renominations and measures into the same reference period. In the interim period this option perhaps could be maintained

but would become impractical with the implementation of daily auctions and frequent renominations.

2. **Combustion reference temperature:** again, two options are possible:
  - Establishment of the same combustion reference temperature, which simplifies the matching process, since it eliminates the need for conversion factors. This may involve investments in equipments. It also affects users, which should be previously aware of the consequences (a lower or higher measure of their gas).
  - To keep the different combustion reference temperatures currently existing, which requires the use of conversion factors for nomination and matching purposes, with the consequent risk of mismatching. This risk will be higher when renomination cycles, considered in the CAM NC, will be in place. In the interim period this option perhaps could be maintained but in the end, with daily auctions and frequent renominations this should be avoided
3. **Data exchange:** An appropriate and automatic communication mean is needed by TSOs and users in order to exchange information avoid confusion and misunderstanding and align communication deadlines.
4. **Nomination/renomination:** Some IT system development would be required to support the following options, since, at the moment, Prisma platform does not manage nominations:
  - Establishment of a single nomination: currently users must nominate the use of their capacity to both TSOs at the interconnection. This requires TSOs to apply a matching rule in order to define which nomination is kept when different values are provided by the user on each side of the border. According to the draft Interoperability NC, the default rule must be the “lesser” rule. Nevertheless issuing a single nomination for each direction of flow, reaching both TSOs, will simplify the task of TSOs.
  - Nomination of net flows: nominations at the interconnection points are currently referred to both directions. Although a nomination of net flow simplifies the network management, two nomination are necessary for instances, in order for TSOs/NRAs to analyze contracts for CMP purposes, and in the Spanish and Portuguese cases two nominations are necessary for billing purposes.
  - Harmonization of the nomination and renomination calendar at the P-S and F-S borders, according to the Balancing NC. For this measure to be effective, the gas day in the three countries should have previously been harmonized.

#### **NRAs REGULATORY DEVELOPMENT**

The early implementation of the CAM NC as of March 2014 may require the development/modification of national regulation which would affect allocations at the interconnection points in the three countries. NRAs will review the current regulation in force and start working in the required changes/developments, if needed. There are several possible solutions:

- On the Spanish side, a new Circular to regulate the allocation process will be needed.

- On the French side, CRE will issue a deliberation, based on the conclusions of the South GRI. This decision will describe the changes to the allocation procedures at the IPs with Spain. In addition, the tariff-related aspects (i.e. use of the revenues from auction premia, definition of the regulated tariff for quarterly products...) will need to be reflected in the yearly decision on transmission tariffs due by the end of 2013.
- On the Portuguese side, ERSE will issue a deliberation, based on the conclusions of the South GRI concerning allocation processes.

Until CAM NC enters into force, specific conditions of the allocations referred in this paper could be established by the NRAs, as long as they are not currently established in the national legislation. At the PT-ES border, these conditions were implemented via an Information Memorandum.