

Proposal to offer shippers greater flexibility to book firm capacity at interconnection points (IPs) outside the EU Capacity Allocation Network Code (CAM NC) auction timetable dates.

## Background

- Since it was implemented in November 2015, the CAM NC<sup>1</sup> has progressively given shippers more flexibility to book capacity at IPs and made the process more efficient. IP capacity can now be easily acquired for multiple durations, on a bundled basis, according to standardised auction timetables and mechanisms and through a small number of capacity booking platforms. This has contributed to reduced contractual congestion and narrower spreads through efficient price arbitrage. It has also generated greater liquidity across EU gas markets, both in prompt and forward markets.
- Despite this however, the standard auction timetable included in CAM NC still limits opportunities for arbitrage to be fully exploited, particularly across the forward curve. At times when capacity is being auctioned in accordance with the CAM NC profitable commodity arbitrage opportunities<sup>2</sup> may not exist, whereas at times outside of the CAM NC auction timetable they may do. Overall this is detrimental to market efficiency and reduces the amount of IP capacity TSOs can sell. This one reason why some TSOs have introduced implicit allocation of capacity<sup>3</sup>.
- As pointed out by ACER in its most recent gas market monitoring report<sup>4</sup> “the CAM NC is favouring the possibility for shippers better to profile their capacity portfolio and to incorporate short-term price signals in the management of their capacity at the IPs. ... NRA’s, the European Commission and ACER could consider the possibility to further increase the frequency of CAM auctions with a standardised timing in order to make them even more useful for the network users.”

## Outline of the proposal

- The proposal aims to make firm IP capacity more readily available to shippers by enabling TSOs to offer it for sale in uniform price allocation (UPA) auctions<sup>5</sup> outside the CAM NC auction timetable dates.
- Supplementary UPA auctions for yearly, quarterly and monthly IP capacity would be held for any capacity remaining unsold after the first relevant CAM NC (ascending clock) auction, up to the point where it becomes usable. Shippers would always have the option to bid for yearly, quarterly and monthly IP capacity in the relevant CAM NC auctions first before any supplementary UPA auctions took place.
- TSOs and booking platforms could choose to implement supplementary UPA auctions or not, possibly on an initial trial basis. However, as UPA auctions will increase the opportunity for TSOs to sell capacity and may incentivise more annual capacity booking, hopefully most of them would choose to do so.
- The proposal is consistent with the fundamental principles of the CAM NC but does not fully comply with the detailed obligations in a couple of aspects. Firstly, the CAM NC states that yearly, quarterly and monthly IP capacity auctions must use the ascending clock auction algorithm,<sup>6</sup> not the uniform price algorithm. Secondly, it could be argued that offering annual, quarterly and monthly capacity after the

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<sup>1</sup> [Commission Regulation \(EU\) 2017/459 of 16 March 2017](#)

<sup>2</sup> When the prices spread between two markets is > the cost of capacity

<sup>3</sup> Interconnector (UK) and BBL both now offer capacity via implicit allocation, outside of the CAM NC auction timetables

<sup>4</sup> [“Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Market in 2018 – Gas Wholesale Market Volume”](#) – October 2018

<sup>5</sup> As described in Article 18 of the CAM NC

<sup>6</sup> Article 16.2 of the CAM NC

first relevant CAM NC (ascending clock) auction has taken place and up to the point where it becomes usable is contrary to the cascading principle<sup>7</sup>.

- The proposal envisages bringing forward the dates of the CAM NC rolling monthly capacity auctions from the third to the first Monday of each month<sup>8</sup>. This does not require a change to the CAM NC legal text, as such, because ENTSOG already has discretion to change the dates of these auctions when publishing the auction calendar<sup>9</sup>. But if other changes to the legal text are necessary this could be included too.
- Indicative changes to the CAM NC legal text are shown in Appendix 1 below.
- UPA auctions would not take place if firm yearly, quarterly or monthly capacity at an IP was sold at an auction premium, was sold out, or was not offered. In such instances TSOs could offer interruptible yearly, quarterly or monthly IP capacity<sup>10</sup> on the dates specified by ENTSOG in the auction calendar<sup>11</sup>.

### UPA auction schedule

- UPA auctions would be held for unsold firm yearly, quarterly and monthly capacity at IPs on each business day<sup>12</sup> commencing on the 3rd business days after the start of the relevant CAM NC auction.
- Any unsold capacity following the yearly, quarterly and monthly CAM NC auctions would be typically offered in UPA auctions as follows:
  - Yearly capacity (first gas year only):
    - offered on each business day from the 3rd business days after the first Monday in July until the 3rd business day prior to the end of September;
  - Quarterly capacity (first gas year only):
    - Q4: offered on each business day from the 3rd business days after the first Monday in August until the 3rd business day prior to the end of September;
    - Q1: offered on each business day from the 3rd business days after the first Monday in August until the 3rd business day prior to the end of December;
    - Q2: offered on each business day from the 3rd business days after the first Monday in August until the 3rd business day prior to the end of March;
    - Q3: offered on each business day from the 3rd business days after the first Monday in August until the 3rd business day prior to the end of June.
  - Monthly capacity (first month only):
    - offered on each business day from the 3rd business day after the first Monday of the preceding month up until the 3rd business day prior to the start of the month in question.
- However, UPA auctions would not take place on days where CAM NC auctions for firm or interruptible yearly, quarterly or monthly capacity are scheduled to take place. In the event demand for capacity at an

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<sup>7</sup> Article 8.3 of the CAM NC

<sup>8</sup> Except on days where rolling monthly capacity auctions would clash with annual or quarterly capacity CAM NC auctions, in which case the ENTSOG calendar could schedule the rolling monthly capacity auction for the Tuesday following the first Monday.

<sup>9</sup> See Article 13.4 of the CAM NC

<sup>10</sup> As per Article 32 of the CAM NC

<sup>11</sup> If, as proposed, the date for the firm rolling monthly capacity auctions is brought forward to the first Monday of each month it would also be possible to bring forward the date for interruptible rolling monthly auctions from the 4<sup>th</sup> Tuesday of each month, but this is not part of the proposal.

<sup>12</sup> Business days would need to be defined in such a way as to be consistent with principal commodity trading days in Europe, for example those weekdays which are not simultaneous public holidays in the UK, Germany and Netherlands.

IP(s) extends the CAM NC auction beyond the scheduled day through the ascending clock mechanism, UPA auctions will be suspended at that IP(s) until the 3rd business days after completion of the auction.

- Also, at the point in time when the amount of firm capacity to be offered in monthly and quarterly CAM NC auctions is published one and two weeks, respectively, before the auction dates, any yearly or quarterly UPA auctions pertaining to such month or quarter shall be suspended. This maintains the integrity of the amount of firm capacity to be offered in monthly and quarterly CAM NC auctions.
- Consequently, there will always be two full business days between:
  - a CAM NC firm yearly, quarterly or monthly capacity auction start date and the start of UPA auctions for unsold equivalent firm capacity products;
  - a yearly, quarterly or monthly capacity UPA auction and that product becoming usable; and in addition
  - a CAM NC monthly auction and a UPA quarterly auction for the relevant quarter within which that month falls<sup>13</sup>.
- An overview showing all the proposed CAM NC and UPA auction dates and products for calendar year 2020 along with separate annual, quarterly and monthly UPA schedules is attached as Appendix 2.

### **UPA auction process (all times CET)**

- Prior to the start of each business day TSOs will notify the booking platform of the quantities of yearly, quarterly and monthly capacity they are able to offer for sale through UPA auctions. The booking platform will then compare the capacity offered at each IP and publish the amounts of bundled and unbundled capacity to be offered via UPA auctions, as per the timings below.
- Yearly, quarterly and monthly capacity per IP<sup>14</sup> would be offered sequentially in separate UPA auctions held during the business day. These auctions would conclude one hour before the start of the CAM NC day ahead auctions at 16:30.
- UPA auctions would follow the process below:
  - Once the booking platform has published the quantity of capacity available, shippers may submit binding bids for capacity,<sup>15</sup> stating the prices and quantities they wish to bid.
  - On business days where unsold capacity is available, the timings of the auctions are as follows:
    - Yearly capacity
      - 10:00 – Booking platform publishes the quantity of yearly capacity to be made available via UPA auctions at specific IPs (in both directions)
      - 11:00 - Deadline for shippers to submit binding bids
      - 11:30 – Deadline for TSO to allocate yearly capacity and to publish the volume allocated and the clearing price.
    - Quarterly capacity
      - 12:00 – Booking platform publishes the quantity of quarterly capacity to be made available (per quarter) via UPA auctions at specific IPs (in both directions)
      - 13:00 - Deadline for shippers to submit binding bids

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<sup>13</sup> This applies to the auctions for April, July, October and January monthly capacity

<sup>14</sup> It may not be possible to offer capacity via UPA auctions at IPs where competing capacity arrangements are applied under the CAM NC.

<sup>15</sup> As per Article 18 of the CAM NC

- 13:30 – Deadline for TSO to allocate quarterly capacity and to publish volume allocated and the clearing price
- Monthly capacity
  - 14:00 – Booking platform publishes the quantity of monthly capacity to be made available via uniform price allocation at specific IPs (in both directions)
  - 15:00 - Deadline for shippers to submit binding bids
  - 15:30 – Deadline for TSO to allocate monthly capacity and to publish volume allocated and the clearing price

## Appendix 1 – Indicative changes to the CAM NC legal text

Article 8.3 - “The standard capacity products shall follow a logical order by which products covering yearly capacity shall be offered first, followed by the product with the next shortest duration for use during the same period. Once offered in accordance with this logical order, unsold standard capacity products may continue to be offered via auction up to the point where they become usable, notwithstanding Article 11.1, Article 12.1 and Article 13.1. The timing of the auctions provided for in Articles 11 to 15 shall be consistent with this principle”.

Article 11.2 – “Capacity for each yearly standard capacity product shall first be auctioned through the annual yearly capacity auction using an ascending-clock auction algorithm in accordance with Article 17. Notwithstanding Article 16.2, any unsold yearly standard capacity product for the first year may continue to be offered via auctions using a uniform-price auction algorithm in accordance with Article 18, up to the point where it becomes usable”.

Article 12.2 – “Capacity for each quarterly standard capacity product shall be first auctioned through the annual quarterly capacity auctions using an ascending-clock auction algorithm in accordance with Article 17. Notwithstanding Article 16.2, any unsold quarterly standard capacity products for the first year may continue to be offered via auctions using a uniform-price auction algorithm in accordance with Article 18, up to the point where they become usable”.

Article 13.2 – “Capacity for each monthly standard capacity product shall be first auctioned through the rolling monthly capacity auction using an ascending-clock auction algorithm in accordance with Article 17. Notwithstanding Article 16.2, any unsold monthly standard capacity products may continue to be offered for a single month via auctions using a uniform-price auction algorithm in accordance with Article 18, up to the point where they become usable. Each month, the monthly standard capacity product for the following calendar month shall be auctioned”.

Article 13.4 – “Rolling monthly capacity auctions shall start on the ~~third~~ first Monday of each month for the following monthly standard capacity product unless otherwise specified in the auction calendar”.