

Gas Network Codes Functionality Process Issue Solution

Issue details	
Number:	01/2022
Name:	Modification of the ascending-clock auction algorithm
Reporting party:	MVM CEEnergy Ltd.
Network Code / Guidelines concerned:	Network Code on Capacity Allocation Mechanisms, Commission Regulation (EU) 2017/459 (CAM NC)
Article of the Network Code / Guidelines	Not defined
Category:	European Issue
Abstract: A modification of the current ascending-clock auction algorithm in the CAM NC is required to ensure that if during an auction, capacities are once overbooked, after the close of the auction no capacity remains unbooked. In case of an ascending clock auction as per CAM NC, the auction shall close if the aggregate demand across all network users is less than or equal with the capacity offered, whereas network users shall book the capacity to the amount requested per announced price. The surplus capacity – meaning the capacity equal with the total capacity offered minus the thereby allocated capacity – remains unbooked even if in the previous round(s) network users were ready to overbook capacities. A supplementary rule should be introduced to ensure that if any time during an auction the aggregate demand across all network users is greater than the capacity offered, the capacity which remains unbooked after the close of the auction, shall be allocated to the network users who once overbooked the capacity, at a price of the last bidding round where overbooking took place. In case of each relevant network user the capacity bid in the bidding round where the overbooking took place should be reduced by the capacity allocated at the close of the auction, which value should be the basis of the – preferably pro rata – allocation of unbooked capacities. The proposed modification prevents price manipulation, while the current system, where previously submitted capacity bids can be fully withdrawn without consequence, provides opportunity to drive up bidding prices.	
Issue solution(s)	
Publication date:	29 November 2023
At the time MVM CEEnergy posted its <i>issue</i> on the Functionality Platform, ACER and ENTSG had been working since 2020 on another FUNC issue, posted by EFET aiming at promoting a 'Greater flexibility to book firm capacity at IPs'. Among the proposals elaborated by ACER and ENTSG to provide a solution to the EFET proposals, regulators and TSOs believe that	

some can *also* answer MVM CEEnergy's concerns. In particular, ACER and ENTSOG propose to address the potential inefficiencies of the ACA algorithm used for yearly, quarterly and monthly *standard* capacity product allocation in different ways, for example:

- By allowing a more frequent and dynamic change of price steps during the auction process to adapt to changing market conditions.
- By offering any non-allocated firm capacity after ACA auctions (regardless of whether an auction premium occurs) through subsequent auctions using the UPA algorithm, a quick and efficient algorithm which always allocates capacity when it is requested.

MVM CEEnergy was invited to share whether it considers the joint ACER-ENTSOG proposed solutions to the EFET FUNC *issue* address its concerns regarding the efficiency of the ACA capacity allocation.

ACER and ENTSOG understand that:

- MVM CEEnergy finds that these proposals address the inefficient capacity allocation under ACA, and allow remaining firm capacity to be made available to the market via UPA.
- MVM CEEnergy considers that the issue of price manipulation potential under ACA remains and would not be fully addressed by the proposals. In its opinion, introduction of additional UPAs to auction remaining firm capacity may not always allow market participants to have a chance to book capacity.
- MVM believes adding a pro-rata rule to close ACAs would address the risk of price manipulation.

ACER and ENTSOG remind that, market participants have expressed their preference on retaining the ascending-clock algorithm to allocate yearly, quarterly and monthly capacity products when replying to the public consultation on the 'Greater flexibility to book firm capacity at IPs' issue.

The option of including a pro-rata allocation of capacity under auctions using the ascending-clock algorithm was discussed and assessed by TSOs and NRAs. Still, as jointly expressed by ACER and ENTSOG in the Issue Solution Supporting Note¹ to the FUNC Issue 01/2020, the option of a pro-rata allocation under ACAs was overall not considered optimal by NRAs and TSOs. Not only would it require the ACA algorithm to be amended (this feature is currently

¹ <https://www.gasncfunc.eu/gas-func/document/eea1b021-b107-420d-8ed8-d33080c8fcee/view>

not provided) but ACER and ENTSOG deem easier and more efficient to allow for a change in the level of price steps during the auction process. Also, with additional UPAs taking place after ACAs, a pro-rata allocation will take place if demand exceeds offer, under already-existing UPA rules.

Also, additional UPAs will constitute another opportunity for market participants to secure firm transmission capacity and will render more difficult behaviour that aims to manipulate transmission capacity prices and to foreclose the capacity market as remaining capacity will be re-offered at a reserve price equal to the tariff of the concerned capacity product.

Still, the option of a pro-rata allocation under ACAs could be investigated and evaluated by stakeholders once the NC amendment process is initiated.

ACER and ENTSOG would also like to remind that cases of price manipulation are addressed through the REMIT process and investigations. In this respect, ACER and ENTSOG point at a recent [decision](#) of the Hungarian national regulator, MEKH, issuing a fine to a market participant for price manipulation behaviour during an ACA monthly auction.

The remaining concerns of MVM CEEnergy cannot be addressed through the Functionality process, according to ACER and ENTSOG, who concur that this FUNC issue should be closed.