Annex 1 – Issue Solution Supporting Note

Evaluation of FUNC Issue 01/2020

"Greater flexibility to book firm capacity at IPs"

Content

1. INTRODUCTION

On 27 January 2020, the European Federation of Energy Traders (EFET) reported an issue on the Gas Network Codes Functionality Platform (FUNC platform).

The issue reported by EFET concerns the transmission capacity auction process, which is one of the fundamental aspects of Commission Regulation (EU) 2017/459[1] (Capacity Allocation Mechanisms Network Code – 'CAM NC'). The case review has merited a thorough analysis and the issue has been scrutinised by the Agency for the Cooperation of Energy Regulators (ACER) and the European Network of Transmission System Operators for Gas (ENTSOG), in cooperation with national regulatory authorities (NRAs) and transmission system operators (TSOs). Two public consultations and one public workshop were organised to collect input and feedback from market participants.

Initially, a review of the CAM NC was intended to be undertaken once the Hydrogen and Gas Markets Decarbonisation Package[2], proposed by the European Commission, is adopted by the European Council and Parliament.

Yet, during the analysis of this FUNC issue, market conditions have changed drastically and rapidly. First, the Covid-19 pandemic impacted the economies of the EU Member States, with consequences on the evolution of gas consumption. It was followed early 2022 by the Russian Federation's war in Ukraine which led to a major gas supply disruption severely impacting the European gas markets. Especially the latter called for several EU Emergency Regulations[3], so called 'fast-track' instruments, to address the deteriorated market conditions. And although it is acknowledged that the changed market conditions relate to the commodity supply issue and is not a consequence of current capacity allocation rules, these conditions have been factored into the considerations made by ACER and ENTSOG while proposing the solutions for this issue.

This paper reflects the evaluation and interpretation of the relevant regulatory framework by ACER and ENSTOG. The paper also incorporates the inputs from national regulators, TSOs, Booking Platforms and other stakeholders consulted along the process. The definite interpretation of Union law is ultimately up to the Court of Justice of the European Union.

Please note that any final amendments of the CAM NC may deviate from the proposals for amendments as additional procedures are required beyond the FUNC process.

[1] Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013.

[2] The review and revision of the Gas Directive 2009/73/EC and Gas Regulation (EC) No 715/2009 is referred to as the 'Hydrogen and gas markets decarbonisation package', published by the European Commission in December 2021.

[3] Article 122(1) of the Treaty on the Functioning of the European Union ('TFEU') which applies to situations of "severe difficulties arising in the supply of certain products, notably in the area of energy".

2. ISSUE AS DESCRIBED BY EFET AND POSTED ON THE FUNC PLATFORM

Issue subject as described by EFET on the FUNC platform:

Greater flexibility to book firm capacity at IPs

Abstract on the FUNC platform:

The CAM NC has given shippers more flexibility to book capacity at IPs and made the process more efficient. This has contributed to reduced contractual congestion and narrowed spreads through efficient price arbitrage. However, the standard auction timetable still limits opportunities for arbitrage to be fully exploited, particularly across the forward curve. This is detrimental to market efficiency and reduces the amount of capacity TSOs sell. ACER's latest gas market monitoring report (paragraph 36) suggested that consideration should be given to increasing the frequency of CAM auctions with a standardised timing to make them even more useful for network users.

Summary of Issue description as reported on the FUNC platform:

The EFET proposal for solving the issue 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 outside the CAM NC auction timetable dates.

EFET proposes supplementary UPA auctions for yearly, quarterly, and monthly IP capacity that would be held for any capacity remaining unsold after the first relevant CAM NC ascending clock auction (ACA), up to the point where it becomes usable. The relevant yearly, quarterly, and monthly CAM NC auctions would be held first, before any supplementary UPA auction takes place.

The 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 on the dates specified by ENTSOG in the auction calendar.

EFET suggests TSOs and booking platforms could choose to implement supplementary UPA auctions or not, possibly on an initial trial basis.

See the full description of the issue and solution proposal, including possible auction timescales and example auction calendar on the FUNC Platform.

Suggested solution or actions by EFET on the FUNC platform:

Adjustment of implementation.

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. To the extent an adjustment of implementation is not sufficient a change to the CAM NC legal text as part of the 2021 EU Gas Legislative Package should be pursued.

3. BACKGROUND AND CURRENT MARKET CONTEXT

The EFET proposal provided an opportunity for ACER and ENTSOG to launch a comprehensive review of the CAM NC auction rules, and to reassess whether they still fit the purpose of the EU internal gas market.

A Network Code amendment process is lengthy, requires appropriate consultations, and needs to undergo the comitology adoption process[4]. This FUNC process aims at taking the necessary time to investigate the possible options and solutions and offer a comprehensive review and assessment before such process starts. In that regard, a public consultation was launched in December 2020 covering not only the EFET proposal on the auction calendar, but also the auction algorithms, the product runtimes, and other issues. The aim was to assess the general evaluation by stakeholders of the CAM NC rules.

Based on the EFET proposal and the contributions received to this public consultation, NRAs and TSOs have through ACER and ENTSOG been working on proposals to improve the CAM rules. Additional proposals to EFET's were presented during an online public workshop held on 27 June 2022 during which all stakeholders were invited to participate and provide their assessment of the proposed measures. A survey was then conducted during the summer, following the workshop, to gather written feedback.

The Russian war in Ukraine, and the gas supply disruption that followed, produced an unprecedented gas market crisis. The Russian gas supply disruptions and cuts led to a sharp increase of the gas price, to high price spreads between gas hubs, and to a change in the gas flow patterns in the EU. In this context, LNG and non-Russian pipeline deliveries became more prominent along with more gas flows from the West and South of the continent to reduce the disruptions caused.

This sudden supply crisis has had consequences on the allocation of cross-border capacity after the East-to-West gas flows were radically reduced. The EU gas system has had to allocate capacity according to different supply routes, facing certain infrastructural bottlenecks and supply shortages. In this context, the value of several IP capacity increased way over the regulated reference price due to auction premia, resulting in generalised delays in the allocation process for yearly, quarterly, and monthly products under the ascending clock auction (ACA) algorithm.

In this regard it is important to stress that both capacity allocation mechanisms and congestion management procedures are tools that can ease the market pressure, which however will not solve the supply crisis. Nevertheless, market conditions can change rapidly, and it is within this context ACER and ENTSOG have evaluated the issue.

[4] https://ec.europa.eu/info/law/law-making-process/adopting-eu-law/implementing-and-delegated-acts/comitology_en

4. EVALUATION OF THE ISSUE

4.1. Overview of the current legal framework

One of the aims of Regulation (EC) N°715/2009 (Gas Regulation)[5] is to set non-discriminatory rules for access to the gas transmission systems in order to ensure the proper functioning of the internal market.

For this purpose, Article 16 of the Gas Regulation provides the principles for capacity allocation and congestion management. In particular, paragraph 2 provides that capacity allocation mechanisms shall:

- be non-discriminatory and transparent,
- provide appropriate economic signals for the efficient and maximum use of technical capacity, facilitate investment in new infrastructure, and facilitate cross-border exchanges,
- be compatible with market mechanisms including spot markets and trading hubs, while being flexible and capable of adapting to evolving market circumstances.

Article 6 of the Gas Regulation also provides the legal basis for network codes to be established, in a process involving ENTSOG, ACER and the European Commission. The targeted rules in the various network codes should work as tools to reach the Regulation's goals, respecting the key principles. This includes to enhance competition through liquid wholesale markets for gas and non-discriminatory rules for access conditions. Hence, the CAM NC also aims to provide harmonized allocation procedures to enhance transparent, foreseeable, and equal access to capacity.

4.2. Assessing the CAM NC's key provisions

The CAM NC has allowed network users within the EU to acquire standard capacity products, through harmonized auction processes, which follow the same auction calendar, at every interconnection point within the EU[6]. As generally acknowledged by stakeholders – and also pointed out by EFET in the issue submitted – these rules have fostered competition, improved market efficiency and generated greater liquidity in EU gas markets.

The review at hand is therefore not targeted at exploring a completely new gas transmission capacity allocation framework, but rather at understanding what flexibility or restrictions the current rules have in meeting the issue request posted b EFET on the Functionality Platform, while still respecting the fundamental principles of the Gas Regulation. ACER and ENTSOG have therefore not reviewed the entirety of the CAM NC but have focused on several key

[5] Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005

[6] Exceptions apply at interconnection points where implicit allocation is applied.

provisions which determine the possibilities for offering additional capacity auctions and at improving the current auction rules.

One of the most important features is the so-called 'cascading principle', laid down in Article 8 of CAM NC, according to which 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.

Among the key aspects, there are also the auction frequencies, allocation methodology and timings, which are very precisely defined in Articles 11 to 15 of CAM NC, as provided in the following table.

	Yearly	**Quarterly**	**Monthly**
Frequencies	The yearly capacity auctions *shall be held once a year*	*Four* annual quarterly capacity auctions *shall be held during each gas year*	The rolling monthly capacity auction *shall be held once a month*
Allocation methodology	Each yearly standard capacity product *shall be auctioned* through the annual yearly capacity auction *using an ascending-clock auction algorithm*	Each quarterly standard capacity product *shall be auctioned* through the annual quarterly capacity auctions *using an ascending-clock auction algorithm*	Each monthly standard capacity product *shall be auctioned* through the rolling monthly capacity auction *using an ascending-clock auction algorithm*
Timings	The annual yearly capacity auctions *shall start on the first Monday* of July each year *unless otherwise specified in the auction calendar*	The annual quarterly capacity auctions *shall start on the first Monday* of August, November, February and May, *unless otherwise specified in the auction calendar*	The rolling monthly capacity auctions *shall start on the third Monday of each month* for the following monthly standard capacity product *unless otherwise specified in the auction calendar*

Both frequency and allocation methodology are set in a way that does not allow for deviation. The number of auctions and the methodology through which the products are offered can therefore not be modified without first amending the CAM NC. Also, the preparatory documents for the CAM NC support the notion that capacity allocations shall not take place outside the harmonised allocation procedures defined by the code[7].

The only room for divergence is for the timings, for which alternative dates can be specified by ENTSOG when establishing the auction calendar every year. In theory, this would allow for the auctions to be moved, for example, closer to the start date of the product. In practice however, this possibility has only been used so far to avoid having auctions on EU public holidays or when following the CAM NC dates would lead to having auctions too close to the start date of the product. It nevertheless does not allow for conducting multiple auctions at different points in time for a given capacity product. This possibility only exists for quarterly products, where e.g. the last quarter (Q4) is offered four times, as explicitly specified in the code, since its amendment in 2017.

Besides the possibility to use implicit allocation (as provided far in Article 2(5) of CAM NC), and thereby not apply certain allocation rules, there is no foreseen way to allow for deviations from the rules stipulated in the CAM NC. At all IPs the same auction design shall apply, and the relevant auction processes shall start simultaneously for all concerned IPs[8]. This would also mean that even for the auction timings, for which some flexibility exists in term of setting the auction dates, the timings must be the same at all IPs – thus excluding any form of non-harmonized or voluntary implementation of additional auctions or different auction designs. The exemption is for interruptible capacities where, if an auction of firm capacity has not closed on the scheduled start day for the interruptible auction, the interruptible auction shall open no later than the next business day after the closing of the respective auction of firm capacity – thus leaving the possibility for interruptible auctions to start on different days.

Lastly, the issue request did not specify a need for a revision of the current standard capacity products. However, as can be read in chapter 4.3 below, stakeholders in the public consultations have overall expressed positive opinion towards additional product types. The standard capacity products were heavily debated and scrutinized at the introduction of the first CAM NC in 2013 and again in the 2017 revision, as evidenced by the preparatory documents[9]. Also, this debate resulted in a well-defined list of standard capacity products TSOs should offer in accordance with Article 9 of CAM NC: yearly, quarterly, monthly, daily and within-day products. Any new or adapted *standard* products would have to be added to this list by an amendment to the CAM NC.

4.3. Market feedback from Workshop and Public Consultations

1st Public consultation (18 Dec. 2020 - 5 Mar. 2021)

[7] Framework Guidelines on Capacity Allocation Mechanisms for the European Gas Transmission Network FG-2011-G-001 of 3 August 2011

[8] Article 8(2) CAM NC

[9] Analysis of ENTSOG decisions for the Capacity Allocation Mechanisms (CAM) Network Code, 6 March 2012

To get a better understanding of the needs of the market, ACER and ENTSOG jointly conducted a public consultation to collect stakeholders' general assessment of the CAM rules as well as their input on EFET's proposal. The consultation was launched on 18 December 2020 and was open for responses until 5 March 2021. 17 responses were received, the responses and the public consultation report can be found on the FUNC Platform following this link. The main take-aways of the answers received are summarized below:

- *Regarding the auction algorithms*
  - There was no unanimous opinion on how suitable the auction algorithms are to the respondents' needs. However, only a low number of participants (12%) indicated that they are facing problems with the current CAM auction algorithms.
  - Concerns and critics were expressed regarding the ascending clock auctions (ACA) that can, under certain circumstances, lead to an undersell of capacity and even to allocate no capacity at all, which negatively affects the efficiency of the capacity allocation.
- *Regarding the auction calendar*
  - Respondents were proportionally less satisfied with the auction calendar compared with the algorithms. Most respondents (71%) indicated they were facing problems with the calendar.
  - ¾ of respondents agreed with the issue identified by EFET, the rigidity of the current auction calendar, as well as the fact that capacity can only be acquired on few occasions, which is considered suboptimal.
  - Overall, the majority of respondents support EFET's proposal:
    - On the advantage side, respondents pointed at the increased opportunities for shippers and the proposal to use the UPA algorithm for additional auctions (rather than ACA).
    - On the drawback side, respondents particularly pointed at the increased complexity and lower readability of the auction calendar, due to the increased number of auctions in the EFET proposal, which raised concern of several respondents who consider it problematic to handle by market participants.
  - Additionally, increased within-day capacity booking windows were requested by several respondents.
- *Regarding the capacity products*
  - The respondents were, overall, satisfied with the current capacity products provided under the CAM NC, but the majority of respondents called for additional runtimes (only 2 respondents considered no other product is desirable).
  - In particular, respondents have shown a strong interest for products allowing a better alignment with commodity products, and they expressed their interest in runtimes such as 'Balance-of-Month', 'Weekend' and 'Season'.

  - However, more capacity products would inevitably lead to a more complex capacity allocation calendar and one respondent would see merit in leaving TSOs offer additional runtimes if the market requires so.
  - Still, it was pointed out that it would make sense to book capacity more often (i.e. have additional auctions organised) through additional runtimes or products booked further in advance.
- *Regarding the use of implicit allocation*
  - While some respondents pointed at the benefits of implicit allocation at those IPs where it is applied, others highlighted that this method has worked on a small scale in special situations and would not necessarily improve the capacity allocation across the whole EU market.
- *Regarding voluntary vs. mandatory changes*
  - Respondents were divided on this issue:
    - Those in favour of a voluntary approach pointed at the fact that it would be a sensible and cost-effective approach, reflecting the fact that some European markets are more advanced than others.
    - Others expressed concerns about any voluntary application of the proposed measures, which could have distortive effects on competition at cross-border points. They consider that harmonisation should be safeguarded under the CAM NC.

Workshop (27 June 2022)

On 27 June 2022, ACER and ENTSOG jointly hosted an online public workshop, opened to all stakeholders, aimed at presenting and discussing the various proposed measures to make the CAM rules more aligned with the current market needs.

Presentations were made by ENTSOG, ACER, EFET and all 3 Booking Platforms (GSA, Prisma, RBP). Attendees were able to answer to poll questions and could ask questions during the workshop. A Q&A session concluded the workshop.

In its presentation, ENTSOG put forward three alternatives to EFET’s proposal for how more efficient and additional auctions could be achieved. ENTSOG stressed that EFET’s proposal was in general well received by the TSO community, supported and acknowledged as a clear request from the market for additional auctions. The alternative proposals presented by ENTSOG were primarily targeted at improving some operational aspects of EFET’s proposal and at making it compatible with the core principles of capacity allocation, such as the cascading rule. ENTSOG’s proposals also offered measures with varying levels of NC impact and complexity to get a better understanding of the different needs and preferences within the stakeholders’ community.

In a nutshell, the main proposals presented by ENTSOG were:

- Proposal 1 aims at shortening the duration of bidding rounds under the ACA algorithm, in order to accelerate the auctioning process for yearly, quarterly and monthly products;
- Proposal 2 ("Light" alternative to EFET proposal) consists in organising auctions closer to the runtime start of Y, Q and M products, with the possibility of organising additional auctions for M products;
- Proposal 3 ("Full alternative to EFET proposal) aims at organising additional Y auctions under UPA on a continuous basis for any capacity remaining unsold after the July CAM ACA Y auctions, until the quarterly auction date. In addition, Q and M products would no longer be auctioned via ACA, but via UPA, and would be proposed on a continuous basis.

Additional proposals were also presented, that can come in addition to any of the 3 main proposals. They deal with addressing ACA and UPA issues, optimising the WD allocation process, and addressing the request for more capacity products.

The three European Booking Platforms (GSA, Prisma, RBP) were invited to share their views on the proposals discussed during the workshop. While the expected implementation efforts would vary from one proposed measure to the other, all 3 BPs believed there would be no strong difficulty in implementing them. Emphasis was however put on the fact that the auctioning system and calendar should strike the right balance between frequency of auction on the one side and technical and procedural complexity on the other. The first cost estimates provided by the BPs (i.e. not including TSOs and/or shippers costs) seem relatively reasonable. Regarding the algorithms, it was pointed out that having both ACA and UPA to auction the same product could be challenging, both in IT development terms, but also in terms of pricing.

All presentations, as well as the recording of the workshop, are available here.

2nd Public consultation (1 July - 18 Aug. 2022)

Following the workshop, ACER and ENTSOG launched a joint public consultation aimed primarily at gathering feedback from the market on the proposals presented during the workshop (EFET's proposal and ENTSOG's alternative proposals) and to gather input on the potential need to advocate for changes in the CAM rules to ease the current market turmoil. 8 responses were received; the responses and the public consultation report can be found on the FUNC Platform following this link.

The following conclusions were drawn from the answers received:

- *Regarding the introduction of additional auctions*
  - Respondents clearly call for additional auctions.
  - Respondents believe additional auctions should be organised once per business day. As an alternative, if too complex, Y and Q auctions could be held once a week while M auctions should be organised once a day.

- *Regarding the auction algorithms*
  - There is a clear consensus to keep ACA for Yearly, Quarterly and Monthly CAM 'primary' auctions.
  - There is a consensus that the current ACA timing of rounds is appropriate, suggesting no change is required.
  - The participants see more dynamic setting of price steps by TSOs as a more efficient mean for ACA auctions to work well, rather than shortening the bidding rounds or introducing UPA to close the ACA process.
  - There is a preference to keep pay-as-clear UPA, compared to pay-as-bid which is considered discriminatory by some of the survey participants because the same product would be sold at different prices during the same auction.
- *Regarding the capacity products*
  - A strong support is expressed for introducing auctions for all remaining days of the month, on a DA basis.
  - A review of WD auction timings is welcomed by several participants, in particular scheduling the WD auctions earlier in the day.
- *Regarding measures aimed at alleviating the current market context*
  - Many respondents argued that changes to the CAM NC would reduce pressure in the current market conditions. However, only few of them did provide concrete examples or elements to support an urgent need to change the CAM rules.
  - Participants have also suggested measures that could be taken within the current legal framework (such as, e.g., a more dynamic (re)allocation of capacity at IPs, a more dynamic setting of price steps in ACA auctions to ease capacity allocation in high spreads context, the use of proper CMP mechanisms to ensure availability of unused capacity).

5. ACER AND ENTSOG'S ANALYSIS AND PROPOSED MEASURES

5.1. Introductory remarks

First, ACER and ENTSOG would like to acknowledge that the issue at hand is complex, even more so in the current crisis. A lot of information has been gathered and ACER and ENTSOG have dedicated a lot of time on analysing the proposals, feedback and information received these past three years, to meet the market requests. The rapid changes in the gas market context since early 2022 have shed new light on several aspects of capacity allocation and have made a thorough analysis even more important for ACER and ENTSOG to be able to prepare amendment proposals that can be fit for purpose.

While evaluating the issue and the current legal framework, ACER and ENTSOG have identified several core principles that they believe should be respected and upheld, to ensure that the CAM NC is still in line with the principles of capacity allocation provided for in the Gas Regulation. ACER and ENTSOG therefore consider that any amendment proposal to the CAM NC should strive to achieve a level of harmonisation that would safeguard non-discriminatory access to capacity, ensure transparency and foreseeability that will allow market participants to efficiently navigate the market and respect the cascading offer of products.

Also, ACER and ENTSOG are of the view that any voluntary implementation of the proposed measures would negatively impact the necessary harmonisation of capacity allocation rules and would undermine the efficient functioning of the internal gas market. Capacity allocation needs to be transparent and foreseeable; market participants need to be able to book capacity at each EU IP following the same rules, calendar, and timings to allow for an efficient flow across systems. A voluntary implementation could potentially also affect the offer of bundled capacity, create new bottlenecks, or distort competition when network users with less resources would not be able to cope with the complexities of varying allocations across the EU.

Nonetheless, ACER and ENTSOG do consider that introducing a degree of flexibility to several rules laid down in the CAM NC would be in line with the Gas Regulation Article 16(2) which provides that capacity allocation mechanisms shall be "flexible and capable of adapting to evolving market circumstances". In the current market context, it has become even more evident that this flexibility is needed, and this has been taken into consideration for the CAM NC amendment proposals.

The proposals developed by ACER and ENTSOG are designed, on the one hand, to provide market participants with more opportunities to book transmission capacity (paragraph 5.2), to allow the possibility to book monthly and daily capacity products more in advance (paragraph 5.3), and to improve the general efficiency of several current CAM rules, in particular the ACA allocation algorithm (paragraph 5.4). On the other hand, these proposals aim at respecting the core regulatory principle that insure efficient and harmonised capacity allocation process within the EU. These proposals are designed to make CAM rules more in line with the current needs of market stakeholders, while introducing a degree of flexibility necessary to adapt to future market evolutions (paragraph 5.5).

The sections 5.2 to 5.5 below cover ACER and ENTSOG's considerations and proposals topic per topic. They aim at explaining the amendments proposed to the CAM NC.

Considerations on costs

The implementation of the proposed measures will require IT developments which magnitude will not only vary depending on the degree of novelty of the measures, but also depending on the propensity of current IT software and hardware to cope with these measures.

Also, the costs will not only be borne by Booking Platforms – which will have to amend their auctioning systems – but also by TSOs and market participants. And the magnitude of these costs may also vary from one stakeholder to the other.

At the time this paper is issued, only the Booking Platforms were able to estimate the level of the costs that each of the measures (which were presented during the public workshop held on 27 June 2022) would entail. These estimates were provided for information purpose only, and additional analysis is needed for BPs to put costs more precisely on each measure.

ACER and ENSTOG therefore highlight the importance of performing a full cost analysis once the official EC amendment process is undertaken and there is more clarity on what the final amendments will look like.

Considerations on risks

The formal amendment process shall ensure that the new shippers' incentives are thoroughly analysed: these can include changed market behaviours and possible risk of manipulation due to new allocation rules.

Considerations regarding the degree of urgency of implementing the proposed measures

ACER and ENTSOG have always promoted open discussions on network code rules and believe improvements should be brought forward if analyses demonstrate clear benefits for the market's efficient functioning.

As explained in previous parts of this paper, the current crisis stems from a gas flow disruption and supply shortage. While many respondents in the second public consultation argued that changes to the CAM NC would reduce pressure in current market conditions, ACER and ENTSOG note that only few of them did provide the requested concrete examples and elements to support an urgent need of a change of the CAM rules.

Having regard to the safeguard of harmonised capacity allocation rules at the EU level, for the benefit of the efficient functioning the internal gas market (IGM), ACER and ENTSOG believe that the request brought forward by EFET to allow for a voluntary and temporary application of EFET's proposed measures cannot be supported.

While ACER and ENTSOG do believe that the proposed measures could likely contribute to improving the strained market conditions, they are of the view that other non-CAM related measures would be much more decisive – such as the implementation of efficient congestion management mechanisms, optimisation of existing capacity and investments in new capacities to meet with changed flow patterns (as highlighted by many respondents to the last public consultation).

ACER and ENTSOG therefore consider that a fast-track amendment of the CAM network code is not justified – the proposed measures need to be carefully analysed, undergo the necessary review and consultation process once the European Commission will decide to initiate the amendment process, and then go through the comitology process. ACER and ENTSOG do however believe that the CAM NC amendment process should be undertaken within a reasonable timeframe.

5.2. Introducing additional booking opportunities

Considerations

In line with EFET's proposal, ACER and ENTSOG believe there is a need for market participants to be able to book capacity on more occasions compared to what is currently possible. To do so, ACER and ENTSOG have worked on a proposal to introduce additional auctions under the UPA algorithm after the yearly, quarterly and monthly ACAs have taken place.

ACER and ENTSOG also considered what criteria would trigger the offer of UPAs. Two workable criteria exist. The first one, as proposed by EFET, is that the additional UPA auctions would not take place if the firm yearly, quarterly, or monthly capacity was sold at an auction premium, was sold out, or was not offered. The second one is that UPAs could take place even if the initial ACA was sold with auction premium, as there could still be firm capacity left over from such an ACA.

While ACER and ENTSOG recognise that there is a general interest of the market in introducing more occasions to book capacity at IPs, a greater interest has been observed during public consultations and discussions to increase booking windows for monthly products, compared to yearly and quarterly. Also, it emerged that a more dynamic offer of daily products would be beneficial. The importance of these options lays notably in facilitating the distribution of LNG shipments across the transmission network toward the various consumption centres.

As mentioned in 5.1, ACER and ENTSOG believe that the possibility for additional UPA auctions should be introduced at every IP within the EU, and not on a case-by-case basis. Any voluntary option would undermine the harmonisation achieved, since CAM rules are in place for the benefit of all market participants active on EU gas markets. It is however important that the allowed arrangements at certain interconnection points are not disrupted. In particular, where other capacity marketing methods, such as implicit allocation and specific arrangements, are used.

ACER and ENTSOG further consider that it is important to retain an auction process and calendar which can be handled easily by all market participants. A too complex auction calendar would be detrimental to the market functioning – the CAM NC amendment proposal is trying to strike a balance in this regard.

For the frequency of the additional UPA auctions two main options were therefore considered: to organise additional UPAs either once every business day or once a week. ACER and ENTSOG have also considered the possibility for different frequencies from one product to the other, most notably to have a lower frequency for yearly and quarterly products compared to monthly, based on the feedback from the public consultations.

There were also considerations to revise the current quarterly auction set-up to offer only one ACA opportunity for quarterly capacities (at the date of the first quarterly auction on the first Monday of August) and remove the three following ACA opportunities, only offering any remaining quarterly capacity through UPA. This proposal was however dismissed, as removing the later quarterly ACA opportunities would threaten to foreclose the capacity offer. Also changes to the current structure and offer of yearly capacity were considered, introducing more than one ACA opportunity for yearly capacity during the year. This proposal was not pursued as it was introduced very late in the process, but it could be analysed once the formal NC amendment process is initiated.

In addition, the interest for the quarterly and yearly capacities had been relatively low throughout the consultations for this issue, so such drastic changes to their structure would not seem warranted.

Proposals

If additional auctions are to be introduced, the first required amendment to the CAM NC is to introduce the concept of additional auctions by introducing two new definitions. 'Initial auction' referring to the initial ascending clock auctions for firm yearly, quarterly, and monthly products, and 'additional auction' referring to the additional uniform price auctions for these products.

The detailed rules of the additional auctions would have to be introduced in a new article that would foresee that after the closing of the initial capacity auction and subject to capacity being made available, yearly, quarterly, and monthly firm capacity products shall be offered, in separate auctions once a week until, at the latest, the day before the start day of the product or until the capacities offered for the initial auction of firm capacity with a shorter duration are published, unless otherwise specified in the auction calendar, using a uniform price auction algorithm in accordance with Article 18. ACER and ENTSOG chose to cover all additional auctions (yearly, quarterly, monthly) in the same article, it can however be split into separate articles covering each product if deemed appropriate by the Commission for the final amendment proposal.

It is important to highlight that the additional auctions would only be offered if there is capacity left after the initial auction, meaning that additional auctions might not be offered at all (V)IPs. The additional auctions shall also respect the set-aside rules established in article

8(7) CAM NC, meaning that after the initial yearly auction, the additional yearly auctions cannot offer capacities set aside for the initial quarterly auctions.

ACER and ENTSOG did consider whether there would be a need to revise also the set-aside rules, in order to avoid capacity for the shorter-term products from being sold-out. No concrete proposal has been put forward as the current wording of the Article already allows for greater shares to be set aside. It can however be considered for the official amendment process whether higher volumes of capacity should be set aside, and/or if a dedicated set-aside rule should be applied to each short-term product.

With regards the frequency of the additional UPAs, ACER and ENTSOG opted for proposing weekly auctions rather than daily ones for all products (yearly, quarterly, and monthly) as a start. This frequency could be increased in the future, especially for the monthly products, with the amendments proposed for the ENTSOG auction calendar after a dedicated assessment. Starting with additional UPAs once a week will allow TSOs and booking platform to implement and test the functioning of the additional auctions while keeping the auction timetable manageable for network users with limited resources. ACER and ENTSOG observe the market interest for monthly capacities, which is why it is also proposed to adapt the way the initial ACAs are organised to anticipate the offer of monthly products within a quarter, as described in paragraph 5.3.

The weekly additional auctions are proposed to be held on Thursdays, this is to allow for sufficient time for most initial ACA auctions to close and to not interfere with potential interruptible auctions. The timings of the additional auctions have been introduced following the initial proposal by EFET, with the additional yearly auctions being held between 10.00 UTC to 10.30 UTC (winter time) or 09.00 UTC to 09.30 UTC (daylight saving), the additional quarterly auctions being held between 12.00 UTC to 12.30 UTC (winter time) or 11.00 UTC to 11.30 UTC (daylight saving) and the additional monthly auctions being held between 14.00 UTC to 14.30 UTC (winter time) or 13.00 UTC to 13.30 UTC (daylight saving). Following the same structure as for current day-ahead auctions, the amount of capacity to be offered for the upcoming additional capacity auction will be published at the time the respective auction opens and the results from each auction would be published at the latest 30 min after the closing of the auction.

It should be stressed that to respect the current cascading rules, not all products will be offered for the entire year, the additional yearly UPAs will only be able to be offered until the initial quarterly ACAs are published, for the rest of the auction year there will be no additional yearly UPAs. The additional quarterly UPAs for Q1 will only be offered until the initial monthly ACA for M1 is published etc. In line with this, once a product has been offered through UPA, it cannot be offered through ACA at a later time. This is why, for example, even though all four quarters are offered through ACA in the first quarterly auction, it is only Q1 which is then offered through UPA. Allowing the remaining quarters to be offered through ACAs following the current auction schedule for quarterly capacities.

It is also important to stress that the initial capacity auction will have to close before the additional auctions can be held. As mentioned in paragraph 4.3, the preference by the market has been to allow the initial ACA to finish before proposing additional auctions. This could however result in additional variations amongst IPs which enhances the complexity of the new auction process and would require enhanced transparency efforts by TSOs and greater observation efforts by network users. How to tackle the possible problem of long running ACAs have been explored further in paragraph 5.4.

5.3. Allowing for advance booking of monthly and daily capacity products

Considerations

During the course of the issue analysis, some stakeholders have called for the possibility to book capacity more in advance, especially for monthly capacity. Already in the initial EFET proposal, changes were proposed to the initial allocation of monthly capacity by introducing an earlier auction timing (from the third to the first Monday of each month). ACER and ENTSOG are of the view that there would be value for the market if participants were able to secure monthly capacity more in advance. Several different options have been analysed in this regard with varying levels of complexity (from moving the auction date from the third to the first Monday of each month to allowing all months to be auctioned at the beginning of each year).

Also, stakeholders have overall welcomed the proposal to introduce several different products, primarily to align better the capacity products with the products available on the commodity markets, which are much more diverse.

ACER and ENTSOG believe introducing additional standard capacity products (beyond the already existing yearly, quarterly, monthly, daily and within-day products) may be complex; the degree of complexity would have to be weighed against the flexibility delivered to market participants. Regardless, a proposal has been elaborated to allow monthly and day-ahead products to be auctioned more in advance, which will increase the flexibility for shippers to build the new product types they need.

Proposals

ACER and ENTSOG have been working on the elaboration of three proposals in this regard:

- offer market participants the possibility to book all monthly products within a quarter;
- offer market participants the possibility to book, individually, all daily products within a month, either until the end of the month, or on a more limited horizon;
- offer market participants the possibility to book, in a single auction, all remaining days of the month (as an alternative to the point above).

While the first two proposals do not change the runtimes of the current standard products on offer, but are rather a different way of offering the products, allowing stakeholders to secure capacities further in advance and also to build alternative capacity profiles, the last proposal does create a new product.

- *Regarding the auctioning of monthly products within a quarter*

The 2017 revision of the CAM NC introduced an alternative auctioning calendar for quarterly products. Prior to 2017, each Q product was auctioned once a year. Now, as provided by

Public

Article 12(3) of the CAM NC, all 4 quarterly products are auctioned since the beginning of the gas year:

- quarters 1 to 4 are auctioned in the first annual quarterly capacity auction;
- quarters 2 to 4 are auctioned in the second annual quarterly capacity auction;
- quarters 3 to 4 are auctioned in the third annual quarterly capacity auction;
- quarter 4 is auctioned in the fourth annual quarterly capacity auction.

Following this logic, but also respecting the cascading principle, monthly products within a given quarter would be available for upfront sale. The proposal put forward by ACER and ENTSOG will allow network users to acquire each monthly product of a quarter at the same time as the current date of the first initial monthly capacity auction of the quarter. For example, after the end of offer of quarter Q1, months M10, M11, M12 would be offered, individually, through ACA, at the time of the current offer date of M10 (third Monday of September). After the ACAs for M10, M11 and M12 have ended, each month will continue to be offered through the additional UPAs up until the day before the start of the product.

- *Regarding the auctioning of daily products*

ACER and ENTSOG have proposed a change to the offer of daily products that would allow stakeholders to build their own desired capacity portfolio with daily products such as Week, Weekends, Balance-of-Week or Balance-of-Month.

The initial reflections led ACER and ENTSOG to investigate possibilities that would have allowed the auctioning of all DA products within a month until the end of each month. However, this amendment in the DA capacity allocation rules would require very significant changes to the auctioning systems and could reveal very complex to handle for both Booking Platforms and TSOs. This proposal has thus been dismissed due to the associated complexity and potential IT constraints. Also, due to the 30 minutes bidding round the time available for shippers to calculate and book necessary daily capacities further in advance would be too short, potentially leading to a lot of auctions with no demand, especially at the far end of the month.

Based on the above, offering DA products seven days ahead was considered more reasonable, less complex and would also be better in line with the commodity market.

The change would allow for the daily offer of all individual daily capacity products for the following seven gas days on a rolling basis until the end of the relevant month. This means that during the first day-ahead auction of a month, all daily products for the upcoming seven days would be offered individually. The offer would be limited to the calendar month, meaning that at the end of the month the offer would decrease to the six days before the end of month, five days before the end of the month, etc.

This modification does however come with several risks, that would need to be addressed:

- When allowing network users to acquire the daily capacity products so far in advance, there is a possible risk that capacity will sell out early in the month, making the offer of daily capacity less dynamic. In ACER and ENTSOG's opinion limiting this upfront booking of DA capacity to 7 days rather than to all remaining days within a month lowers the risk of capacity shortage.

– The number of simultaneous auctions that will take place can create a lot of traffic and possibly IT constraints, both for TSOs and Booking Platforms systems. A sufficient implementation and testing time is therefore necessary. Again, limiting this upfront booking of DA capacity to 7 days rather than to all remaining days within a month lowers the risk of IT constraints.

ACER and ENTSOG also considered the offer of a new product that would contain all the remaining days of the month – "Balance of the Month" (similar to how rolling within-day products work). This product would require less simultaneous auctions to be run. However, it would bring less flexibility than offering individual days, as the network user would have to commit for all the remaining days and could thus not opt for only individual days, weeks or weekends. This new product type would require the creation and implementation of a new product algorithm which could potentially also affect the existing product algorithms. It would have to be further investigated how complex from an IT perspective such a product would be, especially the need to update the product scope each day. A new product like the one described would also raise tariffication questions that could potentially also trigger amendments to the TAR NC.

Both proposals (namely the offer of DA products 7 days ahead and the offer of a Balance-of-Month product) could be analysed once the formal NC amendment process is initiated.

5.4. Improving the efficiency of the allocation process

- *On the types of algorithms used*

ACER and ENTSOG have not investigated the need to change the provisions covering the types of allocation algorithms. ACA and UPA algorithms are to remain the two options for capacity auctions.

It should also be clarified that the proposal for ENTSOG to deviate from the standard auction algorithms through the yearly publication of the auction calendar only refers to the switch between ACA and UPA. It does not allow for a completely new mechanism to be introduced without an amendment to the CAM NC.

- *On the ascending-clock auction (ACA) and uniform price auction (UPA) algorithms*

Considerations

The aim of introducing additional UPAs for yearly, quarterly and monthly products is to provide with the opportunity to all market participants to be able to acquire any remaining firm capacity at all IPs following the same rules and calendar. For this opportunity to be effectively provided at each IP, the rules need to be clear on how and when market participants can expect additional UPA auctions to be held. This can be provided in different ways and ACER and ENTSOG have been discussing several options for this outlined below in the proposals.

ACER and ENTSOG observe a clear preference of stakeholders to retain the ascending-clock auction (ACA) algorithm for the initial offer of long-term products and to use the uniform price auction (UPA) algorithm for the additional auctions. The ACA process is highly valued by market participants as it provides important information for price discovery and bid adjustment. ACER and ENTSOG therefore believe it should be maintained and dismissed one of ENTSOG's initial proposals to hold auctions through UPA from the start.

However, ACER and ENTSOG acknowledge the ACA process can prove a very lengthy process in some circumstances, in particular in high spread and high volatility market conditions. Many cases of ACA auctions lasting for several days after tens of rounds have been brought to the regulators' attention, which has shed light on the inherent issues raised by the ACA process in a volatility context.

This issue of inefficient allocation under ACA has been highlighted during the consultation process. On this question – and based on the feedback from the public consultations and the workshop discussions – ACER and ENTSOG perceive that market participants are in general not in favour of adding a forced closing time to the ACA. Yet, ACER and ENTSOG believe that the maximisation of the market value of cross-border capacity should not be pursued to the detriment of the allocation of capacity – which is what happens when ACA process terminate after very numerous rounds with no capacity being allocated. In this regard, ACER and ENTSOG believe improvements could be made to make the ACA process more efficient. This can be achieved in several ways, e.g. by limiting the duration of ACA processes to a certain number of days, or to a certain number of rounds, or by setting a fixed termination date, or also by providing adjacent TSOs with the possibility to jointly agree to close any ACA auction process that would be failing to allocate capacity in due time.

The CAM NC provides full flexibility for TSOs to set the level of price steps, with the double objective of minimising the length of each process and to maximise the volume of allocated capacity (Article 17(11)). However, the level of price steps are fixed before the start of auctions.

Hence, the long running ACAs could also be tackled through the way price steps are set, for example by improving the way price steps are set (e.g. through dynamic algorithms) or by opening up for the possibility to adjust price steps during an auction (e.g. from one round to the other).

Regulators have been calling for a more dynamic setting of the level of price steps by TSOs, based on the most up-to-date anticipation of demand and of the price spread at each interconnection point. If this has in practice eased the situation at most IPs, ACER and ENTSOG still believe there is a risk of inefficient ACA process in very volatile situations. Indeed, even with a level of price steps set in line with the level of spreads before the auction starts, spreads can still evolve very substantially once the auction process has started – without any possibility under current CAM rules to modify the level of price steps during an auction process. In such market circumstances, the ACA algorithm can therefore last for several days until offer and demand meet and can also likely not lead to capacity allocation by the time the capacity product starts, which ACER and ENTSOG see as an inefficiency in the allocation process.

It was therefore considered to introduce the possibility for TSOs to jointly agree, at each (V)IP, to review the level of price steps before the start of each auction round, allowing them to correct both the small price step (SPS) and large price step (LPS) if market conditions change during the auction process. This would however decrease the foreseeability of the auction process as a whole and could potentially lead to discriminatory practises and inconsistencies if TSOs were to agree at one (V)IP but not on another where conditions are the same. A fixed mechanism/algorithm based on spreads between adjacent hubs that would trigger an adjustment of price steps could also be considered to insure consistency.

In addition, ACER and ENTSOG also discussed the option of including a pro-rata allocation of capacity for ACAs that would fail allocating capacity in due time or in case an ACA results in an undersell after initial overdemand. The pro-rata mechanism would allocate any leftover capacity, to market participants active during the last round with overdemand, at the corresponding price level. This would not directly solve the issue of ACA taking a long time to close but could indirectly change the booking behaviour of market participants so that the auction could close faster and fully allocate the marketed capacity.

However, this option of a pro-rata allocation under ACAs was overall not considered optimal by NRAs and TSOs insofar as (i) it would require the ACA algorithm to be amended as its current parameters do not allow for this feature and as (ii) allowing for a change in the level of price steps during the auction process was deemed easier and more efficient. In any case, with additional UPAs taking place after ACAs, a pro-rata allocation will take place if demand exceeds offer, under already-existing UPA rules.

The option of pro-rata allocation under ACAs could still be investigated and evaluated by stakeholders once the formal NC amendment process is initiated.

Proposals

The main focus of the work conducted by ACER and ENTSOG in this exercise consists in adding opportunities within the CAM auction calendar for market participants to be able to book available firm capacity, under the UPA algorithm, subsequent to the ACA auctions for yearly, quarterly and monthly capacity products.

In order to maintain the needed degree of harmonisation in the CAM rules and keep the best possible functioning of the allocation system, ACER and ENTSOG believe the allocation rules and relation between initial ACA and additional UPA auctions need to be clearly structured in the CAM NC to provide transparency and foreseeability on the process.

To achieve this objective, clear tools should be provided by the CAM NC to tackle the inefficiencies of the ACA algorithm.

ACER and ENTSOG believe that the first necessary tool is to allow TSOs to jointly decide to modify the level of the small and large price steps during the auction process (for example before the start of each new bidding round) to be able to adapt to changing market conditions once the auction process has begun. In the current CAM NC provisions, this is not the case and price steps are determined before the auction starts.

Furthermore, and even if respondents to the public consultations have expressed a clear preference to let the initial ACA finish before moving to UPA, ACER and ENTSOG believe additional rules may be needed to ensure that additional UPAs do take place at those (V)IPs where firm capacity is still available. In this instance, rules may need to be included to provide automatic termination of ACA processes if they interfere with the holding of UPA auctions.

Automatic termination of ACA is the only rule that can ensure not only that the subsequent UPAs will effectively take place at each IP on the same date, when capacity is available, but also that market participants will actually have the opportunity to acquire capacity under UPA for a given capacity product if no capacity could be allocated under ACA.

The CAM NC (Article 17(22)) already provides for such a rule:

> "*If an ascending clock auction has not ended by the scheduled starting point (according to the auction calendar) of the next auction for capacity covering the same period, the first auction shall close and no capacity shall be allocated. The capacity shall be offered in the next relevant auction.*"

Until now, this provision has been applied so that any ACA auction would have to terminate by the date set for the auction of the next (shorter-term) capacity product covering the same period (e.g. the ACA auction for a monthly product shall terminate before the date set for the UPA auction for the first DA product of this particular month).

This logic could very well be extended to subsequent UPA auctions so that any ACA auction for a given capacity product shall close by the scheduled starting point of the corresponding UPA auction for the same capacity product.

Consequently, ACER and ENTSOG propose that the possibility to include the automatic termination of ACAs be part of the possible amendments that will be discussed during the CAM NC review process when the EC decides to launch it.

The termination rule could either apply so that all ACAs would have to stop before the date set for the first UPA auction (the next Thursday following the ACA in this proposal), which would effectively ensure that any remaining firm capacity would be proposed under UPA on the same day at each concerned (V)IP.

Alternatively, the termination rule could apply so that ACAs would have to stop before the date set for the last scheduled UPA auction for each product – this solution would leave more time for ACAs to close while ensuring that at least one UPA auction will take place for each product. This option however allows for situations where a given capacity product is offered under UPA at some IPs while still being offered under ACA at other IPs; also, in cases of long-lasting ACAs, it potentially limits the number of opportunities to book available capacity for market participants not active in the initial ACA.

- *On the issue of allocating the same product with different auction processes*

Concerns have also been raised, in particular by Booking Platforms, on the issues that could arise from auctioning the same product on an ACA basis and then on an UPA basis. BPs particularly pointed at the issue of the reserve price. ACER and ENTSOG believe that both for the initial ACA auctions and for the additional auctions under UPA, the starting price should be the regulated reference price. ACER and ENTSOG do not foresee any particular issue in this regard. The price discovery process under the ACA auction will provide useful information for market participants to set their price and volume bids accordingly in the UPA process.

Also, ACER and ENTSOG do not see any particular problem having the same capacity product been auctioned at different prices from one auction process to the other. Indeed, these different price levels will result in different values being provided to this capacity product depending on the moment it was auctioned. This is currently the case, for example, for the quarterly products.

Still, ACER and ENTSOG agree with the general stakeholder view that a given capacity auction process should not give way to the same product being auctioned at different prices. Thus, ACER and ENTSOG believe pay-as-clear should be retained as the price settlement method for UPA processes, and not pay-as-bid.

- *On the allocation rules for interruptible capacity*

ACER and ENTSOG believe the possibility to hold interruptible capacity auctions must be preserved. First of all, the amended auction calendar should allow enough time for the possibility to hold interruptible capacity auctions.

Also, ACER and ENTSOG share the view that the rules for putting interruptible capacity for sale may be too restrictive. In some instances, the volumes of firm capacity already allocated are very close to 100% and yet, firm capacity not being actually sold-out does not allow for the sale of interruptible capacity, although shippers ask for extra-capacity. In this respect, ACER and ENTSOG believe the introduction of additional UPA auctions for yearly, quarterly and monthly capacity will allow to allocate any left-over firm capacity that ACA has failed allocating. If the ACA does not sell out, and UPA is offered and sells out before the scheduled start of the interruptible auction, interruptible capacity could also be offered, if available.

In addition to these considerations, it may be appropriate to modify the algorithm used to allocate interruptible capacity for yearly, quarterly and monthly products, which is currently allocated using the same ACA algorithm as for firm capacity. Moving to UPA should allow a quicker allocation and avoid the cases of inefficiencies of ACA under certain market conditions – having in mind that the time available for interruptible capacity allocation is much shorter than for firm capacity.

However, as the core issue is about the request of additional auctions and there have not been any direct feedback from the market that a change in the algorithm for interruptible auctions would be warranted, ACER and ENTSOG have not proposed any changes in this regard but believe it should be further consulted during the official NC amendment process.

- *On the allocation rules for within-day capacity*

Considerations

ACER and ENTSOG have also observed a clear interest from the participants to the public consultations to modify the within-day auction timing. In particular, a call was made to organise the first round of the within-day auction so that it closes earlier, and possibly adding a second round afterwards. An earlier closing time would mean network users would know earlier if they were successful in acquiring capacity and it would give TSOs additional time during the night when system maintenance could be undertaken.

Proposals

ACER and ENTSOG propose to move the closing of the first bidding round, the so-called WD24, to 21.00 UTC D-1 (winter time), instead of the current 1.30 UTC (winter time). At this point in time, it is not proposed to add additional WD24 auctions after the initial one, but this could be considered in the future and easily implemented through the changes proposed for the ENTSOG auction calendar.

5.5. Introducing more flexibility in the CAM rules

Considerations

Article 16(2) of Regulation (EC) 715/2009 provides that capacity allocation mechanisms shall be “flexible and capable of adapting to evolving market circumstances”. The very fact that this FUNC issue was raised shows that the current CAM NC is not flexible enough to adapt to evolving market conditions.

ACER and ENTSOG have primarily focused on meeting the market request for additional auction opportunities, however, it has also proven opportune to consider additional ways to make the CAM NC itself more adaptable and future-proof. There are several ways such a flexibility could be introduced. ACER and ENTSOG have tried to find a solution which would offer flexibility while at the same time ensuring transparency and foreseeability for network users.

The proposed way forward would be to expand the possibilities that exist already today for the setting of the auction calendar dates, which ENTSOG establishes at the beginning of every calendar year. The default capacity allocation provisions could still be outlined in the CAM NC, with the possibility for ENTSOG to assess the need and propose to deviate from the standard auction dates, auction frequencies, bidding rounds and auction algorithms before publishing the auction calendar for the next calendar year. The scope of the possible changes, an exhaustive list of parameters and rules, as well as the process to trigger these changes should be precisely established in the network code. Introducing such a change would make the allocation rules more adaptable from one year to another if the market conditions and market participants needs require so. the allocation rules would still be specified before the start of the auctions for the year ahead, and would not be able to be adapted to address brutal changes in market conditions during the year. A quicker reaction period will be very challenging, first of all for transparency reasons as publication of capacities takes place weeks or even a month before the auction starts. Secondly, if changes require IT adaptations, this might require procurement of services, coordination, testing and implementation efforts which take time.

Any proposal from ENTSOG to deviate from the standard CAM NC rules, and opt for the flexibility offered within the CAM NC rules, should be based on objective and transparent criteria and a stakeholder consultation should be undertaken to provide input to the assessment.

It is also important to allow for adequate time between the assessment and potential decision to adapt the auction calendar, the publication of the auction calendar, and the start of the auction year. Especially if greater changes are made to auction frequencies, adequate implementation time for TSOs and BPs must be ensured.

Proposals

ACER and ENTSOG propose to expand the possibilities for ENTSOG to propose to deviate from the standard auction dates, auction frequencies, bidding rounds and auction algorithms before publishing the auction calendar for the next calendar year. The process for allowing this flexibility deviating from the standard rules, as well as the scope and the exhaustive details of the possible changes, will have to be described in the CAM NC. This will ensure that any final decision will remain in the hands of the regulators, within the EU regulatory framework, including ACER’s role.

The timing of the auction calendar is also proposed to be changed, to better match the current start of the auction year with the annual yearly auctions in July every year. The auction calendar is therefore proposed to span July-June, with the need to issue a bridging calendar for March-June the first year after this change is adopted.

The deadline for a decision to deviate from the CAM NC default rules, as well as the deadline for the publication of the auction calendar are proposed to be set to no later than January 1st of every calendar year for the auctions taking place during the period of July until June of the following calendar year, leaving network users and TSOs 6 months between January and July to implement and prepare for the changes.

6. CONCLUSIONS

General considerations

The EFET proposal provided an opportunity for ACER and ENTSOG to launch a comprehensive review of the CAM NC auction rules, and to reassess whether they still fit the purpose of the EU internal gas market.

The rapid changes in the gas market context since early 2022 have shed new light on several aspects of capacity allocation and have made a thorough analysis even more important for ACER and ENTSOG to be able to prepare amendment proposals that can be fit for purpose.

ACER and ENTSOG consider that any amendment proposal to the CAM NC should strive to achieve a level of harmonisation that would safeguard non-discriminatory access to capacity, ensure transparency and foreseeability that will allow market participants to efficiently navigate the market and respect the cascading offer of products.

ACER and ENTSOG are of the view that any voluntary implementation of the proposed measures would negatively impact the necessary harmonisation of capacity allocation rules and would undermine the efficient functioning of the internal gas market. Capacity allocation needs to be transparent and foreseeable; market participants need to be able to book capacity at each EU IP following the same rules, calendar, and timings to allow for an efficient flow across systems.

Nonetheless, ACER and ENTSOG do consider that introducing a degree of flexibility to several rules laid down in the CAM NC would be in line with the Gas Regulation Article 16(2) which provides that capacity allocation mechanisms shall be “flexible and capable of adapting to evolving market circumstances”. In the current market context, it has become even more evident that this flexibility is needed, and this has been taken into consideration for the CAM NC amendment proposals.

The proposals developed by ACER and ENTSOG are designed, on the one hand, to provide market participants with more opportunities to book transmission capacity, to allow the possibility to book monthly and daily capacity products more in advance, and to improve the general efficiency of several current CAM rules, in particular the ascending-clock auction (ACA) algorithm. On the other hand, these proposals aim at respecting the core regulatory principle that ensure an efficient and harmonised capacity allocation process within the EU. These proposals are designed to make CAM rules more in line with the current needs of market stakeholders, while introducing a degree of flexibility necessary to adapt to future market evolutions.

The implementation of the proposed measures will require IT developments which magnitude will not only vary depending on the degree of novelty of the measures, but also depending on the propensity of current IT software and hardware to cope with these measures. ACER and ENSTOG therefore highlight the importance of performing a full cost analysis once the official EC amendment process is undertaken and there is more clarity on what the final amendments will look like. The formal amendment process shall ensure that the new shippers' incentives are thoroughly analysed: these can include changed market behaviours and possible risk of manipulation due to new allocation rules.

The proposed measures need to be carefully analysed, undergo the necessary review and consultation process once the European Commission will decide to initiate the amendment process, and then go through the comitology process. ACER and ENTSOG do however believe that the CAM NC amendment process should be undertaken within a reasonable timeframe.

Proposals

1. Introduce additional UPA auctions subsequent to yearly, quarterly and monthly ACA auctions

ACER and ENTSOG support EFET's proposal to increase the booking opportunities at interconnection points where there is available firm capacity. ACER and ENTSOG's proposal consists in offering any remaining unsold firm capacity left subsequent to yearly, quarterly and monthly capacity auctions held under the ascending-clock auction (ACA) algorithm. The additional capacity auction would be conducted under the uniform price auction (UPA) algorithm. ACER and ENTSOG propose that these additional auctions be held at least once a week, following the same calendar at every (V)IP.

2. Introduce advance booking opportunities for monthly capacity products

Following the same logic that governs the auctioning of quarterly products, and respecting the cascading principle, ACER and ENTSOG propose that monthly products within a given quarter be available for upfront sale. The proposal put forward will allow network users to acquire each monthly product of a quarter at the same time as the current date of the first initial monthly capacity auction of the quarter.

3. Introduce advance booking opportunities for daily capacity products

ACER and ENTSOG propose that two measures regarding advance booking of daily products be envisaged.

The first one consists in offering, every day, all individual daily capacity products for the following seven gas days on a rolling basis, until the end of the relevant month. This will allow market participants to build capacity products that match commodity products such as Week, Weekend and Balance-of-Week, without introducing any new standard capacity product in the CAM NC.

The second one consists in creating a new standard capacity product containing all the remaining days of the month – "Balance of the Month".

Both proposals (namely the offer of DA products 7 days ahead and the offer of a Balance-of-Month product) could be analysed once the formal NC amendment process is initiated.

4. Improve the efficiency of the ACA allocation process

In order to maintain the needed degree of harmonisation in the CAM rules and keep the best possible functioning of the allocation system, ACER and ENTSOG believe the allocation rules and relation between initial ACA and additional UPA auctions need to be clearly structured in the CAM NC to provide transparency and foreseeability on the process.

Therefore, ACER and ENTSOG propose that TSOs be allowed to jointly decide to modify the level of the small and large price steps during the auction process (for example before the start of each new bidding round) to be able to adapt to changing market conditions once the auction process has begun.

Furthermore, ACER and ENTSOG believe additional rules may be needed to ensure that additional UPAs do take place at those (V)IPs where firm capacity is still available. In this instance, rules may need to be included to provide automatic termination of ACA processes if they interfere with the holding of UPA auctions. Automatic termination of ACA is the only rule that can ensure not only that the subsequent UPAs will effectively take place at each IP on the same date, when capacity is available, but also that market participants will actually have the opportunity to acquire capacity under UPA for a given capacity product if no capacity could be allocated under ACA.

The termination rule could either apply so that all ACAs would have to stop before the date set for the first UPA auction (the next Thursday following the ACA in this proposal), which would effectively ensure that any remaining firm capacity would be proposed under UPA on the same day at each concerned (V)IP.

Alternatively, the termination rule could apply so that ACAs would have to stop before the date set for the last possible scheduled UPA auction – this solution would leave more time for ACAs to close while ensuring that at least one UPA auction take place, but would not ensure equal opportunities at each (V)IPs.

5. Revise the allocation timing of within-day capacity products

ACER and ENTSOG propose to move the closing time of the first bidding round of the within-day products (so-called “WD24”) from1.30 UTC (winter time) to 21.00 UTC D-1 (winter time). This will allow network users earlier knowledge of their capacity allocation and will provide TSOs additional time during the night to conduct system maintenance.

6. Introduce more flexibility in several of the CAM NC rules to make it more adaptable to changing market conditions

ACER and ENTSOG propose to expand the possibilities for ENTSOG to propose to deviate from the standard auction dates, auction frequencies, bidding rounds and auction algorithms before publishing the auction calendar for the next calendar year. The process for allowing this flexibility deviating from the standard rules, as well as the scope and the exhaustive details of the possible changes, will have to be described in the CAM NC, ensuring that any final decision to do so will remain in the hands of the regulators, within the EU regulatory framework, including ACER’s role.

The timing of the auction calendar is also proposed to be changed, to better match the current start of the auction year with the annual yearly auctions in July every year. The auction calendar is therefore proposed to span July-June.