

Daily Cross Border Capacity Auctions in North and North West Europe

Introduction

Even in North West Europe there are significant differences between the structures of the various national gas markets: legislation, behaviour of local incumbents, producers and traders, physical characteristics such as available storage capacity, gas quality etcetera. The market structures have a significant impact on the liquidity on the traded wholesale markets ('hubs'), but also the limited availability of transport capacity between the markets hinders the liquidity. This proposal outlines the introduction of a daily auction of cross-border capacity for the 'day ahead' period. The proposal is specifically designed for the gas market but it follows certain mechanisms of the daily auctions that are being successfully implemented for cross border electricity transmission capacity.

Cross Border Capacity

The following border points are proposed to be subject of the daily auctions:

Location	TSO From (Exit)	TSO To (Entry)	Auction Capacity [MW]	Firm/ Interruptible
Bunde-Oude Statenzijl	GTS	BEB	300	firm
Bunde-Oude Statenzijl	BEB	GTS	300	firm
Bunde-Oude Statenzijl	GTS	EGT	300	firm
Bunde-Oude Statenzijl	EGT	GTS	300	firm
Emden EPT or –NPT terminal	Gassco	EGT	300	firm
Emden EPT or –NPT terminal	Gassco	BEB	300	firm
Emden EPT or –NPT terminal	Gassco	GTS	300	firm
Ellund	Energinet	BEB	300	firm
Ellund	BEB	Energinet	300	interrupt
Ellund	Energinet	EGT	300	firm
Ellund	EGT	Energinet	300	interrupt

In the current situation, a shipper needs to contract exit capacity out of one grid and entry into the other. Note that the proposal implies auctioning of capacity from one hub to the other, so entry and exit combined.

The offered capacity is firm. Only where the capacity implies a counterflow, (i.e. where physically no flow in the required direction is possible) would the capacity be interruptible.

The auction requires the TSO's to obtain, free up or reserve capacity for the auctions and requires them to jointly organize the auction, since the auctioned capacity is sold as a combination of entry and exit capacity.

The proposed model also fosters secondary trading of capacity by requesting shippers to put their unused capacity available for resale; they will be reimbursed the value of the auction. When only entry or only exit capacity is offered, they will receive 50% of the auction outcome.

Daily Process

The timetable could look like:

- Any time before the auction, but no later than [0900 CET] invite shippers to place any available capacity into the auction.
- Before 9:30 CET: the TSO (or an agent for the 2TSO's involved) publishes available capacity and nature (firm/interruptible).
- Between 9:30 and 10:00: participants can bid, indicating capacity and bid price. Bids are made in Eur per MW capacity.
- Before 10:15, the TSO (or agent for TSO's) communicates auction results to successful bidders

It is advisable to have the auctions take place relatively early in the day, in order to allow successful bidders to trade around the acquired capacity as much as possible. Bid prices should not be subject to a minimum or a maximum price, but a cleared price could be used so that all capacity providers receive the same value. This ensures that the auction outcome is a true reflection of the spot market value of capacity. The revenues that the TSO acquire out of the auctioned capacity might be lower or higher than when they would have offered the capacity for 'standard' prices, but this is a direct effect of selling against 'real' market prices.

Implementation

The target date for the start of this scheme is April 1, 2007. Auctions should be held via secured internet websites. It is advisable that all the suggested auctions will be run by one dedicated auction office with one common platform or technology. This is to avoid that each TSO develops its own IT system for the auction, a situation that exists in the power market and which requires significant additional resources from the participants.

This proposal should be seen as a test or trial after which the process can be reviewed and improved leading to potentially more capacity being auctioned, as well as additional delivery periods (e.g. front month, front quarter etc) and additional locations (EGT-GRT, Fluxys-EGT, EGT-Transgas etc).

The main goal of this scheme is to breakdown to artificial contractual barriers that stop the liquidity at traded hubs in North and North West Europe. The scheme supports initiatives of liquidity providers in these markets, such as the daily choice as introduced by E-on Ruhrgas in the EGT North grid.

EFET urges the TSOs involved to establish a joint Task Force to implement daily capacity auctions on a trial basis as described in the note, to be fully operational by April 2007 with the support of ERGEG's Regional Gas Initiative.