EFET, input for discussion on ‘day-ahead-auctions’, Dublin, 23/24 April 2007

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EFET: The voice of the traders in Europe

The European Federation of Energy Traders (EFET)

- Represents over 80 trading companies operating in about 20 countries
- **Promotes pan-European energy trading in open, transparent and liquid wholesale markets**
- Main activities include:
  - Advocacy for liberalised markets
  - Promotion of energy trading in Europe
  - Standardisation of contracts
“The EFET mission involves improving conditions for energy trading in Europe and fostering the development of an open, liquid and transparent European wholesale energy market”

Through better:

- Information transparency
- Data exchange
- Products and procedures
- Laws
- Regulation
- Taxation
- European Contracts
- Organised market
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"That's one small step for a man, one giant leap for mankind"
Pilot ‘day-ahead auction’: Key messages (1)

• Spirit of GRI: quick wins in order to overcome the mistrust and suspicion about internal energy markets

• ‘Pilots’ by definition are meant for achieving quick wins and to test the theory. Avoid the time and expense of developing a full-blown system which may not turn out to provide the necessary service!

• Unambiguous commitment as a absolute ‘must’ from all management levels within companies and regulators
Day-ahead auctions are EFET proposal to improve capacity utilization, but ultimately:

- **TSOs** are responsible to ensure that the maximum technical capacity is made available and allocated to the market and any contracted, but unused capacity is offered to other shippers. This is not voluntary! Good news: TSOs should be incentivised

- **Regulators** are responsible for monitoring implementation of regulation by TSOs

- Buzz words: transparency, non-discriminatory and economically as efficient as possible
View back: The original EFET proposal

- Concept launched in October 2006
- Initiative focused on 11 IP’s
- Capacity mostly firm
- Target ‘go-live’ date: April 1, 2007
- Auction as a daily process
- Bundled product across the borders

EFET observed some initiatives for gas capacity releases and auctions, but initiatives are **not coordinated** and therefore **not effective**
View forward: EFET objectives

- Unambiguous commitment confirmed by senior level of TSOs and regulators on the future of the pilot
- Full transparency about legal and regulatory constraints and proposals how to overcome these constraints from both TSOs and regulators in the short-term (practical solutions)
- TSOs should clarify which problems are merely system-based (acknowledging work-load of German TSOs)

Focus on quick solutions: what is achievable as a pilot in 2007?
## Current constraints on pilot

<table>
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<th>Position Issue</th>
<th>EFET</th>
<th>Legal/regulatory basis</th>
<th>TSOs</th>
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<tr>
<td>Allocation mechanism</td>
<td>Auctions are the only efficient CAP for day-ahead products</td>
<td>Art. 5(2) EC Regulation requires CAPs which provide economic signals for efficient and max. use of tech. cap.</td>
<td>GTS: Auctions need more investigation</td>
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<td>BEB/EGT: GasNZV Art. 9+10 requires FCFS allocation and only <strong>annual</strong> auctions for remaining capacity (&gt;90% booked)</td>
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<td>Price of secondary capacities</td>
<td>Price cap not ideal, no unnecessary restrictions for new products, source for subjective discussions, lack of clarity, uncertainty</td>
<td>No EU rules (?) German GasNZV Art. 14(4) Price of traded capacities may not be significantly above regulated tariff</td>
<td>BEB/EGT: stick with German legislation</td>
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<td>Clear message from regulators on use of auction revenues wanted (could solve the “significance” problem)</td>
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Are these ALL the barriers for the pilot?

- **Legal** and **regulatory** barriers on allocation mechanism and tariffs / prices: see previous sheet. Regulators responsible for initiating solutions!

- **Belief** and **commitment**: GRI on a voluntary basis, but if the sector is not capable of solving its problems, others will do!

- **Systems, IT**: find pragmatic solutions for the pilot

- **Priority** and interference with other business: TSOs supply transparency about their priorities
The essentials for EFET

• Bundled product for day-ahead capacity transactions

• Auction mechanism (FCFS and pro-rata are no alternatives for day-ahead products!)

• Secondary firm capacity as compromise for pilot, to be followed as soon as possible by primary interruptible. Still, market strongly favors products with **FIRM** capacity

• Pilot go ‘live’ in 2007
Ways forward if discussion continues:

- **Alternative 1:** work with what we have, so TSOs bundle a product with different secondary trading rules

- **Alternative 2:** discuss pilot with other TSOs at other IPs. Focus: go ‘live’ in 2007 with bundled products

- **Alternative 3:** continue these discussions, *enduring* solution, change network access terms. Go ‘live’ in April 2008