

EFET response to the CNMC consultation on market-based mechanisms for gas capacity allocation



EFET response – 6 March 2020

The European Federation of Energy Traders (EFET)¹ welcomes the opportunity to provide comments on the CNMC consultation on market-based mechanisms for gas capacity allocation according to *Circular 8/2019*.

Concerns from the transitional period allocation process

We believe that the transitional process does not fully utilise the strengths of the virtualised tank and regasification, where few shippers might not have a terminal preference. Therefore, noting that the procedures with the first slot allocation process were not followed (e.g. slots beyond October 2020 were not auctioned), we consider that an option to bid for floating slots between all the terminals should be given. This way, no artificial slot scarcity is caused to the extent of raising prices unnecessarily high due to the limited flexibility of submitting bids that shippers are granted.

We highlight that in the transitional allocation process where an auction is held between less than three shippers, the settlement price of the auction is not disclosed. However, such price will then be used to charge for slots from other terminals, which are transferred to the terminal affected by this situation. We suggest disclosing it.

Proposed capacity allocation processes

EFET considers that the initial slots allocation through the ascending clock auction should be terminal agnostic. Where all slots are allocated in a single ascending clock auction the distribution between the terminals commences. This approach will first and foremost simplify the process, allow all shippers to participate on a level playing field regardless of the number of slots they are seeking to buy, increase transparency and efficient use of the available infrastructure.

We propose that this is done by allowing all shippers to either state full flexibility or rank their preference of terminal for each slot, where over demand in the same preference level is decided by the order of submission.

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy.

EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

Proposals on detailed characteristics of ascending clock auctions

In relation to the detailed characteristics, we have few proposals to make that seek to simplify, shorten and ensure consistency across the CNMC's regulatory framework. The overall aim should be to start and finish the auction process in the course of one day. Specifically, we would like to suggest the following parameters of the ascending clock auction:

- **Bidding rounds should be reduced to ten** – Where there is such a rich allocation calendar, the costs of participating on potentially allocation processes, which may extend over more than today may not only create unnecessary complexity with overlapping allocating processes, but also act as a barrier to participate in primary capacity allocation of smaller or occasional participants.
- **Reducing each round to ideally one hour** – In addition to the arguments stated in the point immediately above, if the auction is run by an algorithm, there shouldn't be any constraints for this calculation to take place in a matter of a few minutes, as it is done with the EUPHEMIA for pan-European day-ahead trading.
- **Price increments should be increased** - To compensate for the reduction in number and to minimise the occasions when the full ten auctions maybe exhausted, a higher step increase, or incremental steps, can be implemented.
- **Only the fixed-term of the tariff should be affected** – it is common practice for most auctions that the fixed term is usually increased, whereas the CNMC tariffs methodology proposal is fixed-term heavy as it is where most of the system costs are recovered. Therefore, we consider unnecessary to have an auction that affects both the fixed and variable terms where both are present. Only where the tariff is based on a variable term an increase in this value can be justifiable.

General issues with the implementation of *Circular 8/2019*

As the implementation of the *Circular* has become reality, we highlight one issue:

- even though allocated slots are given the flexibility to be moved between terminals the price to be paid is dependent on the outturn of the highest closing auction for that calendar month. However, if the auction took place with less than two participants the price cannot be published. Therefore, if a shipper moves to another terminal or month where a premium was paid but was not made public it either does not pay the premium, as by having to do so the price would be disclosed, or pays a premium which it did not know until it requested the change. Therefore, we propose that the rule of charging the premium is removed from the operational procedures.

In addition, we suggest that the CNMC might want to explore further enhancing currently deficient features of the market design:

1. Congestion and anti-hoarding management procedures
2. Improved availability of slots in the medium and long-term
3. Removing any elements in the market design, which prioritise one source of gas vs another outside of market-based mechanisms.