



## **CRE consultation concerning the terms for marketing natural gas storage as of October 2018**



### **EFET response – 25 August 2018**

The European Federation of Energy Traders (EFET) thanks CRE for the opportunity to present its view on the proposed terms for marketing natural gas storage as of October 2018.

EFET thanks CRE once again for its effort to include foreign market participants in the discussion by providing an English version of the public consultation.

#### *Question 1 What is your feedback on the March 2018 (storage) auctions?*

EFET notices that despite a short preparation period for the implementation of the auction rules and only a short period to execute the auction, the auctions took place in a satisfactory manner. EFET agrees with CRE that the auction period should be prolonged to minimise market impact and to enhance the probability of reaching the minimum subscribed capacity and storage volume yearly set by the ministry.

#### *Question 2 Are you in favour of CRE's proposal concerning the maximum number of products that each operator can offer?*

EFET supports the general analysis of CRE that the storage system operators (SSOs) should be left to develop the characteristic and number of standard products in close cooperation with market participants to better respond to the needs of the latter.

We see merits to SSOs developing various storage products to ensure that storage in their facilities is attractive enough and to tailor their products to market needs after consulting with market participants on which types of products seem most attractive to them. In general, we do not see a reason for limiting the number of possible

products that storage operators can offer, in so far as there is **at least five working days' notice before the auction of a new product**. Just like it is in a shipper's interest to book as much capacity in the money as possible, it is in an SSO's interests to offer the most attractive products as this is the best way to maximise volume sales and auction revenue. The result could be fewer or more products being offered but we believe storage operators should have the freedom to learn from and adapt to market realities without limitations, because we believe our interests are aligned. We would however warn the regulator and the SSOs regarding the **size** of the products auctioned, i.e. not to propose too large products, which could lead to liquidity constraints on the market for hedging operations if oversized.

This being said, for the coming year and with an objective of simplicity in mind, we are not opposed to the proposal of CRE to cap the number of products offered by each SSO to what was offered last year, i.e. 14 for Storengy and 5 for Teréga.

*Question 3 Are you in favour of CRE's proposal concerning unsold capacities and short-term products?*

EFET supports CRE's view on unsold capacities and short-term products.

Indeed, market participants may wish to bid for initially unallocated capacity as time passes. This transfer of unallocated products should however only be allowed to auctions for the same type of products to ensure full visibility to market participants. This flexibility should help market participants and SSOs fill the required level of storage capacity set by the Ministry. We believe that this transfer of unallocated capacities to subsequent auctions should be done automatically for all SSOs.

In any case, the one-day notice period for transfer of unsold capacities to new products, as proposed by CRE, should be extended to a — **at least — five working days** in order to give time enough for market players to properly update their bidding and subscription strategy.

In the event that storage capacity remains available after 1 March, the SSOs should be free to continue marketing their available products, including specific short-term products, if the required level of storage capacity is met – otherwise the marketing of standard products only should continue. SSOs, under the scrutiny of CRE, should be attentive to the coherence of the auction specifications before and after the standard products auction period has closed (1 March) in order to avoid significant discrepancies between the auctions, e.g. with regard to the level at which the reserve price is set. For this purpose, EFET would suggest:

- allowing a five-day notice period for the release of the new products, including specifications, before launching the corresponding auctions;
- keeping the reserve price formula unchanged (i.e. same as for the standard products initially auctioned).

*Question 4 Are you in favour of renewing the auction rules of March 2018 for future marketing campaigns?*

As mentioned in previous consultation responses on this subject, we believe that the organisation of ascending auctions, with a pay-as-cleared pricing mechanism, should be the target model for the storage auctioning system. The duration of an auction should be maximum one day and the outcome should be a fixed (and not a spread-indexed) price.

Until this target model is implemented, EFET supports carrying over the auction rules of March 2018 for the next storage auction season campaign and looks forward to exploring the benefits of switching to ascending clock auctions in the context of a dedicated workgroup. We believe the current system still respects the four general principles summarised by CRE in earlier consultation documents, namely:

- The primary goal of gas storage marketing is to maximise storage capacity subscriptions. In a second step only, the objective of maximising income from auctions is sought;
- The auctions will be organised in a transparent manner, in particular as regards the products offered for sale and the reserve prices;
- Storage operators will offer a simple offer, in line with previous offers;
- The bids will be spread over several days, so as to market the capacities in batches of reasonable sizes.

*Question 5 Are you in favour of the proposed time slots for the auction days?*

Supported by EFET.

*Question 6 Are you in favour of the planned auctions results publication rules?*

Supported by EFET.

*Question 7 Are you in favour of maintaining the two separate auction platforms, insofar as their use are harmonised?*

In earlier consultation responses, EFET expressed its demand for Storengy and TIGF to market storage capacities through a common platform. Considering that the auctioning tools did not exist before the start of the 2018 storage auction, it was disappointing to see that the SSOs developed separate platform, without consideration for user-friendliness towards market participants. CRE had also supported the operation of a single platform after the March 2018 auctioning season.

The question now arises to maintain the two platforms separate, albeit harmonised. Here are our thoughts on the matter:

- Our historic support for a common platform stems from the objective to ensure streamlined and harmonised procedures and interfaces for market participants. If multiple platforms can achieve this objective without additional administrative or operational burden for market participants, we are happy to follow the SSOs' suggestion;
- A common platform does not mean that the SSOs would lose control on their relationship with their clients; it could bring added value in terms of competition between SSOs and drive them to improve the quality and competitiveness of their services. This is something we are observing through the forced cooperation of European Nominated Electricity Market Operators (NEMOs) in the common intraday trading platform (XBID) on the power side. With all its merits in terms of competition and improvements in the quality of service of the NEMOs, this forced cooperation did not go without problems. If the same objectives can be fulfilled without the risks inherent to the cooperation of direct competitors, the solution of two harmonised platforms may be safer. . A common platform does not mean that existing problems disappear either. In this sense, we would like to see Storengy allow shippers to amend their bids online, without needing to call them.

Therefore, EFET is not opposed to continuing with the two independent platforms for the moment, on the condition that their access and operational procedures be fully and truly harmonised. CRE should be quite prescriptive in its request for the establishment of the harmonised features of the two platform, based on market participants' feedback in Concertation Gaz. Also, a clear deadline should be set for the harmonisation of the platforms, ideally for the allocation of yearly capacities 2019-2020 at the start of the next marketing season.

*Question 8 Are you in favour of a zero reserve price for auctions of storage capacities marketed for  $N + 1$ , excluding L-gas storage?*

As stated in responses to previous public consultations, EFET supports this approach.

*Question 9 Are you in favour of marketing storage capacities for years  $N + 2$  to  $N + 4$ ?*

EFET supports CRE's proposal to design long-term storage products. However, EFET notices that market liquidity at  $N+4$  horizon is still low, meaning that markets participants may have a lower appetite for  $N+4$  auctions than for  $N+2$  or  $N+3$  ones.

*Question 10 Are you in favour of keeping at least 50% of the capacities to market for  $N + 1$ ?*

Supported by EFET.

*Question 11 Are you in favour of keeping at least 20% of the capacities to market for January and February for capacities whose injection starts from April?*

Supported by EFET.

*Question 12 Are you in favour of the reserve price formula proposed by CRE for marketing capacities for N + 2 to N + 4?*

EFET opposes this approach. For N+2 to N+4 the same arguments applies as for N+1, where to reserve price is set at zero. Offer and demand will then decide on the fair market value. EFET stresses the importance of setting the reserve price at zero in order to incentivise shippers to participate in the auction and use storage capacity on the basis of its extrinsic and intrinsic value. With a reserve price at zero, any shipper with an interest in storage for the supply of a customer portfolio or for pure trading activities will enter in the auctions and bid up to the value they are willing to pay for such storage products.

Should any difference be made between the reserve prices for the auctions of the different products based on the time horizon, it should lead to lower - and not higher - reserve prices for N+2 to N+4 products compared to N+1 auctions: any long-term commitment gives visibility to the seller of the product auctioned, while long-term storage subscriptions strengthen long-term security of gas supply to the benefit of the system.

*Question 13 Are you in favour of the proposed auction timetable for the 2019-2020 capacities?*

EFET supports the proposed schedule as well as the 10 TWh maximum daily auction volume.

*Question 14 Are you in favour of setting the annual auction timetable as of March 1, 2019?*

Supported by EFET.

*Question 15 Are you in favour of the 10 TWh total limit per auction day, excluding L-gas storage?*

Supported by EFET.

*Question 16 What annual timetable do you want (including the number and period of windows per year, the number of weeks per window, the number of days per auction week)? Are you in favour of separate windows between marketing capacity for N + 1 and those for N + 2 to N + 4?*

EFET supports the approach having two different gates, one for N+1 and one for N+2 to N+4 auctions.

*Question 17 Which publication deadline by the operators of detailed auction timetables (products, quantities) seems preferable to you?*

As proposed by CRE, EFET favours a yearly announcement of the auction schedule.

*Question 18 Are you in favour of the marketing methods proposed for the L-gas storage capacities?*

EFET has no view on this point.