

Capacity allocation in Europe

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Allocation of primary capacity



Market based allocation should include:

- Range of products to cover all market needs
 - Long to short term contract durations
 - Capacity size to fit commodity requirements

- Consistent, non-discriminatory procedures
 - no FCFS
 - no pro-rata

Auctions (1)



- Consistent market-based allocation method for existing and new capacity

- Effective non-discriminatory, transparent allocation mechanism
 - Provides predictability & stability for market parties
 - provides investment incentives
 - opportunity to meet (at least) the market's demand for new built capacity

- Basic principles on EU level
 - To include all primary capacity
 - Efficient and coordinated capacity calculation
 - Regular and harmonised auctions for predictability
 - Pre-defined building blocks of capacity products (daily, monthly and quarterly)
 - Reservation of capacity for short term contracts
 - Appropriate auction types for different contract durations (long-term = volume based; short term = price based)

- Flexibility to fine-tune on market level
 - Price setting mechanism to match regulatory framework, until those are harmonised
 - Process simplified if no congestion

Auctions (3)



- Daily, monthly and quarterly products that can be combined in auctions to form any necessary or desired contract duration, with a start and end date within the dedicated contract window of that auction

Contract description	Contract duration	Building blocks of Capacity products	Share of total calculated capacity	Auction type
<u>Long term firm</u>	Up to 'x' years, start and end date should be between Y+1 and x	Quarterly	Maximum 80%	Volume based – price is based on long run marginal cost of investment
<u>Annual firm</u>	Yearly	Quarterly	Maximum is total calculated capacity minus long term firm capacity	Price based – reserve price no more than long run marginal cost of investment. Cleared price auction
<u>Short term firm</u>	Monthly, Month ahead, Daily, Day ahead, Within day	Daily, Monthly	Remaining capacity from previous auctions plus short-term re-calculated capacity	Price based – reserve price can be set at zero. Cleared price auction

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- The EU network code should clearly indicate the applicable cross-border (or cross-market) points

 - One (online) capacity allocation process for both sides of a cross-border point

 - Capacity calculation assumptions should be consistently applied across an interconnection point
 - any difference between the entry, exit or combined capacity needs to be clearly explained

Consultation



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- Capacity is one of the tools used to facilitate the commodity market, e.g. allowing supply to meet demand throughout Europe
 - Market consultation should flag the necessary characteristics of a European capacity allocation process
 - Formalising an EU-wide consultation process (when, where, why and how) will ensure the above and can increase market stability and trust
 - EFET is pleased with ENTSOG's indicated wish to engage with market parties in designing the EU Capacity Allocation Network Code and we look forward to providing further input during the process

Way forward



- European framework for capacity auctions should be designed and integrated in the Network Code
- Market involvement necessary
- EFET is working on a detailed auction design proposal which can be fed into the work of ENTSOG
- Development and implementation timeline??



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