

Capacity Allocation Concepts in the RO-HU-AT Open Season Procedure

for Public Market Consultation

Dated 3 February 2016



1. Introduction

Natural gas transmission system operator companies SNTGN Transgaz SA, FGSZ Zrt. and Gas Connect Austria GmbH consider to jointly conduct a binding open season for the booking of new or incremental cross-border transmission capacity at the Romanian-Hungarian border and the Hungarian-Austrian border, in both flow directions. The preparatory process is supported by the respective national regulatory authorities, i.e. ANRE (Romania), HEA (Hungary) and E-Control (Austria). All involved TSOs published the same survey electronically either via an electronic form or as a downloadable document.

The deadline for the submission of answers is 22 February 2016, 16:00.

2. Scope of the Public Market Consultation

The preparations for the open season procedure have already begun and the above mentioned parties **wish to survey the market in a non-binding way about the possible capacity allocation Methods** to be applied in the procedure.

Any other details of the possible open season procedure (e.g. exact timing, quantity of offered capacity, tariffs, legal terms applicable to capacity contracts, financial securities etc.) **are out of the scope of the present Public Market Consultation.**

3. Potential Capacity Allocation Methods

The parties consider three possible ways (Methods) of capacity allocation, which, in their assessment, fit into the current European legislative framework.

Participants of the survey are kindly asked to fill in the questionnaire, where general questions are asked and to evaluate the proposed Methods according to their perceived merits.

For the new capacity, an amount at least equal to 10 % of the technical capacity will be set aside and offered no earlier than the annual quarterly capacity auction according to Article 8 (8) CAM NC.

For the sake of the example, a 15-years booking period is assumed when describing the Methods.

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3.1. Method No.1.

Method No.1. denotes regular yearly capacity auctions using ascending clock auction algorithm as per Regulation 984/2013/EU.

- Offered contractual capacity product: yearly bundled capacity product at each IP in both directions (1 October-1 October) at Csanádpalota (RO>HU) / (HU>RO) and at Mosonmagyaróvár (HU>AT) / (AT>HU).
- Conditional bids: no. Capacity products are offered in independent, single-year products, where no conditional bids can be made between certain years or across the offered interconnection points.
- In total, 60 capacity auctions (1 auction per IP per flow direction per year) are envisaged to be organised.

3.2. Method No.2.

Method No.2. denotes capacity auctions using e.g. ascending clock, uniform price or pay-as-you bid auction algorithm but a matrix of **ex ante conditions** are built in, resulting in a sequential auction design.

- Offered contractual capacity product: yearly bundled capacity product for 2 IPs, in both flow directions (1 October-1 October) at Csanádpalota (RO>HU) / (HU>RO) and at Mosonmagyaróvár (HU>AT) / (AT>HU).
- Conditional bids: yes. Capacity products are offered in three, subsequent capacity allocation rounds.
- Allocation round I:
 - A single batch made of 15 single-year product is allocated simultaneously for the two interconnection points. It means that within 1 allocation procedure, all 15 yearly bundled capacity products per flow direction on both interconnection points are allocated.
 - In total, 1 capacity auction per flow direction is organised.
- Allocation round II:
 - Subject to capacity available after allocation round I. In case all of the capacities are allocated in round I., no more allocation rounds shall be organised.
 - Only single-year products are allocated, but simultaneously for the two interconnection points. It means that within 15 separate allocation procedures, individual yearly bundled capacity products are allocated within the same procedure on both interconnection points.
 - In total, up to 15 capacity auctions per flow direction are organised.
- Allocation round III:
 - Subject to capacity available after allocation round II. In case all of the capacities are allocated in round II, this allocation round shall not take place.
 - In total, up to 30 capacity auctions per flow direction are organised.

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3.3. Method No.3.

- Yearly capacity auctions as described in Method 1 above; i.e.:
- Offered contractual capacity product: yearly bundled capacity product at each IP in both directions (1 October-1 October) at Csanádpalota (RO>HU) / (HU>RO) and at Mosonmagyaróvár (HU>AT) / (AT>HU);
- In total, 60 capacity auctions (1 auction per IP per flow direction per year) are envisaged to be organised;
- If aggregate demand in one auction is greater than the capacity on offer in this auction; capacities shall be allocated on the basis of the highest individual bidder commitment in all auctions conducted throughout the period of 15 years at IP Csanádpalota and IP Mosonmagyaróvár;
- All auction results submitted to the system user shall be regarded as preliminary and non-binding;
- In case that the minimum amount of capacity for the economic viability of project has not been reached via the application of the allocation mechanism the preliminary and non-binding bookings shall be cancelled by the TSO;
- Bidders shall receive preliminary results and shall be entitled to step back from their interest documented until a predefined date (final allocation) without the obligation to give reasons for this decision.

4. Questionnaire -

4.1. Would you support a possible capacity allocation design other than those described in Regulation 984/2013/EU, i.e. ascending clock algorithm or uniform price algorithm?

- **Yes**
- No
- N/A

If yes, which?

Directive 2009/73/EC, Art.13.2 states that “Each transmission system operator shall build sufficient cross-border capacity to integrate European transmission infrastructure accommodating all economically reasonable and technically feasible demands for capacity and taking into account security of gas supply”. Having said that and looking at the ascending clock auction mechanism there could be cases when even if a long-term supplier is intended to book a successive number of years is failing to do so, due to out-booking at any year by a subscriber intended to book only one year (highest bid wins). However the long years of booking contributes the most the economic sustainability of the project. Upstream producers are prepared to take beside the technical risks also

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the market risks (e.g. price risks) into account. The target of the project development is to avoid any further risks which would make the business case for project development uneconomic in a highly competitive market. A safeguarded capacity access is therefore key requirements to limit the risk for capital intensive upstream investments. The possible misalignment of the conditions of cross border capacity products might avoid that shippers are able to secure the needed capacities in an open season.

Having regard to the ACER proposal dated in October 2015 – article 3/23, article 20d of the subject document and what stated above, we think that the ascending clock auction mechanism according to the regulation 984/2013 is not suitable and therefore propose that Capacities are allocated on the basis of the highest individual bidder commitment in all allocation rounds throughout the period of up to 15 years at both IPs (reference to legal framework to be added), and conclude that as an alternative allocation methodology.

4.2. Do you have any preference between auction algorithms, e.g. ascending clock, uniform price or pay-as-you bid?

- **Ascending clock algorithm**
- Uniform price algorithm
- Pay-as-bid
- I have no preferred auction algorithm

If you have any preference, please state your reason.

In case an auction is obligatory we would prefer the ascending clock mechanism as the most transparent and predictable of the listed auction methodologies. The predefined tariff steps make the result of the methodology predictable and transparent.

4.3. In case of Method No. 2, which batch of single-year products would you prefer, e.g. 5, and/or 10 and/or 15 years?

- **5-year batch**
- 10-year batch
- 15-year batch

We do not prefer Method No. 2. In case only a concept like Method No.2 is offered we would prefer a 5-year batch, which allows a better adaptation of the capacity bookings to production profiles.

4.4. Would you allow conditional bidding during the open season procedure?

- **Yes**
- No
- N/A

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4.5. If conditional bidding during the open season procedure is allowed, which type of conditionality would you deem necessary?

Booking across a number of years

Booking across different interconnection points

Minimum quantity

Other: (please specify)

All of the 3 proposed types of ex-ante conditionality (booking across a number of years, booking across different interconnection points (Linking of routes principle) and minimum quantity) should be allowed in this open season procedure. In addition, we need the possibility of bookings conditional to Upstream Final Investment Decision (ex-post conditionality).

4.6. Would you prefer ex ante or ex post conditionality in the open season's capacity allocation design? Please state your reasons.

We prefer ex ante and ex post conditionality. We understand ex post conditionality as an option to step back from our preliminary booking at a predefined date (e.g. date of Upstream Final Investment Decision-FID). This would fulfil our requirement of a "booking conditional to FID".

4.7. Do you have any comment on the above mentioned Methods?

We would like to understand if the booking platform will be the same for both Inter-connection Points.

Please clarify how the principle of predictable and stable tariffs is reflected in the offered capacity allocation methodologies. Predictable and stable tariffs boost commercial interest to invest and foreseeability of income streams for both the upstream investor and the TSO. Also both investments to be made by the TSO and by the hydrocarbons producers are more bankable should the predictability and stability of tariffs are properly reflected.

Which terms and conditions (such as force majeure, nomination & balancing rules, gas specifications etc.) will be harmonized in the capacity contracts of the TSOs along the route?

4.8. Would you have a preference for any of the above mentioned Methods?

- Method 1
- Method 2
- **Method 3**
- None of these
- I have no preference

If you have any preference, please state your reason.

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We have a preference for Method 3 because it offers the option to book capacities for a period of time of up to 15 years and conditional to the final confirmation by the shipper. We ask TSOs to consider the introduction of all in point 4.5 mentioned conditionalities also into Method 3.