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

for Public Market Consultation
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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.

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 Csanápolota (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 Csanápolota (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:
  o 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.
  o 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 <u>simultaneously</u> 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.

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 Csanápolta (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 Csanápolta 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?**

> NO

If yes, which?

> For the allocation of long term capacity products, we support the ascending clock algorithm. A market-based allocation can however only be guaranteed, if shippers have a guarantee that the auction round steps are set as low as possible and need to be consulted upon with shippers. Excessively high round premia would undermine the nature of the ascending clock algorithm.

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.

> Please consider our additional comments under 4.1

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	

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

> YES

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

> Other

If you choose "Other", please specify:

1) We support the conditionality that shippers who are interested ONLY in both border points (in one or both directions) must have the chance to be allocated both bundles to the same extent (duration and hourly flow rate), if they request so ("superbundled capacity"). But if requested, shippers should also have the possibility to bid for single bundled capacity products as well (AT/HU and HU/RO in both directions).
2) We also support a step back clause as suggested in method 3 which allows shippers to revoke their bids. The deadline for shippers to step back should be as late as possible and has to be consulted before.
3) Shippers need a price guarantee which allows them to terminate the bundled contracts if the regulated tariff at any of the TSOs goes up excessively. Such a provision is seen in Germany and prevents shippers from being exposed to arbitrary tariff changes in the upwards direction. The maximum annual tariff increase needs to be agreed upon by shippers. Shippers having bought the entire route (=both IPs) also need the right to step out of the entire route if TSO capacity on only one IP tariff goes up excessively.
4) Shippers with already existing contracts along the envisaged project route must be given the opportunity to include their exisitng contracts in the bidding process (i.e. "conditional surrendering"). No interested shipper must be forced to pay twice for capacity because the allocation mechanism does not allow for flexibility to avoid this.
5) The planned project covers three European countries and thus a plethora of different regulations per country applies. Shippers, especially those having purchased the entire route in one direction or both directions, must have the right to cancel single or even ALL contracts if conditions (GTCs, market rules, legislation) deteriote significantly in one of the three countries involved.

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

Ex ante conditionality. Conditionalities must be set up up in advance of the auctioning process.

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

Before any method is decided to be chosen, it has to be consulted with interested shippers and determined in detail. There is also a need for clear specification which rights and obligations will fall to the shippers after having purchased the capacity. Currently, varying and sometimes entirely different degrees of implementation of NC CAM on across European countries are disincentivizing to book long term capacity on a binding basis. Shippers could be incentivized in booking superbundled capacities by applying lower tariffs compared to bundled products on only one cross-border point. This might be justified and technically reasonable by e.g. applying Dynamically Allocable Capacities ("DZK") in addition to Freely Allocable Capacities ("FZK"). (DZK=balanced in entry and exit nominations but restrictions in use of the VTP)

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

Method 2

If you have any preference, please state your reason.

We support method 2, but only under the provisions we already mentioned under 4.5