EFET
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EFET feedback to CRE on the implicit capacity allocation at VIP Pirineos

The European Federation of Energy Traders (EFET[1]) appreciates the opportunity to provide some initial feedback on the implicit capacity allocation method at VIP Pirineos, as proposed by Teréga and presented to shippers during an ad hoc webinar on 19 June.

The proposal raises a number of questions. Significantly more detail on the operation of the mechanism would be necessary for us to understand fully the implications. We list some examples of questions below. They arise primarily from the implementation of different allocation methodologies on either side of an interconnection point and could potentially give rise to mismatched capacity holdings, which CAM NC was designed to prevent.

According to the timeline indicated in the TSO presentation, implementation of the mechanism would be from April 2024. We strongly recommend that if the proposal is to be considered further, then a more detail should be presented which is open to formal consultation, with workshops in coordination with Enagas and CNMC, as necessary.

1. EFET questions

Our primary concern is whether this increases the risk of obtaining capacity on only one side of the border without being able to acquire matching capacity on the other side, if it remains under a different allocation regime. This would in part relate to whether a party must acquire capacity on the Spanish side in order to qualify for implicit allocations or whether to register for IAM and then seek matching capacity. In practical terms, it would help to understand what would be the sequence of events in gaining access to capacity on each side of the IP.

Moreover, the slides provided are not sufficiently clear on how and when the price of capacity would be determined. A known weakness of IAM is the inability of traders to lock in a spread if the price of capacity allocated is not set until after a cross-border trade is completed.

[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 140 energy trading companies, active in over 27 European countries. For more information: www.efet.org

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A broader question relates to the risk of interruption of entry capacity in case of potential implementation of the IAM on both the Teréga and Enagas ends. This bundling opportunity was also identified by Teréga as a future prospect during the June workshop, as, for the moment, capacity from Spain to France is commercialised via PRISMA. We understand from the presentation made in the Concertation gaz meeting held on 19 October 2022 that additional capacity at entry France[2] would face a 10% interruption risk (i.e., up to 35 days per year), excluding periods of maintenance. It is not clear to us whether, on those days of maintenance, more interruptible capacity will be sold via the CAM auctions, so that certain firm capacity is left to be allocated implicitly. We assume that Enagas would be expected to ensure that the IAM users remain firm, and any interruption is born by the CAM users. This additional capacity from Spain to France is furthermore offered for the D+1 product, which adds an extra layer of complication due to the preceding closure of IAM. Lack of clarity on how a bi-directional IAM would work would affect trades done under EFET terms and conditions as well as the value of such a capacity. This would similarly affect whether such capacity would be tradable on the secondary market.

2. Main EFET views

We maintain a cautious outlook in terms of the compliance of the mechanism with CAM NC owing to: a) the proposed marketing of unbundled capacity, b) the interpretation of the definition of implicit allocation via a commercial offer not adequately reflective of market needs. Unbundled allocations on a FCFS basis exclusively at exit France do not represent a commercially palatable solution to address the uncertainty over long-term subscription of capacities identified by Teréga[3].

The mechanism also lacks an accompanying analysis on the risk of capacity hoarding which may arise from the offer of a product for an excessive level of 50 percent of the technical available capacity at the VIP, circumventing the CAM NC auctioning system, potentially for bookings of 15 years upon the start of operational use.

The Teréga proposal should not hinder the adjustment of CAM NC to the introduction of supplementary UPA auctions as per our EFET FUNC request for maximum commercialisation of firm IP capacity. As EFET we remain fully committed to our exercise with ACER, ENTSOG and the booking platforms with a view to enhancing the existing CAM NC auction process where there is no time to allow sufficient steps for the market to clear when price spreads are high.

[2] Enagas communication to shippers of 19 October 2022 on commercialisation of additional 40 GWh/d as DA product at VIP Pirineos. Capacity interruptible on the French and firm unbundled on the Spanish side.

[3] We refer to the webinar presentation on the development of Pirineos into both a supply and arbitrage point with the reversal of flows from south to north, the expiry of LTCs and the excess of capacities for commercialisation between 2023 and 2026.

If CRE decides to consult on and ultimately approve the IAM, we ask for the following to be put in place: a) appropriate anti-hoarding measures, b) extension of the service to corresponding entry and exit capacity on a firm basis at both sides of the VIP (i.e., marketing of bundled interconnection capacity with Enagas via the broker), c) limitation of the technical capacity available via the IAM to less than 50 percent, d) potential restriction of the guide of products exclusively to the monthly/ balance of month products.

3. Detailed remarks

3.1 The proposal is incompatible with the existing IAM by IUK and BBL

The motivation to offer IA under IUK was an outcome of long-term contracts coming to an end. IUK did not have certainty of revenue and devised this alternative method to monetise available capacity. This is not the case with Teréga which is a regulated TSO. It has certainty of revenue as approved by CRE, though in the absence of LT bookings, this may lead to greater volatility in setting of prices at other entry and exit points. The proposal does not make clear what is the expected effect of this.

To flexibly offer capacity at times when commercially attractive to book it, merchant TSOs IUK and BBL have been using ICA for capacity allocation in the interconnectors between the UK and the continent, via brokerage houses.

Admittedly, art. 3 (3) CAM NC only roughly specifies the nature of an alternative allocation mechanism. Moreover, CAM NC offers broader flexibility in the use of IAMs to apply different roducts and to allocate capacity in different time windows, based on solid justification and market needs.

However, the IAM offered by IUK and BBL, and referenced by Teréga in their webinar presentation, is directly aligned with market spreads, with transmission capacity offered at a fixed price for upfront defined products. We understand that Teréga do not combine their proposed method with an equivalent quantity of gas at a fixed price. This trans-poses the risk to shippers as the respective applicable regulated tariff will have to be paid.

We thus consider the proposal as a *"trade plus capacity"* mechanism, rather than an actual IAM, as it solely enables a trader buying (but not one also selling) to book capacity at exit France outside the CAM NC auctions. This way, it alleviates them from the risk of the obligation to pay a premium and the higher inherent costs of booking bundled capacity. It represents a cheaper option to secure cross-border shipping and hence increases the risk for capacity hoarding.

3.2 The marketing of unbundled capacity does not conform with the spirit of CAM NC

It is unclear to us how the proposed IAM complies with the duty of TSOs to maximise the quantity of bundled capacity under art. 6 CAM NC, except for cases where capacity on each entry and exit zone may not match[4], resulting in contractual or physical congestion risks. The discussed service is proposed unilaterally by the French TSO. This may create a situation where a significant amount of unsold, unbundled capacity is left at one side of the cross-border point, preventing bundling for the full amount of capacity.

Another issue relates to the selling of the product in conjunction with the commodity. The question arises as to which broker, or exchange, is going to be the party to perform the matching of the capacity and the commodity. Depending on the broker, restrictions may occur regarding the extent to which the product can be traded or trading counter-parties for one to take advantage of the product.

We thus identify the risk of the proposal leading to a prolongation of booking mismatch on the two sides of the border. If the intention, as hinted by Teréga during the workshop, is for both TSOs to ultimately market bundled interconnection capacity via a partner(s), Enagas and CNMC ought to have proper visibility on the future bundled product that shippers may wish to subscribe.

3.3 French regulatory developments should not interfere with our EFET FUNC process

The IAM currently applied by IUK and BBL was introduced because of concerns around the lack of flexibility in the CAM NC auction process. For the same reason we, as EFET, triggered our FUNC request in January 2019 to make firm IP capacity more readily available, via supplementary UPA auctions on top of the ACA ones. We aim to introduce more flexibility as we observed obvious occasions where potential spreads would be developing between the market areas but buying capacity was effectively not possible as shippers would miss the auction date, or the auction date would still be coming out.

We hence wish to ensure that the Teréga implicit auction proposal does not impede a potential review of CAM NC for the purposes of accommodating our own FUNC proposal for more efficient arbitrage between EU hubs and improved liquidity. Our engagement with

[4] EFET Position Paper: Advancing the EU Internal Energy Market: Sector Priorities for the Juncker Commission

ACER and ENTSOG in this regard continues as a matter of priority to ensure a harmonised, EU-wide capacity booking system.

We remain at the entire disposal of CRE, Teréga, CNMC and Enagas to discuss further.