Network Code on Capacity Allocation Mechanism – NC CAM

Commission Regulation (EU) 2017/459

Johannes Lambertz – Regulatory Affairs
Kiev, 5th December 2019

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Contents

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Legal basis and development

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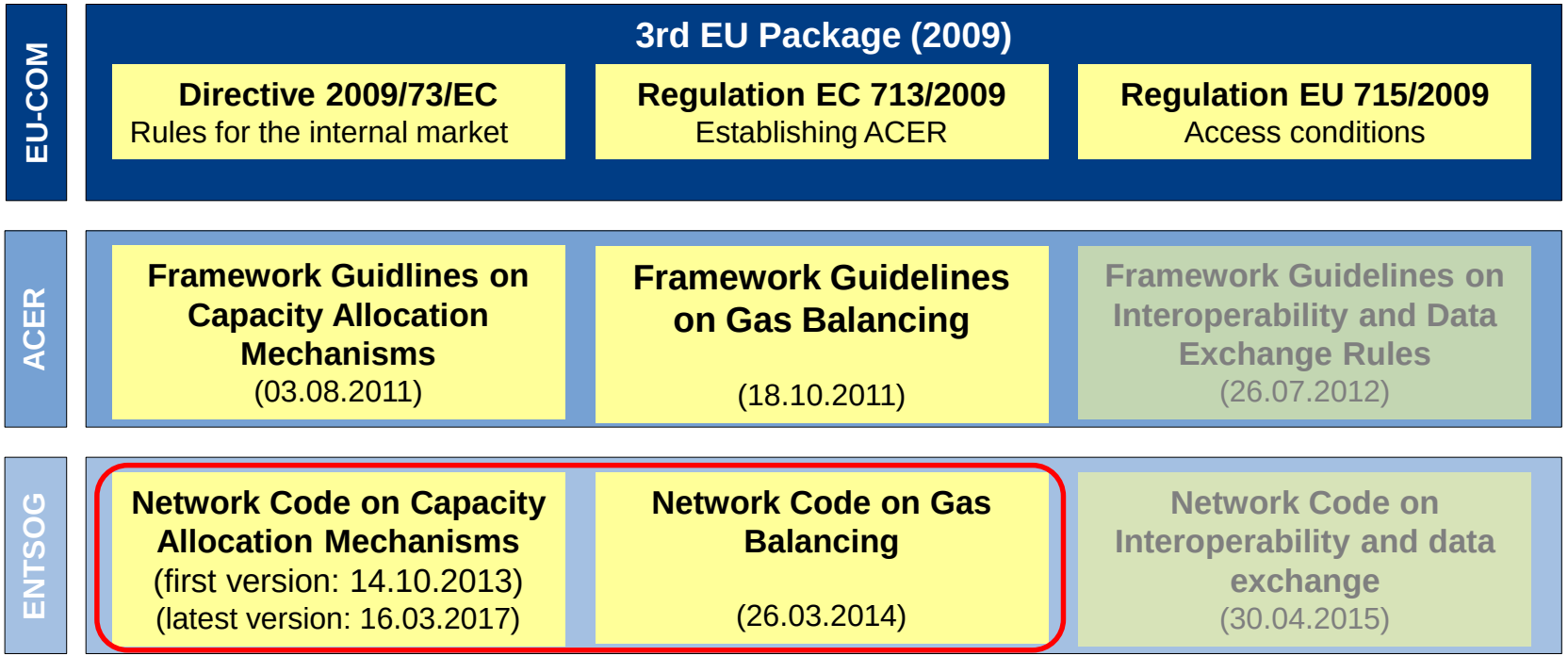
Legal Basis and Development



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Legal Basis and Development

Roles and responsibilities in NC development process

- **European Commission**: Sets priorities
- **ACER**: develops Framework Guidelines (FG) defining scope and objective
- **ENTSOG:** develops NC in line with FG
- **Network users/stakeholders**: Involved via consultation
- **ACER**: Checks NC on consistency with FG and gives recommendation to EC
- **EC**: Adopts the NC
- **Member States**: Final vote via comitology process

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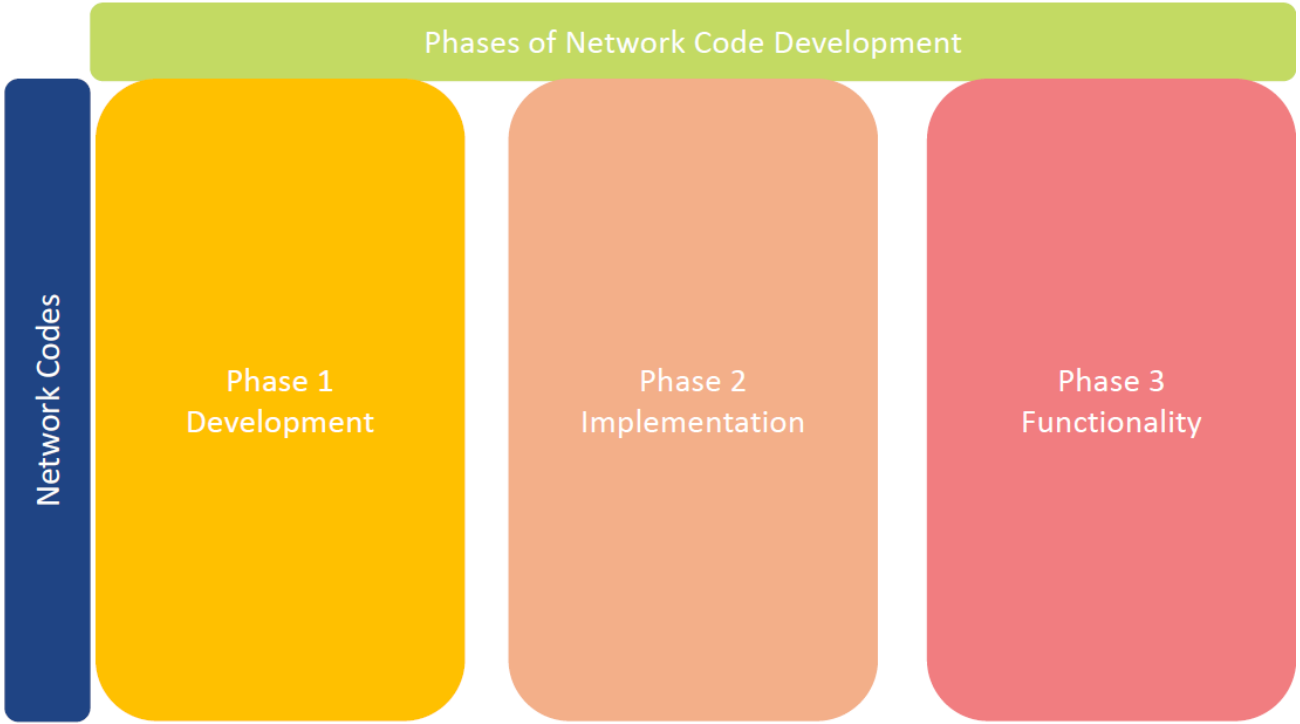
Legal Basis and Development



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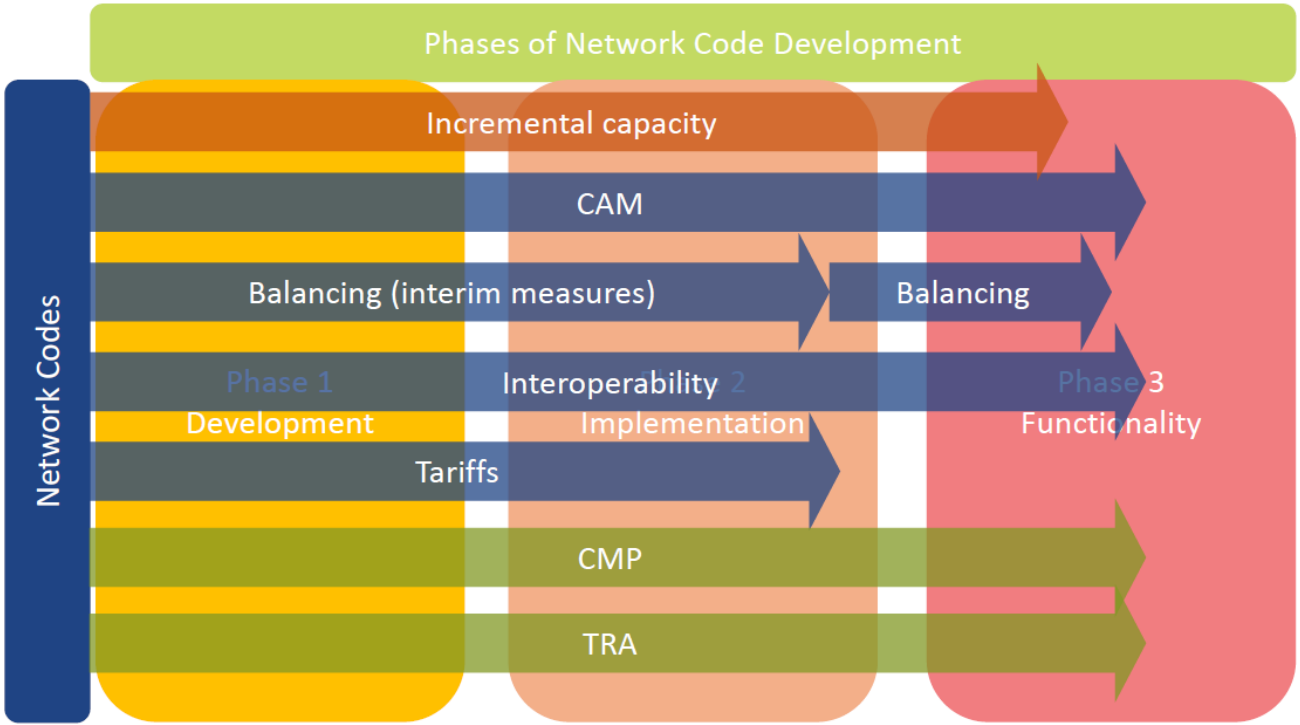

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Subjects of NC CAM

Commission Regulation EU 2017/459

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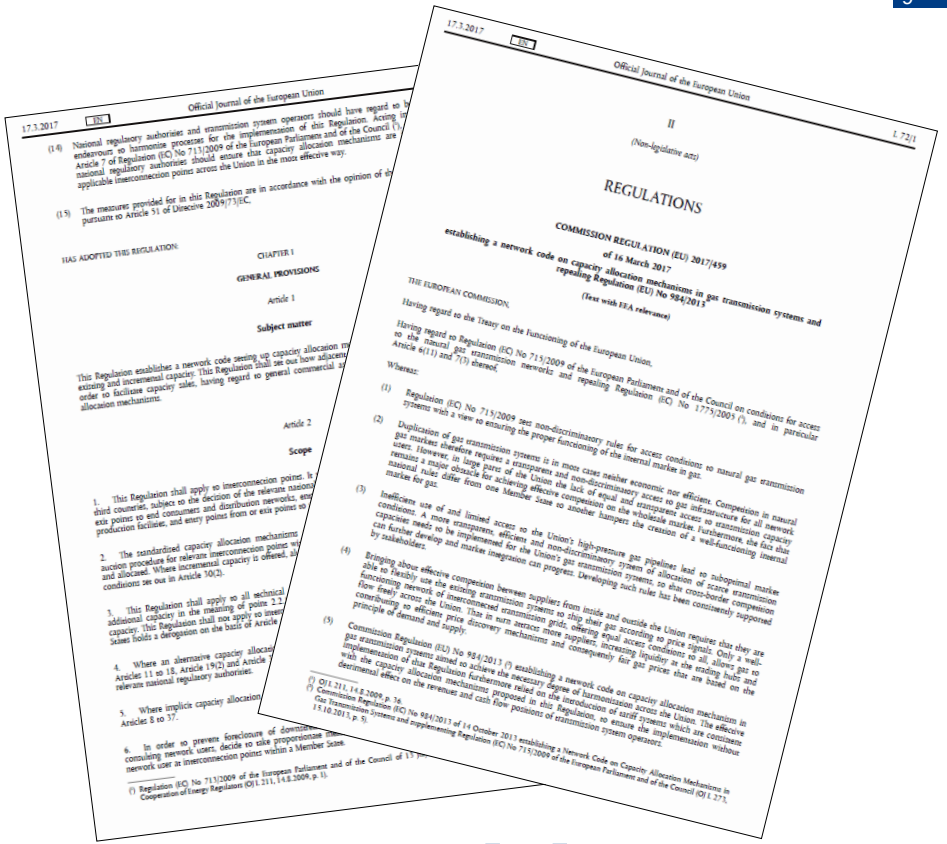
Subjects of NC CAM

1. General Provisions
2. Principles of Cooperation
3. Allocation of Firm Capacity Products
4. Bundling of Capacity at Interconnection Points
5. Incremental Capacity Process
6. Interruptible Capacity
7. Capacity Booking Platforms
8. Final Provisions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(15) The measures provided for in this Regulation are in accordance with the opinion of the committee pursuant to Article 51 of Directive 2009/73/EC.

HAS ADOPTED THIS REGULATION:

CHAPTER 1

GENERAL PROVISIONS

Article 1

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This Regulation establishes a network code setting up capacity allocation mechanisms for existing and incremental capacity. This Regulation shall set out how adjacent TSOs shall in order to facilitate capacity sales, having regard to general commercial and allocation mechanisms.

Article 2

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1. This Regulation shall apply to interconnection points between third countries, subject to the decision of the relevant national regulatory exit points to end consumers and distribution networks, entry points from production facilities, and entry points from or exit points to storage facilities.

2. The standardised capacity allocation mechanisms auction procedure for relevant interconnection points where and allocated. Where incremental capacity is offered, also conditions set out in Article 30(2).

3. This Regulation shall apply to all technical additional capacity in the meaning of point 2.2. capacity. This Regulation shall not apply to interconnection States holds a derogation on the basis of Article

4. Where an alternative capacity allocation Articles 11 to 18, Article 19(2) and Article relevant national regulatory authorities.

5. Where implicit capacity allocation Articles 8 to 37.

6. In order to prevent foreclosure of dominant consulting network users, decide to take proportionate network user at interconnection points within a Member State.

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17.3.2017 EN Official Journal of the European Union L 72/1

II

(Non-legislative acts)

REGULATIONS

COMMISSION REGULATION (EU) 2017/459

of 16 March 2017

establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 (1), and in particular Article 6(11) and 7(3) thereof,

Whereas:

(1) Regulation (EC) No 715/2009 sets non-discriminatory rules for access conditions to natural gas transmission systems with a view to ensuring the proper functioning of the internal market in gas.

(2) Duplication of gas transmission systems is in most cases neither economic nor efficient. Competition in natural gas markets therefore requires a transparent and non-discriminatory access to gas infrastructure for all network users. However, in large parts of the Union and non-discriminatory access to transmission capacity remains a major obstacle for achieving effective competition on the wholesale market. Furthermore the fact that national rules differ from one Member State to another hampers the creation of a well-functioning internal market for gas.

(3) Inefficient use of and limited access to the Union's high-pressure gas pipelines lead to suboptimal market conditions. A more transparent, efficient and non-discriminatory system of allocation of scarce transmission capacities needs to be implemented for the Union's gas transmission systems so that cross-border competition can further develop and market integration can progress. Developing such rules has been consistently supported by stakeholders.

(4) Bringing about effective competition between suppliers from inside and outside the Union requires that they are able to flexibly use the existing transmission capacity to ship their gas according to price signals. Only a well-functioning network of interconnected transmission systems operated under common rules allows gas to flow freely across the Union. This in turn ensures more suppliers, increasing liquidity at the trading hubs and contributing to efficient price discovery mechanisms and consequently fair gas prices that are based on the principle of demand and supply.

(5) Commission Regulation (EU) No 984/2013 (2) establishing a network code on capacity allocation mechanisms in gas transmission systems aimed to achieve the necessary degree of harmonisation across the Union. The effective implementation of that Regulation furthermore relied on the introduction of tariff systems which are cost-reflective with the capacity allocation mechanisms proposed in this Regulation, so ensure the implementation without detrimental effect on the revenues and cash flow positions of transmission system operators.

(1) OJ L 211, 14.8.2009, p. 36.

(2) Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and Supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council (OJ L 273, 15.10.2013, p. 5).

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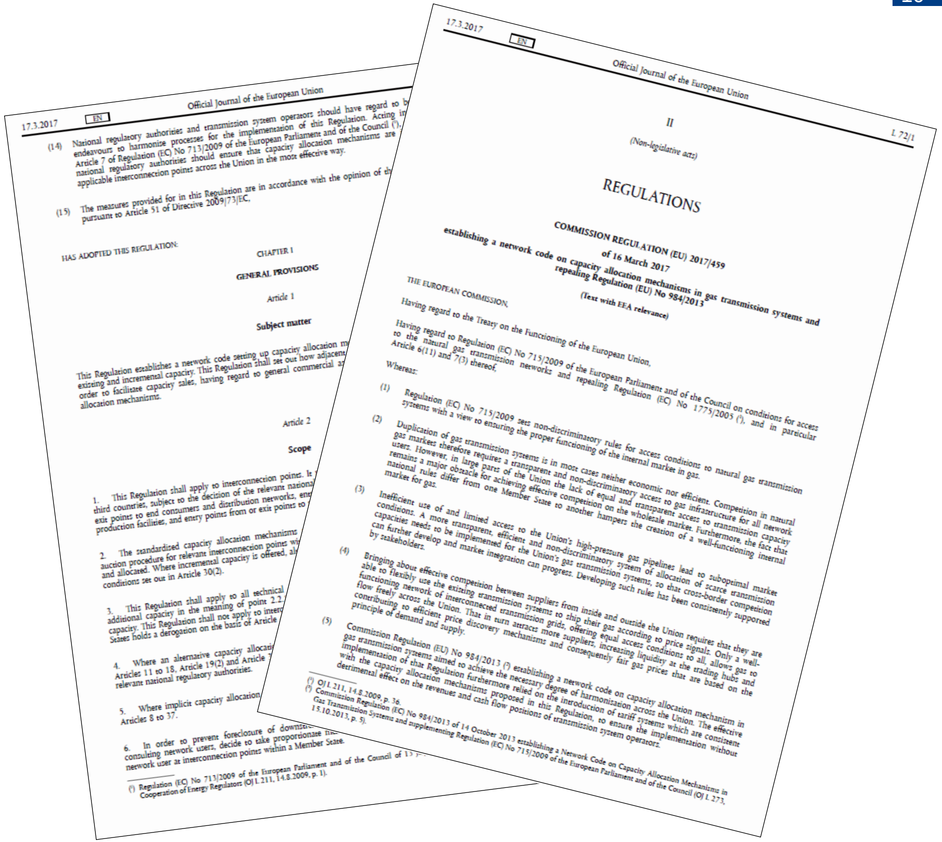
Subjects of NC CAM

1. **General Provisions**
2. **Principles of Cooperation**
3. Allocation of Firm Capacity Products
4. Bundling of Capacity at Interconnection Points
5. Incremental Capacity Process
6. Interruptible Capacity
7. Capacity Booking Platforms
8. Final Provisions



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General Provisions and Principles of Cooperation

General Provisions

- Subject matter:
  - Standardized capacity allocation mechanisms
  - Including auction procedures
- Scope:
  - Interconnection points
  - Firm and interruptible capacity

Principles of Cooperation

- Coordination of maintenance:
  - Compulsory cooperation to avoid reductions in capacity offers
- Standardisation of communication:
  - In particular to/with booking platform
- Capacity calculation and maximisation
  - Offer of the maximum bundled capacity

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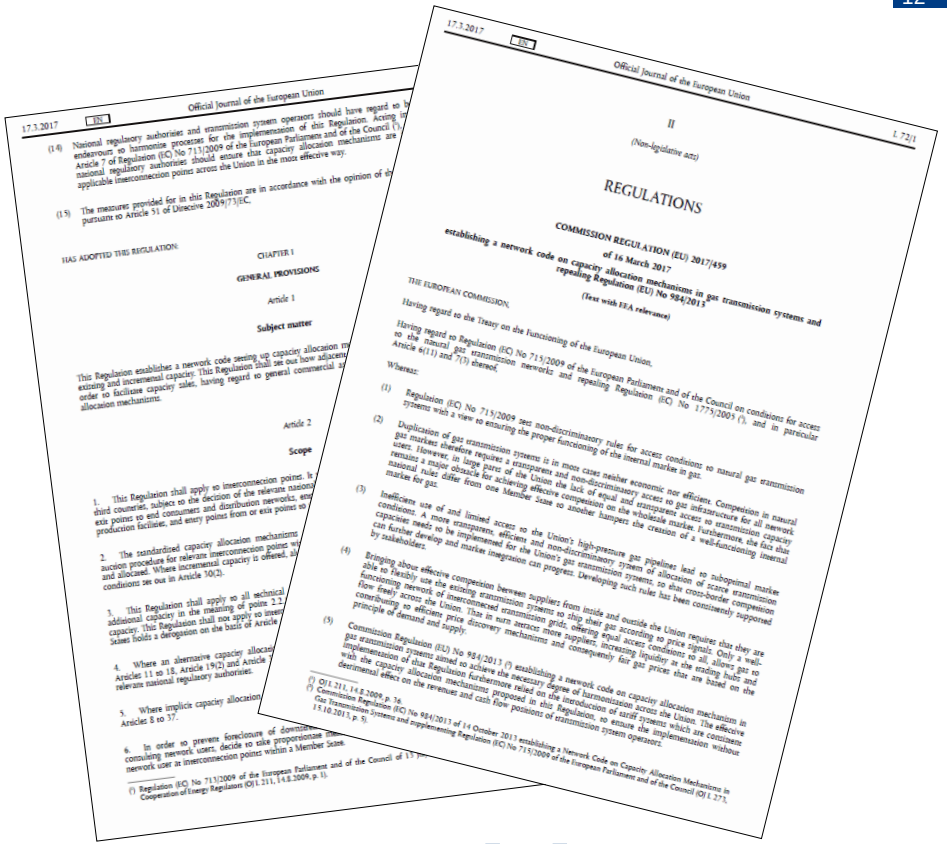
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Allocation of Firm Capacity Products

Standard capacity products:

- Yearly:
  - Gas year (October – October)
  - 5 to 15 years ahead
  - Auction: Once a year (1st Monday of July)

- Quarterly:

Start of auction	Number of auctioned quarters
1st Monday of August	4
1st Monday of November	3
1st Monday of February	2
1st Monday of May	1

- Monthly:
  - 1 month ahead
  - Auction: 3rd Monday of each month

- Daily:
  - 1 day ahead
  - Auction: 15:30 till 17:00 (UTC)

- Within-day:
  - Rest of the day product
  - 1st round closes at 1:30 (UTC) last round closes at 0:30 (UTC)

ENTSOG Auction calendar: https://www.entsog.eu/en/index/index/module/search?q=calendar

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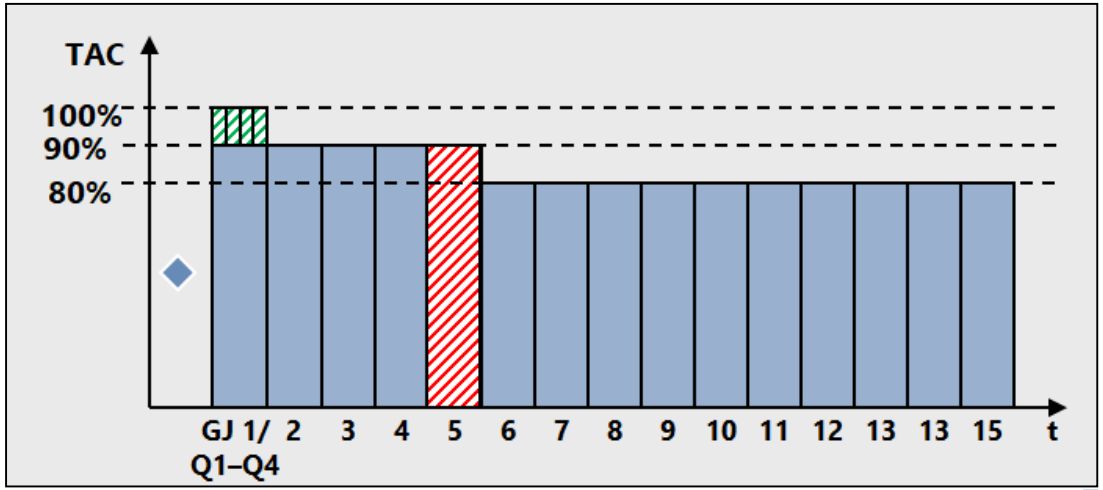
Allocation of Firm Capacity Products

Reservation quotas

- Period ≤ 1year: 100 % of available capacity bookable
- Period > 1 year: 90 % of available capacity bookable
- Period > 5 years: 80 % of available capacity bookable



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Allocation of Firm Capacity Products

Ascending clock algorithm

- Yearly, quarterly and monthly products
- Publication of auction details according to the auction calendar
- Number of bidding rounds depends on the demand of all participating shippers
- Bids are placed at a given price (→ submission of an amount of capacity)
- The price steps of the auction are set by the TSOs

Uniform price auctions

- Day-ahead and within day
- Publication of the auction with the start of the auction
- One bidding round
- Bid = combination of capacity amount and surcharge
- TC can place up to 10 bids per auction

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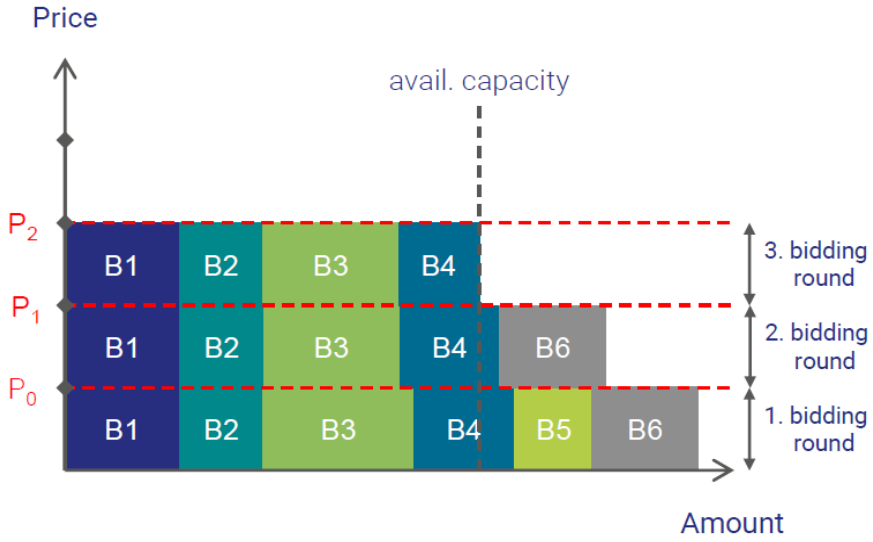
Allocation of Firm Capacity Products

Ascending clock algorithm

- Sum of all placed bids in the bidding round is higher than the available capacity (oversell) → the auction continues with the next bidding round
- A large price step is applied and shipper can place bids at the new price
- If the total demand of all placed bids in the bidding round is equal to the available capacity: capacity contracts are concluded
- The clearing price of the auction in this example is P2 (Regulated Tariff + 2 large price steps)



Legend:

P_0	Regulated Tariff
B1 - Bn	Bid 1 to Bid n

3. Bidding round:

- B4 reduces the bid
- B6 does not place a bid
- Sum of all bids equals the available capacity
- The auction closes at clearing price P2

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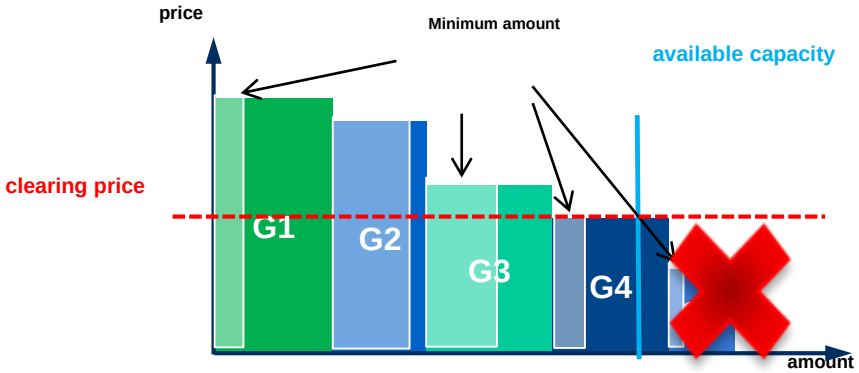
Allocation of Firm Capacity Products

Uniform price algorithm

- Day-ahead and within-day
- Bid = combination of capacity amount and surcharge
- Bids by all shippers are evaluated in a descending order according to the willingness to pay
- Allocation of capacity is done after the bidding round is closed
- The lowest surcharge of all successful bids is considered the clearing price
- Depending on the received bids the clearing price is determined by either the fill-or-kill procedure or the pro-rata procedure



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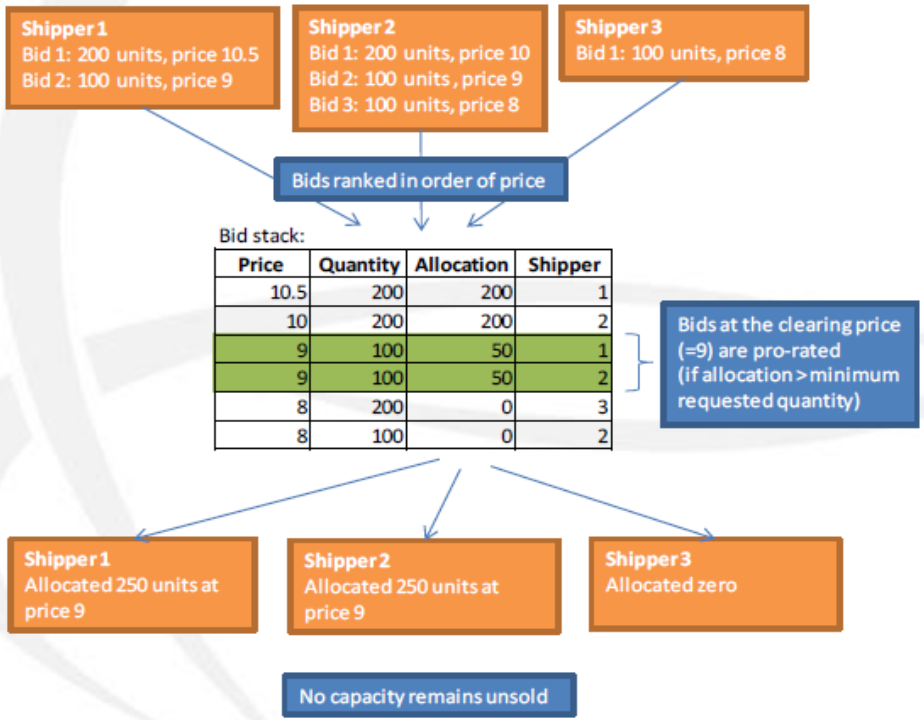
Allocation of Firm Capacity Products

Uniform price algorithm – Detailed example

- Day-ahead
- 500 unit available



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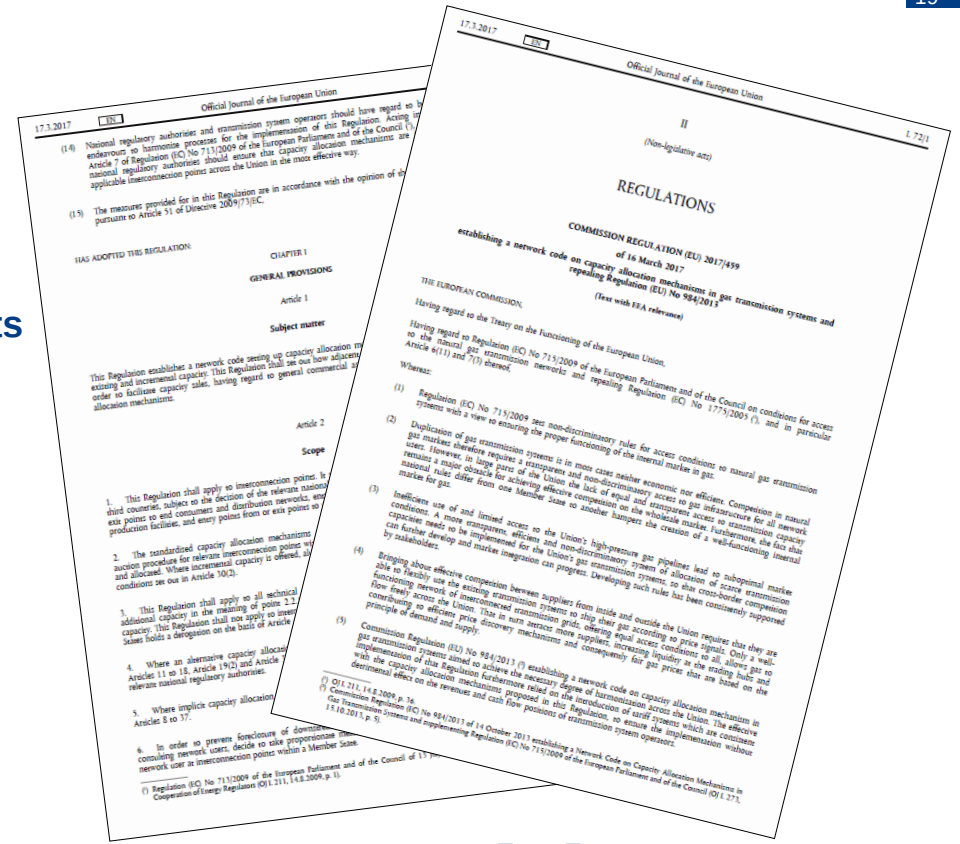

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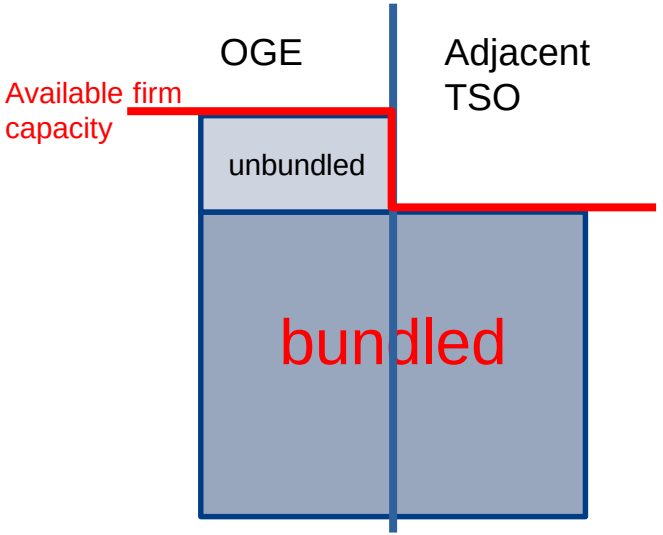
Bundling of Capacity at Interconnection Points

Bundled capacity products

- Jointly offered by adjacent TSOs
- Joint nomination procedure shall be established
- Bundled capacity can only be resold as bundled capacity
- Capacity overhang on one side is offered as firm unbundled capacity
- Establishing of virtual interconnection points (VIP)



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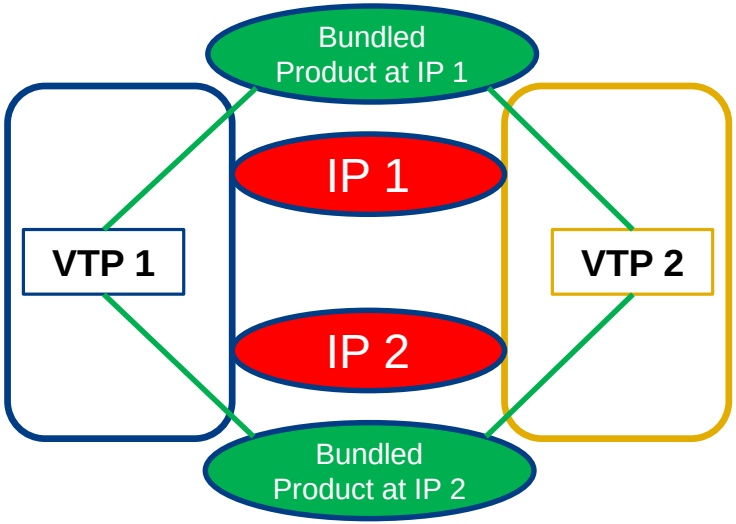
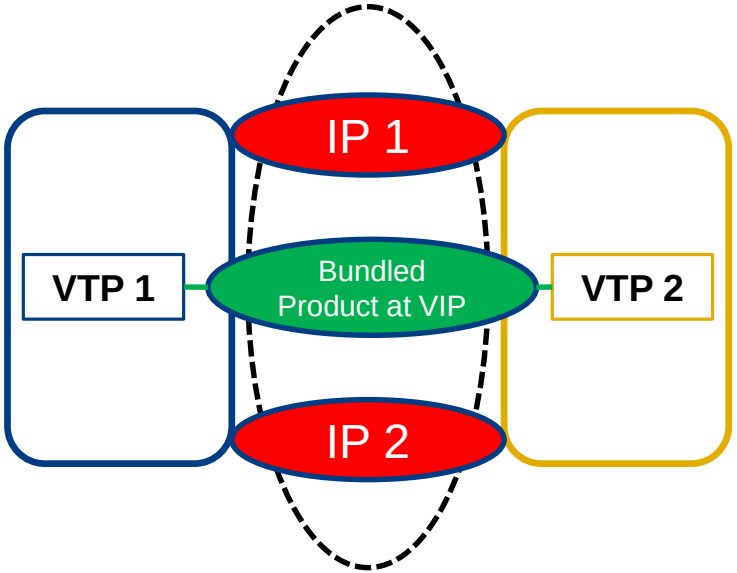
Bundling of Capacity at Interconnection Points

Establishing of virtual interconnection points – two (or more) IPs connecting the same E/E-system

- Two separate bundled products at both IPs



- One bundled product at VIP



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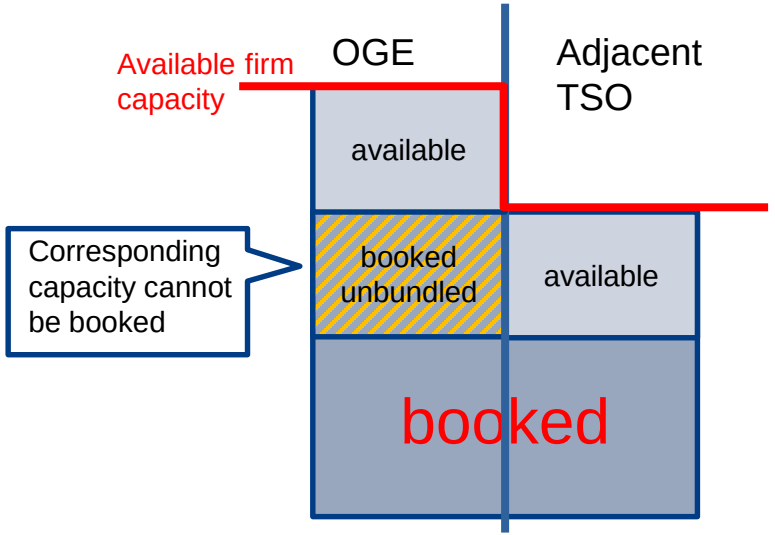
Bundling of Capacity at Interconnection Points

Bundling of contracted capacity

- Network users holding unbundled capacity products on both sides of an IP shall make best efforts to bundle it
- <u>Capacity conversion mechanism</u>
  - Conversion from unbundled to bundled capacity
  - Acquisition of bundled and simultaneous return of (old) unbundled
  - Free of charge
  - Yearly, monthly, quarterly



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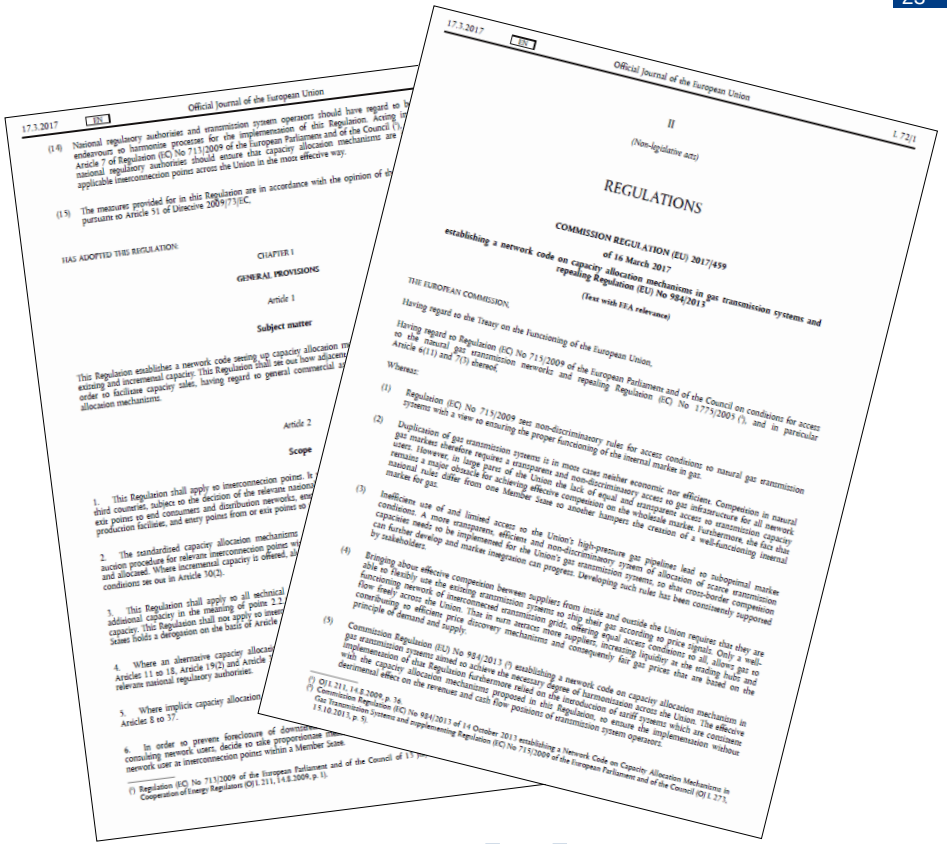

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Let‘s skip the process for now

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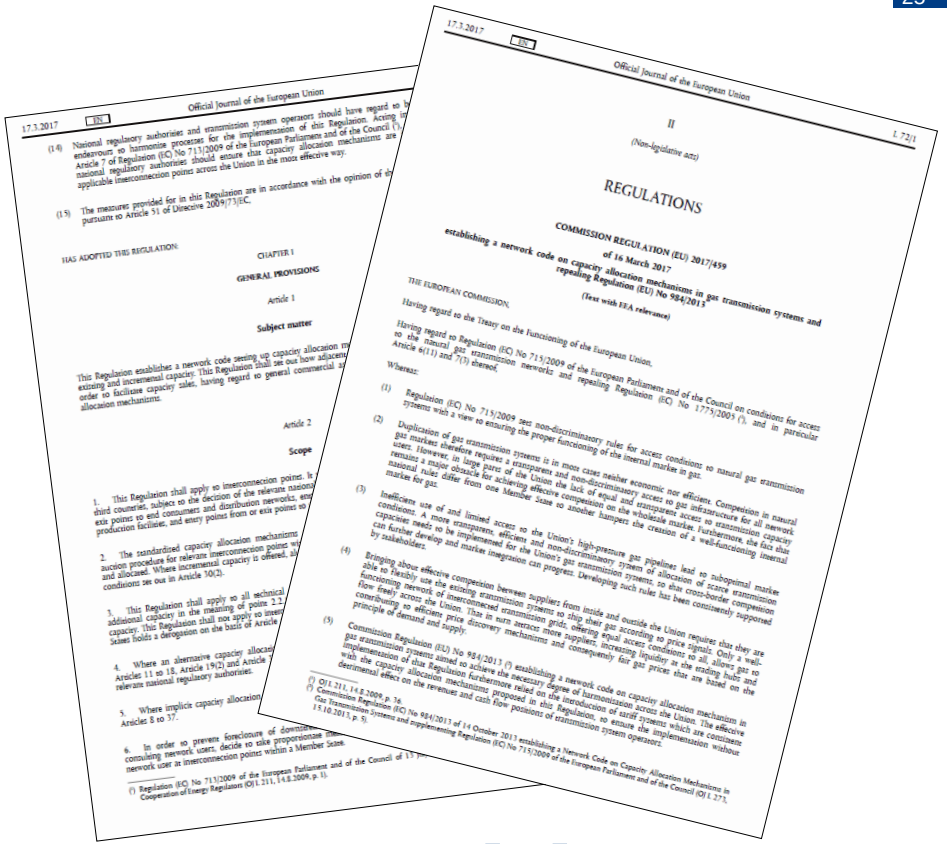
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(4) Bringing about effective competition between suppliers from inside and outside the Union requires that they are able to flexibly use the existing transmission systems to ship their gas according to price signals. Only a well-functioning network of interconnected transmission systems so that gas can flow freely across the Union. This in turn requires more suppliers, increasing liquidity at the trading hubs and contributing to efficient price discovery mechanisms and consequently fair gas prices that are based on the principle of demand and supply.

(5) Commission Regulation (EU) No 984/2013 (2) establishing a network code on capacity allocation mechanisms in gas transmission systems is aimed to achieve the necessary degree of harmonisation across the Union. The effective implementation of that Regulation furthermore relied on the introduction of tariff systems which are cost-reflective with the capacity allocation mechanisms proposed in this Regulation, so ensure the implementation without detrimental effect on the revenues and cash flow positions of transmission system operators.

(1) OJ L 211, 14.8.2009, p. 36.
(2) Commission Regulation (EC) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council (OJ L 273, 15.10.2013, p. 5).

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Interruptible Capacity

Yearly, quarterly, monthly products

- Optional offer
- Conditions. Firm capacity is:
  a) Sold at an auction premium
  b) Sold out
  c) Not offered

DA products

- Obligatory offer
- Conditions. Firm capacity is:
  a) Sold out
  b) Not offered

→ Allocated via auction process

Within-day products

- Obligatory offer
- Only offered if firm capacity is sold out

→ Allocated via over-nomination procedure

With the exception of within-day interruptible capacity, all dates for interruptible capacity auctions shall be detailed within the auction calendar

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Interruptible Capacity

Interruption lead-times

- To be defined by respective TSOs
- Default minimum lead-time 45 minutes after start of renomination cycle

Coordination of interruptions

- Order by timestamp of booking
- In case of identical ranking → pro-rata reduction

Reasons for interruptions

- Reasons have to be included in
  - Interruptible transport contracts, or
  - GTC

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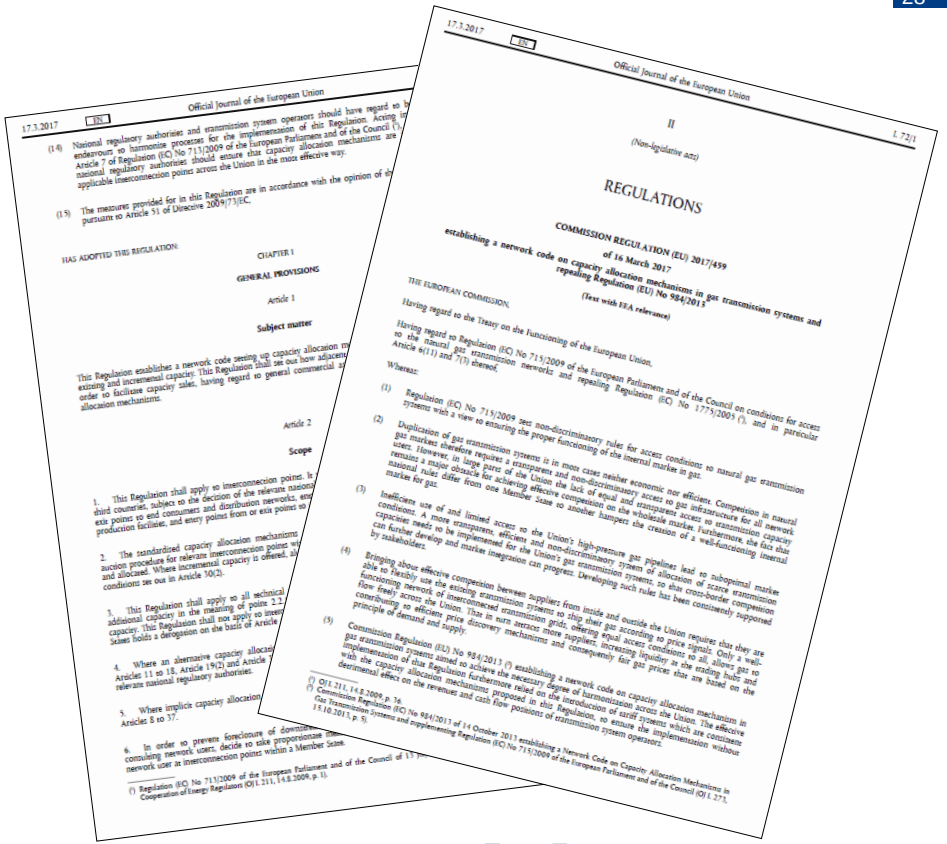
Subjects of NC CAM

1. General Provisions
2. Principles of Cooperation
3. Allocation of Firm Capacity Products
4. Bundling of Capacity at Interconnection Points
5. Incremental Capacity Process
6. Interruptible Capacity
7. **Capacity Booking Platforms**
8. Final Provisions



REGULATIONS

COMMISSION REGULATION (EU) 2017/459

establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013

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Capacity Booking Platforms

Platform

- One or limited number of joint platforms
- Web based
- Operated by TSO or via third party
- Rules for booking platforms:
  - Allocation acc. to NC CAM rules
  - Provide platform for secondary capacity
  - *Capacity at one (V)IP shall be offered at one booking platform*

→ Contractual agreement to use one platform for both sides of each (V)IP

PRISMA EUROPEAN CAPACITY PLATFORM

GSA Platform

RBP REGIONAL BOOKING PLATFORM

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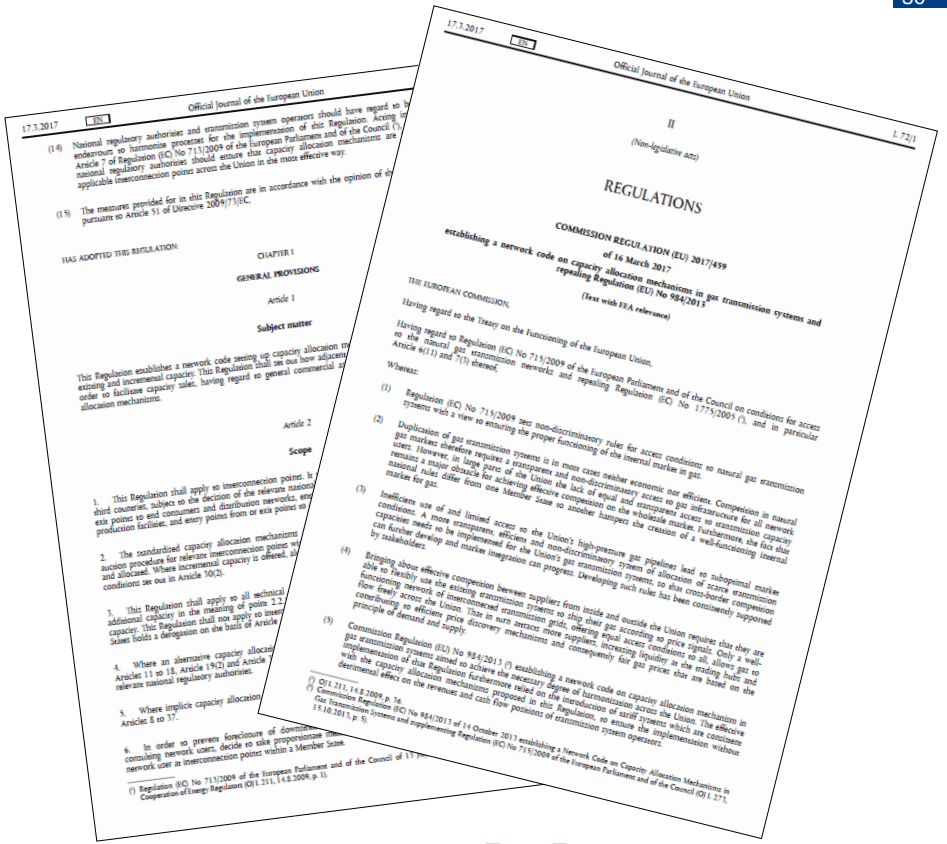
17.3.2017 EN Official Journal of the European Union

(14) National regulatory authorities and transmission system operators should have regard to the endeavours to harmonise processes for the implementation of this Regulation. Acting in accordance with Article 7 of Regulation (EC) No 713/2009 of the European Parliament and of the Council (1), national regulatory authorities should ensure that capacity allocation mechanisms are applicable interconnection points across the Union in the most effective way.

(15) The measures provided for in this Regulation are in accordance with the opinion of the committee established pursuant to Article 51 of Directive 2009/73/EC.

HAS ADOPTED THIS REGULATION:

CHAPTER 1

GENERAL PROVISIONS

Article 1

Subject matter

This Regulation establishes a network code setting up capacity allocation mechanisms for existing and incremental capacity. This Regulation shall set out how adjacent TSOs shall in order to facilitate capacity sales, having regard to general commercial and technical allocation mechanisms.

Article 2

Scope

1. This Regulation shall apply to interconnection points between two adjacent third countries, subject to the decision of the relevant national regulatory exit points to end consumers and distribution networks, entry points from production facilities, and entry points from or exit points to storage facilities.

2. The standardised capacity allocation mechanisms auction procedure for relevant interconnection points when and allocated. Where incremental capacity is offered, also conditions set out in Article 30(2).

3. This Regulation shall apply to all technical additional capacity in the meaning of point 2.2. capacity. This Regulation shall not apply to interconnection States holds a derogation on the basis of Article

4. Where an alternative capacity allocation Articles 11 to 18, Article 19(2) and Article relevant national regulatory authorities.

5. Where implicit capacity allocation Articles 8 to 37.

6. In order to prevent foreclosure of dominant consulting network users, decide to take proportionate network user at interconnection points within a Member State.

(1) Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 Cooperation of Energy Regulators (OJ L 211, 14.8.2009, p. 1).

17.3.2017 EN Official Journal of the European Union L 72/1

II

(Non-legislative acts)

REGULATIONS

COMMISSION REGULATION (EU) 2017/459

of 16 March 2017

establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 (1), and in particular Article 6(11) and 7(3) thereof,

Whereas:

(1) Regulation (EC) No 715/2009 sets non-discriminatory rules for access conditions to natural gas transmission systems with a view to ensuring the proper functioning of the internal market in gas.

(2) Duplication of gas transmission systems is in most cases neither economic nor efficient. Competition in natural gas markets therefore requires a transparent and non-discriminatory access to gas infrastructure for all network users. However, in large parts of the Union and non-discriminatory access to transmission capacity remains a major obstacle for achieving effective competition on the wholesale market. Furthermore the fact that national rules differ from one Member State to another hampers the creation of a well-functioning internal market for gas.

(3) Inefficient use of and limited access to the Union's high-pressure gas pipelines lead to suboptimal market conditions. A more transparent, efficient and non-discriminatory system of allocation of scarce transmission capacities needs to be implemented for the Union's gas transmission systems so that cross-border competition can further develop and market integration can progress. Developing such rules has been consistently supported by stakeholders.

(4) Bringing about effective competition between suppliers from inside and outside the Union requires that they are able to flexibly use the existing transmission capacity to ship their gas according to price signals. Only a well-functioning network of interconnected transmission systems so that gas can flow freely across the Union. This in turn requires more transparent, increasing liquidity at the trading hubs and contributing to efficient price discovery mechanisms and consequently fair gas prices that are based on the principle of demand and supply.

(5) Commission Regulation (EU) No 984/2013 (2) establishing a network code on capacity allocation mechanisms in gas transmission systems aimed to achieve the necessary degree of harmonisation across the Union. The effective implementation of that Regulation furthermore relied on the introduction of tariff systems which are cost-reflective with the capacity allocation mechanisms proposed in this Regulation, so ensure the implementation without detrimental effect on the revenues and cash flow positions of transmission system operators.

(1) OJ L 211, 14.8.2009, p. 36.
(2) Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and Supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council (OJ L 273, 15.10.2013, p. 5).

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Final Provisions

Implementation monitoring

- ENTSOG has to assist ACER in its monitoring duties
- TSOs have to submit all relevant information to ENTSOG

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Subjects of NC CAM

1. General Provisions
2. Principles of Cooperation
3. Allocation of Firm Capacity Products
4. Bundling of Capacity at Interconnection Points
5. **Incremental Capacity Process**
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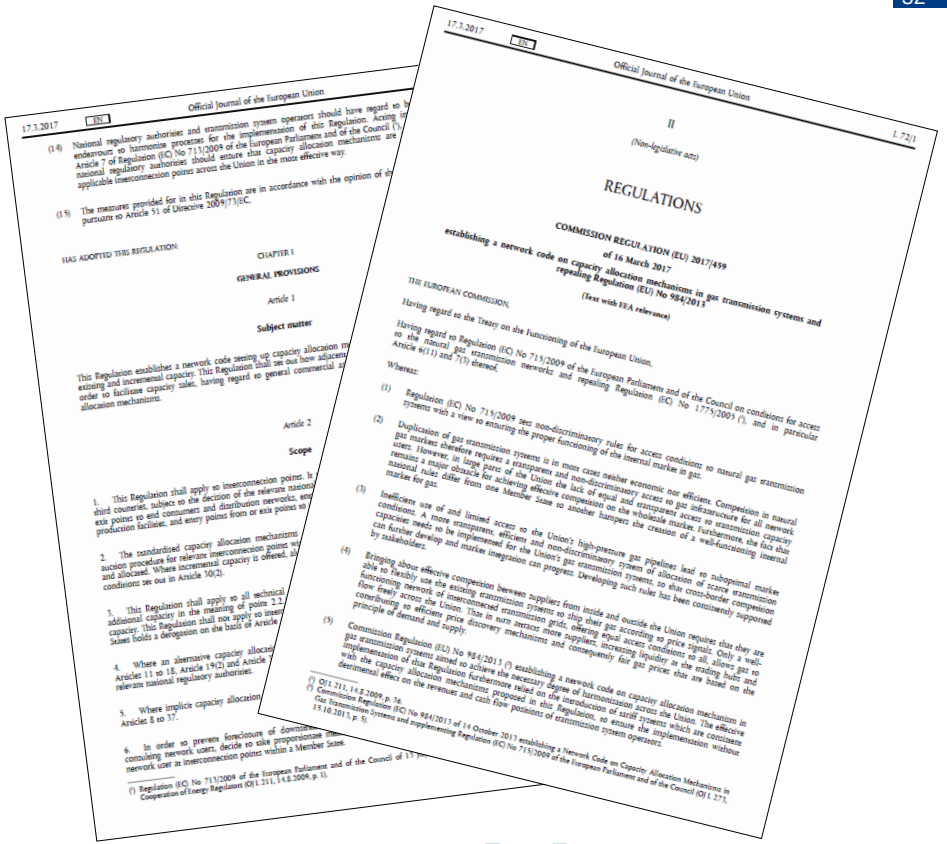
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HAS ADOPTED THIS REGULATION:

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2. The standardised capacity allocation mechanisms and auction procedure for relevant interconnection points which are subject to bundling and allocated. Where incremental capacity is offered, the standardised conditions set out in Article 30(2).

3. This Regulation shall apply to all technical capacity, including incremental additional capacity in the meaning of points 2.2. capacity. This Regulation shall not apply to interconnection points where a States holds a derogation on the basis of Article

4. Where an alternative capacity allocation Articles 11 to 18, Article 19(2) and Article relevant national regulatory authorities.

5. Where implicit capacity allocation Articles 8 to 37.

6. In order to prevent foreclosure of downstream consulting network users, decide to take proportionate network user at interconnection points within a Member States.

(1) Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 Cooperation of Energy Regulators (OJ L 211, 14.8.2009, p. 1).

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(1) OJ L 211, 14.8.2009, p. 36.

(2) Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and Supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council (OJ L 273, 15.10.2013, p. 5).

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Incremental Capacity Process

What is incremental capacity?

“a possible increase in technical capacity that may be offered based on investment or long term capacity optimization and subsequently allocated subject to the positive outcome of an economic test”

- At existing IPs
- By establishing a new IP
- A physical reverse flow capacity at an IP, which has not being offerd before

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Incremental Capacity Process

Objective of Incremental Proposal

"to stablish a market-base procedure to satisfy all economically reasonable and technically feasible demand for capacity"

- Jointly with stakeholders, ENTSOG developed a standardised and coherent process for the realisation of incremental capacity
- Core is a harmonised and simultaneous assessment of demand for incremental capacity across the EU
- Intensive cooperation and coordination between TSOs, NRAs and network users

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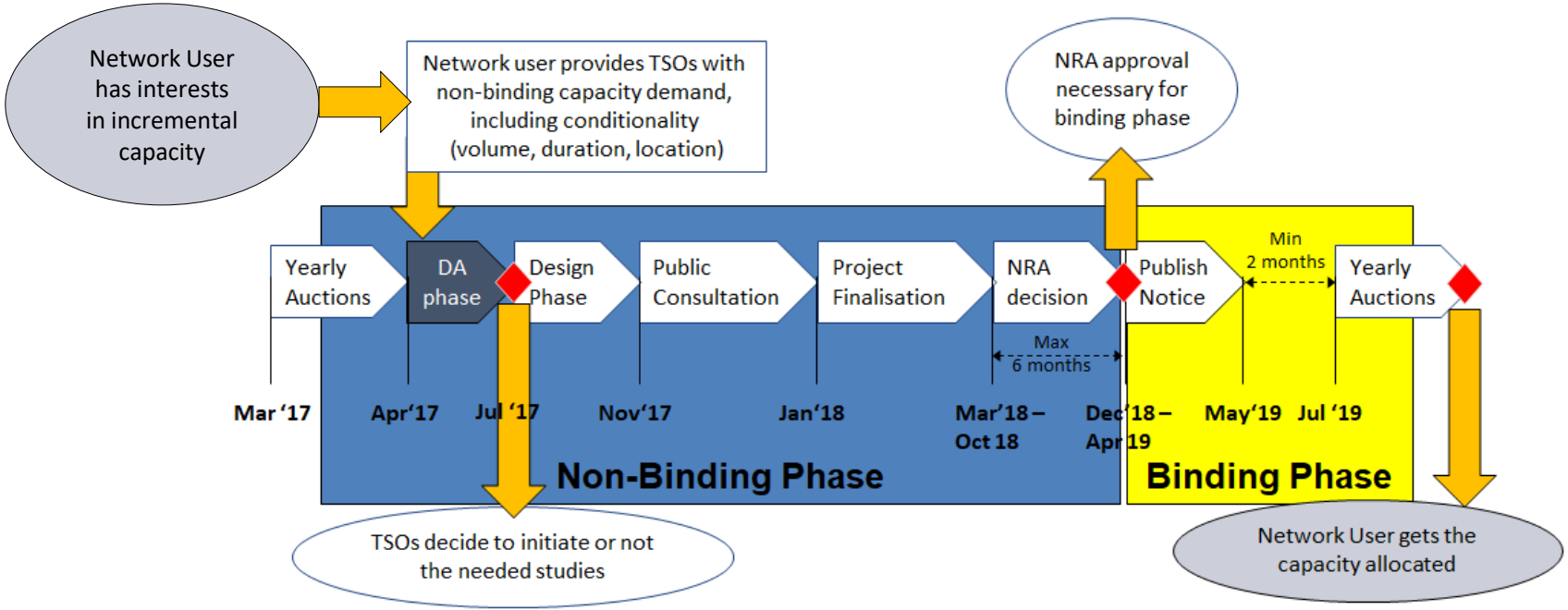
Incremental Capacity Process

Timeline



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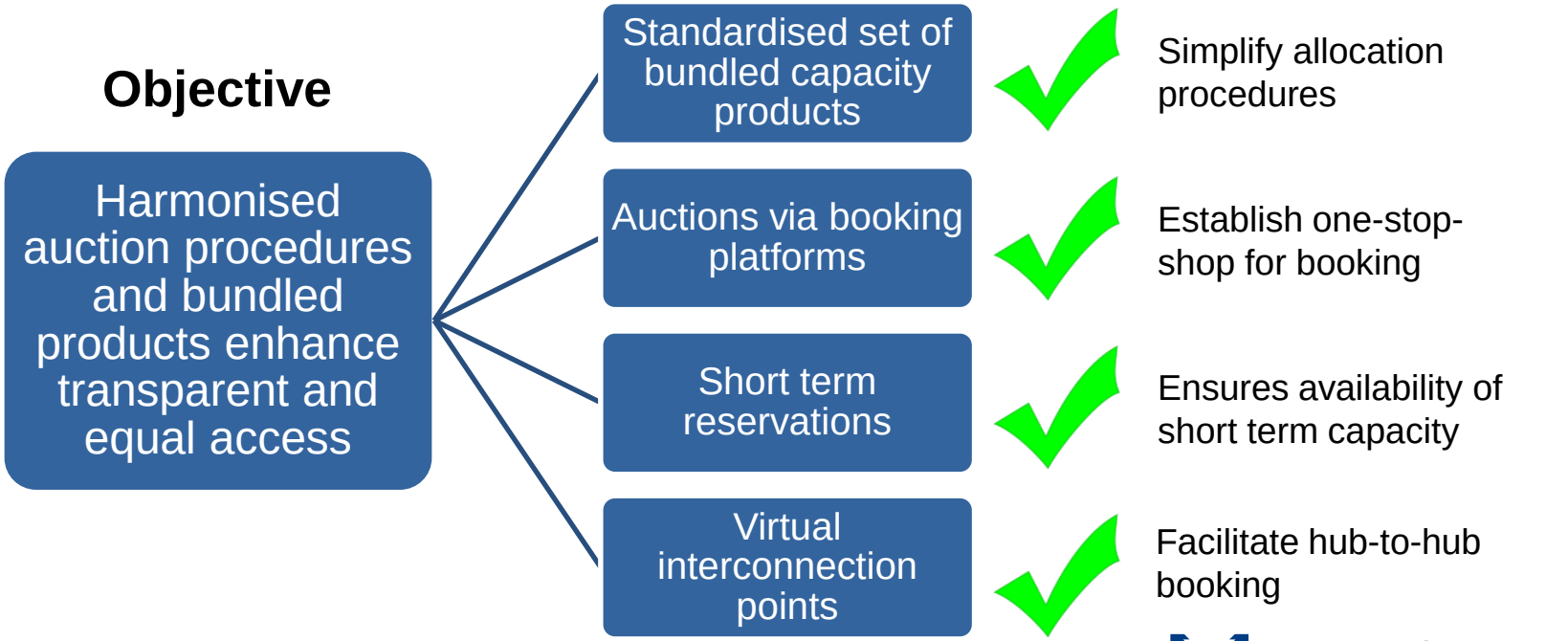
Wrap-up

Wrap-up

Capacity Allocation Mechanisms, applicable since 11/2015



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Thank you very much

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