



NATURAL GAS TRANSMISSION
MEMBER OF THE MOL GROUP

Survey Results

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

11 March 2016



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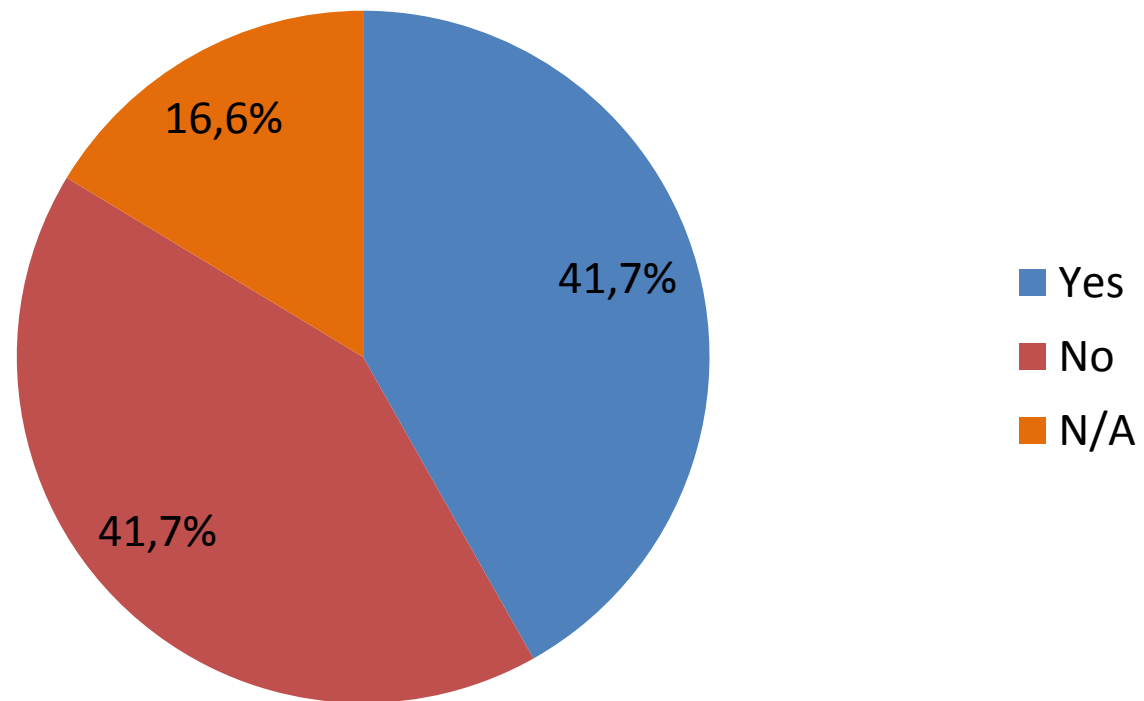


Respondents

A total of 13 responses were received from the following entities:

- Cross-Inergy Zrt.
- CYEB Energy Trading Llc.
- Danske Commodities A/S
- E.ON Energie România SA
- EconGas GmbH
- European Federation of Energy Traders
- Exxon Mobil Exploration and Production Romania Limited
- IFC Energy Ltd.
- Kárpát-Gáz Kft
- MET Magyarország Zrt.
- Nitrofer GmbH
- OMV Gas & Power GmbH
- OMV Petrom Gas S.R.L

Question 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? (12 responses)



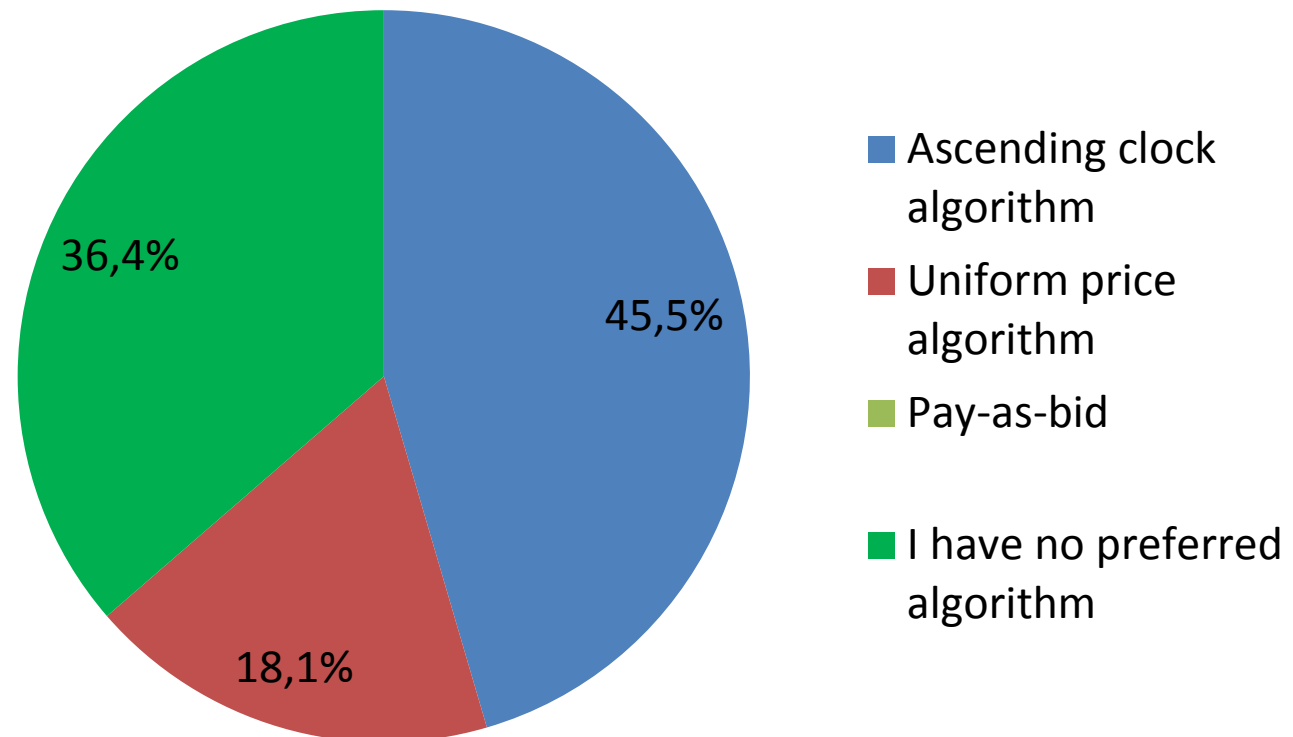


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MEMBER OF THE E.ON GROUP

Question 1. If yes, which?

- **Answer No. 1:** „Method No. 3”
- **Answer No. 2:** „Taking account of Article 20d (Principles for alternative capacity allocation mechanisms) of the NC CAM we deem the auction procedures stipulated in NC CAM as not suitable because the RO-HU-AT incremental capacity project involves more than two entry-exit systems because capacity bids will likely be requested along several interconnection points during the allocation procedures, and because users may have a need for conditional capacity bids to be allowed during the allocation procedure. Therefore we support that alternative capacity allocation mechanisms should be applied as foreseen under Article 20d (2) of the ACER Recommendation 04-2015 on the amendment to the Network code on CAM. Method No. 3 – as described in this joint public consultation on Capacity Allocation Concepts in the RO-HU-AT Open Season Procedure – contains key elements which are conducive to a potential successful outcome of an Open Season procedure.”
- **Answer No.3:** „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 outbooking 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 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, and conclude that as an alternative allocation methodology.”

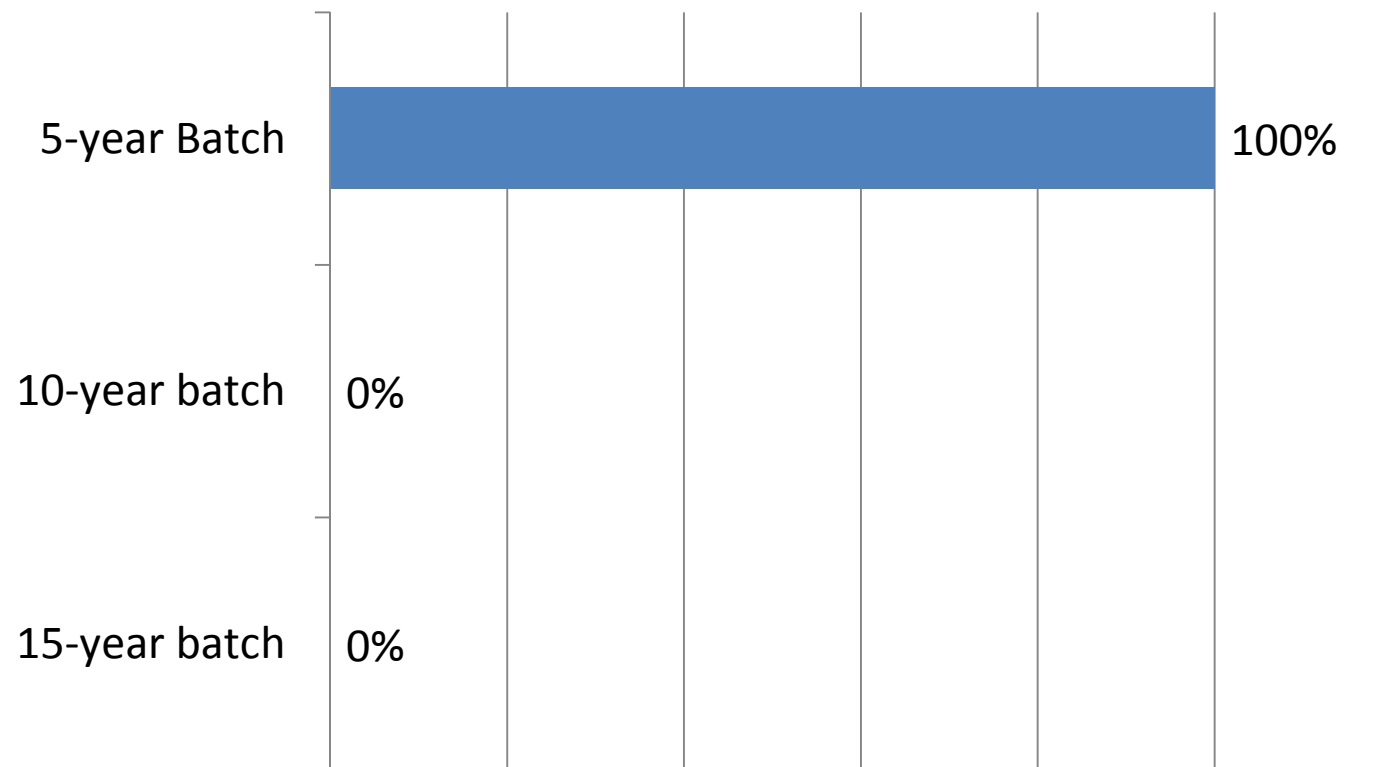
Question 2. Do you have any preference between auction algorithms, e.g. ascending clock, uniform price, or pay-as-bid?
(12 responses)



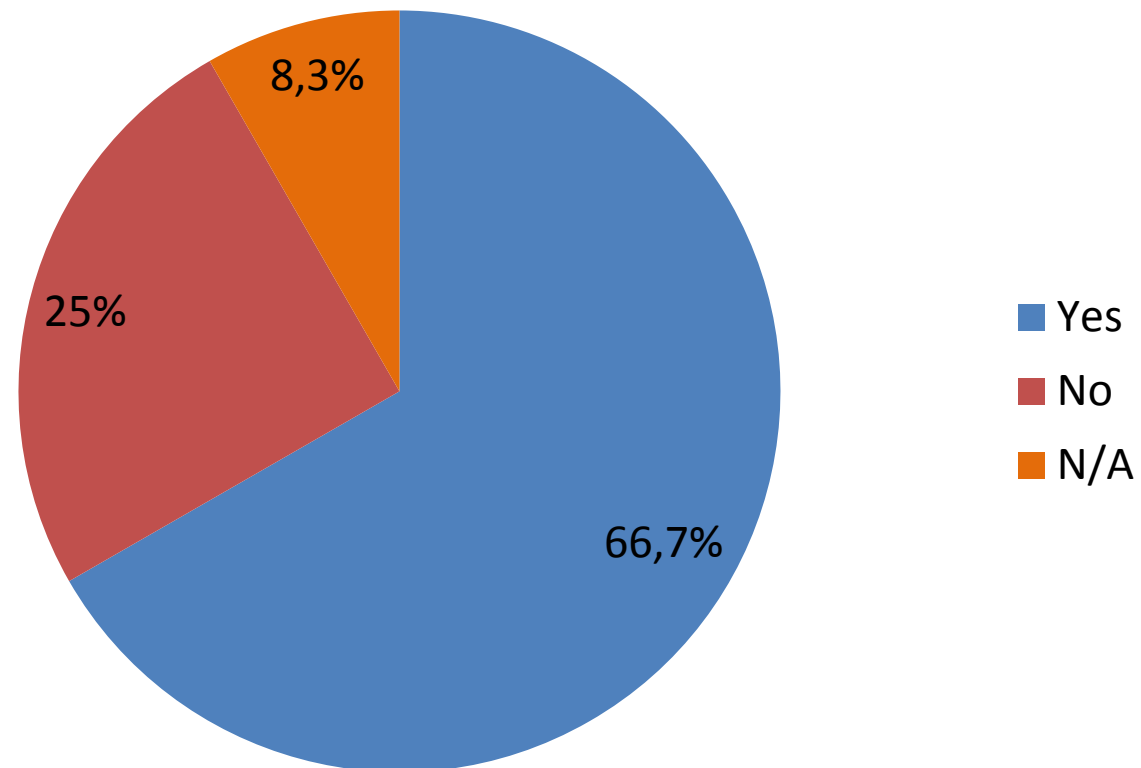
Question 2. If you have any preference, please state your reason.

- **Answer No 1:** *„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.”*
- **Answer No. 2:** *„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.”*
- **Answer No. 3:** *„Generally, same as PRISMA algorithms.”*
- **Answer No. 4:** *„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.”*
- **Answer No 5:** *„The ascending clock mechanism is the most transparent of the three listed auction algorithms as it provides information about the aggregated industry demand for capacity at a given Interconnection Point after each bidding round. This better enable bidders to assess potential scarcity and adjust their bids. This tentatively prevents over- or underpayments.”*

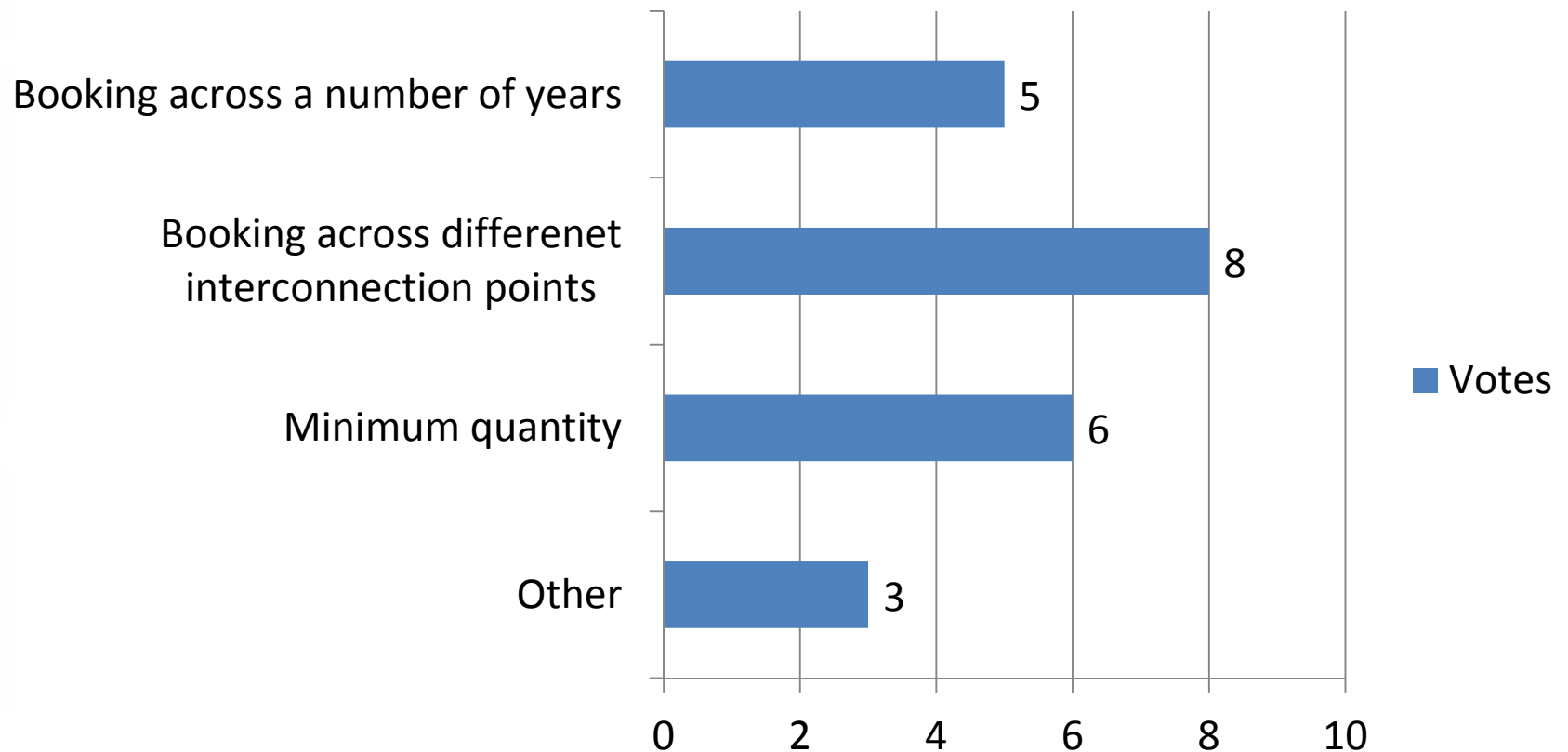
Question 3. In case of Method No. 2, which batch of single-year products would you prefer, e.g. 5, and/or 10 and/or 15 years? (12 responses)



Question 4. Would you allow conditional bidding during the open season procedure? (12 responses)



Question 5. If conditional bidding during the open season procedure is allowed, which type of conditionality would you deem necessary? (12 responses)





Question 5. If other, please specify!

- **Answer No. 1:**

- „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 existing 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) deteriorate significantly in one of the three countries involved.”

- **Answer No. 2:** „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).”

Question 6. Would you prefer ex ante or ex post conditionality in the open season's capacity allocation design? Please state your reasons.

- **Answer No. 1:** *„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.”*
- **Answer No. 2:** *„We would prefer ex ante conditionality.”*
- **Answer No. 3:** *„This is not clear, we would like to set the conditions before the auction.”*
- **Answer No. 4:** *„We believe no conditions should be imposed in the capacity allocation concept in the open season. Any interested party should have access to the targeted capacity products; however, some measures should be taken so as to avoid capacity hoarding.”*
- **Answer No. 5:** *„We would prefer ex ante conditionality. Ex post conditionality can result lower level of valid bids.”*
- **Answer No. 6:** *„Ex ante conditionality. Conditionalities must be set up in advance of the auctioning process.”*
- **Answer No. 7:** *„We believe that both forms of conditionality have their place in the design of a capacity allocation process as they serve different purposes: Ex ante conditionality is a tool to allow bidders to tailor their bid better to their capacity needs thereby improving the chance of a successful auction result and a confirmation of preliminary bids by the bidders. Ex post conditionality is a tool to allow bidders to step back from their bids during an auction (i.e. their preliminary bids) thereby better enabling bidders to enter into related commitments subsequent to the capacity auction and better manage back-to-back risks as described above.”*

Question 7. Do you have any comment on the above mentioned Methods?

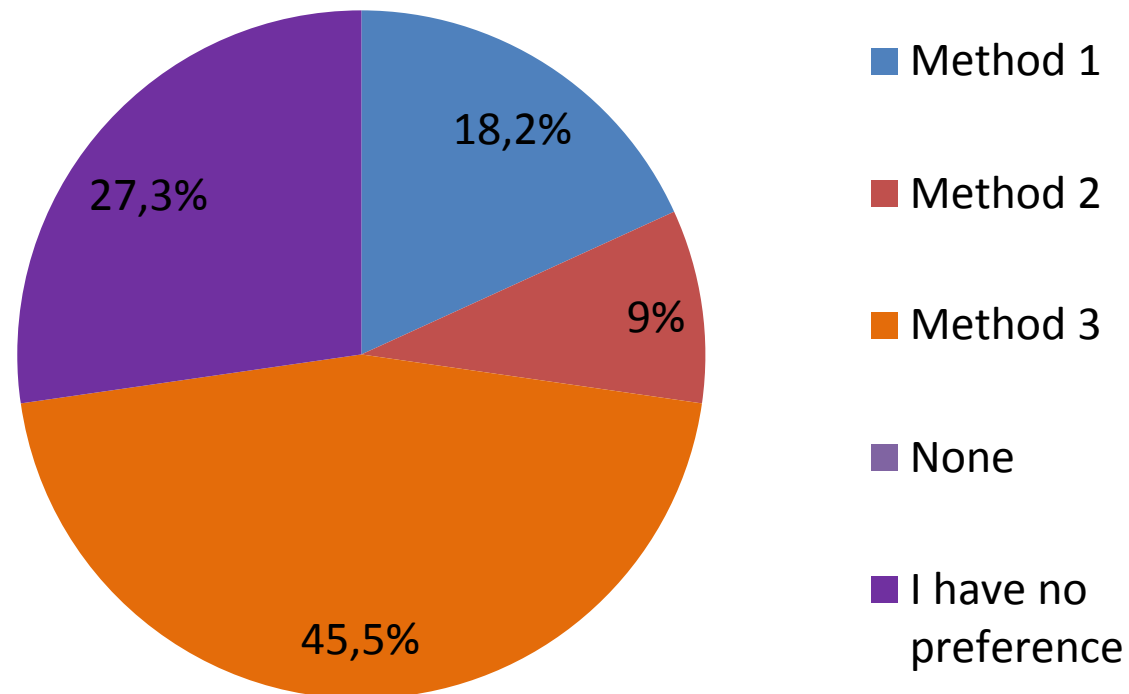
- **Answer No. 1:** *„We would like to understand if the booking platform will be the same for both Inter-connection Points. Please clarify how the principle of predictable and stable tariffs is reflected in the offered capacity allocation methodologies. Predictable and stable tariffs boost commercial 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?“*
- **Answer No. 2:** *„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?“*
- **Answer No. 3:** *„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)“*
- **Answer No. 4:** *„To Method No. 3. : In case of overbooking existing long term capacities should be taken into consideration as well.“*

Question 7. Do you have any comment on the above mentioned Methods?

- **Answer No. 5:** *„In the current version of the market survey, the description of the premises underlying each of the 3 capacity allocation methods proposed is rather vague. Before making any decision regarding the practical allocation method, a discussion session should be held with the interested parties in a potential capacity booking procedure to be attended by the representatives of the TSOs and of the regulators.”*
- **Answer No. 6:** *„The design elements of capacity auction Method No. 3 seem to best address the requirements of potential bidders to manage risks associated with multiple, often significant related commitments such as sales and purchase arrangements or investment decisions.*
 - • *The ability to book yearly capacity products for each IP separately allows for the booking of capacity profiles tailored to the need of bidders thereby maximizing the capacity available to other bidders.*
 - • *The priority concept for highest bidder commitment ensures that individual bids in a given year and/or at only one IP do not potentially frustrate a successful outcome of an open season. Priority can be determined based on the contribution to the system operator’s cost recovery taking into account e.g. the product of the amount of capacity bidden for per year times the number of years.*
 - • *The definition of a date at which the preliminary bids become final and binding allows bidders to confirm their preliminary bookings thereby facilitating an iterative entering into commitments related to the capacity offered in the post season.*

Allow us to point out that upstream resource development investment projects require significant upfront investments and require access to a sufficiently sized market. Such significant investments are often partially and fully underpinned by a (chain of)long-term commercial arrangements including long-term sales of purchase agreements. These agreements typically are conditional upon availability of firm transportation capacity. Hence, the date at which a preliminary capacity booking under an open season procedure becomes final and binding must be carefully determined. Such a date should ideally be after final investment decisions have been taken and/or long-term commercial arrangements have been entered into. However, the corresponding open season procedure should ideally be conducted before the above stated final investment decisions and/or long-term commercial arrangements to provide assurance to the parties that transportation capacity will actually be made available by the transmission system operator. Furthermore, when entering into the above mentioned capacity transportation arrangements potential risks from transportation tariffs should be transparent and options to minimize investor risks should be available such as the offering of „stable tariffs” for bookable capacity.”

Question 8. Would you have a preference for any of the above mentioned Methods? (11 responses)



Question 8. If you have any preference, please state your reasons.

- **Answer No. 1:** *„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.”*
- **Answer No. 2:** *„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.”*
- **Answer No. 3:** *„This is not clear, which method refers to which. Generally, we prefer to have PRISMA type capacity procedures.”*
- **Answer No. 4:** *„Based on the information we currently have available from Transgaz, the reason underlying our option as the most feasible one is the fact that such option allows the participants to withdraw the bid by a predefined date and also the fact that, if the minimum capacity amount is not reached, preliminary and unbinding capacity bookings will be cancelled.”*
- **Answer No. 5:** *„Capacity is allocated to the bidders who make the highest commitment.”*
- **Answer No. 6:** *„We support method 2, but only under the provisions we already mentioned under question 5.”*
- **Answer No. 7:** *„We have a preference for Method No. 3 combined with the ascending clock auction method and the types of conditionality listed under question 5. We suggest that the period in which the open season procedure takes place and the date at which the preliminary bookings need to be finally confirmed and become binding are carefully determined following dialogue with stakeholders.”*

Key Comments from the European Federation of Energy Traders

The EFET response did not fit the structure of the survey, therefore their key insights are provided below.

- *„A non-binding phase of an open season allowing market participants to express their indicative interest is key. This phase should be run on the basis of indicative tariffs and different capacity scenarios.”*
- *„During the binding phase we would favour a model that allocates capacity in 15 strips of yearly capacity and separately at each IP (total of 60 auctions).”*
- *„Capacity should be subject to a double conditionality to be requested by network users at the time of the bidding:*
 - *A booking should be deemed binding only to the extent a minimum number of years of capacity can be obtained;*
 - *A booking should be deemed binding only to the extent capacity at the other relevant IP can be obtained.”*
- *„Should commercial congestion occur capacity should be allocated primarily to those shippers with the overall highest net present value contribution. Should the commercial congestion remain capacity should be allocated on a first come first served option.”*
- *„Ascending clock algorithm with parallel bidding ladders should be used to allocate the capacity corresponding to different capacity levels.”*
- *„All additional capacity should be allocated on a bundled basis.”*
- *„At least 20% of the overall capacity available at each relevant IP should be set aside for short term capacity booking.”*