part of eex group

ACER Consultation on capping multipliers for day-ahead and within-day capacity products: EEX´s response

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1. Preliminary remarks

EEX would like to thank for the opportunity to express views on capping multipliers for day ahead (DA) and within-day (WD) capacity products on the gas transport infrastructure. From the perspective of EEX, there is an increasing need for flexible short-term capacity bookings and cross-border trading. To facilitate this, fees for DA and WD-bookings should be harmonized across Europe through harmonized multipliers and at an overall low level.

2. EEX´s response

Topic 1: Changes in booking behaviour

1. **What role do short-term capacity products (DA and WD) play in your capacity booking strategy (balancing activities, market arbitrage, supply profiling…)?**

Short- term trading has become more relevant over the past years. This development is caused by a decreasing importance of long-term delivery contracts on the one hand side, and an increasing need for flexibility spreading from the electricity market to the gas sector, on the other.

On the background of the European decarbonization and climate goals, the gas sector is likely to undergo even bigger changes over the next years. It will integrate decarbonized and green gases and gas will, much more than today, serve as a flexibility source to the entire energy system. This will be reflected in a further increasing need for short-term booking. To fulfill that role on a market-basis, short-term capacity bookings need to be economically viable and thus possible at a reasonable cost.

Furthermore, short-term capacity products are crucial for improving market integration and market price convergence between neighboring markets. Traders use short-term capacity products to trade the price spreads between neighboring markets as long transport costs do not exceed the price differences. Hence, low multipliers for short-term transport capacity products for DA and WD lead to low transport costs and supports gas market integration, but also the utilization of existing gas infrastructure for market-price driven cross-border gas transports is optimized.

2. **Have you observed that DA and WD multipliers impact booking behavior and booking strategies (could be your own booking strategy or those of other market players)? For instance, have you observed that low DA and WD multipliers can shift contracted capacity from yearly capacity products to shorter-term capacity products?**

- (●) Yes
- ( ) No
- ( ) Other

2.1 Please explain your reasoning:

In general, high DA and WD multipliers undermine the profitability of cross border short-term trading, hamper market integration and are likely to lead to a decreasing level of trading activity and flexibility provision on the short end of the curve.

In more detail, since January 2020 we observed within a pilot project for Implicit Transport Capacity Trading via EEX at the Austrian/German border that high multipliers for DA and WD hampered the respective “Implicit Allocation Operator (IAO)” to sell more DA and WD cross-border transport capacities between the German and Austrian markets. This leads to a lower utilisation of gas transport capacities and to lower revenues for the IAO.

Topic 2: Impact on the transmission services revenue and its recovery

3. Have you observed that DA and WD multipliers impact transmission services revenue and its recovery? In particular, could low DA and WD multipliers induce under-recoveries of TSOs' revenues on a transitory basis (in most systems such under-recoveries are systematically rolled to next years by revenue reconciliation mechanisms)?

- ○ Yes
- ○ No
- ◉ Other

3.1 Please explain your reasoning:

Tariffs for short-term capacity-booking need to be high enough to allow for cost recovery but should not discriminate short-term bookings against long-term bookings. In general, it is even financially interesting for TSO's to sell short-term transport capacity products because these are, due to the multiplier, higher priced than long-term capacities.

Example of NCG (Germany):

Short term allocation: 10 MW x 2 (Multiplier for NCG WD transport) x 3.77 €/MW/a x 8760 h/a = 660,504 €

Long term allocation: 10 MW x 1 (Multiplier for NCG annual transport) x 3.32 €/MW/a x 8760 h/a = 330,252 € → approx. half of revenues from short-term allocation

TSOs face higher commercial risk to not sell short-term transport capacities if the market-price differences do not encourage demand for cross-border gas transport capacities. However, a lively activity in short-term capacity bookings improves market efficiency by avoiding contractual bottlenecks as only those transport capacities are sold to and paid on the market that are really needed.

Topic 3: Differences between the level of transmission tariffs applicable for two consecutive tariff periods

4. Have you observed significant changes in DA and WD multipliers in the 2016-20 period?

- ◉ Yes
- ○ No
- ○ Other

4.1 Please explain your reasoning:

In Germany, a multiplier of 1.4 for WD and DA transport capacities used to be applied until end of 2019. From 2020 on the multiplier for WD was raised to 2.0.

5. Have you observed that changes in multipliers have led to changes in the tariffs applicable for other capacity products (e.g. yearly capacity product)?

- ○ Yes
- ◉ No
- ○ Other

Topic 4: Cross-subsidisation between network users having contracted yearly and non-yearly standard capacity products

6. Have you observed that DA and WD multipliers have placed or could place in the coming years excessive costs on short-term capacity compared to the costs recovered through yearly capacity products?

- ◉ Yes
- ○ No
- ○ Other

6.1 In the affirmative, how could it affect competition and market integration?

Please refer to our response to 2.1.

6.2 Please explain how you evaluate if costs for short-term bookings are excessive compared to yearly bookings and on what criteria you base your argument.

Please see the example mentioned under 3.1.

Topic 5: Impact on cross-border flows

7. Have you observed that DA and WD multipliers have impacted or could impact in the coming years cross-border flows? Consider, in particular, situations where high DA and WD multipliers may prevent the use of available cross-border capacity or where high multipliers for DA and WD capacity product may negatively affect the correlation between gas prices in neighbouring hubs.

- ◉ Yes
- ○ No
- ○ Other

7.1 Please explain your reasoning:

Differing levels of multipliers harm cross-border trading. With an energy system increasingly in need of flexibility and the gas sector being an important flexibility provider, diversification becomes an important pillar to balance the entire European energy system. Unlevel multipliers lead to distortions and are likely to undermine the effectiveness of cross-border trading. Low and harmonized levels of multipliers allow for exploiting even small price differentials between EU member states and through that, for making full use of the existing transport capacity.

Please refer to our response to 2.1.

8. Have you observed that DA and WD multipliers can be a market barrier (for instance by granting an advantage to holders of long-term bookings)?

- Yes
- No
- Other

8.1 Please explain your reasoning:

Short-term multipliers are likely to be a market barrier where competitors do not enter a market if they face unfavourable short-term transportation costs compared to established market parties with long-term bookings.

Conclusion

9. From your perspective, what would be the advantages and disadvantages of capping DA and WD multipliers at 1.5 across Europe?

Capping the DA and WD multiplier at 1.5 would lead to a certain degree of European harmonisation and as such supports cross-border short-term trading. (Please refer to our previous statements).

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