

## 23<sup>rd</sup> Meeting of the European Gas Regulatory Forum

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European Federation of Energy Traders

### Congestion Management:

### Designing effective oversell & buy-back mechanisms

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# Designing an oversell & buy-back scheme

## *Key objectives*

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- ***Ensuring economic efficiency:***

**Overselling & buy-back** ⇒ **mechanisms for solving contractual congestion without reducing firm capacity rights for shippers**

- ***Ensuring that capacity is offered as a proper firm right:***

**Proper firm capacity** ⇒ **a prerequisite for a well-functioning entry/exit regime**

# Designing an oversell & buy-back scheme

## *Key principles*

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### ■ **Appropriate baseline**

- Setting a baseline reflecting the maximum technical capacity available at an interconnection points
- Implementing a symmetrical risk-sharing mechanism to provide the right incentives to set the baseline at the appropriate level
- Cost-sharing: relevant only for capacity sold above the baseline

### ■ **Transparency**

- Obligation on TSOs to report oversell & buy-back revenues on an annual basis
- Publication of annual TSO revenues from the scheme
- NRA approval of the baseline
- ACER audit of the way the baseline is set

### ■ **Progressive implementation from the short to the long term**

# Designing an oversell & buy-back scheme

## *Key principles [cont'd]*

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### ▪ **Overselling mechanism essentials**

- TSOs should not oversell capacity when they already know that they would need to buy it back
- Offers to oversell a short-term capacity product should normally be made by the TSO when longer-term capacity products have been sold out
- Offers to oversell short-term capacity should be integrated with the normal short-term capacity auctions

# Designing an oversell & buy-back scheme

## *Key principles [cont'd]*

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- **Buy-back mechanism essentials**

- ***Triggering buy-back:***

- Buy-back should not take place if TSOs have not sold more than the baseline capacity on the day
    - Buy-back should occur only after the interruptible capacity has already been interrupted

- ***Risk-sharing:***

- Sufficient incentive for TSOs to offer capacity for sale and to bear a fair share of the costs of buy-backs are needed
    - Cost-sharing should be of relevance *only* for capacity sold above the baseline
    - Locational balancing should not be used to avoid risk-sharing

- ***Cancelling buy-back within-day:***

- Clear criteria for emergency situations in which cancellation would be possible should be established

# Thanks for your attention

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