

**Report on analysis of responses**  
**to the**  
**Capacity Allocation Mechanisms (CAM) Network Code Consultation**

**Please note:** this report covers ENTSG's analysis of responses and does not indicate any assessment of ENTSG's view as to the final network code proposal. The opinions expressed in this document are those of respondents to the draft CAM NC consultation and not those of ENTSG.

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## A. Introduction

On 21 June 2011, ENTSOG published the draft network code (NC) on Capacity Allocation Mechanisms, and launched a market consultation which closed on 3 August 2011.

In order to ensure that the final NC is robust, workable and supported by the market, and in order to fulfil its legal obligations, it is important that ENTSOG take full account of all consultation responses. To facilitate this, the team mentioned at the bottom of this page carried out a comprehensive analysis of consultation responses throughout August 2011.

This report sets out the results of the analysis. It is intended to provide an accessible summary of market opinion on the issues raised in the consultation responses, and should be read alongside the full responses themselves, which are available on the ENTSOG website. Within ENTSOG, the report will form a key input to the discussions of the Capacity Working Group and its specialist sub-groups during preparation of the final NC.

Respondents' views are set out as they were provided to ENTSOG. This report does not offer any view on the merits of these arguments.

This document will eventually form the basis for a 'consultation response report', which will be published alongside the final NC. The consultation response report will set out the decisions taken by ENTSOG in preparing the final NC, together with an explanation of the consideration that we have given to the views of the market (together with other important factors including the constraints faced by TSOs) when taking these decisions.

This analysis report first sets out how ENTSOG carried out the analysis of consultation responses, and gives an overview of the number and type of responses received. Sections D-J of this document then examine each of the key areas covered by the consultation:

- Network code change process and implementation
- Capacity products
- Auction algorithms
- Bundling and the sunset clause
- Interruptible capacity
- Tariff issues
- Other issues.

The following people have contributed to this report by carrying out analysis of responses, contacting companies to seek clarification of their responses, and checking the work of others: Charlotte Besnier, Richard Loukes, Henrik Schultz-Brunn, Oliver Altenhoff, Johannes Heidelberger, Thomas L'Eglise, Mark Hobbelink Wiekens, Cecilia Ogle, Marco Gazzola, Paolo Di Benedetto, Thomas Huerre, Nicolas Terracol, Maximilano Miglio, Frank Roessler and Heather Glass.

## B. Methodology

The analysis of consultation responses was carried out in three stages:

1. *Initial analysis*: each response was read and the answers to each consultation question were summarised. Areas where responses were unclear were identified.
2. *Further analysis*: responses were further examined to draw out the arguments raised for different positions (as opposed to simple statements of position). Respondents were contacted to seek further clarification on areas identified as part of stage 1.
3. *Checking*: ENTSOG adopted a “four eyes” approach under which all outputs from stages 1 and 2 were checked by someone from a different regime to the analyst who carried out the original work, in order to reduce the risk that these outputs could be skewed by the unconscious biases of individual analysts.

All responses were treated equally regardless of the type, nationality, size or any other characteristic of the respondent, with two exceptions:

- The views of associations have been identified separately from those of individual respondents in a number of areas. This will allow these views to be given greater prominence during later decision making processes, if the overall view of the market is not clear and if the association presents a clear position. ENTSOG welcomes responses from associations as they represent the agreed position on a number of subjects and thus avoid the need for all of the members to respond individually.
- Where two or more companies under common ownership provided identical or virtually identical responses to the same question, they have been treated as a single response when counting the number of respondents who support a particular position. This is to avoid such responses skewing the overall results.

When reading this report, it is important to take the following points into account:

- The numbers in favour of or against a particular position should not be taken as a definitive guide to the market’s opinion. For example, a number of respondents may have decided to submit their views collectively via an industry organisation rather than responding individually.
- Similarly, the number or strength of arguments put forward may not on its own provide an accurate guide to the views of the market. Those who do not support the option presented in the draft NC as the preferred way forward may be more likely to present strong arguments than those who do.
- An examination of the above two factors together is likely to be the most effective way to take full account of the market’s views.

## C. Overview of consultation responses

*Table 1: Type of respondents*

<b>Overall responses received</b>	<b>56</b>
European associations	8
National associations	6
Network users	37
End users	5

- 4 answers were almost identical responses received from companies under common ownership
- Responses are available on the ENTSOG website
- 1 confidential response has not been published

## D. Network code change process and implementation

This and the following sections first give an analysis of responses in relation to certain key issues on which large numbers of respondents commented, then provide a summary of other issues raised in the relevant area.

### **Summary**

- D.1.1 – D.1.3: A “lighter” change process is, in principle, strongly favoured, but there is little agreement on the topics to be covered by such a change process. The market should be consulted further about this classification
- D.1.4: Any change process must fully involve the market
- D.2: The CAM NC must contain a clear timescale for its implementation, as well as for the modification of the NC and any associated handbooks. Interim period requested by some respondents
- D.3: Some respondents request exemption from auctions

### D.1 Lighter change process

#### **D.1.1 A “lighter” change process is, in principle, strongly favoured**

There was a strongly positive response to the suggestion of a “lighter” change process, with 36 respondents arguing in favour of such a process for certain topics and only 5 against.

Arguments in favour included:

- A change process separate from Third Package process is appropriate
- Need to preserve some flexibility to evolve easily in the future
- Strong wish of market players to have the right to initiate modifications (as already foreseen by Regulation 2009/715).

Arguments against included:

- Comitology is an appropriate process for all changes
- Difficulty in making binding rules other than through a full comitology process
- Operational matters such as lead-times and change of operational details should be handled within the network code for Interoperability.

#### **D.1.2 However there currently appears to be little agreement on the topics to be covered by such a change process**

Many respondents mention that a lighter change process might be appropriate for smaller or more technical issues, but among those respondents giving more specific views, there is no consensus on the exact topics that should be covered. Responses mention, for example:

- IT communication standards only
- Should be based on existing standard like Easeegas, Edigas when available
- Detailed rules, where it has been proven that it is not possible to include these rules in the NC
- Capacity products and auctions design

- Omissions or ambiguities of CAM NC to be modified through light change process
- Auction calendar, rules
- Capacity products adjustments
- Other responses mention: technical aspects, operational aspects, limited impact issues, non-essential aspects, practical organisation, domains with no material impact, outcomes of "learning by doing".

#### **D.1.3 The market should be consulted further about the topics to be covered by an alternative change process**

- 22 respondents request market consultation for classification and agreement of short change process (key principles in CAM NC and technical aspects in handbook, plus proposal from EC and approval of authorities).
- Four respondents requested that the classification of issues into those appropriate for a full or lighter change process should be published as part of the final network code.

#### **D.1.4 Any change process must fully involve the market**

A large number of respondents provided views on an appropriate alternative change process. Most of these respondents agreed that stakeholders should be fully consulted as part of this process. Specific comments included:

- 12 respondents requested regular (annual) reviews
- 13 respondents made proposals for a "lighter" change process, with some suggesting specific timescales and/or responsibilities. Of these 13 responses, 5 responses recommend a minimum of 4 weeks of public consultation.
- Three UK organisations refer to an existing "self governance" process under which market players have the right to request modifications/amendments/changes which are then subject to regulatory approval. Respondents mentioning this process believe it is a pragmatic and efficient process ensuring the codes are able to evolve in a way supported by the market.
- More than 15 responses request that as part of the modification process, full argumentation, a cost/benefit analysis, impact assessments, alternatives and/or an ENTSG position should be made available to all stakeholders. One response requests exemption rights if the cost/benefit analysis shows that the implementation brings costs and no benefit for the local market considered.
- All responses recognise EC as the competent authority to propose a lighter change process for handbook issues, at least before the final CAM NC enters into force, or even before final CAM NC publication.
- Approval by ACER is a minimum but the handbook can be legally binding only if EC approves it. Handbook must also be referenced in final CAM NC to be binding on all stakeholders at once, TSOs included.

## **D.2 Code implementation timescales**

### **D.2.1 The CAM NC must contain a clear timescale for its implementation**

- Five respondents mentioned a need for the CAM NC to contain timescales for implementation and /or modification of the network code.

- Final deadline expressly requested (NC applicable to all market players, TSOs included):
  - 8 responses explicitly request a clear final deadline by which every stakeholder has to be in line with the CAM NC and handbook.
  - Most other respondents that address this issue implicitly state that every party has to be in line at a deadline to be fixed eventually, for example through the comitology process.
  - 4 responses expressly request a minimum time for IT implementation, since network users as well as TSOs will need to modify their systems to be in line with the new regime. 2 to 6 months was requested.
  - One respondent requested that implementation should happen on the 1st October of the year in which it is scheduled.

#### **D.2.2 The code should also contain timescales and instructions for modification of the NC and any associated handbooks**

2 responses expressly request to include in CAM NC and handbook a review schedule for each.

- NC as stable as possible and handbook under annual review
- NC to be reviewed 1 year after publication and 1 year after entering into force.

#### **D.2.3 Interim period supported by some respondents**

Three responses request an interim period before full implementation of CAM NC, or some flexibility in implementation timescales.

### **D.3 Network code change process and implementation: other issues**

#### **D.3.1 Exemption from auctions requested in certain cases**

- Three respondents believe that an exemption from auctions should be granted under certain circumstances, such as at uncongested points. These respondents believe that auctions will bring significant additional complexity and/or restrictions to the operations of network users (e.g. because capacity can only be purchased at certain times) without real benefits.
- Two responses emphasise that all rules should be fully harmonised across Europe and that any exemptions granted should be limited and temporary.



## E. Capacity products

### Summary

- E.1: Majority of users do not support draft NC proposal for auction of quarterly products only. A substantial proportion favour a solution integrating annual and quarterly products
- E.2.1: Auctions are preferred for within-day but a substantial minority favour FCFS
- E.2.2: Within-day: draft NC proposal for balance-of-day product and hourly auctions generally supported
- E.2.3: Suspension of day ahead/within-day auctions in case of low demand is not considered appropriate

### E.1 Type of long term capacity product

#### **E.1.1 Majority of users do not support draft NC proposal for auction of quarterly products only**

- 16 respondents including 4 associations are aligned with draft NC proposal;
- 31 respondents including 8 associations do not support draft NC proposal and would like annual (or longer) products to be somehow included;
- 6 respondents including 2 associations have no clear or explicit view.

Table 2 and Figure 1 below show the geographical distribution of views. Please note that ENTSOG has not carried out an assessment of the geographical scope of a company or organisation’s actual or future intended interest. The analysis below has been based on the address provided by each respondent. This analysis is for information only and does not affect how ENTSOG has treated any response.

Table 2

	Draft NC proposal		Preferred option for those who do not support draft NC proposal		No response/ not clear	Total
	Support	Do not support	Both annual and quarterly	Quarterly for nearby quarters, then annual		
EU	1	7	7		1	9
Austria	1	1	1		1	3
Belgium		1	1			1
Denmark		1		1		1
Finland					1	1
France		5	4	1		5

Germany	4	1		1		5
Greece		1	1			1
Ireland		1	1		1	2
Italy		4	3	1		4
Portugal		1	1			1
Spain		4	4		1	5
The Netherlands	3				1	4
UK	7	4	3	1		11
<b>Total</b>	<b>16</b>	<b>31</b>	<b>26</b>	<b>5</b>	<b>6</b>	<b>53</b>

Note: Four organisations that operate in individual Member States but that are part of the same group submitted identical responses to this question. For the purposes of this table they have been treated as a single response from an EU-wide organisation, hence the difference between the total number of responses reported here, and the total on page 5 of this report.

Figure 1

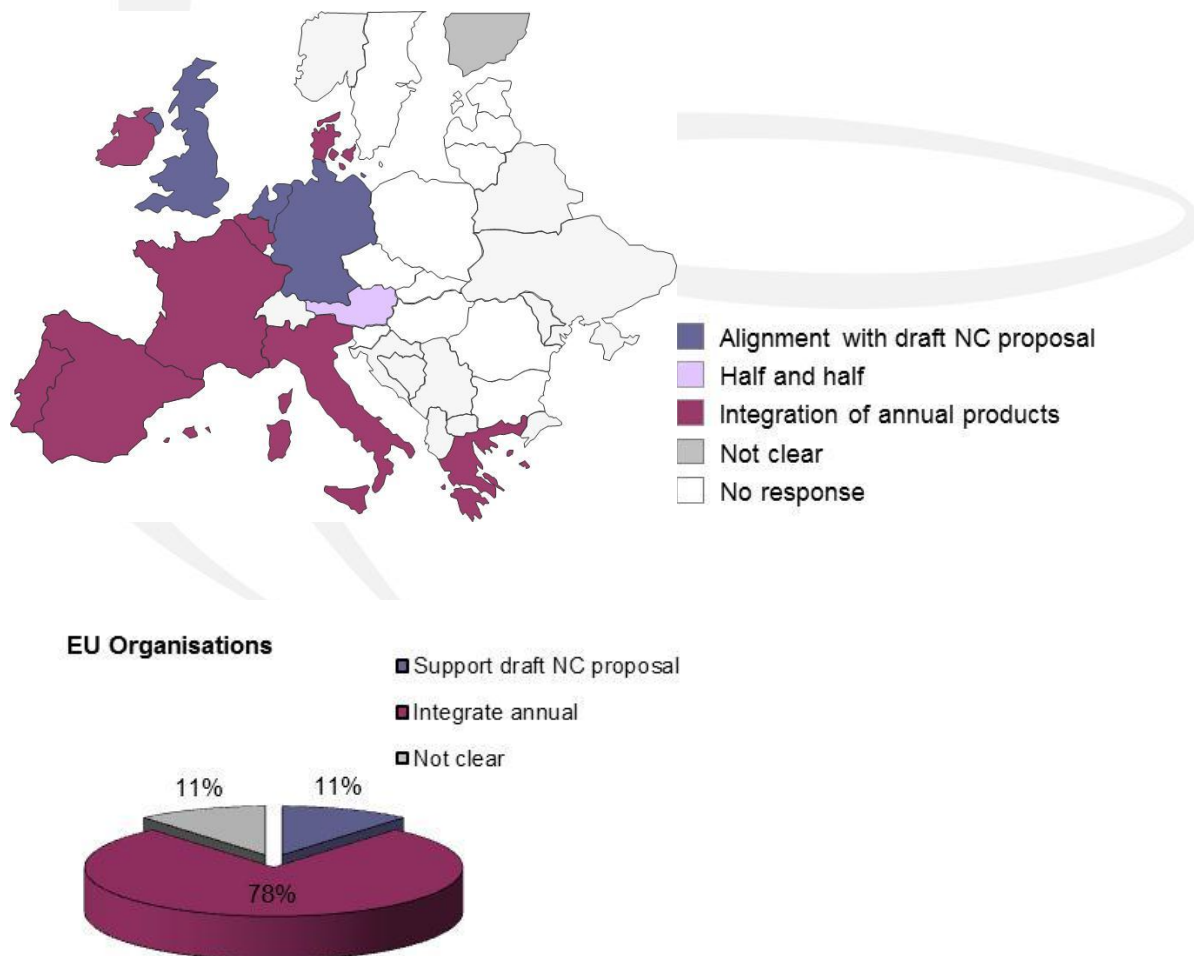


Table 3 sets out the arguments raised for and against the quarterly product proposed in the draft NC.

Table 3

Arguments in favour of quarterly product only	Raised by
Possibility to combine quarters to annual products; can be used to build seasonal as well as longer profiled capacity contracts.	2 respondents
Annual capacity bears the risk of underutilisation. Quarterly products mitigate risk of capacity not being released.	1 respondent
Quarters appropriate when shippers are able to combine capacity at several IPs in order to transport across multiple borders.	1 respondent

Arguments against quarterly product only	Raised by
Participants may not secure (flat) capacity rights over a period of time (equal or longer to a year) (if quarters cannot be linked); worries about "gaps" in bookings	11 respondents including 4 associations
Combining quarters to longer periods difficult, because NC does not foresee mechanisms like rejection of allocations below a minimum, or priority for bids covering several periods.	3 respondents including 1 association
Longer products (at least annual) would be more coherent with long term gas contracts and could reduce risks to secure capacity. Quarterly products as the "longest" available products are too short because LT bilateral supply agreements need reasonable stability and capacity availability.	5 respondents including 1 association
Shippers are likely to face physical congestion especially in winter periods which cannot be timely resolved because investment trigger will be activated too late.	1 respondent
TSOs will try to secure full revenues during two winter quarters leading to higher reserve prices in winter (maybe even in summer). Not acceptable for shippers to cope with fluctuating prices; "tariff issues".	2 respondents
Shippers who were unable to purchase capacity in annual quarterly and monthly auctions could run into dilemma of being allocated only partially with the risk of not being able to guarantee to fulfil his obligations towards his customers (with possible downside also with respect to Security of Supply of the system or related obligations for the shipper).	2 respondents
Non-compliance with 715/2009 Art. 2 "long term services are services offered by the TSO with a duration of one year or more".	5 respondents including 2 associations

Quarterly approach may mean that certain quarters could not be purchased to put annual strips together especially in any quarter where capacity has to be allocated on a pro-rata basis (i.e. when demand > supply). Risks could be mitigated if additional capacity would be released.	1 respondent
Strongly concerned about quarterly as only LT product because this does not take storage characteristics into account which are mainly used to cover seasonal variations.	1 respondent
Independent but concurrent auctions for 60 quarters --> may prevent ensuring continuity of capacity over longer time periods.	1 respondent
Necessity to bid on 60 separate quarters multiplied by the number of IPs seems very challenging. Especially when decision to book capacity at one point depends on result of an auction at another point.	3 respondents including 1 association

**E.1.2 Of the respondents not favouring auction of quarters only, all appear to favour a combination of annual and quarterly products**

- Of 31 respondents not favouring quarterly only, five respondents specifically support auctioning nearby quarters only, together with later years. The remaining responses support auctioning some mix of annual and quarterly products (including those wanting the possibility to link quarterly products to form longer services).
- Table 4 sets out the arguments raised for combining quarterly and annual.

Table 4

Arguments in favour of combining quarterly and annual	Raised by
Both annual and quarterly should be available since need depends on shipper's profile: peak/non-peak use vs. base-load use. Serves for peak as well as non-peak users (with ST or LT needs). Coherence with supply contracts. Simplicity.	3 respondents
Both annual and quarterly would imply compliance with Reg. 715/2009	1 respondent
Annual products for years 3-15 instead of the proposed quarterly products should be used: shippers are likely to face physical congestion especially in winter periods which cannot be quickly resolved because investment trigger will be activated too late, TSOs will try to secure full revenues during two winter quarters leading to higher reserve prices in winter, fluctuating prices	1 respondent
Annual capacity would also facilitate for market participants the transition towards new allocation regimes given that at the moment capacities are allocated on a yearly basis.	1 respondent

Arguments against combining quarterly and annual	Raised by
No specific arguments (though arguments in favour of quarterly approach could	N/A (but see

be considered to be arguments against combined approach)	section E1.1)
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## E.2 Other issues

### **E.2.1 Within-day allocation mechanism: auctions are preferred but a substantial minority favour FCFS**

- 25 respondents including 4 associations favour auctions
- 13 respondents including 4 associations favour first come first served
- Table 5 sets out the arguments put forward in support of the two positions.

Table 5

Arguments in favour of within-day auctions	Raised by
Auctions will ensure value discovery (which FCFS won't)	2 respondents
Market based	2 respondents
Simplicity	1 respondent

Arguments against within-day auctions	Raised by
No need for auctioning within-day capacities: low demand	4 respondents including 3 associations
The market for within day balancing energy would be drastically harmed because additional lead time has to be considered	4 respondents including 3 associations
Recommendation of a quick FCFS-solution in order to allow for taking the advantage of business options directly during the day (click - book - nominate).	4 respondents including 3 associations
Cost	3 respondents including 1 association
FCFS is less complex and more flexible for both shippers and TSOs	4 respondents including 2 associations

### **E.2.2 Within-day product: draft NC proposal for balance-of-day product and hourly auctions generally supported**

- 17 respondents including 4 associations supported the proposal
- 7 respondents including 2 associations (including some supporting FCFS) felt that hourly auctions were not appropriate and preferred fewer auctions or some other adjustment that would reduce complexity

- 1 respondent preferred an hourly product.

**E.2.3 Suspension of day ahead/within-day auctions in case of low demand is not considered appropriate**

- 32 respondents did not consider suspension appropriate, mainly for the following reasons:
  - No cost issue seen once the system is running on an automated basis (17);
  - Problem seen regarding restart of suspended auctions (7);
  - Inability of TSOs to predict whether there is demand or not (9).
- Three respondents supported suspension when lack of demand is demonstrated and auctions could be quickly restarted.
- One respondent asks how to pass possible cost savings to users.
- Two respondents suggest using FCFS which would lead to the fact that suspension is not necessary at all.

## F. Auction algorithms

### Summary

- F.1: Consultation responses do not provide a clear steer on longer term algorithm
- F.2: For a single round, volume-based auction, qualified support for all three types of value discovery mechanism proposed
- F.3.1, F.3.2: Respondents overwhelmingly in favour of cleared price algorithm; some disagreement about how the clearing price should be set
- F.3.3: For a volume based auction, some support for an unlimited number of price steps
- F.3.4: For a single round auction, some support for a shorter bidding window
- F.3.5: 10 bids per user in uniform price auctions felt to be sufficient

### F.1 Algorithm for longer term auctions (annual/quarterly, annual monthly, rolling monthly)

#### F.1.1 Consultation responses do not provide a clear steer on longer term algorithm

- 23 respondents including 7 associations support draft NC proposal of a single round, volume based algorithm with interim publication of information allowing bid adjustment. Most of these believe that some additional measures are necessary to ensure value discovery and discourage strategic bidding: see below
- 9 respondents including 2 associations prefer a multiple-round option such as the “ascending clock” approach adopted in Germany
- 9 respondents prefer other auction designs of which the most popular (5 respondents including 1 association) is a single round option with no adjustment of bids (effectively “sealed bid”). For example, the uniform price model proposed in the draft NC for the day-ahead and within-day auctions could also be applied to auctions for longer duration products
- 18 respondents including 4 associations have no clear or explicit preference.

Table 6 and Figure 2 below show the geographical distribution of views. Please note that ENTSOG has not carried out an assessment of the geographical scope of a company or organisation’s actual or future intended interest. The analysis below has been based on the address provided by each respondent. This analysis is for information only and does not affect how ENTSOG has treated any response.

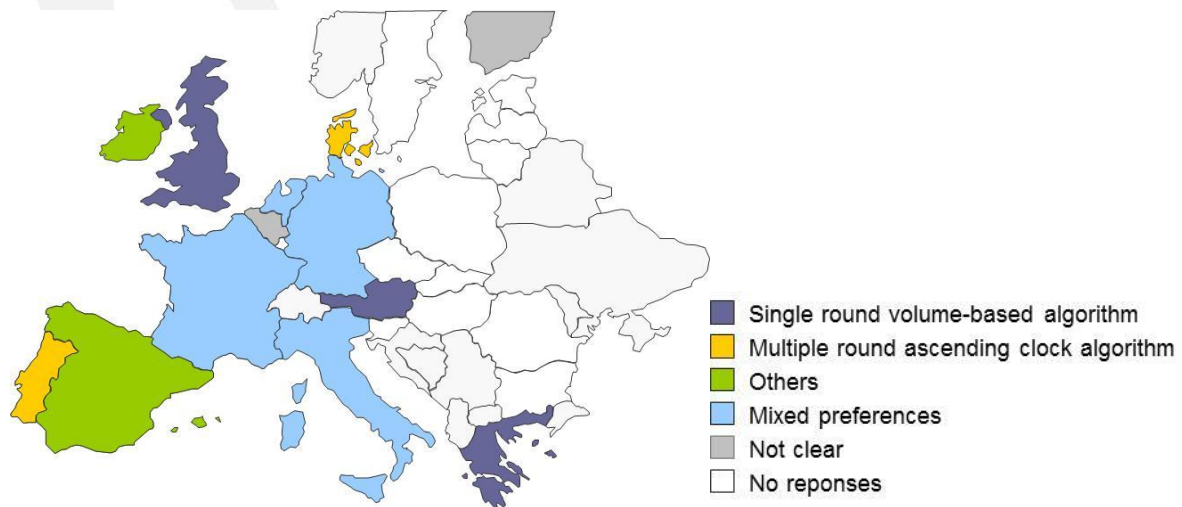
Table 6

	Draft NC proposal for single round volume-based algorithm		Preferred option for those who do not support draft NC proposal		No response/ not clear	Total
	Support (with or without improvement measures)	Do not support	Multiple Round Ascending clock algorithm	Others		

EU	5	1	1		3	9
Austria	2				1	3
Belgium					1	1
Denmark		1	1			1
Finland					1	1
France	1	2	1	1	2	5
Germany	2	3	3			5
Greece	1					1
Ireland		2		2		2
Italy	1	3	1	2		4
Portugal		1	1			1
Spain		4		4	1	5
The Netherlands	2	2	1	1		4
UK	9	1		1	1	11
Total	23	20	9	11	10	53

Note: Four organisations that operate in individual Member States but that are part of the same group submitted identical responses to this question. For the purposes of this table they have been treated as a single response from an EU-wide organisation, hence the difference between the total number of responses reported here, and the total on page 5 of this report.

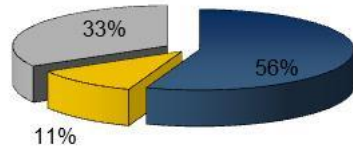
Figure 2





**EU Organisations**

- Single round volume-based algorithm
- Multiple round ascending clock algorithm
- No response/position not clear



Tables 7a, 7b and 7c set out the arguments raised for and against the most popular options.

*Table 7a: arguments regarding single round volume based auction model*

Arguments in favour of single round volume based model	Raised by
Proposed NC approach is sufficient if value discovery mechanisms are included	4 respondents
For allocation of capacity across multiple borders, would not be appropriate for auctions to close at different times	1 respondent

Arguments against single round volume based model	Raised by
May leave bidders with stranded capacity	2 respondents, both associations
Secondary market not sufficiently developed to sell stranded capacity	1 association
Not transparent	1 respondent
Leads to speculative behaviour	1 respondent
Volume based doesn't give clear market signal	1 respondent
Volume based too limiting and risky	1 respondent
Don't understand reasons for volume based	1 respondent
Single round too risky	1 respondent

*Table 7b: arguments regarding multiple round ascending clock model*

Arguments in favour of multiple round ascending clock model	Raised by
Allows bidders to know position at all times and actively decide whether to bid in next round	6 respondents including 1 association
Best for allowing bidders to gain capacity over routes	2 respondents including 1 association

Higher transparency	2 respondents including 1 association
Lower risk of double booking capacity	2 respondents including 1 association
No need for pro rata	3 respondents including 1 association
Advantages of efficiency, transparency etc, outweigh disadvantages of auctions closing at different times	1 respondent
Could deal with problem of auctions ending at different times through establishment of virtual interconnection points	1 respondent
Recommend paper: "The clock-proxy auction: a practical combinatorial auction design", in Cramton, Shoham, Steinberg (eds) Combinatorial auctions. MIT press Chapter 5. 2006)	1 respondent

Arguments against multiple round ascending clock model	Raised by
For allocation of capacity across multiple borders, would not be appropriate for auctions to close at different times	1 respondent
Volume based doesn't give clear market signal	1 respondent
Volume based too limiting and risky	1 respondent
Don't understand reasons for volume based	1 respondent

Table 7c: arguments regarding single round 'sealed bid' auction model

Arguments in favour of single round sealed bid model	Raised by
Simple design	3 respondents including 1 association
Does not result in unsold capacity	4 respondents including 1 association
One consistent auction system for all durations	1 respondent
No bid adjustment so no need for value discovery mechanisms	1 respondent
Bidders can express exact value they place on capacity	1 respondent
System has worked well in electricity	1 respondent

Arguments against single round sealed bid model	Raised by
No specific arguments (see above for arguments in favour of other options)	See above

## F.2 Possible value discovery mechanisms

### **F.2.1 Qualified support for all three types of value discovery mechanism proposed**

- Most agreed value discovery mechanisms would be necessary/appropriate if single round is retained (some comment that these would not be necessary if multiple round ascending clock is adopted and not possible under a sealed bid system).
- Approximately equal number of respondents were in favour of and against the three measures proposed in the draft NC:
  - Early closure if price stability (12 in favour including 3 associations; 6 against including 1 association)
  - Obligation to bid from first day (15 in favour including 4 associations; 4 against including 2 associations)
  - Bidding restrictions (15 in favour including 5 associations; 7 against including 2 associations)
- Respondents supporting bidding restrictions were approximately equally divided between those favouring a restriction on upward revision of bids and those favouring a restriction on downward revision of bids
- 3 respondents favoured value discovery mechanisms but did not mention any specific measures
- 2 respondents did not believe such measures would be effective
- 3 respondents felt that bidders should be free to bid as they wish and that it would not be appropriate to introduce any restrictions
- 2 respondents believed that ENTSG or NRAs should monitor the market for inappropriate bidding behaviour and take action as necessary
- 2 respondents believed that publication of interim aggregate information was a sufficient measure to ensure value discovery.

## F.3 Other issues

### **F.3.1 Respondents overwhelmingly in favour of cleared price algorithm**

- 34 respondents including 9 associations favoured cleared price, arguing that Pay-As-Bid would increase the risk of over recovery by the TSO. Bidders would risk falling victim to the “winner’s curse” and overpaying for capacity.
- 4 preferred Pay-As-Bid for all durations, believing it would lead to better price discovery, with one respondent requesting Pay-As-Bid for the shortest duration auctions only.

### **F.3.2 Respondents divided over whether clearing price should be set to avoid pro rata or set to maximise allocated capacity**

- 5 respondents including 1 association favoured avoiding pro rata, with some saying that they accepted there could be a roll forward of unallocated capacity as a consequence. Pro rata was felt to be counter to the spirit of auctions and hence potentially in conflict with the Framework Guideline.
- 7 respondents including 1 association favoured maximising allocated capacity where demand > supply at the reserve price P0, with some saying that they accepted there could be some pro rata allocation as a consequence.

**F.3.3 For a volume based auction, some support for an unlimited number of price steps**

8 respondents including 3 associations called for an unlimited number of price steps to avoid pro rata at the highest step, and to ensure that the bidder valuing the capacity most highly gets it.

**F.3.4 For a single round auction, some support for a shorter bidding window**

4 respondents felt that there was no benefit to a long bidding window if there were no bid restrictions (e.g. if bids could be withdrawn at any time).

**F.3.5 10 bids per user in uniform price auctions felt to be sufficient**

- Large majority of respondents supported the proposal.
- 6 respondents felt this should be reviewed in light of experience.

## G. Bundling and sunset clause

### **Summary**

- G.1.1: Strong feeling that the sunset clause is not appropriate and that existing contracts should be respected
- G.1.2: Few proposals for how existing capacity should be split if forced to so
- G.2.1: Majority of respondents support voluntary bundling but do not believe it should be mandatory
- G.2.2: Strong support for draft NC bundling proposal

### G.1 The sunset clause

#### **G.1.1 Strong feeling that the sunset clause is not appropriate and that existing contracts should be respected**

- 30 respondents argued that existing contracts should be respected, raising doubts over the legality and practicality of forcing a split, and the potential impact on security of supply. Practical concerns included the complexity of current holdings at some points which could make proposals such as a 50:50 split impractical; the danger that renegotiations of detailed contracts may be unsuccessful, and the difficulty in finding an appropriate default rule given the large differences between long term contracts.
- 8 respondents including 2 associations supported mandatory bundling of existing contracts. One of these respondents did not believe that this would endanger security of supply.

#### **G.1.2 Few proposals for how existing capacity should be split if forced to so**

Most argued that they could not make such proposals as they did not believe the sunset clause could or should be implemented. Respondents who did make proposals felt that:

- Any sunset clause should be implemented in all Member States at the same time (1 respondent)
- Shippers should first be given the chance to find agreement between themselves (3 respondents)
- If shippers cannot reach agreement, a fair and transparent back up rule should be in place (1 respondent)
- Bundled Capacity should be split proportionally by taking into account the original capacity holders' capacity rights as per Framework Guideline. Monetary compensation could be included based on the fair value of the bundled capacity. (1 respondent)

### G.2 Other issues

#### **G.2.1 Majority of respondents support voluntary bundling but do not believe it should be mandatory**

- 32 respondents believed that mandatory bundling would have a detrimental effect, citing the additional costs associated with operating in new markets (e.g. tax, legal, regulatory), the risk of

impacting already committed investment, the potential reduction in the maximum available capacity, the restriction of flange trading which they considered unjustified. One respondent believes the restriction of freedom of contract implied by mandatory bundling conflicts with Regulation 715/2009

- 10 respondents believed that mandatory bundling would have a positive effect, believing that it would improve liquidity at hubs, foster hub to hub trading and encourage new entry
- One respondent suggests allowing a hybrid system during an interim period of no longer than five years. In the hybrid system, the basic case is bundled capacity, but a certain amount of the capacity could be used for flange trades. The national regulatory authorities should constantly monitor if the flange trades also stimulate the liquidity at the corresponding markets
- 19 respondents supported voluntary bundling, believing that bundled and unbundled products would be valuable to shippers in different circumstances
- Four respondents commented that the risk of legal challenges could delay the implementation of the network code.

### **G.2.2 Strong support for draft NC bundling proposal**

- Large majority agreed that the draft NC approach was appropriate within the constraints of the framework guideline
- However, the majority of these added that they did not agree with a mandatory approach, with some again mentioning a preferred option under which both unbundled and bundled product were available
- One respondent commented that bundled capacity on the basis of a single nomination is unworkable as shippers hold separate contracts with each TSO - mutual recognition of these contracts is required. Would like further clarification on the concept.

## H. Interruptible capacity

### **Summary**

- H.2.1: Majority do not support draft NC proposals regarding interruption sequence
- H.2.2: No clear view on how interruptible capacity should be allocated
- H.2.3: Some respondents see need for further consideration of interruptible products

### H.2 Interruption sequence

#### **H.2.1 Majority do not support draft NC proposals regarding interruption sequence**

- 10 respondents including 3 associations supported the process set out in the draft NC for determining the sequence of interruptions as being appropriate. 32 respondents including 8 associations did not agree with the NC proposal and suggested improvements
- A number of respondents request further information and discussion around the process which they feel should be clear and non discriminatory
- A number (9) have stated that using the latest contractual timestamp for the sequence of interruption is overly complex and/or could be considered as discriminatory
- 11 respondents including 2 associations considered that a pro-rata approach should be used, while 3 respondents including 1 association felt that pro rata should be avoided or minimised (for example because it could penalise smaller shippers)
- 3 respondents advocated an approach based on the price paid for the capacity, while 2 suggested using bid price as a proxy for price paid under a cleared price methodology
- One respondent felt that it is important that there is transparent and easily accessible information available to the shipper to evaluate the risk of interruption. Unless shippers know the respective time stamps of other interruptible capacity contracts applicable for that day, basing the sequence of interruption on the contractual timestamp may not enable shippers to effectively evaluate the risk of interruption.

#### **H.2.2 No clear view on how interruptible capacity should be allocated**

In response to a question about interruption sequences a number of respondents took the opportunity to raise additional points about the type of interruptible products and the mechanisms that should be used to allocate them. Views on this point were diverse with few clear themes emerging.

Table 8 outlines the options put forward.

Table 8

Options proposed	Raised by
Pay as Bid would be better for interruptible. Cleared price approach implies an artificial limitation on the amount of capacity offered at auction. Pay as Bid also allows the capacity holder who paid the least to be interrupted first.	3 respondents including 2 associations

Interruptible capacity should be allocated by FCFS	7 respondents including 2 associations
Interruptible capacity should be made available on an unlimited basis up to the point of interruption and should be interrupted on a pro-rated basis. If interruptible capacity is unlimited, suggest that any auction (rather than FCFS) price would effectively be at the reserve price (would expect non-zero and for day ahead / within day would advocate circa 20% of the firm reserve price).	1 respondent
Does not support FCFS as it could lead to capacity hoarding.	1 respondent
Mechanisms of oversubscription and buy-back of firm capacities could be more efficient than interruptible capacity products.	2 respondents including 1 association
Generally agree with proposals but believe that interruptible capacity auction should be limited to products up to 1 year and that detailed regulation on definition and allocation of this capacity should be set out by national TSOs.	1 respondent
Different products are sold, with different probabilities of interruption and prices (like in Belgium or Netherlands). Interruptible should be sold only when firm is no longer available.	2 respondents
Multi-tiered auction procedures are proposed as single tier auctions do not lead to satisfactory results.	1 respondent
Reserve price should be zero as marginal cost of capacity is zero	2 respondents
NC should include details of compensation arrangements for interruption	1 respondent

**H.2.3 Some respondents see need for further consideration of interruptible products**

- Three respondents commented that further discussion and work was needed regarding interruptible products
- One respondent requested further clarity regarding the allocation of within-day interruptible product.



## I. Tariff issues

### **Summary**

- I.1: Draft NC has generally identified the right issues, yet more discussion is needed on tariffs
- I.2.1: Broad agreement with draft NC on profiling and long-short term substitution issues
- I.2.2, I.2.4: Simplified reserve price structure across product durations wanted, also calls for seasonal pricing to take into account capacity demand throughout the year
- I.2.3: Calls for marginal or zero short term reserve pricing, but also counter arguments
- I.3: Some concerns about incentives in the proportional rule for splitting bundled revenues
- I.4: No clear preferences on over and under recovery mechanisms, but calls for usage of excess auction revenues for investments and concerns about high and volatile commodity charges. The exclusion of incremental capacity from CAM may lead to distortions and inefficient outcomes.

### **I.1 Draft NC has generally identified the right issues, yet more discussion is needed on tariffs**

While most respondents acknowledged that the draft NC had identified the right issues, a general theme throughout the responses was that tariffs need to be discussed further. It was widely expressed (9 respondents) that a process on tariff codification should have been run in parallel with the CAM NC. Given that this has not been the case, it should start as soon as possible. Two respondents urged the Commission and ACER to swiftly commence tariff work, with one arguing that this should be via the framework guideline and network code process. Two respondents called for leaving out even essential tariff provisions from the CAM NC.

### **I.2 Reserve prices across Standard Capacity Products**

#### **I.2.1 General agreement with draft NC on profiling and long-short term substitution issues**

A number of respondents (9) acknowledged the draft NC arguments for a pricing design that takes into account profiled bookings and avoids undue substitution of long by short term capacity. They pointed to the fact that such behaviour involves cross-subsidisation and under recovery, and affects non-discrimination and investment signals. It was pointed out that an appropriately designed tariff regime can avoid these effects. A general statement was that everything is about the right allocation of costs between shippers.

Some of those who generally agreed with the draft NC proposal pointed to the requirement that any tariff structure will have to comply with Art. 13 and 14 of Regulation 715/2009. Another qualification was that it may be difficult to make tariff structures dependent on booking forecasts and that this may induce volatility.

#### **I.2.2 Simplified reserve price structure wanted**

A number of respondents (12), while not disagreeing with the aims of the reserve price structure in the draft NC, called for the same reserve price to be applied to all capacity products across durations (such that a shorter duration product is priced at a corresponding fraction of the price of a longer duration product).

Arguments put forward in favour of that include:

- Any valuation should be result of market outcome and not of artificial adjustment of reserve prices in anticipation of possible shipper behaviour;
- Creation of a level playing field;
- Unduly increasing short-term reserve prices would make some wholesale trading uneconomic and be a barrier to entry or would hamper hub-to-hub trade;
- The aim of countering profiling can also be reached with seasonal pricing, product multipliers are not necessary;
- The evaluation of the value of capacity is very difficult and cumbersome, therefore TSOs should simplify and use the expedient approach of the same reserve price for all products; a percentage of the regulated tariff depending on the duration is simplest and most fair.

### **1.2.3 Calls for marginal or zero short term reserve pricing, but also counter arguments**

A number of respondents (9) called for short term products to be priced at marginal or zero reserve prices, even though this is not within the remit of the CAM framework guideline. This is claimed to lead to efficient allocation of capacity and will facilitate short term transactions, e.g. for balancing purposes, as well as hub alignment.

TSO revenues are claimed by one respondent to be safeguarded through long term sales anyway and the concerns about the move to short term were overdone by ENTSG, because in contrast to the UK, long term commodity contracts will prevail on the continent.

One respondent, however, stated that implicit capacity allocation can work without zero reserve prices and thus should not be the only solution to be considered. Arguments against zero reserve prices were made by those who agree with the draft NC proposal and by respondents concerned about significant under recovery and cross-subsidies between users (5).

### **1.2.4 Seasonal pricing to take into account capacity demand throughout the year**

Some respondents (5) stated that reserve prices should reflect the level of congestion of each season/month during the year; with a higher price at times of higher demand and vice versa.

One respondent claimed that the draft NC proposal leads to higher prices for users booking a flat capacity profile consisting of 4 quarters versus a full year, therefore prices also need profiling (a numerical example was provided). This will avoid under recovery by TSO and minimise the impact on system users. The draft CAM NC formulation "higher than one" precluded proper seasonal pricing.

A few respondents read the draft NC proposal as requiring higher prices in periods of lower capacity demand to recover revenue shortfalls in those periods and objected to such an approach. At the ENTSG Tariff Workshop it became apparent that such a reading may be possible, while the intention of the draft NC proposal was to provide for revenue shortfall recovery across an accounting year and not just in the periods of low capacity demand.

Other respondents cautioned against seasonal pricing: setting different reserve prices for summer quarters or months than for winter periods was a complex issue (4).

## **1.3 Revenue split from bundled products**

Some respondents commented on the splitting provision, of which (2) found the draft NC proposal of a proportional split appropriate or easy and quick, while (4) stated that tariff structures would

need to be harmonised across Europe including all parameters with impact on capacity charges, otherwise wrong incentives would be introduced. Therefore, according to these (4) respondents, a different or no splitting rule should be included in the CAM NC.

#### **I.4 Over and under recovery**

A number of respondents (18) regret the exclusion of incremental capacity from the CAM framework guideline and said that this will lead to inefficiencies and distorted outcomes in auctions and tariff structures. As long as incremental capacity is not included, these respondents called for the usage of auction revenues in excess of the reserve price for congestion removal and incentives to release capacity. Some qualified that investments shall only be made under the condition that the congestion is not merely temporal.

Others responded (4) argued that over and under recovery management shall be left to NRA discretion. Of those, (2) stated preference for swift settlement via reserve price adjustment and one called for reserve price reduction at the location where over recovery accrued. One respondent would like to see comprehensive over and under recovery rules, because these were non hedgeable risks.

Some respondents made clear that under recovery management via an un-targeted commodity charge is no solution, due to the volatility and cross-subsidies involved.

Some respondents mentioned that there are fundamentally different approaches to capacity prices from auctions. It should be established in further tariff harmonisation whether the auction result will be the final price or an auction premium is determined which will then be added to the respective regulated price at the time of capacity usage. In this context, it was pointed to the potential price volatility involved, while others claimed that a “fixed price” approach will render capacity subject to speculation.

## J. Other issues

This section notes points raised in response to the consultation that are not captured in other sections, to enable ENTSOG to give these points full consideration.

View	Raised by
A mechanism for allocating incremental capacity should be included in the network code or introduced as a priority through some other route	9 respondents including 3 associations
10% availability: need for clarity on definition of “available capacity” including time of assessment; should be 10% of commercially available capacity (not unbooked)	5 respondents
Incentive to maximize capacity or clarity on calculation: <ul style="list-style-type: none"> <li>3 respondents including 1 association see need for measures for maximizing capacity.</li> <li>1 respondent believes that the NC should contain more detail on the process of capacity calculation</li> <li>Some additional requests for coordination at IP (similar calculation methodology, symmetrical offer at both sides of an IP)</li> </ul>	4 respondents including 1 association
Booking unit: <ul style="list-style-type: none"> <li>6 respondents including 2 associations are in favour of kWh/d</li> <li>3 respondents including 2 associations are in favour of kWh/h</li> </ul>	9 respondents including 4 associations
Gas Day: <ul style="list-style-type: none"> <li>3 respondents point out a potential error in the draft NC regarding the exact definition of gas day.</li> <li>1 respondent also believes gas day should be harmonised with electricity day (= calendar day)</li> <li>1 respondent queries whether it is necessary to differentiate between winter time and daylight saving</li> </ul>	3 respondents including 1 association
Auctions: 2 respondents highlight a multi-round auction method	2 respondents
Implicit auctions: should be included in the network code	2 respondents
Detailed suggestions on network code drafting	2 respondents
Interim period: a planning is requested by 3 respondents; length of interim period to be shorter for 2 resp., as short as possible for 1 resp.	6 respondents including 1 association
Adjustments are requested for the auction process: publication of	5 respondents

interim results, price discovery mechanisms; stability measures; etc.	
Request the right of using "spreads"	4 respondents
Would have liked a NC process better coordinated with the CMP process (and vice versa)	6 respondents
Request an implementation group led by ENTSOG in order to set up and test the operational changes resulting from NC	3 respondents
Simplification of bank guarantees	2 respondents
Discount/pay-back for interruptible	2 respondents
Modification of the tariff model (no reserve price for ST, no multipliers,...)	4 respondents including 1 association
Request for more detail on secondary capacity services in NC	1 respondent
Request for clarification of certain definitions	1 respondent
NC should include gas quality specifications	1 respondent
Request for NC to include LNG entry points	2 respondents

Figures 3 and 4 show a geographical analysis of the responses regarding incremental capacity and the booking unit.

*Figure 3: views on incremental capacity*

<b>Country</b>	<b>Respondents supporting incremental</b>
UK	5
Netherlands	1
EU	3

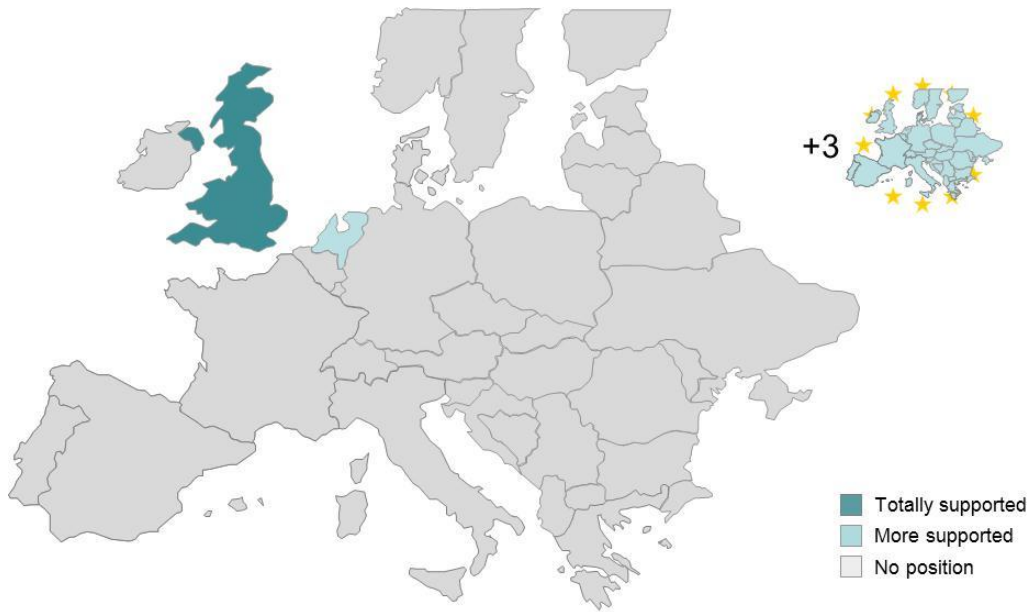
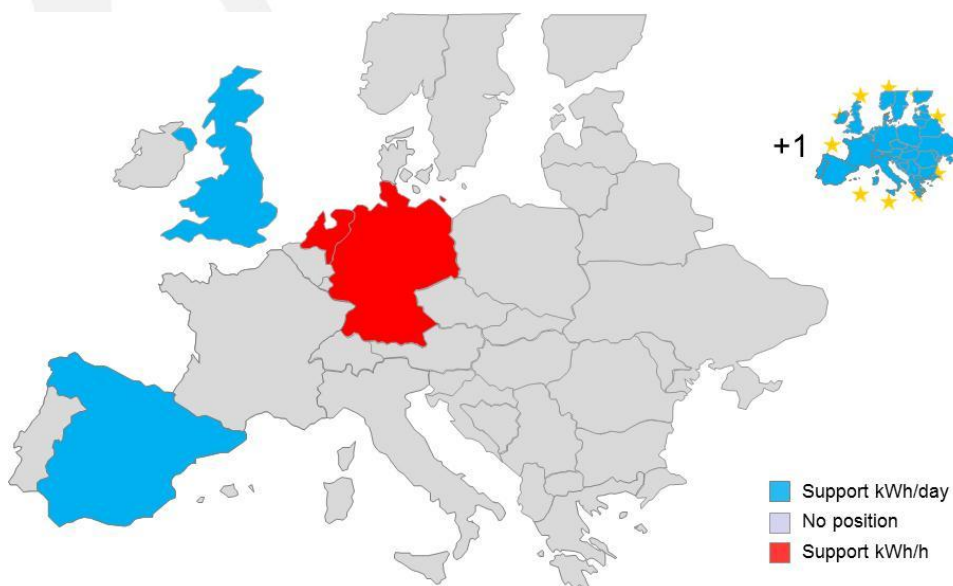


Figure 4: views on booking unit

Country	Support booking in kWh/day only	Support booking in kWh/h only
UK	1	
Netherlands		2
EU	1	
Germany		1
Spain	4	



## **Annex: Summary of process improvement suggestions from CAM NC consultation**

Consultation respondents were invited to comment on the process used by ENTSOG for developing the CAM NC, and on the organisation's website. The note below has been circulated within ENTSOG to form the basis for discussions regarding the process so far and possible improvements.

### **1. Purpose of this note**

This summary gives an overview of respondents' views of the CAM NC process conducted by ENTSOG so far and their suggestions and wishes for improvement. It is meant as a basis for discussion within ENTSOG and its membership on possible improvements of the CAM NC process and of future network code processes.

### **2. General points in the consultation responses**

Overall, the respondents signalled a very high degree of satisfaction with ENTSOG's transparency, inclusiveness, and organisation of the network code process. They call upon ENTSOG to build on this success, and to approach future network code processes similarly.

Many expressed their dissatisfaction with circumstances that ENTSOG is not to be held accountable for: These are the parallel consultation of the ACER FG and the parallel Target Model Process which were mentioned as distracting and not helpful. In contrast, dissatisfaction was expressed that CAM, CMP and Tariffs are not dealt with in parallel, which seems to have been necessary due to the interrelations between these areas.

The level of participation and engagement of the EC, NRAs and ACER during the process was also mentioned. The view is that a higher engagement of these would be conducive to a swift passing on of the network code into comitology. Further, some stated their preoccupation that a network code coming out of comitology will not be a coherent document any more.

Many suggested an extension of the 12 months allotted to ENTSOG, while shortening ACER and EC processes; this particularly with a view to the perception that Balancing and Tariffs are even more complex than the "relatively straightforward" CAM.

### **3. Concrete suggestions for improvement**

The following concrete suggestions were made for the network code process (roughly in order of frequency):

- For future network codes: many would like to attend workshops and meetings *before* the network code process starts officially. Particularly the wish for pre-meetings in Balancing was expressed.
- Preparatory working papers are requested to be distributed in advance of workshops.
- Web streams of SJWS and workshops are frequently asked for.
- Email alerts for new documents and events are to be considered.
- The auction workshop was deemed particularly useful.



- The auction and tariff workshops came too late in process; such “theoretic” sessions earlier in the process would be good.
- Discussion was too North-West heavy (maybe web stream could foster participation from other regions?).
- Clearer output of SJWS with documentation of all views expressed needed.
- Time for written consultation is too short. Workshops are very helpful, but no replacement for a written answer.
- More stakeholder discipline is wanted: they are to concentrate on issues to be solved, not on reiterating political positions.
- Representation of smaller suppliers wanted (claim that only around 12 of 70-100 EU suppliers are represented). Maybe these could be pooled in country groups with ENTOSOG steering group?
- Trade association views are to be treated carefully, bilateral discussions with actual market players are more important.