Minutes of Meeting

CAM Network Code: Stakeholder Update Workshop, 20th Oct 2011

ENSTOG Offices, Avenue de Cortenbergh 100, Brussels, 10.30-16.00

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1. Introduction

Vittorio Musazzi introduced the session, and expressed ENTSOG's appreciation to stakeholders for their attendance. He advised that the aim of this session was to provide stakeholders with an update on the CAM Network Code development to date and the process going forward.

The agenda was outlined to all participants and various presentations were given by ENTSOG advisers and the leaders of the specialist groups working on particular areas of the CAM NC development. Copies of the presentations are published on the ENTSOG website. The focus of this memorandum is to record a number of questions which were raised by Stakeholders in light of materials presented.

2. Standard products and auction algorithms

Standard products

a. Question: Is it the intention that any yearly product would first be offered for the next 15 years via auctions in March and then later in the year, the remaining capacity for the year ahead would be offered as four quarterly products?

   ENSTOG Response: Yes, under one of the options presented in the consultation document. However, 10% of the capacity must be retained for products with a duration of less than one quarter (a change from the original text of the CAM Framework Guideline).

b. Comment: It might be better to replace the proposed annual auction of quarterly products with an annual auction of monthly products, to allow the 10% of capacity reserved for short term to be released earlier. Otherwise congestion may become a problem.

c. Question: Why is ENTSOG recommending the integration of a yearly product?

   ENSTOG Response: Market feedback in response to the previous consultation was an important factor.

d. Comment: The drawback of selling flat years first, is that there may be no capacity left to sell as a quarterly product. The only way to free up capacity in non-peak periods will then be to sell it on the secondary market which is not an ideal solution, and in practice it's likely that selling yearly products will lead to more congestion. The proposed new CMP guidelines state that restriction of renomination rights will apply by 2016 at congested points, so all parties have an interest in reducing congestion.

The original option of quarters only is better as people will only buy what they require. If network users require a yearly product, they can bid for all quarters at the highest price step – in practice the auction will probably clear at a lower price step and they will only pay the clearing price. Quarterly products are more flexible as contract start dates do not come into play. A level playing field is created when quarters are utilised and all new market entrants have the ability to bid.

However, can understand why ENTSOG has taken this approach of consulting on the alternative product options.

e. Question: The options going forward are a choice between yearly or quarterly. Wouldn't it be better to sell both at the same time, or alternatively to allow linking of quarterly products to produce a longer product?

ENTSOG Response: Selling yearly alongside quarterly is technically possible, however, the available capacity would have to be split using arbitrary quotas in order to define what is on offer for both products. In practice, if the products were sold at the same time, bidders would have to enter both auctions in order to ensure they gained the capacity they needed. This would create significant risks for bidders. The large number of auctions that would be needed is a further drawback of this approach.

"Linked quarters" have also been ruled out as this would require TSOs either to auction every possible combination of quarters (leading to an impractically high number of auctions) or to adopt a discriminatory approach by choosing which combinations of quarters would be auctioned.

f. Comment: The incorporation of yearly products is in line with supply contracts. Giving priority to the sale of yearly products avoids the risk of gaps in contracts within a year. Although it is difficult to predict the behaviour of operators in light of different rules, it's likely that there will be congestion at some interconnection points. In this circumstance, shippers would have to make up any gaps by buying capacity on the secondary market, potentially at high prices, which could increase prices to consumers. Such a system would attract speculative operators.

Stakeholder Response: Understand concerns in relation to speculative bidding and this is why TSOs need a mechanism to release additional capacity. In practice however, any speculative purchaser that buys capacity to drive up the price on the secondary market will lose out if they do not have the gas to flow. In this situation a genuine operator can simply flow gas on an interruptible basis, knowing that this is practically firm as the speculative purchaser doesn't have the gas to match the capacity acquired.

g. Comment: Under either option, good CMP measures are required in order to solve the problem of congestion.

h. Comment: In favour of yearly products. Since the introduction of auctions in Germany, the number of different auctions has been overwhelming and the risks of making a mistake is therefore increased, therefore, it is easier if yearly products are introduced. This does not necessarily lead to congestion as network users may book their average usage over the year and buy short term capacity to meet peak demand. However, agree that the secondary market is required.

Auction algorithms

i. Comment/Question: Why do you need to introduce stability mechanisms into ENTSOG's original proposal? This may create issues when attempting to stitch capacity together and an auction at one IP closes early.

   ENTSOG Response: This issue was considered, but ultimately, the issue still arises even if the auctions close at the same time as the products must be independent of one another. Without stability measures, one may as well do a closed auction where there is no value discovery.

j. Comment: The duration of the auction process (10 days proposed) makes it impossible for a trader to take part – normally in 3 or 4 hours there would be full price discovery.

k. Stakeholder Comment: Not knowing when an auction will close is not acceptable – prefer a pure single round auction with no stability measures/price discovery. Not all participants subscribe to the view that you need information as to how other parties will bid. In addition, only 9 respondents to the draft CAM NC consultation wanted a multi-round type auction.

   ENTSOG Response: Very few respondents wanted a pure single round auction. The two options presented are the options that ENTSOG felt were most appropriate in light of the consultation responses, but alternative options may be specified in responses to the second consultation.

   Stakeholder Response: Pure single round auction will not facilitate incremental capacity. One must bear in mind that the Commission is now considering an incremental capacity model.

l. Comment: Support multiple round ascending clock model as it provides good value discovery and allows a quick auction process. The potential for gaming is also reduced.

m. Question: Is it the intention of a multi-round that not all capacity is sold in one go?

   ENTSOG Response: All capacity for each period (year or quarter) is on the shelf for that product up to a cap of 90% of the available capacity.

n. Question: What is the time frame for the multi-round option?

ENTSOG Response: To be determined.

o. Question: Do you have an opportunity to change your bid list after it is submitted?

ENTSOG Response: Yes, this is the intention – providing bids are within any specified limits.

Stakeholder comment: In the UK, you can place a bid at the start of the week and can intervene at a later stage – this depends on how much you want to monitor it.

p. ENTSOG comment: With stability measures in the single round and automation in the multiple round, the differences between the two suggested algorithms are maybe not that great.

q. Question: Would any pro rata allocation be mandatory?

ENTSOG Response: Probably not.

Stakeholder comment: The alternative to pro rata is that unsold capacity is rolled forward to the next auction.

3. Bundling and sunset clause

a. Question: Why do you think you are obliged to publish the sunset clause in the network code? What is the legal basis for you to include such a clause when most parties are opposed to it?

ENTSOG Response: ENTSOG is required by the Third Package to develop a network code in line with the Framework Guideline. However, we agree with your concerns in relation to the sunset clause and have raised these concerns with ACER and the EC.

ACER Comment: Regarding the process, the EC approves the Framework Guideline developed by ACER and sends these to ENTSOG with an invitation letter to draft the Code. This process is based on EU Law and so any concerns raised about the sunset clause must also be based on EU Law. It's likely that when the code enters comitology is will be subject to a further legal review. The legal service of the European Commission will give a final view on this issue.

b. ENTSOG comment: ENTSOG has followed the direction of ACER and the Commission notwithstanding the fact that we dislike this clause. There is no perfect default rule; however, the options outlined are those that the ENTSOG specialist group considers the most workable. We now need stakeholders' input in order to develop a clause that is as good as possible.

c. Question: What is ENTSOG's view on ACER's legal impact assessment which concludes that bundling must be done under a single contract?

ENTSOG Response: We do not agree with ACER's IA. This issue was left open in the draft NC.

d. Question: What is the treatment of long term interruptible contracts on one side of the border?

ENTSOG Response: The Framework Guidelines do not oblige interruptible to be bundled – interruptible capacity may play a major role in making unbundled capacity usable.

e. Question: What happens with the sunset clause if the same shipper holds unbundled contracts on both sides of the border?

ENTSOG Response: This is an open issue and stakeholders' views are welcome.

f. Question: What is the difference between the maximum rule and the partially unbundled rule?

ENTSOG Response: With the maximum rule, you bundle the amount of the capacity on the side of the IP with the highest aggregate bookings. You then need a facility to fill in the capacity on the side with the lower booking to maintain booking levels. With the partially unbundled rule, you look at the side of the IP with the lower aggregate bookings and you bundle this – the remainder on the side of the IP with the highest aggregate bookings is left unbundled. It may be possible to use this unbundled capacity together with interruptible capacity to create a complete hub-to-hub product. The bigger the difference in the booking numbers on either side of the IP, the more challenging the application of the default rule will be.

g. Question: Is the problem if there are different technical capacities on either side of the IP?

ENTSOG Response: The different default rule options presented represent alternative ways of handling differences in bookings, rather than differences in technical capacity.

h. ENTSOG question: Please can stakeholders provide views regarding the most appropriate default rule solution? We are very keen to understand your views.

Stakeholder response: Oppose the default rule but of the options presented, the partially unbundled rule may be the least bad option.

4. Interruptible capacity

a. Comment: Interruptible capacity is a key part of CMP. If all capacity is booked and no unnecessary hoarding of capacity is taking place then one can look at historic flows and if the chances of all capacity being used is low then a shipper can book interruptible capacity with very low risk. Interruptible capacity is an attractive option, when compared with more complicated CMP measures. Restriction of renomination rights will be imposed by 2016 if congestion problems occur.

b. Comment: ENTSOG has a preference for Within Day Interruptible capacity to be allocated by auctions, however, the Framework Guideline prescribes first come first served (via over-nomination at any time within day).

ENTSOG Response: ENTSOG proposes that after the firm auction, TSOs then auction interruptible capacity. There is no obligation to sell interruptible is firm is still available (and in this case it would not be needed anyway). Trying to run both auctions and FCFS for within day capacity would result in a clash and it would also be more expensive to implement two systems.

ACER comment: Under Article 2.2 of the Framework Guidelines the sale of interruptible should not restrict the allocation of firm capacity, therefore there is no clash between selling firm capacity via auctions within day and selling interruptible via FCFS.

Stakeholder comment: It may be cheaper and more convenient for shippers to gain interruptible capacity via over-nomination rather than via auctions.

Stakeholder comment: Compliance with the Framework Guideline is an important principle.

c. Question: Does ENTSOG plan to consult further on the allocation of within day interruptible capacity?

ENTSOG response: No, this issue has already been consulted on and we intend to focus on other issues in the consultation.

d. Question: The timestamp approach – this is the difference between the duration of products?

ENSTOG Response: Yes – holders of longer products will be interrupted last.

Stakeholder response: 'Discrimination' on the basis of time stamp is ok. The approach has already been implemented in some EU countries. A pro rata approach may in fact be more discriminatory.

Stakeholder response: Any interruption sequence is discriminatory by definition. One should look at the flows, choose a route less likely to be interrupted and check how much is booked.

5. Tariff issues

a. Comment: A commodity charge should only be used to reflect short term variable costs, not as an under recovery mechanism.

Comment: The high commodity charge in the UK is partly due to the offer of 'free' short term capacity.

ENTSOG response: We agree that capacity should be sold at a cost reflective price (including fixed costs) for all durations; otherwise the market will be distorted. This is why the revenue equivalence principle has been developed. The current GB system would not be compliant with the revenue equivalence principle, because there is significant under recovery of fixed costs from capacity charges.

ENTSOG comment: Following responses to the last consultation, the CAM NC is moving away from specifying that tariff multipliers for short term products must be higher than 1, to allow for seasonal pricing schemes. This does not, however, mean that revenue shortfalls shall be recovered within the sub-annual period where they occur, as this would mean high capacity prices in times of low usage. On the contrary, prices could be profiled according to demand, with higher prices during times of high usage, e.g. winter quarters. Revenue from profiled booking must be equivalent to non-profiled booking over the accounting period (year). It will be left open how this is achieved, at least until further discussions as part of any Tariff NC development. This means that TSOs and NRAs will have to put in place prices that comply with the revenue equivalence principle (prices for short term products not arbitrarily higher or lower than annual, Reg 715/2009), but the exact calculation method will be open for discussion.

6. Development of the CAM NC – progress and next steps

ENTSOG set out the next steps in the CAM NC process, highlighting that the new consultation document would be published on 24th October with a deadline for responses of 14th November. Within this period there would be a workshop on auctions on 3rd November, enabling participants to explore the auction options in the consultation via interactive games.

Once the consultation closes, ENTSOG will develop the final NC text which will be subject to internal governance. The NC will then be published and enter a ‘stakeholder support’ process during which stakeholders will be able to express an opinion on the final text. The code will then be submitted to ACER by 9th March 2012.

Vittorio Musazzi closed the session and thanked stakeholders for their input.