

*Minutes of Meeting*

**CAM Network Code: Stakeholder Joint Working Session 4**  
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### **1. Introduction**

ENTSOG expressed its appreciation to stakeholders and in particular the active participants for their input to the process so far, noted the significant interdependencies between CAM and other areas, and explained that there would be an event to present the draft network code on the 21<sup>st</sup> of June 2011.

Participants noted that there had been some issues with access to the ENTSOG website, with access difficult at certain times of day. ENTSOG was not aware of such difficulties and will investigate this matter. If stakeholders experience issues such as this please contact Heather Glass at [heather.glass@entsog.eu](mailto:heather.glass@entsog.eu) so it can be investigated at the earliest opportunity.

### **2. CAM NC development process**

The EC thanked ENTSOG for its work so far on the CAM network code, and its process and commitment to consult with stakeholders. ENTSOG was encouraged to continue with the 12 month timeline envisaged for the NC, but the EC accepted that if the ACER framework guideline resulted in some material changes, then ENTSOG would need some additional time to incorporate these aspects.

The EC noted that the gas target model was a tool for driving development of the internal market. At present the EC and ACER are not in a position to discuss the CAM content of the gas target model. ACER noted however that the target model would not contain detailed technical rules for the market.

### **3. Tariffs**

ACER recognised that tariffs were a key issue, and that a number of questions remained to be resolved, including the split of bundled revenues between TSOs, and the reserve price in auctions. Decisions on these areas will significantly affect the TSO and market participants' behaviour and therefore are of utmost importance. ACER is working on these areas but is not able to give answers to these questions at this point.

ACER is currently working on its initial impact assessment on tariffs, in which all the possible options will be set out in detail. ACER gave an overview of its process and the key issues it was considering, while noting that no decisions had yet been taken. The development of tariff issues is being driven by three key principles: promotion of the internal market, non-discrimination (e.g. between domestic and cross-border systems), and cost reflectivity.

ACER is aiming to ensure that TSOs' allowed revenues are covered by the sale of transmission services (not just capacity). How to achieve this aim, particularly at uncongested points, is a key question. ACER is seeking a neutral mechanism that will guarantee costs are recovered. A reserve price will be based on a definition of costs, and some assumptions on bookings. Different calculation methodologies are currently under discussion. ACER shared TSOs' concerns about avoiding under recovery, and believed that reserve prices were key to achieving this. Other mechanisms may include a 'regulatory account' or the application of a commodity charge. It will also be important to design a mechanism to deal with over recovery, either via a proportional split or some other mechanism.

For short term capacity auctions, ACER believed that there were potential advantages to both a zero reserve price, which could facilitate cross border arbitrage flows, and a reserve price equal to the regulated tariff, which could assist in cost recovery. ENTSG noted that a commodity charge to correct under recovery would be a tax on trades and could frustrate the aim of a zero short term reserve price. Shippers and TSOs stated that a zero reserve price would be likely to lead to a very significant shift from long-term bookings (which are important for security of supply) to short-term, as seen in Great Britain when an obligation to hold an auction (which could clear at a zero reserve price) was introduced for within-day capacity. ACER noted these concerns but did not think it was likely that a large proportion of bookings would move to short term, as shippers had said that long-term booking were important to them. If there was such a move to short term, further changes to the tariff rules could be considered.

ACER was concerned, if the CAM network code introduced long term auctions of quarterly rather than annual products, that this could introduce unnecessary complications into the tariff area.

#### **4. Bundling and platforms**

ENTSG summarised its bundling and platform proposals and the conclusions of the discussion on the issue during SJWS 1. ENTSG has taken note of users' views expressed at this session and has discussed how they can be implemented via the network code.

During SJWS 1 participants asked how TSOs would deal with unavoidable differences in technical firm capacity at two sides of an IP. ENTSG outlined the potential methodologies for dealing with this issue. The preferred option, to be included in the draft network code, is for such capacity to be sold as unbundled firm, since this is in line with the TSOs' obligation to offer maximum capacity.

The issue of nominations was also raised at SJWS 1, with users emphasising their strong preference for a single nomination. In response to this, TSOs are developing nomination principles that will allow nominations to be sent via a single message, but ENTSG noted that in IT terms this would be a technically difficult exercise. Current nomination systems will also need to be maintained for the sale of unbundled capacity (existing contracts and differing levels of technical firm on either side of an IP).

ACER noted that a single nomination process was crucial to the implementation of bundling.

ACER argued strongly that the sunset clause (termination of existing unbundled capacity contracts after five years) should be included in the network code, even if there were doubts about its legal feasibility. ENTSG stated that it did not wish to frustrate the aims of the FG, and that it would be technically possible (from a design perspective) for a process to implement modifications of existing contracts, but it was not able to develop appropriate procedures for the network code without knowing the legal basis on which contracts could be terminated. ENTSG asked ACER to advise on this question, as the advice from ENTSG's legal advisers is that no such legal basis exists. TSOs are not prepared to terminate contracts unilaterally without being certain that this will not expose them to any kind of legal challenge. There was some debate on whether the inclusion of a contract termination clause in the network code (which will become an annex to Regulation 715/2009 once it has passed through comitology) would be sufficient grounds for terminating a contract.

Shippers reiterated that they would be strongly opposed to a situation in which they were forced to terminate existing contracts and sign new ones with different entities in order to implement bundling as this could, for example, result in them having to sign contracts in new countries in which they did not wish to operate.

ENTSOG requested that ACER treat this issue as a clear priority when developing its impact assessment.

On platforms, ENTSOG noted users' views, expressed at SJWS 1, that a single European platform was appropriate but that this would be challenging to achieve. While a number of platforms already exist that can be used to facilitate the sale of bundled capacity, the development of a pan-European platform will involve the resolution of numerous issues (not just technical issues) between countries that have not arisen during the development of smaller platforms involving one or a small number of countries. ENTSOG asked for users' views on whether it should work directly towards a European platform, or develop interim platforms in order to allow bundling to happen more quickly.

ACER noted that the FG obliged adjacent TSOs to establish platforms; this was not a decision for the market. TSOs then needed to develop an action plan for reducing the number of platforms. ENTSOG noted that the options it had set out reflected the stakeholders' preference that TSOs should not invest resources in developing IP-specific platforms.

Users, including the Prime Movers, supported a solution under which existing, well functioning platforms could be used to bundle and sell capacity soon after implementation of the network code, but that ENTSOG should in parallel work as quickly as possible towards a common European platform. This platform should incorporate 'best practice' from existing platforms.

## **5. Auctions**

ENTSOG outlined the auction proposal and explained how quarterly auctions for long term capacity, as requested by the clear majority of users at SJWS 2, would work. ENTSOG emphasised that users would need to book each quarter independently.

The timing of auctions for each year will be set out in an auction calendar, which will be published at the end of January. Invitations ahead of auctions, with relevant information, will be sent one month in advance for long term and annual monthly, and one week ahead for rolling monthly. For day-ahead and within-day no invitation will be sent as this is by nature every day.

During SJWS 2, users expressed a clear preference for volume based auctions. ENTSOG has developed an early view on how this might work, using a series of pre-defined price steps starting at the reserve price. ENTSOG noted that while this would result in shippers submitting a large number of bids (per price, per quarter, per IP), the concept was clear and straightforward.

ENTSOG noted that a number of questions remained to be answered on the detail of how this process would work, including for example what measures would be effective in reflecting the actual user demand from the beginning of the auction. ENTSOG encouraged participants to provide views on these issues.

A shipper asked how ENTSOG would ensure that long term contracts were available for the period requested, if quarters were sold independently. ENTSOG noted that long term contracts were on offer but that in order to run auctions (rather than pro-rata or first come first served) it was necessary to make some simplifying assumptions. TSOs depend on long term contracts and want to encourage users to book them, but ENTSOG did not think that it would be possible, for example, to design an auction such that users bidding for longer periods were given preference. ENTSOG noted that this problem was independent of the quarters-vs-years question.

ACER asked why 15 years had been chosen as the available duration for long term capacity, and whether a quarterly product would increase the risk of congestion. ENTSOG noted that stakeholders had not expressed a preference for a certain duration of auctions, but that it regards 15 years as an appropriate period and has therefore included it as part of the auction proposal. The quarterly product had been chosen following stakeholder input, and ENTSOG did not envisage that this approach would lead to a greater risk of congestion. ACER supported this approach and congratulated ENTSOG for all its work on its proposals and for the level of detail achieved.

Shippers, including the Prime Movers, reiterated their support for a quarterly product which would provide greater flexibility to profile their bookings, while still allowing them to combine quarters to form longer duration products.

One stakeholder commented that the network code should allow for implicit auctions. ENTSOG noted that there was no clear definition for implicit allocation at present and that the target model had not provided further detail. ACER confirmed that the gas target model did not intend to and would not replicate the electricity system.

#### **6. Interruptible capacity and within-day allocation**

ENTSOG noted that allocation of within-day capacity could be either via auctions or first come first served (FCFS). During SJWS 3, the majority of parties expressed a preference for auctions since they deliver a more market based approach, and ENTSOG will reflect this in the draft code. ENTSOG noted however that the level of the reserve price must be appropriate if this solution is to be sustainable, and that there are potential direct conflicts with the FG article 2.2 and the CMP guideline article 5 which need to be addressed.

ENTSOG has also noted the users' request for an advanced bidding window and proposes to open the within-day auction on D-1, once the day-ahead auction has closed.

Users asked about the detail of within-day auctions and in particular the frequency. Auctions will be held every hour, providing capacity is / remains available. British users had not found this process overly complicated and users were satisfied that an hourly auction met their needs.

Interruptible capacity will, under ENTSOG's proposal, also be allocated via auction mechanisms. Calculation outcomes will be co-ordinated between TSOs, as will parameters such as interruption lead times and the interruption sequence.

ENTSOG noted that the CAM FG and CMPs both changed the value of interruptible contracts, and that the probability of interruption was likely to increase in future.

Users asked how the reserve price for interruptible capacity would be set. ACER explained that the pricing of interruptible capacity was under discussion as part of the Tariff FG preparation. The price will be based on the regulated tariff, but this will be lower than the equivalent price for firm capacity by a degree reflecting the probability of interruption. ENTSOG pointed out that it was possible to calculate the probability of interruption with a reasonable degree of accuracy close to gas flow, but that with longer lead times this task becomes extremely difficult.

ENTSOG noted that the treatment of existing long term interruptible contracts (whose value may be affected by CMP and the CAM NC) will not be dealt with in the network code but will need to be addressed at a national level.

### **7. Prime Movers' view**

Prime Movers were happy with ENTSOG's process so far and cited the SJWS 4 as a good example of the open discussions that had taken place. They noted however that the process set up by the EC presented challenges to ENTSOG and stakeholders, since decisions with an impact on CAM, such as those being taken during the development of the gas target model and CMP modifications, had not yet been taken.

On bundling, the users reiterated their messages from past SJWSs that while bundling was worthwhile, it was not critical to market liquidity and should not be made mandatory and that ENTSOG's proposal was acceptable to the market. In relation to platforms, ENTSOG should adopt a step by step approach towards a single European platform.

It was important that auctions should also apply to incremental capacity. Long term auctions should have several rounds. For short term, auctions should either follow a cleared price algorithm with the reserve price equal to the regulated tariff, or should follow pay as bid with a reserve price of zero. However there should be no disincentives to book longer term.

Within day, auctions were preferable and should be hourly. The Prime Movers again highlighted the contradiction between the proposed CMP restriction of renomination rights and within-day allocation.

For interruptible capacity, TSOs should provide a transparent interruption process and sufficient information regarding the probability of interruption. The price should reflect the probability of interruption, and should not act as a disincentive to book firm capacity.

In general, Prime Movers favoured a detailed network code to avoid scope for national deviations and encourage true harmonisation. Regulators should develop FGs setting out clear concepts, and all relevant issues (including CMP and Tariffs) should be implemented via the NC process.

Prime Movers welcomed the participation of regulators and the EC at the SJWS 4 and encouraged them to continue their involvement in the NC development process.

### **7. Outlook for the network code**

Some key principles have been followed in developing the NC:

- ENTSOG is developing the NC (which will eventually become an annex to the Reg 715) firmly on the basis of the FG.
- ENTSOG is developing a legal proposal that can, if the principles are approved, go straight to comitology.
- The draft code will be accompanied by a supporting document, which explains the decisions taken in drafting the code and the reasons for these decisions.

ENTSOG outlined the structure of the draft code and the areas that would be covered by each section.

There was some discussion regarding the code modification process. ACER suggested that a process might be developed to allow the code to be modified in consultation with ACER (for example via a flexibility clause), to allow for sensible changes to be made. ENTSOG agreed to discuss this further with ACER (probably following the publication of the draft code), and the EC was also aware of this issue. ENTSOG noted that the level of detail of the code was a crucial decision and was linked to issues of code governance. The British network codes (for example) precisely detail the rules applying to the TSO and market participants in order to ensure clarity of market rules; this was just one model that could be considered.

A shipper noted that changes to the code would necessitate a change to any IT system used for the purposes of underpinning the code processes, and could well have knock on effects on other users' systems. As such it should be fully consulted on via a clearly defined process, therefore a flexibility clause was not appropriate. ACER recognised that a clear change process would be necessary. Another shipper expressed a preference for a detailed code rather than a high level one, to ensure that specific rules could not be changed unilaterally but would instead have to pass through a change process. Participants however agreed that modifications would sometimes be necessary and that it was unlikely that the same rules initially implemented would still be appropriate many years later. Prime Movers supported further discussions on this important aspect.

## **8. Next steps**

The code development activity is in an intense phase and ENTSOG is currently confident that the draft code can be presented on the 21<sup>st</sup> of June as planned. Details of the event will be circulated to stakeholders in due course. ENTSOG emphasised that this is indeed a draft and stakeholders will have the opportunity to feed their views into the development of the final version.

Vittorio Musazzi (ENTSOG General Manager) personally thanked all the stakeholders for their involvement and encouraged them to continue their active participation throughout the remainder of the network code development process. Stakeholders were encouraged to share their views on the SJWSs with ENTSOG, to help in designing the processes for future network codes.