

## Responses to Draft CAM Network Code Consultation

### Consultation Response Sheet

Please complete the fields below and send via email using the subject, "Response to the CAM NC consultation" to [info@entsog.eu](mailto:info@entsog.eu) by 3 August 2011.

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**Question 1:** Do you consider that the level of detail in the draft NC is appropriate for an EU Regulation?

Response:

Yes, the present level of detail is appropriate.

**Question 2:** Should this NC set out detailed rules? If so, do you consider that where changes are necessary, they should be made through the change process foreseen in the Third Package, or (if legally possible) through a separate procedure where modifications can be made following stakeholder request and discussion?

Response:

A good NC should be of a sufficient level of detail in order to provide legal security; both to the net users and to the TSO's. Therefore the relevant regulations should all be written out specifically and in sufficient detail. The NC should be drawn up after a thorough consultation of market parties and after careful pondering of all possibilities and of the interests of market parties.

The fact that this NC is the first in a series of new NC's gives it a "head start", which can lead to problems if subsequent NC's stipulate things differently. This, however, is unavoidable and should be addressed by a future adaptation of the present NC using the same procedures as used to make it initially. One could, however, make exceptions for items which are less influenced by the interests of market parties and are more to be regulated in view of the necessary standardization, coordination and clarity of the regulation. These are the more "technical" details. E.g. the details in the "Data and Solutions Handbook".

We think that for establishing details of the latter category a separate (lighter) procedure can be used. This should include consultation of the market parties involved, a report by the TSO's underpinning the choices made from the possibilities, taking into account the comments made by the market parties. This (technical) regulation should be published timely, including a timetable for the implementation and all the necessary details.

Such a technical regulation should be made binding to all market parties. This can be achieved by including one or more articles in the NC stating that a technical regulation (like the handbook), dealing with a set of subjects specified in that article, can be drawn up by the TSO's using a certain light procedure (i.e. not including comitology) and will be binding once published.

Especially in such simplified process concerning market design details, the strong involvement of the market is a must.

**Question 3:** In your view, is it credible that principles and details of CAM mechanisms could be separately identified? What elements of this (or other) code(s) might be considered for a “lighter” change process and how might such changes be made binding?

Response:

Yes, see also the answer to question 2. We think "technical details" (e.g. related to the IT-systems, communication protocols, timing of implementation) and “market details” (e.g. related to capacity products and auction processes) could be drawn up and changed using a light procedure (including consultation).

**Question 4:** How do you consider that a process to review the handbook, and to modify it where necessary, should be designed?

Response:

See also the answer to question 2.

The idea to develop a handbook where a lot of more details could be laid down seems to be a useful tool. It must be made sure that the handbook will have the same binding obligation as the NC.

Drafting and changing the handbook (and the like) should be done as follows. ENTSO-G starts by stating the problem to be solved, possible alternatives and their preferred solution (at least two months in advance). Next there will be consultation of the market parties involved (at least four weeks). Next the ENTSO-G writes a proposal with their conclusion: chosen solution, reaction on comments of market parties and a time table for implementation. This proposal is to be endorsed by ACER and send as a copy the EC and the NRA's. The handbook and any changes would have to be finally approved by ACER.

The handbook (and the like) will be binding because in the NC an article is included, which states that the handbook (and the like) will be binding.

**Question 5:** Do you agree with the NC proposal for long term auctions of quarterly products? If not, please explain your proposed alternative and the rationale for this.

Response:

Energie-Nederland agrees with the NC proposal for long term auctions of quarterly products. However, we do not agree with the proposal to do this via a single round auction. Also some details should have been set to be able to fully agree with the proposal.

**Question 6:** Do you consider that the auction design set out in the draft NC includes sufficient measures to allow system users to purchase the long-term capacity they want? If not, how could the measures be improved, while remaining consistent with the FG and keeping the complexity of the auction design to a manageable level?

Response:

The ability to place bids for 15 consecutive years is sufficient to cover long-term interests. We think that the auction method of annual quarterly auctions with the option of rebidding during the bidding window, is adequate to purchase LT-capacity.

Although:

- 1) We do not support the ENTISO proposal regarding the auction design for long-term capacity products with only one single round. A single round auction for products of the same duration which have the same end dates all of Europe creates the risk that shippers end up with unwanted capacity or no capacity at all. With the current status of the secondary market development the shipper cannot sell this unwanted capacity easily. Therefore we would suggest a multiple round auction algorithm for long term products as quarterly and monthly products. In such way market parties have the chance to actively decide whether a bid is placed at a higher price or not without being reliant on the behaviour of others (see also question 9). In our view re-bidding in multiple rounds and publishing of aggregated interim information is fundamental for price discovery and efficient allocation.
- 2) We don't understand the benefits of a price step approach for the long-term capacity products. We would prefer a similar system as is implemented in the electricity market. Auctioning the available capacity and the lowest bid that is awarded determines the auction clearing price (marginal pricing). In terms of this consultation this would be called an open-bid auction with uniform price.
- 3) We think the bidding window should stay open until the end of the window (hence not be closed), even for points and quarters in which in the previous round(s) was not made an additional bid. The reason is that the capacity at that point, that the user wants to purchase, may depend on the results on other points or quarters.
- 4) Auction systems will allocate existing capacity to the market parties. However we do miss how new capacity investments are triggered. We believe this should be further developed in the NC.
- 5) Article 4.1.6. of the framework guidelines stated: "at least 10% of the available capacity shall be withheld for Short Term Capacity auctions". If the interconnection point is fully booked, there will be available capacities neither during the Long Term Capacity auction neither during the Short Term Capacity auction. To allow users to purchase the long-term capacity they want, one should first start to commercialise at least 10% of the total capacity for short term auction and not only at least 10% of the available capacity.

**Question 7:** Do you consider that the within-day auction proposal set out in the draft NC could be improved from a user perspective? If so, what improvements would you suggest?

Response:

Energie-Nederland believes that a First Come First Served (FCFS) mechanism suits the within-day capacity market better. For within day capacity a quick first come first serve solution (click-book-nominate), analogous to the electricity market is essential to create liquidity at the WD market. If there is a business opportunity during the day it must be possible to book the available capacity directly without the need to wait for the next auction round (click-book-nominate). In addition, having an auction at every hour is likely to increase operational costs significantly without improving the availability of capacity and as all available capacity will already have been made available via auctions up to the day-ahead stage FCFS is not a discriminatory solution but simply one based on economic rational.

**Question 8:** The draft NC proposes that TSOs will implement all auction systems at all Interconnection Points (IPs). However, if no purchases of capacity are made in within-day or day ahead auctions at a particular IP over a certain period of time, do you consider that it would be appropriate to suspend these auctions for some time, in order to reduce operational costs?

Response:

There should be a standard auction process at all interconnection points. With the implementation of a multi-round system, the day ahead auction would be finished after the first round and within day auctions shouldn't be used at all, i.e. apply first come first served for WD. This would already save a lot of operational costs.

In principle we do not support suspending auctions at any IP.

**Question 9:** Do you consider that the auction algorithms set out in the draft NC are appropriate for the Standard Capacity Products to which they are proposed to apply? If not, what modifications would you suggest?

Response:

The idea of auctioning a scarce good is to allocate this good to those who value it the most, i.e. are willing to pay the highest price. Energie-Nederland explicitly supports this allocation method as it is market based and non-discriminatory.

Energie-Nederland does not support ENTISO's definition of a fixed number of price steps, as it is possible that at P30 the congestion has not yet been successfully removed. Applying a pro-rata

approach in this situation would interfere with the principle of a market-based allocation. With pro rata allocation none of the participating shippers would receive capacity according to their needs – thus resulting in strategic bidding behaviour which in any case must be discouraged. In the revised FG CAM it is explicitly stated that capacities are allocated via auctions. This does not leave any room for a pro rata mechanism.

When designing a single round auction process which encompasses such a large bidding window for long-term products as proposed by ENTSOG it has to be kept in mind that shippers will probably place their bids towards the end of the bidding window, i.e. on day ten, as to not expose themselves too early to the scrutiny of their competitors. That way the first nine days would be a waste of resources for both the shipper and the TSO. Therefore, ENTSOG should consider a mechanism that prevents this behaviour and use a multiple round auction algorithm. In this algorithm shippers always have the chance to actively decide whether a bid is placed at a higher price or not without being reliant on the behavior of others.

The much sought-after transparency in this case does not lead to resilient prediction on bidding behaviours as it is possible to withdraw bids at any time. Therefore, shippers should not be able to reduce or withdraw their bids within the same price step.

In a multiple round auction algorithm however with predefined steps the market party (shipper) has at the end of every bidding round the highest degree of transparency without the need for additional rules.

To summarize the Energie-Nederland position:

- Multiple round auction algorithm for long term capacity products (quarter and month).
- Single round for day-ahead capacity.
- FCFS for intra-day capacity.
- No fixed number of price steps, as this will result in a pro rata allocation (which is not useful).

**Question 10:** Do you believe that any of the potential alternatives described would be more suitable? In particular, do you consider that a Pay-As-Bid methodology would be more appropriate than uniform price, particularly for auctions of shorter duration products?

Response:

Energie-Nederland believes that multiple round auction algorithm for long term capacity products is more effective for a shipper. This could also be done in a open-bid, uniform (marginal) price system. This will result in:

- a higher level of transparency for the shipper and regarding the price formation prices.
- a lower risk on double reservations.
- an additional possibility for quantity adjustment.

- a market price -even when this is greater than P29- without pro-rata allocation.
- active decisions from shippers to make the next bid of leave.
- a reduced allocation time, if auctions clear faster than 10 consecutive days.

A cleared price approach is the most appropriate for long term capacity allocation.

**Question 11:** Under an open-bid algorithm (whether uniform price or pay as bid), do you consider that ten bids per user is a sufficient number?

Response:

We see no reason to limit the number of bids (see above).

**Question 12:** Do you consider that mechanisms supporting value discovery should form part of the NC? If so, which mechanisms do you believe would be most effective?

Response:

Yes. The basic request is that there should be a transparent and market based capacity allocation system throughout Europe. As described we believe that for long term auctions the multi round solution is the best solution to fulfil the requirement.

**Question 13:** In your view, how could a split of bundled capacity between existing holders of unbundled capacity best be arranged?

Response:

This should definitively not be arranged at all. The sunset clause and the default rule are illegal. We reject any mandatory bundling leading to the forced renegotiation of existing contract. We support the ENTSOG decision not to include any rule regarding the “sunset clause” and the proposed fall back (50:50 split) solution as given by the actual FG CAM.

**Question 14:** In your view, what effect would mandatory bundling have on network users? Please provide supporting evidence, if available.

Response:

While we think that the process of offering bundled capacity by the joint TSO's (via auctions) on the IP's is a good idea, we are opposed to the obligation to use the capacity only in a bundled form. We would welcome to have the option to use purchased bundled capacity either in the bundled form or be able to transfer (or sell) one side of the purchased capacity to another market party.

Mandatory bundling of capacity makes title transfer of commodity at the border impossible. International shippers want to have both possibilities: either transport gas (via bundled capacity) to the adjacent virtual hub and sell the commodity there, or transport gas to the border point and sell it there to another shipper, who will transport the commodity into the system of the NNO and sell it there.

Mandatory bundling (thus enabling hub trades only) is not good for market development. As a shipper, one is active in a limited number of separate transport systems. The reason for this is that being active as a shipper in a system requires a major effort:

- obtaining a shipper license;
- supplying financial securities to the local TSO;
- obtaining and maintaining a thorough knowledge of the local regulatory system;
- having a thorough knowledge of IT-systems for the local operational side of the transport processes (nomination procedures, allocation procedures) to avoid fines;
- having IT-systems and 24 \* 7 dispatch capacities to guard and maintain the balance in the local system.

This effort will be justified if one has a big size portfolio in the local market, but is not justifiable for a limited size portfolio. If one considers entering a new market the best way to start is to seek the assistance of a local shipper and deliver the gas to him at the border (in which case this local shipper has to worry about local transport issues). Later, when the portfolio has grown, a party can become a full shipper in the network of the adjacent NNO.

Furthermore, if bundled products for existing contracts are imposed, it could lead to the simultaneous reopening across Europe of contractual agreements. The shift from a physical delivery point to a virtual one necessarily implies a delicate renegotiation of many aspects of the contract such as nominations, taxes, the impact of fuel cost and transport costs, etc.

So, mandatory bundling makes life difficult for a shipper / trader (instead of easier). Energie-Nederland is against mandatory bundling and seriously require reconsideration.

**Question 15:** Do you consider that the approach to bundled capacity set out in the NC is appropriate, within the constraints of the FG?

Response:

As stated already, we think that offering of bundled capacity by the TSO's - via auctions and in a coordinated way - is a good idea. In that way the present problem of obtaining capacity at one side of the border and no or less capacity at the other side will be prevented. The envisaged way of allocation (via auctions) is OK. Also the coordination between the TSO's is an improvement: both the amounts of available capacities and the way to allocate these to shippers will henceforward be coordinated. This is good.

On the other hand we believe that the bundling of capacity should not be mandatory and therefore we do not agree with the proposals in the FG.

**Question 16:** Do you consider that the process set out in the draft NC for determining the sequence of interruptions is appropriate? If not, what system would you prefer?

Response:

Interruptible capacity is likely to become less important if the TSOs succeed in freeing up unused capacity. Auctioning this capacity seems over-complicated for a product with decreasing importance. Therefore we do not support the proposed allocation procedure (clause 6.1.6) of interruptible capacity via an auction process. Interruptible capacity should not be offered while firm capacity is still available so as to minimize the risk of under recovery at non-congested IPs. If interruptible capacity is offered, it should be booked by the shipper when needed on a FCFS-basis.

With regard to the sequence of interruption, 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.

Although if auction is chosen as the allocation mechanism for interruptible capacities (clause 6.1.6. with the possible exception of within-day), it is not appropriate to give priority to the oldest Contractual Timestamp (clause 6.4.1.). In that case, the contracts with the highest price should be interrupted last.

**Question 17:** ENTSOG would welcome feedback, observations and suggestions related to this section of the supporting document and to Annex 2. Do you consider that ENTSOG has correctly identified the key tariff issues in these sections?

Response:

Energie-Nederland is of the opinion that CAM, CMP and Tariffs are linked issues and should have been assessed together to have a better understanding of the complete picture.

We think that the use of a reserve price (for all auctions including all short term auctions) at the level of the regulated tariffs is fair. We think that having a zero or low price for short term products (like in the UK is used for DA and WD auctions) would not be correct and would lead to unwanted effects and behaviour and to cross subsidies. Also it would undermine the cost recovery by the TSO's.

On the other hand, the use of the regulated tariffs as a minimum is paramount to over-recovery, since at all congested points the auction price will be more than the minimum. This could lead to an incentive for the TSO's to maintain the situation of congestion. Therefore in the NC article 7(6) should be extended by stating that over-recovery should be used by the TSO's to enlarge the technical capacity of the congested IP's.

The following items have to be discussed during the Tariffs NC procedure.

- Reserve price.

ENTSOG's draft NC on CAM set a reserve price equal to the regulated tariff. Energie-Nederland agrees with this solution because it is simple and fair. Indeed, the best solution would be to set a reserve price for each kind of auctions (long term, annual, rolling monthly and day ahead) based on the estimated value of the capacity at each auction but this evaluation seems very difficult and cumbersome to realize (Should it be based on the marginal cost? Market based? Should not long term auctions be promoted to provide tariff visibility and investment incentives?) To simplify, it seems more expedient to apply the same reserve price, i.e. the regulated tariff, for each kind of auction. Furthermore, setting the same reserve price will avoid any cross-subsidization between different kinds of shippers buying capacities at different time, which would trigger a risk that shippers move to very short term reservations.

Regarding the "multipliers", Energie-Nederland is in favor of regulated tariff prorated to the duration (e.g. for quarterly product, the reserve price should be  $\frac{1}{4}$  of the regulated annual tariff). Setting different reserve price for summer quarter or months than for winter and winter months is a more complex issue. Cross-subsidization between different kind of shippers has to be avoided.

- Under / over recovery.

Energie-Nederland agrees with ENTSOG on the fact that over and under recovery should be minimized because else it "involves all kinds of incentive issues, cross-subsidizations, hampering of trade in the case of high commodity tariffs, loss of investment signals, tariff volatility and other potential uncertainties and disadvantages both for users and TSOs".

Booking's forecast should then be the most accurate possible.

Energie-Nederland supports the principles for recycling over recovery or charging ex-post to recover shortfalls enunciated in annex 2 : *"should avoid creating cross subsidies between different classes of network users, should promote trading/competition, and should be consistent with system users procuring the capacity they need and avoiding capacity hoarding. It should also lead to tariffs that are predictable and visible for system users and should incentivize them to procure capacity at the time when they identify a need."*

Furthermore, over recovery due to high revenues from auctions at a specific congested interconnection point should be dedicated to the release of incremental capacities at this point.

Charging shippers with a variable commodity charge as a mechanism to compensate under recovery is not a solution Energie-Nederland will support because it changes all the time and it can lead to cross-subsidizations. Energie-Nederland is more in favor of *"a timely manner by adjusting tariffs accordingly"* as written in the draft CAM NC.

**Question 18:** What is your view of the process that ENTOSOG has followed in order to produce the draft NC? Would you recommend that ENTOSOG use a similar process to develop future NCs? What approaches would you suggest to enable ENTOSOG to improve the process?

Response:

The process used by ENTOSOG was in general OK, but it would be a welcome improvement to have working papers for different stakeholder sessions available two days before the meeting to enable proper preparation. In general we also think that DG ENER and regulators should be more involved in the process. Also, CMP and Tariffs should have been discussed at the same time as CAM because there are linked issues.

**Question 19:** ENTOSOG is developing a new website and would welcome stakeholder views on how to make it as useful as possible. What are your views about the current ENTOSOG website, [www.entsog.eu](http://www.entsog.eu), and what could be improved?

Response:

The ENTOSOG website is complete and transparent.

**Do you have any other comments or observations you would like to make?**

Response:

- Article 10 should be more explicit about the implementation of the NC and all IT-systems. We recommend that ENTSOG organises an "Implementation Bureau". This Bureau should coordinate the implementation: by consulting upon and determining an implementation scheme; by publishing all relevant details; by functioning as the place to get all questions answered; by making a testing and certification facility and so on.
- Article 4.3 allows a choice between kWh/h or kWh/d. This might lead to difficulties in the technical handling and mismatches between TSOs. We suggest to use only kWh/h.
- Financial guarantees linked to auctions (such as bid bonds or cash deposit that may be required to participate to the auctions) may be cumbersome and costly, particularly for new actors. These processes shall be simplified and mutualised for several auctions.