

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 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?

ExxonMobil supports the level of detail in the draft NC. We are of the opinion that the NC should be sufficiently detailed to be implemented without additional national codes. The draft NC meets this test.

Overall the level of detail is appropriate for an EU Regulation, taking into account that the process for changing EU Regulations has proven to be difficult and time consuming. However, we have identified a few elements in the draft NC that in our view are too detailed to be specified in the NC, such as the timing for submission of bids in articles 4.5 through 4.9 and the duration of the Bidding Window. We suggest that these elements are specified in the “Auction Calendar” and are subject to a “lighter” change process as referred to in Question 3.

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?

We support the change process foreseen in the Third Package as laid down in Article 7 of Regulation No 715/2009. This ensures that changes to the NC – that are legally binding on TSOs and network users – are made after careful consideration of the impact. For this reason it should be avoided that the NC fixes non-essential details that are likely to trigger the need for future changes.

Considering the number of NCs (and changes thereto) that are to be adopted through the committee procedure as foreseen in the Third Package, there may be a need to install a (semi-permanent) committee of technical experts to facilitate and expedite this change process.

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?

We believe that certain details of the CAM mechanism are better specified outside of the NC. This should be limited to non-essential elements (practical details) and should not lead to differences between Member States. Examples of such details are the “Handbook” referred to in Article 1.2(j) of the NC and the “Auction Calendar” referred to in Article 1.2(a). Also the additional auction rules to support value discovery (as referred to in Question 12) could be grouped into this category.

We support a “lighter” change process to modify these practical details, where changes can also be made upon request of stakeholder(s), and which includes a consultation process. In order for these details to be binding, they should have a basis in the NC. This also applies to the change process.

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

The “Handbook” is considered as an example for the practical details referred to in Question 3. We support ENTSOs view that standards for IT-communication should be specified outside of the NC. This avoids loading the NC with many practical details, which are also likely to trigger many changes over time.

The manner in which the Handbook is addressed in the NC creates a basis for the Handbook to be binding. We recommend that the (principles of the) change process for the Handbook and other details referred to under Question 3 are also included in the NC (see proposed Article 9A).

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.

We support the NC proposal for long term auctions of quarterly products. Quarterly capacity can be used to build seasonal capacity and longer profiled capacity contracts according to users’ demand.

The issue that has not been discussed in much detail is the impact on regulated reserve prices. We agree that the use of a quarterly product introduces the possibility of profiling of capacity over the year. Consequently regulated reserve prices will need to be set such that profiling of capacity does not introduce the risk of under-recovery of revenue to the TSO. However, the proposal described in Annex 2 to the supporting document would create undesirable effects. Users with a flat capacity profile over the year would be subject to a price increase for buying 4 quarters versus a full year. As an alternative we recommend that the regulated reserve prices are profiled in a manner that sets a higher reserve price for quarters with high flow requirements as compared to quarters with low flow requirements. This would avoid under-recovery of revenue to the TSO, while also mitigating the impact on system users. This alternative model is further described in the response to Question 17. We recommend that the words “higher than one” in Article 7.3 of the NC are deleted to allow flexibility for this alternative to be considered.

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?

We support the auction design set out in the draft NC. We accept that each standard capacity product will be auctioned independently, in order to keep the complexity of the auction design to a manageable level. It is essential that system users are provided with interim information during the auction, and that they can adjust their bids during the bidding window. This enables users to adjust their booking strategy to purchase the available long-term capacity they want.

We believe that the long-term capacity auctions should be expanded to include additional capacity.

The auction design as proposed is capable of also dealing with incremental capacity. We acknowledge that incremental capacity is outside the scope of the FG and NC for CAM. However, when defining FG and NC for new investments we recommend that the allocation of incremental capacity is integrated with the long-term capacity auctions.

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?

We agree that the within-day capacity auction proposal meets users' needs.

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?

We support the proposal to suspend within-day and/or day-ahead auctions at particular IPs where it is demonstrated that there is no demand for such products, in order to reduce operational costs. However, should a user indicate interests for any of the suspended products, it should be possible to acquire these without undue delay.

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?

We support the auction algorithms set out in the draft NC for the Standard Capacity Products to which they are proposed. We want to reiterate that the long term auction of Quarterly Capacity Products should also be used to allow users to indicate interest for incremental capacity release.

We support the manner by which the clearing price is determined in the volume-based cleared-price auction algorithm. This avoids that capacity allocations are pro-rated and none of the successful bidders would actually get the amount of capacity they bid for.

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?

We support the proposed auction algorithms as a balanced package. A Pay-As-Bid methodology combined with the proposed regulated reserve price would increase the risk of over-recovery of costs. We believe a Pay-As-Bid methodology would be more appropriate when combined with a zero

reserve price, however this would increase the risk of under-recovery of costs.

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?

Ten bids per user is considered sufficient. However, we question why the number of bids should be restricted, and the need to incorporate this restriction in the NC.

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?

It is essential that system users are provided with interim information during the auction, and that they can adjust their bids during the bidding window. We support additional rules if needed to ensure that interim results are meaningful and not misleading, but this should not make the system overly complex. Possible options to take into consideration are:

- Obligation to bid from the first day of the bidding window;
- Restrictions on amending bids (e.g. only allowed to reduce amount or increase price).

In case additional auction rules are introduced these should be applied uniform across Europe, and should be part of the NC or the details referred to under Question 3.

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

In our view the rights of existing holders of unbundled capacity should be fully respected. We agree with ENTSG that TSOs could be exposed to damage claims or loss of revenue when TSOs would unilaterally change the fundamentals of existing contracts.

Moreover, to establish contracts for bundled capacity, the TSOs would also have to order existing holders of unbundled capacity to enter into a contract with the neighbouring TSO. We fail to see a valid legal basis for this and strongly believe this should be excluded from the NC.

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

In our view mandatory bundling that would apply to existing capacity reservations would affect the commercial value of existing transportation contracts and/or underlying supply contracts. This would undermine contract sanctity, which is an important principle in the gas industry to ensure a sound investment climate that is pivotal to long term security of supply.

We support voluntary bundling, or a combined service where available entry- and exit capacity are

auctioned as a single product and – when allocated – can be split in separate contracts.

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

We support the approach to bundled capacity set out in the NC. We understand that ENTSOG takes the view that capacity at an IP which is auctioned and allocated as a bundled product will be split in 2 contracts, one for each of the interconnected TSOs. We support this approach, provided TSOs allow users to assign one of these contracts to a registered user on the other side of the IP.

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?

We support the process set out in the NC for determining the sequence of interruptions. Using the Contractual Timestamp to determine the sequence of interruptions implies that interruptible capacity is not limited to day-ahead capacity. We support that all Standard Capacity Products are also offered as interruptible services at every interconnection point in both directions.

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?

We acknowledge that the offer of quarterly and monthly products is likely to result in (more) profiled capacity sales (versus annual products), which affects the regulated tariff. We agree that if this causes a shortfall of capacity sales – compared to the non-profiled booking – this should be compensated through the reserve price.

In our view the reserve price should also be profiled, matching the sales profile, such that periods of high sales the reserve price is also higher compared to periods of low sales. Without profiled pricing, users with a flat capacity profile over the year would be subject to a price increase for buying 4 quarters versus a full year. With profiled pricing this effect could be mitigated while also avoiding the risk of under-recovery of revenue to the TSO. This is illustrated in the attached model.



Auction reserve
price.xlsx

Question 18: What is your view of the process that ENTSOG has followed in order to produce the draft NC? Would you recommend that ENTSOG use a similar process to develop future NCs? What

approaches would you suggest to enable ENTSG to improve the process?

We are very supportive of the process that ENTSG has followed to produce the draft NC. The process has been open, transparent and well organised. Moreover ENTSG has been very receptive to input from stakeholders. We would welcome a similar process for future NCs.

Question 19: ENTSG 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 ENTSG website, www.entsog.eu, and what could be improved?

We frequently refer to the ENTSG website for information and find it easy to access.

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

We have provided additional comments and text suggestions for the NC in a separate document (with track changes).



Draft_CAM_NC
comments.docx