

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?

Response:

The level of detail seems to be appropriate.

However, its legibility would be improved if an annex (or a supporting document) could be attached illustrating processes and mechanisms with things such as graphs, diagrams, explanatory notes etc. Such annex would, in other words, enable a good operational understanding of that document.

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:

POWEO shares the view of ENTSG that certain types of changes to the NC shall be permitted without having to go through the change process foreseen in the Third Package. In particular, because standard products and auctions are being implemented for the first time, it is likely that based on first experience, improvements will be identified, some of which shall be implementable easily.

However the scope of such permitted changes and the corresponding change procedure shall be very clearly defined. For example, things such as auction design issues shall be permitted, but key principles such as definition of standard capacity products shouldn't be changed without going through the change process foreseen in the Third Package.

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:

POWEO believes that it is indeed possible to identify details of CAM mechanisms and classify them as either "change process as per Third Package" or "lighter change process". Following this consultation, ENTSG shall conduct this listing and submit it to consultation.

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

Response:

The handbook will specify technical solutions, which do not have a structural impact on CAM key principles. As a result, it is desirable to have a dedicated process to update this handbook whenever needs arise.

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:

POWEO does not share the view that long term capacity shall be offered via quarterly products for three reasons:

- (i) Gaps in booking: shippers willing to book a band of capacity greater or equal to one year are not guaranteed to obtain it unless bidding at every price step. As a result, it is impossible to build properly a capacity portfolio and this would lead to complexity. At least, quarterly products should be linked and combined into longer profiled capacity contracts
- (ii) Not compatible with market liquidity: even on mature markets, gas quarter products from the fourth quarter ahead are not liquid. Market based mechanism such as auctions is not relevant for illiquid products
- (iii) Extreme seasonality: a certain degree of seasonality is desirable, but we believe that season products (ie 6-month products from April to September and October to March) are perfectly sufficient

Conclusion:

- POWEO thinks that annual or multi-annual products shall be offered on the long term auctions, especially if the reserve price is the regulated tariff. Seasons products could be offered for liquids maturities (6 seasons ahead). The allocation process should be sequential on a temporal and spatial basis in order to ensure coordination between all IPs and maturities.
- Moreover, POWEO thinks that CAM NC should take into account the entry points from LNG-terminals and production facilities and entry/exit points to or from storage facilities. For these points, auctions should not apply and POWEO supports pro rata rules.
- FCFS shall not be used for any capacity allocation.

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:

POWEO shares the view that volume-based methodology appears to be appropriate for long term

capacity products. Besides, a one-round, pay-as-cleared auction where shippers submit a bid curve is certainly the most efficient auction mechanism.

However, one point to note is that long-term auctions are running simultaneously and independently. As a consequence, and as mentioned in question 5, the network users may have some gaps in booking their long-term capacity, or a risk not to have the entire route desire in case of several IPs.

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:

POWEO doesn't agree with a within-day auction that takes place every hour for the remaining hours. It will lead to complexity and this mechanism would be in competition with the UIOLI process. POWEO suggests offering all the remaining capacity after the day-ahead auction into the UIOLI mechanism.

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:

We believe this decision should be part of the "lighter" change process as discussed in Question 3.

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 auction algorithms determine the allocated capacity and the clearing price :

- For long-term auctions, annual monthly and rolling monthly, part of offered capacities can be unsold in using the lowest price step at which demand is smaller or equal to offered capacity but this algorithm enables shippers to acquire a standard volume of capacity they can hedge through the gas market
- For day-ahead and within-day auctions, algorithm is a pro rata rule to allocate the capacity at the highest price step at which demand is greater than or equal to the offered capacity. POWEO supports this algorithm which allows a full allocation of available capacity on a day-

ahead basis

However, we do not understand why a pre-defined price steps approach has been chosen, as opposed to freely defined price steps by shippers. We do not believe this would increase much the complexity of aggregating all the bid curves from all the shippers.

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:

POWEO would have expected to see another alternative, which would be a freely-defined price curve. We do not understand why it is a requirement to pre-define price steps (either their number or the increment).

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:

POWEO does not have a precise number in mind, but 10 does seem a good balance between too many and too few.

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:

At this stage, POWEO does not see the benefit of allowing shippers to withdraw their bids once submitted. Bids should be submitted only once and become binding once submitted.

POWEO shares ENTSGO view that measures such as interim publication of aggregated information are likely to help price formation.

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

Response:

Regarding entry points from LNG-terminals and production facilities, the sunset clause does not apply. Regarding IP, bilateral negotiations are probably the best solution in order to reach an agreement on the split of the new bundled capacity, bearing in mind that the sunset clause will act

as a catalyst to incentivize both capacity holders to hold negotiations. If an agreement cannot be reached, the split of bundled capacity between existing holders of unbundled capacity shall be 50% / 50%.

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

Response:

POWEO believes that mandatory bundling is primarily, if not only, an issue of arbitrage opportunities between the buyer and the seller of gas at the flange. Bundling will force gas contracts delivered at the flange to move delivery point, either to the hub upstream or the hub downstream. The seller will have a clear interest in moving the delivery point downstream, and the buyer upstream, so as to capture arbitrage value between production and delivery point (for the seller), or between delivery point and consumption point (for the buyer). We understand that the sunset clause will certainly create tough negotiations between capacity holders (and between buyers and sellers of gas contracts delivered at the flange), but we do not believe that it poses a threat to security of supply (as it applies only within EU member states).

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:

POWEO agrees with the approach of bundled capacity, including its definition and article 5.7.

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:

POWEO agrees with the interruption process as defined under 6.4. But we request the fact that, when selling interruptible capacity, TSOs should qualify and quantify the interruptibility, such as conditional to certain flows, temperatures etc. vs. maintenance works, and the probability of interruption.

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

Response:

POWEO does not agree with the current ENTSG proposal of setting a reserve price equal to the regulated tariff on the short-term products. We believe this defies the purpose of putting auctions in place. As a matter of fact, the objective of auctions are primarily (i) to ensure that capacity is allocated to shippers which need it the most (as auctions offer a certainty on quantity but not price), and (ii) that economic signals can be derived to identify potential congestions and investment requirements. A consequence of auction is therefore that, where and when there is no congestion and no price divergence between hubs, award price is likely to be very low, if not equal to zero. Setting a reserve price – no matter what its level is – seriously challenges the relevance of creating auctions.

Moreover, setting a reserve price equal to the regulated tariff on the short-term products can lead to market spread between two hubs higher than 0 whereas there are still some available transit capacities (if market spread is between 0 and the regulated tariff). It doesn't make sense to create a positive market spread linked to an artificial congestion.

POWEO agrees with applying a reserve price equal to the regulated tariff on the long-term auctions in order to ensure cost recovery, but as soon as we are running short-term auctions, POWEO is opposed to any reserve price.

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

Response:

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?

Response:

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

Response:

