

## 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:

For BDEW the level of detail in the draft NC is appropriate for an EU-wide regulation. To ensure sufficient flexibility in order to revise processes when necessary, the processes should not be rigidly defined in the NC. However, any necessary change of processes should be done uniformly across the EU in order to avoid increasing divergence of national market rules.

**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:

As mentioned above, BDEW sees a need for allowing an evaluation and revision process with regard to the details for the auction design. The NC should define the products, the general mechanisms and tariffication. The particular auctioning process such as the specific auction calendar, the possible steps and other details should be easily revised and adopted if necessary. A strong stakeholder involvement in case of a revision and evaluation must be secured. The auction systems must be transparent, comprehensible and applicable by the customers.

**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:

As stated in the answer to Question 2, there should be a facilitated change process for capacity products and the auctioning process. While the Framework Guidelines and the NC CAM should determine all rules necessary to ensure a level playing field across the EU, some specifications (i.e. time steps) should be developed separately in order to ensure sufficient flexibility where future experiences are likely to require changes. BDEW thinks that such an approach is most suitable in order to develop a harmonised and workable solution for the European Gas Market.

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

Response:

The ENTSG idea to develop a handbook where a lot more details could be laid down could be a useful tool. It must be ensured that the content of the handbook should have a binding character for all member states.

If it is indeed necessary to include issues in a separate handbook, the review and possible modification of this handbook should at least consist of the following steps:

1. Stakeholder feedback results in the decision of the TSO to review the handbook,
2. Change proposal, plus cost-benefit analysis are presented to the market. Workshop added when deemed necessary by TSO or Stakeholders,
3. Sufficient time is given to analyse and respond to the consultation (> 4 weeks),
4. TSO analysis and (adjusted) a proposal for modification is presented to the market and ACER and EC,
5. Enough time should be provided for the implementation by the stakeholders, if necessary (the market should be informed two month ahead if changes will be introduced),
6. In order to start the change process, a yearly evaluation should be implemented. The evaluation should be started by gathering proposals for improvements and considering obvious deficits.

BDEW would like to emphasize that the proposed mechanisms for the handbook and the details of the CAM NC which are considered for a “lighter” change process should be reduced to a minimum.

**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:

BDEW agrees to the principle that long term capacities should be auctioned only in the form of separate quarterly products. The auction mechanism however has to ensure that a shipper is able to decide independently when to leave an auction. In a multiple round ascending clock auction mechanism he is given such a possibility.

**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:

See answer to question 5. For the BDEW, the single round auction design bears different risks and shortcomings. Please see response to question 9 for detailed argumentation. Therefore a re-bidding and the publishing of the aggregated interim information have only a value if strategic bidding behaviour is not possible in the proposed auction design.

As addressed during the workshop for most stakeholders the process lacks in how to trigger the necessary investments in case of congestion and should be further investigated.

**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:

BDEW sees no need for auctioning within-day capacities. The proposed auctioning process for within-day auctions and interruptible capacity will be held at an early state where only a few traders/shippers will take part in the auction and therefore, the demand of these products could be low. Additionally, the market for within day balancing energy would be drastically harmed, because due to the auctions additional lead time has to be considered with negative effects on system integrity.

For within-day capacity, BDEW recommends a quick first-come-first-served solution. If there is a business option 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 this case this is a non-discriminatory solution based on economic rational.

Regarding Article 4.3, BDEW would like to point out that it strongly supports the possibility to book capacity in kWh/h.

**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:

As stated in the answer to Question 7, it would reduce the costs for all market participants to choose FCFS as an allocation method for within-day capacity. It would not be advisable to suspend the allocation since TSOs are not able to predict exactly whether there is demand for day ahead or

within-day capacity or not.

**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:

BDEW has various concerns about the proposed auction algorithms:

1. Single round auctions for products of the same duration which have the same due dates all over Europe are bearing the risks (by participation at several auctions giving access to same entry-exit-systems) for shippers ending up with unwanted capacity, respectively no capacity at all. With the status of the secondary market development in different European countries, the shippers cannot sell this unwanted capacity easily.

Therefore, BDEW supports a multiple-round ascending clock auction algorithm for long-term products such as yearly, quarterly and monthly products. In this multiple round ascending clock auctions, shippers always 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.

2. It is not sensible to design a one-step auction with a bidding window amounting to ten working days. Firstly, it is quite sure that almost all bids will be submitted on the last moment of this period ("Ebay-Effect"). The rest of the bidding window would therefore be simply a waste of time and would unnecessarily complicate the timing of the various auctions. The purpose of the auction mechanism is the transparent and anonymous determination of the market price for the capacity of the congested IP. The identification of the fair market price requires at least a minimum of interaction between the auctioning platform and the demanding party. The interaction within one step is clearly not eligible in order to satisfy this requirement, because the shippers are not able to gain information about the price development and therefore the potential capacity shortage/value.

Secondly, as a perceived benefit of such a long bidding window some have mentioned an increased transparency of the bidding process and more flexibility for shippers. However, as long as it is still possible to withdraw submitted bids, there is no useful information that can be taken from the bidding behaviour during the main part of the bidding window. BDEW even sees the risk that provided information might be misleading for inexperienced or uninformed bidders who might misinterpret interim results and e.g. unnecessarily leave an auction process before it was actually completed.

In a multiple-round ascending clock auction algorithm with predefined price steps, the shipper is given at the end of every bidding step the highest degree of transparency without the need for additional rules which would be necessary in order to make the proposed single round approach workable. BDEW believes that a multiple round ascending clock approach provides the flexibility to adapt to learning curve effects which are likely to occur in the market, e.g. the number of rounds per day could be increased in order to complete auctions faster. In addition, simple tools

like bidding assistants or the possibility to upload prefilled lists of bids via XML-interfaces would allow to take advantage of the “best of both worlds”: On the one hand, shippers could follow an auction process step by step (and actively decide whether a bid is placed at higher price or not). On the other hand, a shipper could choose to just transmit a completed list of bids and wait for the final result of the auction without the necessity to actively bid at each price step.

3. If ENTSG opts for a single-step auction, BDEW will strongly support a much shorter bidding window and prohibition of bid withdrawal and other necessary rules in order to make such an approach workable.
4. The underlying principle of an auction is to allocate a scarce capacity in a market-based way. An auction process delivers a market clearing price which displays the value of the capacity under consideration of the best way (but only in case market-compatible preconditions allowing for a reasonable development of this price are met). The capacity is given to those who value it most, i.e. who are willing to pay the highest price.

BDEW therefore rejects the 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 mechanism in this situation would interfere with the above mentioned principle of a market-based allocation. With pro rata allocation none of the participating shippers would receive capacity according to his needs – thus also resulting in strategic bidding behaviour which in any case must be avoided. Therefore, BDEW suggests allowing for bidding at all possible prices (maybe in multiples of a predefined price step) in case a single-round approach will be implemented in the NC CAM.

It should be taken also into consideration that the revised FG CAM explicitly states that capacities "are allocated via auctions". This does not leave any room for a pro rata mechanism which would thus violate the Framework Guideline and be subject to later changes by ACER and the EU Commission.

5. BDEW supports a single-round auction mechanism only for day ahead capacities.

**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:

As mentioned in Question 9, BDEW thinks that a multiple round ascending clock auction algorithm for long term capacity products is more effective for a shipper.

- High transparency for the shipper
- Lower risk of double reservations of capacity
- Market-price will be found even in case it is larger P29 without the necessity for a pro-rata allocation
- Active decision for the Shipper to make the next bid or leave the auction

- Additional possibility of the quantity adjustment
- Possibility for shippers to use a bidding assistant
- Flexibility for adaption to learning curve effects in the market

BDEW clearly supports a cleared price mechanism as this yields a fair and transparent market price which is paid by all shippers.

**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:

BDEW thinks that ten bids per use, per offered product, are sufficient with the restriction that the aggregated amount per user is not bigger than the offered capacity at the IP.

**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:

The implementation of a multiple round ascending clock auction process would be the best way to go forward and would make any additional discussion about price discovery mechanisms irrelevant.

BDEW supports respective mechanisms especially in cases the auction design bears a significant risk of manipulation. This would especially be the case when a single-step auction would be introduced for longer term (above one day) capacities. In such a case, BDEW would strongly recommend a binding bids policy from the beginning and ending the auction, if demand < Supply. This would eliminate the possibility to manipulate the outcome of the auction by bidding for large amounts of capacity and then dropping out at the last moment before the auction closes. Moreover, the possibility for shippers to withdraw their bids in context with bidding for alternative routes is only of value if the auctions for the individual IPs would end at different times. Multiple round ascending clock auctions at least bear the possibility of different ending times for competing capacities.

Another measure which should be considered for all types of auctions is a provision that bidders have to participate from the first bidding window on. This again would increase the value of the information provided at the end of each bidding window, as there would be no “late arrivals”.

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

Response:

We do support the ENTISO decision not to include any rule regarding the so called “sunset clause”

and the proposed fall back (50:50 split) solution as given by the actual FG CAM. BDEW and the main other stakeholders clearly stated their concerns in the ENTSG consultation process and in the CAM consultation process. BDEW would like to see bundled products as optional products.

However, if ACER decides that bundling of products is obligatory, BDEW demands a sunset clause, which should be implemented by all member states and at the same time. In this case there should be wide discussion, also with ENTSG about the implementation of such a sunset clause.

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

Response:

From the BDEW point of view, mandatory bundling would unnecessarily limit the possibilities to trade. The market should decide – combined products should therefore be offered as an option under the assumption that flange trading does not harm the competitive market (creating false price signals at hubs) and does not create problems in terms of available capacity. As mentioned in earlier consultations for the CAM FG BDEW thinks that limiting flange trading by mandatory booking of combined/bundled products would require the adaptation of all cross-border supply contracts with delivery at a flange. This would not just be a matter of substituting a flange for a hub in the contract - it would rather lead to the renegotiation of the entire contract, since the delivery point has always strong implications on the management and distribution of risk between the involved parties. This is in particular true for import contracts with non-EU producers.

However, in case mandatory bundling is prescribed by the final Framework Guideline, the Network Code has to ensure that it is implemented uniformly across the EU.

**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 much as BDEW advocates bundled capacities as an option, we, however, also miss the answer to the question if this is feasible from a TSO perspective. If both, bundled and unbundled capacity products coexist, to which extend are they going to influence each other in terms of technically available capacity and with regard to the scope of products (e.g. Quarter 4/2012 as a bundled, as an entry and as an exit product)?



**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:

First of all, BDEW would like to highlight that any process determining the sequence of interruptions needs to be clear without ambiguity, comprehensible and programmable.

Secondly, BDEW would like to raise the following issues connected to the requirement set out in the framework guideline that interruptible capacity has to be allocated via an auction mechanism. BDEW would like to ask for the consideration of such issues when developing the final NC CAM.

- In case a cleared-price approach is applied, the auctioning of interruptible capacity requires TSOs to artificially limit the amount of capacity to be offered in an auction. Additional, clear rules for the limitation of the offer are needed.
- In case a pay-as-bid approach is applied, no artificial limitation is necessary. However, the price to be paid for capacity in such an auction should have an impact on the sequence of interruptions that would be auctioned in this case.

**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:

BDEW is supporting the idea of investing the auction revenues in order to eliminate physical congestions at the respective IP (or further downstream) or to guarantee firmness of the allocated capacities. However, there is need to collect data as to whether these physical congestions are enduring or temporary in the first place.

As for the pricing issues ENTSG should keep the CAM NC flexible as it can only assume a contend for the FG Tariffication and the outcome of the Guidelines on CMP. It is necessary to discuss tariff issues more thoroughly in the scope of the relevant FG and acknowledge that the CAM NC cannot prescribe any way forward without the possibility for revision of its tariff logic.

Regarding the “multipliers”, BDEW is in favour of a single regulated tariff per day, applicable for all capacity products (e.g. for a quarterly product, shippers would be required to pay the single regulated tariff each day during the quarter and for a monthly product each day during the month). Setting different reserve prices for summer quarters or months than for winter is a more complex issue. Seasonal pricing could be an option but not as presented in Annex 2. Indeed, in the example, “Monthly multiplier = maximum yearly flow allocation / average peak monthly flow allocation” means that during summer when average peak monthly flow allocation is less than during winter month, the reserve price will be higher in summer than in winter. The formula attempts to procure the same monthly revenues for the TSOs assuming profiled booking by shippers compared to that experienced in the past (i.e. through annual non-profiled bookings). However, the assumptions will inevitably be

wrong and it is not acceptable for shippers of the cross-subsidization that will arise between different kinds of shippers. BDEW accepts that the regulatory system was made to ensure that network operators are able to cover their annual costs. However, any valuation of capacity should be determined by the market alone and should not be distorted by artificially adjusting the reserve prices in anticipation of possible shipper behavioural patterns in the auction.

**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:

From the BDEW's perspective, the process of developing the NC is very transparent. The shippers had the possibility to join and comment the process and the papers of discussion. Therefore, BDEW would welcome the use/implementation of similar processes for further 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](http://www.entsog.eu), and what could be improved?

Response:

N.N.

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

Response:

4.1(6) and 4.1(7) The definition of "available capacity" should be clarified to indicate at which time this is assessed. Currently, it is not clear if the 10% reservation is applied over the total technical capacity of an IP, or if it is reserved from the available capacity each year on the first Monday of March.

Defined timeframe for interim Solution

For interim solutions (such as **not** implementing an auction process), BDEW asks for a clearly defined timeframe (such as a year) for finally implementing these NC elements.

UTC time:

BDEW would like to stimulate the discussion if the proposed differentiation of winter time and daylight saving is necessary.

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