

## 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. STASA believes that the draft NC strikes the right balance between providing sufficient detail to ensure harmonisation across member states and allowing an appropriate degree of flexibility to facilitate implementation on a national basis.

**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 we have stated above, STASA believes the level of detail as drafted, is appropriate. STASA supports the change process, described in the Third Package, whereby those persons likely to have an interest in the NC, can propose amendments to the Agency, subject to consultation with stakeholders.

**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 envisaged by the Third Package, measures to adopt non-essential elements of the NC by supplementing it in, for example, the handbook, is an appropriate mechanism to ensure technical solutions can be proposed and amended in a timely manner, where approved by the Agency.

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

Response:

STASA concurs with the approach to include detailed technical specifications in a handbook that would be published before the implementation of the CAM NC and that the handbook would be referenced in the NC and made binding on TSOs.

A lighter change process, whereby amendments could be implemented by ENTSG, without going through an Agency approval process, allowing a period of time for interested parties to object to the Agency, might be an appropriate way forward as parties gain experience of the current process.

**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: Yes. Enabling network users to book quarterly products mitigates the risk of capacity not being released to the market, where network users are forced to book their peak winter requirements for periods in which the capacity is not required.

Quarterly products can be combined to form an annual product, where required, thus allowing different types of network users to compete on a level playing field.

**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: Whilst STASA supports the auction design as drafted, it does not include sufficient measures to allow system users to purchase the long-term capacity they need. Through the exercises undertaken at the auction workshop on 20<sup>th</sup> July, it transpired that there was a perverse incentive on network users to bid for more capacity than they needed, at points where they expected congestion, in the knowledge that, should requests exceed the existing capacity available, the capacity would be pro-rated. The inclusion of incremental capacity, which can be developed in parallel to the NC, would resolve this issue as users would be able to signal a need for capacity, which, if it led to requests above the baseline, would trigger investment, giving the TSOs the long-term signals they need to invest and ensuring networks users get the capacity they need.

**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: STASA considers that the process, as described, is sufficient.

**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: It is difficult to answer this question, without knowing the extent of the operational costs involved but we would have expected the costs of keeping an auction open, once established, would be minimal. However, should the costs prove to be significant, we can see value in suspending an auction, where there have been no purchases of capacity over a period of time.

Details of the length of period where there has been no day ahead or within-day capacity purchases, which would trigger a suspension, the notice period for informing network users of the intention to suspend an auction and the timeline for restarting the auction, should be detailed within the NC, to maintain certainty and transparency for network users.

**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: STASA agrees with the proposed algorithms.

**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: It is our view that cleared price would be the most appropriate mechanism at this stage.

**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: Yes.

**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: STASA would support an early closure mechanism to encourage all network users, with an interest in purchasing capacity at the relevant IC point to place their bids at the beginning of the auction. If there is no early closure mechanism in place, there remains the risk that some network users might wait until the last minute and place a bid, which would 'out-bid' all other bids placed, allowing no time for competing users to amend their bids to acquire the capacity they need and impeding price discovery for the real value of capacity at that IC point.

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

Response: The proposal to oblige existing capacity holders to bundle capacity, contracted before entry into force of the network code, no later than five years thereafter, would have considerable ramifications for the parties, which have previously agreed the terms for those contracts and will likely reopen negotiations for several terms and conditions within the contracts, such is the nature of contract negotiation. This would involve extensive time and costs, for both parties.

As we stated in our response to ACER's FG on CAM, the tenet of a liberalised European gas market is for network users to be able to freely move gas between markets within the European Union. Any proposal, which serves to limit this flexibility, risks undermining some of the key principles of gas

market liberalisation, in particular, facilitating cross-border trade.

Obligatory bundling could in fact reduce the capacity made available in some Member States as the cost and complexity of bundling capacity may make it financially unfeasible for some network users to deliver capacity as a bundled product.

For the reasons stated above, STASA does not, therefore, support the split of bundled capacity between existing holders of unbundled capacity, in any form.

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

Response: Please see our response to question 13 for the affects of mandatory bundling.

**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: Elements of the approach to bundled capacity, which could be applied to an optional bundling regime, would appear to be appropriate.

**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: STASA does not support determining the sequence of interruptions, based on the contractual timestamp. The timestamp approach would unduly discriminate between different users, based on the time the capacity contract was initiated. A pro-rata approach would be a much fairer way to determine interruption.

STASA would value further information on how within-day interruptible capacity would be offered, given that it is stated in the draft NC that auctions may not apply to within-day interruptible capacity and furthermore, TSOs may not be able to publish the amount of within-day interruptible capacity available.

**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: Regulation (EC) 715/2009 on conditions for access to the natural gas transmission networks, Article 13: Tariffs for access to networks, stipulates that tariffs, or the methodologies used to calculate them, shall avoid cross-subsidies between network users and provide incentives for

investment.

Auction revenues exceeding the allowed revenues will likely occur at congested interconnection points, where network users pay more, with the aim of securing as much capacity as possible. Section 7.6 of the current drafting of the CAM network code states that over-recovery arising from capacity prices above the regulated tariff shall be used for different aims; this may create cross-subsidies between network users as those users that are paying more, potentially for less capacity if pro-rated, are cross-subsidising other network users, which may recoup some of the benefits, through, for example, reduced charges, system wide. A locational scheme, as pointed out by ENTSOG, might favour large/dominant system users at a particular point on the system and so this may not provide a solution to the cross-subsidisation issue.

The tariff approach, as currently drafted, does not provide incentives for investment. Should an incremental capacity regime be progressed, alongside this NC, then over-recovery, resulting from congestion at a specific IP could be used as a signal to trigger investment at that point, thereby, avoiding cross-subsidies.

**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 ENTSOG to improve the process?

Response: STASA welcomes the approach taken by ENTSOG to produce the draft NC. The stakeholder workshops have provided a useful forum in which users are free to express their views and consult in an open and transparent manner.

**Question 19:** ENTSOG 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 ENTSOG website, [www.entsog.eu](http://www.entsog.eu), and what could be improved?

Response: No comment.

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

Response: No.

