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: Yes. Shippers like GDF SUEZ want to benefit from harmonisation of national NCs via the draft European NC proposed by ENTSOG. The level of details is appropriate to achieve this aim without having a too rigid and complex NC.

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: Yes, this NC should set detailed rules. So there will be no room for interpretation. Nevertheless, the NC should not be too rigid and complex as we have written in the previous response. The Third Package, and in particular article 7 of EU Regulation 715/2009, imposes a specific procedure for amending network codes. It holds that the procedure is led by the Agency (ERGEG/ACER) but with decisions being made by the EU Commission and it requires the Agency to consult all stakeholders. Interested entities, including ENTSO-G and shippers, may make proposals for amendments to the Agency. It is clear from these provisions that any change to the content of a network code will have to respect this specific procedure. Therefore, alternative procedures can probably only be developed for issues that are not dealt with in the network codes but that are covered elsewhere such as, for example, in a Handbook that serves to “implement” the network code. GDF SUEZ believes that a Handbook should be revisable according to a procedure that is lighter than the one foreseen by the Third Package but still ensuring an adequate level of consultation of the market. The Handbook could cover such issues as IT design, communication protocols, etc.

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: It does not seem credible to separate principles and details. Since the NC will be annexed to the third package, it seems difficult to have room for a “lighter” change process. The lighter change process should only apply for the Handbook.

Question 4: How do you consider that a process to review the handbook, and to modify it where necessary, should be designed?
Response: The process to review the handbook could be organised as follows: 1. Entso-G prepares a report regarding a proposed amendment to the Handbook, either at its own initiative or at the request of market parties, lists possible alternatives and a preferred solution; 2. Entso-G consults all market parties involved; 3. Entso-G drafts a report with the chosen solution, a motivated reaction on comments of market parties and a time table for implementation. 4. This report is published and a copy is sent to ACER / NRA's.

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: GDF SUEZ cannot fully agree with the NC proposal for long term auctions of quarterly products because of the seasonal reserve price tariffs issues detailed in our response to question 17. The idea of seasonal prices developed in Annex 2 of ENTSOG's supporting document must be put in place to avoid **cross-subsidization between shippers booking storage especially for final customer's needs and other shippers. Since, we do not know yet what are the FG Tariffs about, we cannot agree yet with quarterly products and proposed then to ENTSOG to implement alternative 3 (i.e. 5 quarterly products and then 14 yearly products).**

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: Yes, except on 4.1.6. as expressed in the framework guidelines "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 nor during the Short Term Capacity auction. CMP that will be put in place, may incentivise shippers to surrender unused capacities but in a CAM perspective, shouldn't it be preferable to free-up at least 10% of the full capacity for Short Term Capacity auction?

In France, the TSO GRTgaz already proposes 20% of the total capacity (not of the available / non subscribed capacity) for Short Term allocation (First Come First Serve or via an Open Subscription Period). Still in France, if there is not enough capacity left available for Short Term allocation, GRTgaz is able to free-up capacity via a product called Releasable Capacity :

Shippers who have subscribed more than 20% of total firm annual capacity undertake to make part of their firm annual capacity available in the form of an x percentage of releasable capacity for use by other shippers. This Releasable Capacity is allocated under the capacity subscription and allocation rules.

To allow users to purchase the long-term capacity they want, one should first start to commercialise at least 10% or even 20% of the total capacity for short term auction and not only at least 10% of the available capacity. If there is not enough available capacity, the TSO should free-up capacity by putting in place releasable capacity. These measures will foster competition and then maintain long-term capacity purchasing attractiveness.

In clause 4.5.8. of the draft network code on CAM the factors "**A**" and "**B**" are defined as **"available firm capacity"** and the **"at least 10% of A reserved for Short Term Capacity auctions"**. These definitions are not convenient since the amount will change each year. It seems even in contradiction with factor "**C**" **- "the previously sold Long Term Capacity".** ENTSOG may mean that factor "A" is set only once when the auction process is set and then it will not change anymore but it seems doubtful since factor "A" may increase if a previous owner of capacity releases its capacity bought before the auction process implementation.

ENTSOG may not want to force freeing up capacity via a releasable capacity mechanism but at least factor "B" the dedicated part to Short Term Capacity auctions should be the closest possible to "at least 10% or even 20% of the total capacity" and should not decrease over time.

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: It is hard to say if the within-day auction proposal set out in the draft NC is the best solution since we do not known which CMP measures will be put in place and how capacity will be freed-up (e.g. via firm UIOLI ?).

In general GDF SUEZ is of the opinion that introducing within-day capacity auctions will be very inefficient. Having an auction at every hour is likely to increase operational costs significantly without improving the availability of capacity.

GDF SUEZ believes that alternatives for auctions do exist for the within-day capacity market and that these alternatives are much cheaper and more efficient. A distinction should be made between the primary market and the secondary market.

For the primary market, GDF SUEZ is of the opinion that a First Come First Served (FCFS) or a Pro Rata Mechanism is the most adequate solution.

For the secondary market, GDF SUEZ supports a within-day Nominative Optimization Mechanism. Under this mechanism capacity holders are obliged to sell the capacity that they do not use on an interruptible basis ("Use It or Lend It"). In other words, if the capacity holder does not use the capacity, he is obliged to "lend" it to a third party against a tariff for interruptible capacity but maintains the right to use that capacity should he need it. Such mechanism is compatible with existing IT systems of shippers and TSOs on the EU market and can fully remove contractual congestion.

Table: Capacity Allocation

	Quarterly, Monthly, Day-Ahead Capacity Market	**Within-Day Capacity Market**
Primary Market	Auctions	First Come First Served (FCFS) or Pro Rata
Secondary Market	Capacity trading platform	Within-Day Nominative Optimisation via Use It Or Lend IT

We do not really understand clause 4.9.4. of the draft network code on CAM: Network users shall be entitled to withdraw or amend bids during the Bidding Window but it should not be possible to surrender capacity bought at a previous within-day auction. ENTSOG may have the same idea in mind and then it may only be a wording issue.

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: No, how will it be possible to buy capacity if auctions are suspended? Or does ENTSOG rather think to come back to a First Come First Served if there is no congestion? In this case, GDF SUEZ supports the proposal. As expressed in the previous answer, it seems that it will become very complex to buy within-day capacity, to renominate and to release capacity due to CMP each hour.

If there is not congestion, one should keep things simple or simpler, i.e. FCFS as allocation mechanism and no within-day CMP.

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: GDF SUEZ welcomes the fact that ENTSOG has changed its mind regarding the choice between a Pay as bid or a Cleared Price auction. We support Cleared Price for all the auctions. We do not really understand the need to change from a Volume-Based auction algorithm to a Uniform-Price auction algorithm solely for the day-ahead and within-day capacity auctions. The reasons described in the supporting document (unsold capacity because prorata is not wanted and time consumption by bidding at a large number of price steps) do not convince us. Nevertheless, we think there is not a real different between the approach since shippers will use the step prices of the Volume-Based auctions as guidelines for the Uniform-Price auctions.

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: No, pay as bid will create differentiation in transmission cost of different shippers. This differentiation is no suitable. Multiple round algorithm or sealed bid can be good alternatives. These three auctions mechanisms have their advantages than ENTSOG may assess again since that they have been quite a discussion on this topic during the 20^{th} July workshop on auctions design. To conclude on auctions design, GDF SUEZ would like to state that it seems unnecessary complex, if the UK auction design is retained as the NC auction design, to bid at all the IP through Europe during the same days. Managing all auctions at the same time is an operational challenge, all the more since a piece of information gathered in one auction may require an adaptation of bids on several other auctions. Therefore, GDF SUEZ would support setting successive dates for the different auctions.

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: Yes, the mechanisms put in place in the UK and proposed in the supporting document should be implemented. The most effective is the "Early closure of the bidding window after a defined period of bid stability" because shippers will have to bid what they really want at each bidding window. GDF SUEZ is against "Restrictions on placing and/or amending bids".

Question 13: In your view, how could a split of bundled capacity between existing holders of unbundled capacity best be arranged?
Response: GDF SUEZ is strongly opposed to making bundled capacity mandatory and therefore disagrees with the idea of splitting bundled capacity between existing holders of unbundled capacity. Apart from doubts on the legality of introducing mandatory bundling, GDF SUEZ believes that the disadvantages of mandatory bundling (risks and costs resulting from the re-negotiation and/or termination of existing capacity contracts on IPs) are disproportionate with regard to the contemplated advantages (increased use of interconnection capacity). Therefore GDF SUEZ is of the opinion that bundling capacity should be an option, not an obligation. TSOs should leave shippers the choice between purchasing bundled capacity and trading gas at the border ("on the flange"). See attached Eurogas's note for further details.

Question 14: In your view, what effect would mandatory bundling have on network users? Please provide supporting evidence, if available.
Response: See our answer to question 13.

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: See our answer to question 13.

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: Since auction is the allocation mechanism also for interruptible capacities (clause 6.1.6. with the possible exception of within-day), it seems not appropriate to give priority to the oldest Contractual Timestamp (6.4.1.). Oldest contracts should not be interrupted last. Instead, contracts with the highest price should be interrupted last or if there have all the same capacity price, a prorata should be made.

Furthermore, overselling should be considered as a very relevant option to attribute interruptible capacities.

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: **Yes, Entsog has correctly identified the key tariff issues** in article 7 of the draft network code on Capacity Allocation Mechanisms and in annex 2 of the supporting document. As expressed several times by Entsog and by shippers during the SJWS (Stakeholder Joint Working Sessions), **CAM, CMP and Tariffs are linked issues and should have been assessed together to have a better understanding of the "gas target model" set by the third package**. So, during the process that will define in details the tariffs structure, if one assumption made in the CAM NC is not confirmed, one should be able to change the CAM NC in consequence.

One can list the following items to debate during the next Tariffs discussion.

- **Reserve price**

Entsog's draft NC on CAM set a reserve price equal to the regulated tariff. GDF SUEZ agrees with this solution because it is simple and fair. Indeed, the best solution would have been 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 ? Shouldn't long term auctions be promoted to provide tariff visibility and investment incentives? To simplify, it seems more expedient to apply the same reserve price, the regulated tariff, for each kind of auctions. **Furthermore, setting the same reserve price will avoid any cross-subsidization between different kind of shippers buying capacities at different time**, which would trigger a risk that shippers move to very short term reservations. UK faces this issue nowadays because the day ahead reserve price is 2/3 of the long term reserve price. Shippers are booking more and more on a short term and National Grid gets less revenues from the auctions.

Regarding the "multipliers", GDF SUEZ is in favor of regulated tariff prorated to the duration (e.g. for quarterly product, the reserve price should be ¼ of the regulated annual tariff). Setting different reserve price for summer quarter or month 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.** It is a formula that procures the same monthly revenues for the TSOs than in the past (i.e. annual non-profiled bookings) **but it is not acceptable for shippers because again there will be cross-subsidization between different kind of shippers and it is not in favor of an enhanced security of supply.** First, with this cost allocation principle, a shipper that will book transmission capacities to fill underground storage will pay more than in an annual non-profiled bookings. Indeed, it may book less capacities during summer but at a higher reserve price. On the contrary, a shipper without or with less storage, will benefit of a reduction of cost because its booking during the summer will be dramatically reduced and its cost for winter booking may stay the same. **There will then be a cross-subsidization between shippers booking storage especially for final customer's needs and other shippers.**

- **Auction revenues from Bundled Capacity**

It is certainly too difficult to launch a debate between two TSOs and NRA about the Reserve Price of each part of a bundled product (the exit of zone A and the entry of zone B). As a example, NRA from country A may argue that the exit tariff of TSO B is not cost reflective of the investment made to bring gas to the border between A and B. Making the sum and allocating the revenues pro-rata the reserve price of each part of the bundled product seems to be the easiest and quickest allocation principle to put in place.

- **Under / over recovery**

GDF SUEZ 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.

GDF SUEZ 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 we will support because it changes all the time and it can lead to cross-subsidizations. WE are more in favor of "a timely manner by adjusting tariffs accordingly" as written in the CAM NC.

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: GDF SUEZ is of the opinion that the process which ENTSOG has followed to produce the draft network code on CAM was very reasonable and allowed shippers and other stakeholders to be adequately consulted. GDF SUEZ particularly appreciates ENTSOG's willingness to take comments of stakeholders into account, as illustrated by ENTSOG's change of position with regard to the 'pay as bid' issue. GDF SUEZ supports keeping the same process for other network codes that will be developed in the near future.

Although ENTSOG may not to be blamed for the time schedule, GDF SUEZ believes that **it is questionable whether the procedure set in the third package has been fully respected** since the

FG's consultation takes place at the same time as the drafting by ENTSOG of the Network Code (NC) on CAM. In principle ENTSOG's work should only have started after the end of the consultation and once the final version of the FG is known. 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: 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, and what could be improved?
Response: ENTSOG website is very convenient and transparent. Indeed, a lot of information, meetings' minutes and presentations are available.

Do you have any other comments or observations you would like to make?
Response: Financial guarantees linked to auctions (such as bid bonds or cash deposit that may be required to participate to auctions) may be cumbersome and costly, particularly for new actors. These processes shall be simplified and mutualised for several auctions.