

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 we feel that the level of detail is appropriate.

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?

The NC should be detailed but to ensure harmonisation across Europe what has been presented is an acceptable minimum requirement. As an evolving document – if adjacent countries wish to refine its standard and offer more than comitology should not be required. Agreement at local RA levels will get local stakeholder agreement across borders.

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 do not believe principles of details of the CAM can be undertaken separately – it is needed on a holistic basis. All mods that are for enhancement should be allowed using the process proposed in question 2.

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

Response:

To prevent the need to have modifications via the comitology approach we refer you to our response to Q2. The handbook can effectively be modified through effective stakeholder consultation.

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:

It is of value to the users of capacity to have many products that they can access and use to shape their demand requirements. This type of cascaded product design will allow the sale to be practical with each product getting exposed to the pressures of supply and demand. In addition to the potential purchase of 60 quarterly products we believe it may be simplified through annual products or even more so with multi – annual products.

The 10% minimum value for withholding capacity for short-term products may be too little for a liquid market – we do however see the reasoning behind the potential 15 year products which can support incremental investments as well as secure capacity for generation stations.

If there is a fear that the cascaded auctions will not deliver the allowed regulated revenues then there should be further opportunity to sell the product on the alternative booking platforms such as secondary capacity. The behaviour of buyers will be based on their risk appetite and their forecast of gas usage and competitor analysis.

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?

The sequential approach to auctions does not allow for a chain linked effect for geographical transfers without multiple trades for shipping in one direction for points across several jurisdictions. This limitation will compound the effects described in our response to Q5 and may create a greater risk element that will be priced in to what the bid element is. This may not deliver the benefits that end consumers would be looking to see.

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:

Value for the commodity can be expressed equally by using either the auction or first come first served principle. If auctions are to be used as the general means for capacity allocation a high frequency at short intervals will add to the ability of the user to meet their traded gas requirements and ship it as necessary

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:

Auctions cannot be suspended unless there is zero demand at IC points and not just for a short period. In the first instance we have questioned the need for auctions as a allocation tool if there is no congestion. Secondly this proposal to save costs is not warranted as the automated system of the balancing platform should incur little additional cost.

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 NC does not provide a mechanism that has the full potential for price discovery. Using an alternative model may provide the right signals.

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:

Each approach that has been commented upon will have some shortcoming. However, only having a single round with 10 bids and a uniform clearing price as set out in the NC limits the ability of price discovery. An alternative pay as bid with a first come first served approach may provide the means by which to achieve price discovery.

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:

If it is meant 10 bids per interconnection point or per capacity offered, then yes, they should be sufficient.

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:

Price discovery is to be welcomed having rules of engagement with a requirement to enter the market and then be allowed to refine ones bids can provide the appropriate mechanism.

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

Response:

We recognise the legal boundaries that the TSO faces with regard to unilaterally changing contracts. As markets are driven by confidence in their operation and honouring of the rights bestowed upon parties entering that contract then we will await any legal ruling before passing comment on the proposals for potentially splitting up the bundled and unbundled products.

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

Response:

The requirement for mandatory bundling should not put existing contracts at risk. Please refer to Q13.

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:

YES

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:

Timestamped interruptible hierarchy is appropriate. It may also incentivise the correct participation in the original auctions.

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:

Collecting allowed revenues and auctions with reserved prices should not be the central belief held by the TSO. The operation of an auction even with a zero price will reflect the market value and its discovery using one of the alternative methods. The allowed revenue itself is subject to the periodic reviews and these should be managed to lead to reduced costs for the users.

Although the costs have been incurred the value will only arise if there is competition for

that gas and if there is congestion that threatens access to that capacity, this may be the case for long term or short term products – BUT having this requirement as essential and indispensable for the ENTSOG model is not a single requirement for the development of the NC as it currently stands.

Under recoveries can be adjusted for in future auctions where an over-recovery is calculated that should be used as a fund for future investment or returned to the users.

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 uses a similar process to develop future NCs? What approaches would you suggest to enable ENTSOG to improve the process?

Response:

We believe that the process which ENTSOG has followed to produce this draft NC is reasonable and appropriate, hence we would like ENTSOG to use a similar process with the other NCs in the future. We would prefer that the processes for developing the Framework Guidelines and the Network Codes are developed in sequence as foreseen in the 3rd Package.

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:

We think that ENTSOG should develop a website which allows (real-time) access to the actual physical use of all high pressure pipelines in the EU. Every market participant must have the possibility to check at any moment the real physical use of European grids (in particular cross-border Interconnection Points).

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

Response:

1. We want greater involvement in its design at an earlier stage.
2. The industry are the ones who are the users and main stakeholders whose interests should be served, the mechanisms used should be practical and cost effective.

3. We are disappointed that Congestion Management Programme (CMP) has gone straight to comitology with no initial industry input.
4. Where there is no congestion then capacity does not need to be allocated using an auction where bidding windows and formulated timelines can be restrictive. WE would prefer continuous trading.

