

## 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, the present 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?

Response: A good NC should be of a sufficient level of detail in order to provide legal certainty, both to the network users and to the TSOs. To this end the rules it provides for shall be written specifically and in sufficient detail. These details shall only be formulated on the basis of a thorough consultation, taking into account all possibilities and the interests of market parties.

In principle all amendments to the NC shall be adopted through the procedure provided for in Article 7 of Regulation 715/2009 (hereinafter, the Gas Regulation). An exception could, however, be made for “technical details”, which have to be introduced for the sake of standardization, coordination and clarification of minor omissions and ambiguities in the text of the Network Code. Such “technical details” could be related to the IT-systems, communication protocols, technical details about the auction processes and platforms, as well as implementation timeline for these technical rules. Said details could be adopted and amended via a “lighter” procedure (including consultation) and published, for example in a “Data and Solutions Handbook”.

However, such a “lighter” procedure should in any case include consultation of the relevant market parties, a report by the TSOs elaborating on the various possibilities and underpinning the choices made, while taking into account the proposals and comments made by the market parties. The market parties themselves or a representative group of market parties shall be able to initiate such a procedure and the introduction of new detailed rules in a/the Handbook. Market parties shall also be able to object to the introduction of new details to the Network Code should they have reasonable arguments to do so. In that latter case the matter shall be objectively decided on by ENTSG and/or ACER.

The resulting Handbook with technical details to the NC shall be published in a timely manner and shall include a timetable for its implementation.

**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: Yes. Please, see our response to question 2.

Such “technical details” could be related to the IT-systems, communication protocols, technical details about the auction processes and platforms, as well as implementation timeline for those

technical details.

Clarification of minor omissions and ambiguities in the text of the Network Code could also be adopted via this “lighter” procedure. An example of “minor omissions and ambiguities” could be typological mistakes.

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

Response: Please, see also our response to question 2.

Adopting and amending the Handbook (and the like) shall, in our opinion, be done as follows:

1. The problem shall be identified and alternatives for its solution, including the preferred way forward shall be formulated in a report/paper by ENTSOG. ENTSOG, as well as the concerned market parties/a certain number of concerned market parties shall be able to initiate such a review process.
2. ENTSOG shall consult all stakeholders.
3. ENTSOG shall publish a report outlining the options and providing argumentation for the choices made (or not made).
4. The report shall be presented to ACER.
5. The handbook shall be made binding by including in the NC an article which states so and outlines the legal grounds therefore.

**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, we agree with the NC proposal for long term auctions of quarterly 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, GasTerra is of the opinion that the auction method of annual quarterly auctions with the option of rebidding during the bidding window, is adequate for the purchasing of long-term capacity. We believe that the bidding window should stay open until the end of the auction, i.e. not be closed earlier, even for points and quarters for which in the previous round(s) no additional bids were made. It may well be the case that the purchase of capacity at a particular point or for a particular timeslot depends on the results of the auctions at other points or quarters.

**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: The proposal seems adequate. At this phase we would abstain from suggestions for improvement due to the lack of practical experience.

**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: GasTerra considers suspensions of auctions inappropriate.

**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: Yes, at this moment the algorithms seem appropriate. At this phase we would abstain from suggestions for improvement due to the lack of practical experience

**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.

**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: At this phase we cannot express a specific opinion due to the lack of practical experience

**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: GasTerra questions the necessity to include such mechanism in the NC at this moment, since there is no practical experience with the NC. The TSOs, however, should monitor the bidding



processes in practise. If they suspect abuse or gaming, they should notify the bidder and ask for an explanation of its behaviour (and possibly notify the NRA and/or ACER). Shall a necessity be established, the auction procedure can be amended in future. In that latter case GasTerra considers restriction of withdrawal of bids at the end of the bidding window as an example of an appropriate measure. Closing of the bidding window after a period of stability, however, should not be an option. Please, refer to our comments to Question 6 in that regard.

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

Response: A split of bundled capacity between existing holders of unbundled capacity shall not be required and/or arranged in any kind of way. Gasterra does support the introduction of bundled products, but strongly opposes to the abolition of the existing unbundled products and ensuing consequences for the current capacity holders.

We would like to point out that the Third Package legislation does not provide grounds for such a far-reaching change of the applicable regime. Recital 19 of the Gas Regulation states that it is vital that gas can be traded independent of its location in the system and not that gas shall be traded independent of its location in the system. Clearly, the text is meant to create an additional option and not to prohibit “flange trading”.

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

Response: As indicated above Gasterra welcomes the introduction of the opportunity to trade with bundled products for as long as this is not the only and thus mandatory option.

However, we are concerned of the following:

Market participants, both traditional players and new entrants, should preserve the commercial freedom to structure their own portfolios. As an international shipper GasTerra would like to have both possibilities: either transport gas (via bundled capacity) to an adjacent virtual hub and sell the commodity there, or transport gas to the border point and sell it there to another shipper, who may transport the commodity into the system of the Neighbouring Network Operator (NNO) and sell it there.

Being active as a shipper in a system requires a considerable effort: obtaining a shipper license, providing financial securities to the local TSO, obtaining and maintaining a thorough knowledge of the local regulatory system, having a thorough knowledge and availability of IT-systems for the operational side of the transport process (nomination procedures, allocation procedures) and 24 \* 7 dispatch capacities. Such an effort is justified in the case of a big size portfolio on the local market, but is not justifiable for a limited size portfolio. Meeting all these requirement leads to unnecessary investments, which could ultimately be a barrier to entry to the market, especially for smaller parties.

The consequences for the structuring of the portfolios of the great majority of European players, in particular in view of security of supply considerations, shall also be taken into account. Flange trading is for instance a source of flexibility for the buyer, that in most if not all European markets at this point cannot be fully compensated for by hub trading or storage (especially in case of small parties or new entrants).

**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 already stated GasTerra welcomes the opportunity to buy bundled capacity from the TSOs via auctions and in a coordinated way. In that way the present problem of obtaining capacity at one side of the border and obtaining no or less capacity at the other side will be prevented. The envisaged way of allocation (via auctions) and the coordination between the TSOs are both improvements to the current situation.

More importantly, however, there should not be an obligation to use the capacity in a bundled way only (via prohibiting the alternative option).

Please, see also our response to question 14.

**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: The process set out in the draft NC is, in our opinion, appropriate.

**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: GasTerra believes that the use of a reserve price (for all auctions including all short term auctions) at the level of the regulated tariffs is fair. It is our concern that having a zero or low price for short term products (as it is in the UK regarding DA and WD auctions) would undermine the cost recovery by the TSOs and thus lead to unwanted effects and behaviour and possible cross subsidies.

On the other hand, the use of the regulated tariffs as a minimum is paramount to over-recovery, since at all congested points the auction price will be more than the minimum. This could lead to an incentive for the TSOs to maintain the situation of congestion. Therefore we would like to recommend an amendment to Article 7 par. 6 of the NC with an explicit provision stipulating that over-recovery revenues shall be used by the TSO's to enlarge the technical capacity of the congested Interconnection Points (IPs).

**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: The process followed by ENTSOG has been adequate and constructive. GasTerra highly appreciates ENTSOG's work on this first Network Code.

GasTerra acknowledges that ENTSOG is not accountable for that, but would like to point out here that it has been very confusing that the draft NC is based on a draft FG (version December 2010) and not on the final FG (still to be completed by ACER). This parallelism leads to undesirable contradictions and ensuing uncertainties.

**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: ENTSOG's current website is very informative. What could still be improved is the organization of the available information. For example, the current structure of the information on the CAM NC does not clearly differentiate between agendas for workshops, presentations from previous events, consultation documents, etc.

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

Response: We would like to make several additional comments.

1. Article 3 par. 3 of the NC provides for the TSOs to coordinate their capacity calculations with the aim of maximizing the technically available capacity. Article 5 par. 5, however, mentions the option of a mismatch of capacities at both sides of the border due to technical reasons. Such a mismatch should be avoided. This could be done by introducing in Article 3 par. 3 an obligation for the TSOs to cooperate in order to establish identical contractually available capacities at both sides of the border.
2. In order to prevent capacity remaining unused, shippers should have the option to surrender capacity at an IP to the TSO. To avoid contractual congestion this should be accompanied by a certain (modest) penalty. We would recommend an amendment of Article 5 of the NC to this end, providing for the TSOs to accept surrendered capacity.
3. We would recommend for the technical aspects at all IPs to be determined not centrally by ENTSOG in the NC, but to be left to the adjacent TSOs to agree on. That will allow for the physical differences between the IPs to be taken into consideration more accurately. Those technical aspects should cover, but not be limited to, the minimum and maximum allowable pressure, the way of control (flow control or pressure control), the minimum and maximum allowable gas quality parameters, type and ownership of measuring and other equipment, quality assurance of the measuring process, payment obligations, safety issues. The TSOs concerned should also determine

common rules on operational balancing at each IP to minimize differences between allocations and nominations due to technical reasons. At present at several IPs such arrangements do not exist and progress is way too slow. Therefore we recommend a new par. 4 to Article 3, providing for an obligation for the TSOs to determine such common rules at the IPs.

4. With regard to the remarks on interruptible capacity in the Supporting Document to the CAM NC we would like to stress that the sale of interruptible capacity should in any case be maintained. The reason is that this eliminates any incentives for hoarding firm capacity. For as long as other shippers can buy interruptible capacity (at a discount) a shipper has no incentive to withhold firm capacity that he does not need. This, complemented by the possibility to surrender capacity, practically solves the problem of "capacity hoarding".

5. Article 4 par. 3 of the NC provides for the applicability of two different units: kWh/h and kWh/d. The unit kWh/d is confusing (especially for within day products) and creates additional complexities for the ICT-systems and communication protocols. This should be avoided by the NC providing for the use of only one unit: kWh/h.

6. Regarding the implementation of the NC, as referred to in Article 10, as well as further detailed rules published in a separate Handbook, we would like to recommend the creation of Project Coordination Groups within ENTSG. These Project Coordination Groups should coordinate the implementation of the NC and other accompanying rules by consulting upon and determining an implementation scheme; by publishing all relevant details; by functioning as the place to get all questions answered; by making a testing and certification facility and so on.