

## 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:

We consider that the level of detail seems 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:

Yes, this NC should set out detailed rules.

We consider that the Network Code on CAM should not be modified by any other procedure rather than the one foreseen in Third Package (i.e. Comitology).

Should detailed rules be necessary, an effort must be made to include them in the NC. Only if proved that it is not feasible, some detailed rules could be left aside.

- Rules should be developed and updated according to the procedures established by the Third Package.
- Rules established by a separate procedure would not be legally binding; thus, they would not be directly applicable by Member States and problems would arise in their implementation.

It should be borne in mind that Network Codes will only be legally binding for Member States once they have satisfactorily passed the comitology procedure and become an annex of Regulation 715/2009. This implies that if Network Codes or any amendments to them do not go through the comitology procedure, Member States, or TSOs in this case, cannot be forced to adopt them. Consequently, no harmonisation of applicable rules shall be aimed.

From Article 7 of Regulation 715/2009 the following conclusions can be drawn:

- Changes can be proposed by different stakeholders, including ENTSOG.
- The Agency is in charge of consulting all stakeholders any amendments of the Network Code, not ENTSOG.
- The EC will adopt the amendments by comitology.

**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:

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

Response:

**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:

We propose the introduction of yearly products along with quarterly products. The introduction of quarterly products should not prevent the introduction of annual products.

- Being the capacity sold via 60 independent quarterly auctions, there is a risk for market operators of not being able to buy all the 60 consecutive quarters needed to secure a period of 15 years of capacity.
- Quarterly products have certain advantages: they would allow shippers the flexibility to profile the capacity booked and at the same time, allow them to combine quarters to form longer duration products. Quarterly products are appropriate for shippers with peak and non-peak demand.
- Annual standard products should be introduced in the Standard Capacity Products. This would partially mitigate the problems encountered to book flat capacity for a period of time; the NC does not envisage any coordination mechanism for this (e.g. rejection of allocations below a minimum, or priority for bids covering several periods).

**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:

We consider that the duration of the Bidding Window (10 consecutive business days) is too long. Five consecutive business days should be enough.

**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:

We consider that the proposal is reasonable and reflects market needs. In addition, we consider that the provision “is any extra capacity the TSO at its discretion is willing to make available” (4.9,8, defined as ‘G’) should be more detailed. TSO should maximize always the capacity offered.

**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:

We consider that auctions should not be suspended at the moment, but it could be evaluated in the future when historical data about the need of auctions is available.

**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:

We agree with auction algorithm proposed by the Spanish Gas Association (SEDIGAS).

SEDIGAS proposal:

The current Volume-Based Cleared price algorithm proposal states that:

*“All bids at the lowest price at which total demand is less than or equal to the available quantity shall be allocated the capacity requested [...]”*

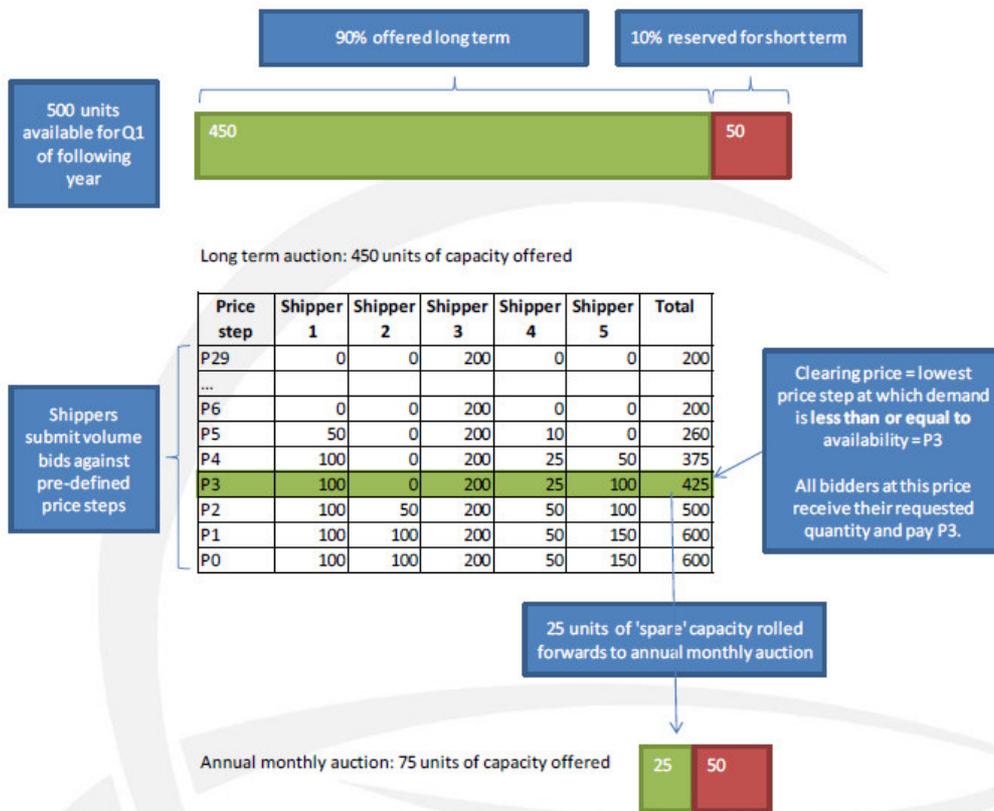
This implies that once the auction has been held, in most cases, not all the available capacity will be allocated even if there has been enough demand at the previous price step. The amount of capacity rolled forward could be, in some cases, very high.

Sedigas would like to propose an alternative auction algorithm which guarantees that all bids at the highest price ( $P_x$ ) for which total demand is higher than or equal to the available capacity offered shall be allocated.

For the final allocation the following steps shall be taken into account:

1. If network users have bid at the subsequent price-step ( $P_{x+1}$ )
  - all capacity requested at  $P_{x+1}$  shall be allocated,
  - capacity requested at  $P_x$  minus capacity already allocated at  $P_{x+1}$  shall be allocated by pro-rata proportionally to the individual bid quantity at  $P_x$
2. If network users have not bid at the subsequent price-step ( $P_{x+1}$ ), then the capacity requested at  $P_x$  shall be allocated by pro-rata proportionally to the individual bid quantity at  $P_x$ .

Taking into account ENTSOG's example at page 22 of "CAM NC – draft code supporting document" [CAP0142-11]:



And considering Sedigas proposal, the auction clearing price will be P2 and the final allocation will be as follows (no capacity would be rolled forward):

	Shipper 1	Shipper 2	Shipper 3	Shipper 4	Shipper 5	Total
Allocation	100	0+12,5	200	25+12,5	100	450

- All capacity requested at P3 is allocated
- Capacity requested at P2 is allocated by pro-rata

This proposal maximizes the allocation of capacity and minimizes the number of bids that are allocated by pro-rata.

Endesa wishes the above proposal to be taken into consideration, and would welcome other proposals which guaranteed a total allocation of capacity.

**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 methodology would not be more appropriate.

**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:

It seems appropriate, but the real need of the users when the algorithm is in place will decide whether it is necessary to modify this number.

**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:

We consider that such mechanisms are useful.

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

Response:

We consider that bundled products are the most suitable capacity products, but the unbundled capacity should be allowed for existing contracts or backhaul purposes.

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

Response:

**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:

**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:

We welcome the improvements that this draft NC has done regarding interruptible capacity, since it provides more transparency. As regards to the defined sequence of interruptions we do not share ENTSOG approach that the Capacity contract with the oldest Contractual Timestand shall prevail; this measure could be regarded as discriminatory.

**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:

The draft NC on CAM states that:

*“Any revenue from an auction of Bundled Capacity shall be split between the transmission system operators placing capacity elements in the bundle according to a pro-rata rule, based on the proportions of the Reserve Prices of the capacity elements placed in the bundle at the time of the auction.”*

We are open to different solutions, and would favour a default rule to split the revenue. However, if the capacity term of the regulated tariff was to be the reference, tariff calculation methodologies across Europe would need to be harmonised, including the determination of all

parameters which have a significant impact on the level of the capacity term. Otherwise, wrong incentives on tariff determination would be introduced by the code.

Although Article 13 of Regulation 715/2009 establishes that the tariffs have to be cost-reflective and at the same time, they have to avoid cross-subsidies between network users, it must be borne in mind that cost reflectivity in meshed networks is far from being perfect and there is ample room for regulators to set capacity terms at different levels; these decisions could hardly be challenged on the basis of lack cost reflectivity.

Thus, we consider that the NC should not, at this stage, support any mechanism on how to split this potential revenue from auctions if further measures are not adopted.

**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:

In our point of view the process which ENTSOG has followed to produce this draft NC is reasonable and appropriate.

**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:

We consider ENTSOG website should give full access to information about the available capacity (for 20-25 years ahead, coherently with the long term auction time span) and to actual physical flows related to all the IPs in the EU.

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

Response:

- We consider that the duration of the bidding window for long term capacity auctions and annual monthly capacity auctions should be lower than 10 and 5 consecutive business days.
- The Network code shall also allow that the short-term (day-ahead, within-day) capacity is

sold as a spread at exchanges.

- As shown in the Supporting Document, we share the view that incentives must be developed to TSOs to offer the maximum capacity and to have an interest in increasing capacity (even beyond actually visible capacity demand).

- kWh/d should be the relevant unit of capacity.

- We consider that the six month period TSO to adapt relevant national terms and conditions is not enough. This period should be extended to 12 months.