

## 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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**Comments:**

**Question 1:** Do you consider that the level of detail in the draft NC is appropriate for an EU Regulation?

Response:

Overall, we do believe that the current draft of the NC has reached a level appropriate for EU-wide implementation. However, we would recommend that a clear deadline should be set if there is an interim period (e.g. 10.3.) necessary in some Member States.

**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:

We support the change process foreseen in Article 7 of Regulation (EC) 715/2009 whereby interested parties can propose amendments to the Agency and such amendments are presented to the Commission following full stakeholder consultation. It is essential that changes are only adopted after full and careful consideration of their impact on the EU internal gas market.

**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. Technical details such as IT communication standards do not need to be specified in the Code. It is sufficient to state that such elements should be “fit for purpose”, namely ensuring the smooth functioning of capacity allocation procedures. Such elements can be subject to a lighter change process, for example subject to the approval of the Agency as part of a Handbook, following full stakeholder consultation in this process.

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

Response:

EFET supports the handbook approach whereby the handbook is referenced in the NC and binding on market participants, but the details and the change process are subject to a different mechanism than the Code itself. ACER could approve the handbook as being “fit for purpose” to ensure the

smooth running of the CAM, but without specifying what approach should be taken. Stakeholders would appreciate the opportunity to make recommendations to ACER if the Handbook does not meet the abovementioned objective of ensuring the smooth running of CAM.

**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:

Quarterly products should enable shippers to book capacity according to their needs as quarters can be building blocks for longer time periods (e.g. annual). Only if there is congestion will it be difficult for shippers to book annual strips by using quarterly products, but such difficulty would also arise for annual products.

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 would give shippers the flexibility to profile the capacity booked and at the same time, would allow them to combine quarters to form longer duration products. They are appropriate for shippers with peak and non-peak demand.

However, it is essential that those shippers who need to book annual capacity can put annual strips of capacity together. Some EFET members are concerned that the quarterly approach may mean that shippers will not be able to book certain quarters to put together annual strips, and therefore not be able to “back to back” long term supply contracts with sufficient capacity.

This risk will certainly occur in any quarter where capacity has to be allocated on a *pro rata* basis because demand for capacity exceeds supply at the final price step. This risk can be mitigated if there is a mechanism for TSOs to release additional capacity in response to such demand. As we note in the response to question 6, such a mechanism should be developed as a matter of priority.

It would also be helpful if shippers could book further out, for example 20 years.

**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:

Partially. For the time being the current process is appropriate only for the sale of existing capacity.

Currently, there is no mechanism for TSOs to provide additional capacity if demand for capacity exceeds existing availability. This is a major shortcoming. As the workshop on 20<sup>th</sup> July showed, where demand exceeds supply and *pro rata* is used to allocate capacity, this will simply lead to gaming where shippers bid for more capacity than needed in order to be allocated a sufficient

amount once the allocation is completed. The lack of clarity as to how TSOs will meet the unsatisfied demand for capacity creates unnecessary uncertainty for shippers, which in turn will lead to distorted bidding behaviour.

It is therefore essential that the long-term allocation process be combined with a process whereby incremental capacity can also be allocated subject to a suitable lead time. EFET has proposed such a process in our [July 2010 paper on capacity allocation](#). We believe such an approach is fully compatible with the Framework Guidelines proposed by the Agency and can be compatible with the process proposed by ENTSOG. We therefore urge ENTSOG, CEER, the Commission and ACER to start work with stakeholders on developing such an approach *as soon as possible*.

**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 aim should be to have a solution that is as simple as possible. With the benefit of experience, amendments to the timing of the bid windows or the frequency of the auctions may be needed, but EFET believes the proposals are sufficient for the time being.

**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. EFET is not in favour of incurring unnecessary costs if there is no demand for a product or service. However, we see the need for auctions being the default tool for allocation of capacity at all interconnection points. It would not be advisable to suspend the allocation since TSOs are not able to predict exactly whether there is demand for day-ahead or within-day capacity or not.

**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. Shippers will have the opportunity to bid for the maximum volume / price combination of capacity at any price step that they are prepared to accept, safe in the knowledge that they will never pay more than this as a result of the cleared price approach. This should encourage shippers to place bids that reflect their true appetite for capacity rather than worry about others' bids. A shipper never has to worry that he is overpaying for capacity compared to his competitors in that

auction.

A serious concern is that at the highest price step there may be pro rata allocation of capacity if demand exceeds supply in the long term auction. This problem would be avoided if TSOs were able to allocate incremental capacity in the long term 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. EFET believes that a cleared price approach is the most 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:

Yes. At a later stage we can review the bids required on the basis of 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:

This area needs further discussion. Restrictions on shippers' ability to change their bids during the process would not be advisable, since they would undermine one of the key aims of the CAM, namely for shippers to signal their true demand for capacity after taking into account information revealed as part of the auction process itself.

An early closure mechanism would encourage shippers to place "honest" bids but would possibly cause problems for those booking capacity at several IPs in terms of coordinating their capacity requirements across different IPs. Coordinating capacity across different IPs will, however, still bear the risk of being pro-rated at some points and not at others, or of failing to book any capacity through the auction process.

A requirement to bid on the first day would not prevent gaming as a result of changing bids. However, it should be noted that in real life we would expect shippers to bid in a rational fashion to gain the capacity they need. The use of a cleared bid price reduces the temptation of gaming, since all shippers know they will be allocated capacity at the lowest clearing price. The main risk of gaming results from the lack of a mechanism to release additional capacity where demand for capacity exceeds supply. (See Question 6.)

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

Response:

The clear position of EFET is that there should not be any forced bundling of capacity. We believe that both bundled and unbundled products should be available and market participants should be able to choose. Therefore, we do not have a proposal for the split of bundled capacity between the holders of existing unbundled capacity.

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

Response:

Traders want to have simple and efficient combinations of capacity (bundled products), but bundled capacity is not the essential requirement and we do not believe that it would be wise to mandate that TSOs only offer bundled capacity. There would be dangers in mandating only bundled capacity:

- Capacity might be bundled before the underlying inconsistencies are resolved, leading to ‘papering over the cracks’ and thus perpetuating the current inefficiencies.
- The contractual implications may be difficult to resolve and may lead to imposing the bundled capacity approach only on potential new entrants, thus placing one or another group of market participants at a disadvantage.
- Bundling would require that at least one of the counterparties to a trade should be active at both hubs, which means having a trading license in both countries where applicable and being signed up to both countries’ network codes with all the exposure that entails to balancing charges, capacity and commodity charges. Local retailers and other smaller companies who wish to operate only in one country would have to rely on counterparties prepared to operate in both jurisdictions.

We believe that the best way forward is to set clear obligation on contiguous TSOs to offer fully consistent capacity products, which can be combined into single bundled products from one trading hub to the next. If at some future stage TSOs are obliged to offer bundled capacity, then they should also continue to offer consistent unbundled capacity products for as long as they are required by market participants.

**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. However as noted above EFET does not believe that bundling of capacity should be mandatory and therefore, does not agree with proposals in the Framework Guideline to force bundling of

capacity.

EFET is further concerned that the legal implications of bundling capacity at interconnection points would unduly delay the timely implementation of the CAM procedures. It may, therefore, be prudent to remove the bundled capacity concept from the current drafting of the network code and initiate a separate consultation on the associated risks, costs and benefits of bundling capacity.

We do support the ENTSOG decision not to include any rule regarding the so called “sunset clause” and the proposed fall back (50:50 split) solution as given by the actual CAM FG. EFET and the main other stakeholders clearly stated their concerns in the ENTSOG consultation process and in the CAM consultation process.

**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:

Interruptible capacity should be interrupted on a *pro rata* basis.

**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:

We agree that tariffs are an essential issue to all Network Codes and we look forward to seeing the topic taken forward. With regard to cross-border capacity, in our view the tariff and revenue issue will be complicated by the lack of clear mechanisms for creating new capacity when the market signals such a need.

**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:

EFET supports the process that ENTSOG has used to develop the draft NC. Based on our participation we would ask ACER, the Commission and National Regulatory Authorities (NRAs) to consider the following:

- A longer timetable to develop the Code compensated by a faster decision process by ACER and the Commission on the suitability of the Code for submission to Comitology. If ACER, the Commission and NRAs participate fully in the Code development process they will have a thorough understanding of the draft Code and therefore, will be in a better position to make

a quick decision on its suitability.

- Greater involvement by ACER, the Commission and NRAs in the process so stakeholders can understand better their concerns and objectives whilst developing the details of the Code.

EFET would also ask ENTSOG to organise preparatory workshops on future Codes before they receive the formal letter of invitation from ACER to develop the Code. This would enable stakeholders to be as informed as possible on the issues prior to formal development workshops.

EFET appreciates that the 12-month development period is set in legislation and that ENTSOG has made considerable efforts to ensure that the process runs smoothly.

**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:

EFET finds the ENTSOG website helpful in providing the necessary documentation for the Code development process.

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

Response: