

## 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: In general we think that the level of detail in the CAM NC is appropriate for an EU regulation. Nevertheless, we would like to mention that the CAM NC should only refer to issues clearly related to CAM and should not contain any collisions to upcoming network codes such as balancing or tariffs. In this respect, we propose that a reference to the regulated tariff should not be part of the section about allocation procedure mechanisms.

**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, the network code should set out detailed rules but only in regard to capacity allocation mechanisms. The change process foreseen in the third package does not provide stakeholders the opportunity to request modifications or improvements to the network code after the consultation phase. Therefore we support the idea of an additional procedure allowing stakeholders to express their opinion in a formal way in addition to the ACER/ENTSOG consultation phase.

**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: We basically support the idea of complementary documents to certain sections of the CAM NC, under the condition that they do not form a legally binding part of the NC. In this respect, we would consider there is potential to set up a document on capacity allocation principles (i.e. “auctions”), which may contain detailed rules of bidding rules not yet set out in the CAM NC.

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

Response: We would welcome an open policy of communication and consultation. Regarding this, the SJWS scheme used during the CAM NC procedure seemed to be a very open and productive mechanism.

**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: See Question 6

**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: EconGas does not consider that the auction design set out in the CAM NC draft offers sufficient measures to allow shippers to purchase the long-term capacity they want.

In our opinion the proposed standard capacity products do not reflect the needs of suppliers of natural gas to end consumers, who represent the back bone of the natural gas industry. The majority of natural gas supply contracts are concluded for a period of one year. This is a result of customer requirements in respect to both security of supply and a necessary degree of predictability in the respective supply chain. Therefore it is paramount that suppliers to end consumers have the opportunity to structure their capacity rights in line with their underlying firm supply contracts.

In the current proposal the annual quarterly and monthly capacity auctions are held only once a year. In case a shipper is not able to procure his required capacity rights in those two allocation rounds, he could run into the dilemma of only being partially allocated his capacity needs prior to the beginning of the underlying supply contract. At that point of time the supplier cannot guarantee to fulfil his obligations towards his customer jeopardizing either the business opportunity or even worse losing his reputation as a reliable supplier. This turns into an even greater risk for suppliers sourcing the commodity over multiple market areas or state borders. In this respect, this could form a barrier for cross-border competition in the wholesale and retail markets. This clearly contrasts the goal of the European Commission to achieve more cross-border trade, so as to *achieve efficiency gains, competitive prices and higher standards of service, and to contribute to security of supply and sustainability* (see EC 715/2009).

EconGas has no predetermined preference in regard to capacity products covering the needs and hedging the risks described in the previous paragraph. A yearly product or a specific auction consisting of four consecutive quarters could serve as a feasible solution to the problems described. Either way the final CAM NC should recognize the importance of predictable allocation of capacity rights required to secure the yearly supply of European consumers.

Finally we want to stress out the fact that according to the CAM FG (article 2.1) the set of standardized products (yearly, quarterly, monthly, daily and intraday) has to be subject of the current market consultation. We think there has to be the specific market question in the response sheet on the necessary long-term products and not only on auctions of quarterly products (see Question 5).

**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: EconGas does not fully support the mechanism of auction within-day products as set out in the CAM NC draft. Although we do not think that tariff issues should be subject of the CAM NC, we would prefer a reserved price of zero instead of the regulated tariff. The FG CAM sets out in article 3.1.2. that *the regulated tariff shall be used as reserved price if not otherwise specified in the FG on Tariffs*. By including specific tariff propositions in the NC CAM ENTSOG is anticipating decisions to be made in the FG on Tariffs as a result of public consultations.

In regard to the proposed within-day auction design, we think the market would benefit from intra-day products on an hourly basis. This would further facilitate pipeline utilisation, cross-border trading and cross-border flexibility by enabling shippers to balance gas shipments more precisely.

**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 doubt that there is much potential to save operational costs through suspending DA/WD auctions on select IPs. Overall, we think it is more important that the system remains consistent throughout.

**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: In general we support the volume-based cleared-price algorithm for long-term products and open-bid algorithm for short-term products.

As a participant in the July Auctions Workshop organized by ENTSOG, we have witnessed that the proposed auction design is too inconsistent and dynamic to send out reliable and stable market signals. We propose several adjustments which could improve the demand signals and therefore the whole auction process:

- 1 Participation in the auction process only if a bid is already submitted on day one;
- 2 Bids are treated as binding when the aggregated demand is lower than the offered capacity (on any day during the bidding window); in such a case, the auction should be completed and capacities should be allocated
- 3 Bids must not be revised upwards in terms of volume;

In our opinion these measures should increase the seriousness of the participants and thereby increase the informative value of the daily results in regard to assessing the actual aggregate demand and to achieve a more accurate cleared-price.

Finally we propose to include pro-rata allocation to shippers who expressed their consent before the beginning of long-term auction processes. Rationale for this proposal is to minimize extensive un-allocation at the cleared-price although the overall demand exceeded the offered capacity (as seen in the simulation during the Auction Workshop) and to give shippers the opportunity to at least partially secure their needed capacity rights.

**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, in our view the pay-as-bid methodology is less efficient (in terms of system costs) as it only increases auction revenues and thereby over-recovery of the TSOs.

**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, we think ten bids are 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: Any mechanism determining the allocation result should be part of the NC.

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

Response: We do not see why already bundled capacities should be split, as it contradicts the obligations of the FG CAM.

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

Response: It would decrease cross-border trading because shippers would be forced to contract capacity on both sides of the border even if a suitable trading counterpart does exist, thereby increasing transactions costs (tariffs, licensing, regulatory obligations). Mandatory bundling reduces flexibility of natural gas shippers because of the same reasons, besides market restrictions in general only have negative consequences for trading volumes.

Additionally the mandatory bundling of cross-border capacity could lead to a reduction in the maximum available capacity because a difference in the maximum available capacity exists between almost all TSOs at cross-border interconnection points due to different system and flow characteristics. EU regulation 715/2009 Art. 16/1 states that *the maximum capacity on all relevant points ... shall be made available to market participants*. Therefore the principle of mandatory bundling would very likely contradict the EU regulation 715/2009.

Most of all mandatory bundling of already contracted capacity rights constitutes a significant intrusion upon the freedom of contract and could have a massive negative impact on business plans already in place (long-term supply strategies put at risk). In regard to the importance of regulatory predictability we strongly advise against the proposed concept of mandatory bundling.

**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, within the constraints of the ERGEG Revised Pilot FG on CAM the approach is appropriate.

However in our opinion the approach to bundled capacity of ERGEG and ACER (Draft FG CAM) is not appropriate as these propositions have been made without a proper consultation of the market.

**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: Yes, we consider the process 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: Overall the response sheet was adequate except the section on long-term products. As already mentioned the market should have been asked about all standardized products proposed in the FG CAM, not only how the market thinks about the quarterly products.

**Question 18:** What is your view of the process that ENTSG has followed in order to produce the draft NC? Would you recommend that ENTSG use a similar process to develop future NCs? What approaches would you suggest to enable ENTSG to improve the process?

Response: Overall the process was adequate and very transparent in terms of disclosure of documents, progress of the NC development and stakeholder involvement.

**Question 19:** ENTSG 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 ENTSG website, [www.entsog.eu](http://www.entsog.eu), and what could be improved?

Response:

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

Response:

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