

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.

Name

First and Last Name: Michele Pizzolato

Organisation

Company/Organisation Name: Eni S.p.a. – Gas & Power Division

Job Title: Vice President Regulatory Affairs

Contact details

Email: Michele.pizzolato@eni.com

Tel: 0039- 02 520 41655

Mobile:

Address

Street: Piazza Vanoni 1

Postal Code: 20097

City: San Donato Milanese

Country: Italy

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

Response:

Yes, we consider appropriate the level of detail in the Draft NC in order to be implemented at EU level.

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 deem sufficient the level of detail acquired in order to achieve an harmonization of CAM throughout Europe. If any change is necessary, stakeholders have to be involved in the process, in particular on the market-based elements, like the auction design or the modification of the capacity products offered.

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:

No, we do not agree with the NC proposal for long term auctions of quarterly products.

We strongly support the introduction of yearly products since:

- they avoid gaps in the yearly booking requests;
- they give higher possibility to respect and manage medium/long-term contracts, because:
 - they are in line with the temporal horizon of supply and sale contracts;
 - most of the supply/sale contracts has a baseload as a minimum daily offtake/deliver which must be satisfied;
- they safeguard security of supply from speculative strategies, in particular, they deter the possible behaviour to buy capacities for Q1 and Q4 at prices that already include a high premium on the reserve price with the aim to re-sell them at even higher final prices in secondary trading.

Furthermore Regulation 715/2009/EC in articles 2 and 14.1 explicitly states that “Transmission system operators shall offer to network users both long and short-term services” (art.14.1) meaning with long-term services those “services offered by the transmission system operator with a duration of one year or more”.

The Draft Network Code on CAM provides the exclusive offer of quarterly products for long-term allocation, without granting the possibility for shippers to be allocated capacity for at least 1 year. For this reason we deem that this provision does not appropriately follow what is stated in the Third Energy Package.

We are conscious that during the SJWS one of the concern raised against the introduction of Yearly Products was the definition of when the Gas Year should start. In our opinion this point is not a valid reasoning to oppose the introduction of yearly products, because shippers can easily adapt themselves to any gas year chosen by ENTSG. On this point we would suggest to take into consideration the thermal year starting from 1st October Y and ending on 30th September Y+1, since it is the most commonly used in Europe.

In the light of this, we would positively refer to the recent implementation in the German gas market of a gas capacity platform (TRAC-X) where shippers can book capacity on yearly, quarterly, monthly and daily basis in accordance with their needs through an auction process.

In our opinion the set of standardised firm capacity services of different durations and starting dates that better covers market needs is the following:

	Type of auction	Maximum "Service Duration"	Standard Capacity	Share of total calculated capacity
Long Term	Annual Yearly Auctions	From 1 Year up to 15 consecutive Years	Yearly	Maximum 70% of calculated available long-term firm capacity
	Annual Quarterly Auctions	From 1 Quarter up to 16 consecutive Quarters	Quarterly	Maximum 20% of calculated available long-term firm capacity

Short Term	Rolling Monthly (Month-Ahead) Auctions	One month	Monthly	Total calculated available short-term firm capacity (at least 10% of available firm capacity) plus any surrendered capacity.
	Rolling Daily Day-Ahead Auctions	One day	Daily	Total calculated available short-term firm capacity minus allocated quantities from previous firm auctions
	Within-day	Remainder of the day	Daily (or balance of day)	Any remaining available capacity

This Standard Auction Package gives market operators the possibility to satisfy all their different needs, being in line with the provisions and the objectives of the FG.

Referring in particular to the quarterly products we deem necessary to offer them at least for 16 quarters because within this length of time shippers are able to foresee their needs with a reasonable level of approximation and it fits with the duration of the short-term business plan made by the companies. In our opinion, any longer temporal horizon should be evaluated according to the level of complexity that the auction process could reach in order to be still manageable.

In addition to this reasoning, we would like to point out that the FG, according to article 2.1, provided that stakeholders should be consulted on „*the set of standardized firm capacity services which are to be proposed for consultation must include yearly, quarterly,...*”. In this sense a re-formulation of this question could have been more in line with the FG provision.

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 agree on the possibility expressed in the NC to **book capacity for the long term**. We deem that any modification of the **temporal horizon** for allocation should be evaluated on the basis of the effective contractual praxis adopted in the underwriting of long term supply contracts. In our opinion, this principle should be taken into consideration in order to allow the allocation of long term capacity avoiding pure speculative behaviours which would harm the market.

Furthermore, we would like to point out that, where rights of prior capacity allocation are in place

on the basis of specific conditions, these rights should be preserved.

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:

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:

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 do not support the algorithms set out in the Draft Network Code because we have strong concerns on the Volume-Based auction for the following reasons:

- it is not transparent: shippers can't rely on the progress of the auction during the Bidding Window;
- it allows speculative behaviours: since bids from the first to the ninth day are not binding, shippers could hide their strategy rather than bidding in a fair way from the beginning (e.g bidding a lot of capacity at the lowest prices and increasing the price only on the last round);
- it does not give clear market signal either at the end of each day (when the bids are not binding) nor at the end of the allocation process: if shippers bid coherently with their needs only on the last day, the result of the auction will rise not from a process driven by the market signals received in the preceding days but just from the last bid; this would make the whole process more similar to a sealed bid auction;
- in case shippers participate to two allocation procedures of two IPs serving the same market they will always have to bid for one IP without any solid idea on the results of the auction for

the other IP.

These consequences are almost bound to happen, since for the first nine days bids are not binding and shippers would likely bid truthful quantities only on the last day which means that the first nine days of bidding are likely to result useless.

Furthermore, the definition of a price-cap (P_{29}) can cause distortions and unjustified congestions which, according to the NC, would be solved by a pro-rata applied to all network users, even if those who would have been available to pay an higher price in order to get the whole requested capacity will not be satisfied.

In order to define a more transparent Volume-based auction which gives coherent market signals from the beginning of the allocation process limiting speculative behaviours, different value-discovery mechanisms should be applied. At least the following ones:

- Binding bids right from the first day of the Bidding Window;
- In the days of the BW after the first, prohibition to bid higher quantities than the ones requested during the day before;
- Early closure of the BW after a defined period of bid stability.

However, we want to underline that the definition of the details of these value-discovery mechanisms are hard to be established (e.g. the criteria to determine bid stability). The addition of these elements surely can contribute to the increase of the level of transparency, but at the same time it would „pervert“ the nature itself of the Volume-based auction.

In any case, even if value-discovery mechanisms were added, **eni** would definitely give preference to the Multi-round Ascending clock model. The advantages of this type of auction are:

- it is more transparent since it forces shippers to behave coherently with their capacity needs from the opening of the Bidding Window;
- it closes at the price where demand is equal to or lower than the capacity on offer;
- it produces clear market signals: all network users perceive the market-value of the capacity at each IP not only at the end but also during the process itself since it proceeds one by one through the price-steps;
- it reduces the risk for a shipper to be allocated capacity in two IPs serving the same market area even if his needs can be satisfied only by one of the two IPs (i.e. a shipper willing to reach France participates to the auctions carried out both in Belgium and in Germany and when the outcome of one of the two allocation procedures satisfies his capacity needs, he might quit the other) criteria to determine the amount of the price steps can be modulated round by round by the TSOs according for example to the gap between demand and offer in each round.

In conclusion, the Multi round Ascending clock coupled with the standard products we propose is a far easier solution than a non-distorted Volume-based auction which needs all the value-discovery mechanisms described in the previous paragraphs in order to be sufficiently transparent.

In our opinion the advantages it has in terms of efficiency, market-value and transparency get over the fact that auctions could likely finish at different times. We deem it sufficient that they start at the same time at multiple IPs and all necessary rounds have the same duration.

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:

Beyond the preference we expressed in Question 9 in relation to the type of auction, we do not believe that any potential alternatives to Clearing Price methodology could be more suitable in order to determine the final price of the auction, even for auctions of shorter duration.

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:

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:

Please see the answer to Question 9.

An allocation procedure fully harmonized at European level should form 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 have very strong concerns in relation to the ACER FG's provision that within five years the bundling of capacity should be applied to all the capacity, independently if it is available or not.

This would imply a revision not only of existing transmission contracts, but also a difficult and uncertain reopening of existing long term supply contracts entered into before the entry into force of the European Network Codes.

Having said this, we strongly reaffirm that the revision of the delivery point and, in this case, the

shift from a physical delivery point to a virtual one implies necessarily a delicate renegotiation of some further basic terms of the existing agreements, such as nominations, re-nominations, Force Majeure, maintenance, taxes and laws applied at the new delivery point.

Furthermore the transfer of delivery point would imply important fuel and transport costs to be re-considered and re-defined in the renegotiation. The outcome of any renegotiation cannot be necessarily successful, in particular in this case, where the request for revision of existing contractual agreements would come from importers and this would strongly increase the power of producers.

Not only shipper and suppliers will be involved in negotiations but also TSOs should implement agreements (OBAs) which at the moment are not in place in most of the IPs.

In our opinion, the sunset clause proposed in these Framework Guidelines does not address all the implications reported above and it does not give sufficient guarantees either that capacity holders' rights will be respected or that stability and legal certainty in the market, affecting investment development and security of supply, won't be hampered. Furthermore long term contracts are very different one from the other and the application of a standard rule for all of them is not appropriate.

For all these reasons and on the basis of the strong legal opposition that ENTSOG made against the sunset clause, we reaffirm that the existing contracts, including those whose starting date follows the effectiveness of the NC shouldn't be affected by the entry into force of the European Network Code on CAM which outlines a different gas market design.

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

Response:

First of all, the provision to bundle capacity should be applied only to existing available capacity and the one freed up from the expiration of existing transmission contracts, as already expressed in the answer to Question 13.

Having said that, we recognize that the concept of bundled services can facilitate and simplify the booking procedures, since it allows shippers to be allocated the same amount of capacity at both sides of an IP, lowering transaction costs.

Nevertheless, the FG provide for a mandatory and exclusive cross-border capacity integration in all European IPs, ruling out the possibility for shippers of trading at the flange and leading to exclusive *hub to hub* products. Since this would improperly restrict shippers' contractual freedom, we believe that bundled products should be offered together with the unbundled ones, leaving to shippers the option to choose.

Indeed, the aims of increasing liquidity in the market and of facilitating gas flows can be still reached by:

- maintaining a differentiated offer of capacity products in terms of durations and types;

- implementing efficient auction mechanisms;
- following market dynamics and demand and effectively implementing an entry-exit system throughout Europe.

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, we deem that the design of the bundled products proposed by ENTSOG is appropriate; nevertheless, for the reasons given in the answer above, we do not agree with the FG proposal of a mandatory bundling of all the capacities.

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.

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: ENTSOG should address the tariff issues coherently with art. 14 of the Regulation 715/2009/EC which sets out that *“Transport contracts signed with non-standard start dates or with a shorter duration than a standard annual transport contract shall not result in arbitrarily higher or lower tariffs that do not reflect the market value of the service”*.

Having this provision in mind, in our opinion, the reserve prices of all products should be defined according to the following principles:

- the reserve prices of short-term products which gives the opportunity to profile (e.g. short-term products: quarters, months, day, within-day) and their relation with reserve prices of yearly products should be evaluated according to the principle of full cost-reflectivity, in order to avoid discriminations and to take into consideration the requirement of the TSOs to

attain their “allowed revenues”;

- the reserve prices should reflect the tendency of the demand and the level of congestion of each season/month during the year.

In relation to the management of over/under recovery, in our opinion they should be included in the tariff adjustments approved by the NRA every year, accordingly to the provisions set out in the Third Energy Package and in the national laws.

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:

We appreciated a lot the challenging work done by ENTSOG until now and we deem the SJWS to have been a useful place for discussions. However, we regret that even if during the four SJWS stakeholders (the majority of which are not familiar with the auction design) repeatedly expressed their need of further information related to the functioning of the mechanism proposed (Volume-based and quarterly products), the opportunity to further explore this procedure and its likely consequences happened only recently.

Many stakeholders could truly make out the system proposed mainly thanks to the publication of the Draft Network Code and the workshops held two weeks before the closure of the public consultation.

For this reason we would like to suggest ENTSOG to organize workshops in parallel with more „theroretic“ sessions in order to enable stakeholders to better understand the issues and the possible solutions under discussion.

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 didn't have any particular problem to access ENTSOG website. The only suggestion is that maybe a direct link to the web page of the NC on CAM would have been more practical.

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

Response:

