

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.

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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: BG considers that the detail within the NC aimed at allocation of capacity at Interconnection Points (IPs) is sufficiently detailed for an EU regulation and fits well together. We are concerned that the Council comitology process could end up with significant compromises on the text (eg introduction of lower than tariff reserve prices) that result in an NC that does not function so well. We would request that all involved in this become very aware of this risk and try to minimise changes in the ENTSG NC where this creates further inconsistencies.

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: The ability to modify NCs (not just CAM) is going to be difficult given the need to go through the Commission comitology processes. We would suggest that a “Self Governance” regime is considered for changes that are required operationally, whereby ACER (rather than ENTSG or market participant body) would be able to approve modifications (raised by ENTSG or market participants) to NCs where there is a compelling case for urgent change. There is also some merit in considering how the Data and Solutions Handbook could be used to contain the details that become amendable (with appropriate consultation).

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: Some elements of the CAM mechanisms could fall under a “lighter” touch change process, although we don’t believe that this would apply to points of principle under CAM. As such, decision makers (ACER / Commission) should give consideration to the “self governance” approach. It is also appropriate that issues such as IT communication standards should be within the Data and Solutions Handbook which is referred to within the NC.

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

Response: ACER should approve the handbook and any modifications made on a timely basis. Modification proposals should be able to be raised by ENTSG, TSOs, market participants.

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, BG Group support the use of Quarterly capacity product for Long Term capacity bookings. We do not support the use of an additional Annual product because through the auction mechanism, four consecutive quarters could be purchased by a Market Participant who want annual capacity. However, there are two issues that need to be addressed in this regard:

- a) Revenue recovery – the use of quarterly products does run the risk of capacity purchases being profiled, such that winter peaks are booked in quarterly tranches and then off-peak purchases are made at lower levels, leading to a potential under-recovery. Further discussion is required on the appropriate mechanism to deal with this, as it would be hoped that this NC can avoid the “GB disease” that has led to an under-booking of long term capacity and reliance on a supplemental, untargeted TO Commodity charge to recover allowed revenues.
- b) Open season capacity – it is very disappointing that the Commission have not seized the opportunity to have a holistic solution to capacity allocation. It is important that there is an integrated approach between the auctioning of long term capacity and providing signals for new incremental capacity at Interconnection Points because without it, capacity constraints for existing finite capacity will lead to over inflated prices, when the ability to bid for incremental capacity will act as a relief valve and prevent over-recovery to the TSOs. As has been demonstrated in the UK market, it is possible to seamlessly integrate both existing and incremental capacity release under a long term auction arrangement and we would strongly encourage this to be considered within the current NC scope as without it, market distortions and over-recovery may result.

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: No – as stated above, we are very concerned that this NC is restricted to existing capacity release only and believe that it is essential to include the ability to seamlessly acquire incremental long term capacity as part of the same auction process, provided that investment tests are met (and these would be within the market rules design and known to market participants in advance). We support EFETs position on this where they had a July 2010 paper on capacity allocation that included incremental entry capacity. The current proposed mechanism is flawed as it will lead to potential over-recovery as shippers compete for the up to 90% of “baseline” available capacity, creating distorted bidding behaviour given the pro-ratio of capacity at the clearing price.

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 believe that the within day auction process is appropriate and we do not support a FCFS approach that some others have suggested. It should be released on an hourly basis, with 2hr lead time. Given the expectation there will be daily balancing regime introduced, we do not understand the need to differentiate between products, ie it is daily capacity with a 1/24th flow rate entitlement. Having a separate “within day” product may be confusing, given that it should be for 24hrs, but from the point of allocation. This attribute will ensure that capacity is freely tradeable between market participants, a feature that we believe is important to promote. Careful consideration needs to be given to the appropriate reserve price for Day ahead firm capacity (ie zero or non-zero).

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: The auction processes should be largely automated so we don't believe that there should be any significant operational costs to run the auctions, even if there are no bids for additional capacity. If there is no utilisation for a continuous [4] month period, then it may be reasonable for the TSO to give notice that it intends to suspend the auctions, but would re-establish them given 2 days notice from a market participant (and in any case, make within day capacity available on a first come first served basis if so required to meet operational requirements).

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: For quarterly and monthly capacity, the auctions should close when there is price stability over two consecutive days, thereby encouraging all market participants to bid in early in the process. They should not remain open for the full 10 or 5 day period.

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: Cleared price bid is the appropriate solution. One of the areas regarding tariffs that isn't clear, is whether the price that is then paid can vary from year to year as the regulated tariff changes. We have unfortunately seen this volatility occur in Belgium gas market which undermines

confidence in the regulatory system. In the UK, the fixed price has potentially helped lead to the under-recoveries, so it is important to establish which system will be used going forward. If it is a regulated tariff that varies year on year, then potentially that changes the cleared price approach and would suggest a Pay-as-bid approach is better, with that “premium” being kept constant over time. The downside to this approach is that it prevents market participants undertaking fixed price transactions on gas, given the likelihood that prices will subsequently change. We believe that this should be discussed in a specific workshop / subject to an ACER consultation as it is important to establish which approach will be taken going forward.

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 – 10 bids per user per period is 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: To get value discovery, it is essential to incorporate allocation of existing capacity and incremental capacity. Without this, the NC proposals will tend to lead to over-recovery and hence over-valuation. It should also be recognised that when tariffs are set, that the regulators have awareness of the price spreads between markets. If this is ignored, then you may have minimal demand for capacity where the tariff exceeds the value of moving gas between two markets (eg from Eynatten to Zeebrugge as an example of two IPs).

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 consider that solely having bundled capacity is appropriate, so this is likely to be problematic! It would be helpful for the TSOs to calculate how much unbundled capacity is currently available outside of Group entities both side of the IP. This could then be published and a bulletin board made available to encourage shippers to match up voluntarily. We do not believe that bundled capacity should be a mandatory solution, but one that is perhaps subject to an annual market test by ACER (ie provided x% (where x is between 75 to 90% depending on market liberalisation) is traded at hubs rather than at flanges (or cross borders), then no further action is required)

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

Response: Mandatory bundling would reflect regulatory interference in market development. Whilst BG supports the development of Hub-Hub trading, we do not believe that it is appropriate or necessary for mandatory bundling of capacity. The market is already establishing increased trading at Hubs and we believe this will continue (although subject to the implications of Financial Regulation on energy markets). If mandatory bundling were imposed then network users would potentially face increased risks because they would be signing onto market rules that they don't necessarily want to be subject to and as such, may withdraw from certain markets, with the consequences of reducing market liquidity and competition at Hubs. We consider that if mandatory, it would discriminate against those with unequal capacity positions (time / quantity) at cross-borders and for this reason, we are not clear on what the legal basis of such mandatory imposition would be. If this was open to challenge within the European Court of Justice, then it might delay the application of CAM by several years.

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: It is clear although we don't believe that it should be mandatory.

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 made available on an unlimited basis up to the point of interruption and should be interrupted on a pro-rated basis. Given our preference for the interruptible capacity being unlimited, any auction (rather than FCFS) price would effectively be at the reserve price (we would expect non-zero and for Day ahead / within day would advocate circa 20% of the Firm reserve price).

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: Yes and we've commented on these points within this response. Tariff does require an additional discussion (might have happened at the 19th July workshop that I missed) concerning

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: ENTSG have done a good job on stakeholder engagement in the development through the use of the SWJS. It is important to maintain dialogue rather than being one-way communication. We support the thought of having some pre-meetings on Balancing as you do face a tight deadline in order to develop workable Network Codes. However we do remain concerned that the comitology process can deliver a totally different and unworkable document and it is difficult to see how this can be safeguarded against.

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, and what could be improved?

Response: To be provided separately to Frank Roessler.

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

Response: No.