

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:

In general and subject to some clarifications, the draft NC currently contains the minimum level of detail that will be needed.

When the NC is transposed into the individual TSOs' network codes and/or standard transmission agreements more detail will be required when setting out the procedures, timings and definitions.

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. Detailed rules are needed for the system to work effectively. Experience from the development of GB network code shows that if there is not sufficient detail in the original document this can lead to ambiguity which immediately creates the need for changes.

We would support a simplified change process for minor changes, provided that this has extensive stakeholder involvement.

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. Some technical aspects of the CAM mechanisms would be more suited to a lighter change process, for example where the change is considered to have no material effect on stakeholders. This might include certain timings, minor clarifications to definitions, IT communication standards and changes to minor details of the auction mechanisms e.g. amending the number of bids per user.

ENTSOG could consider existing examples of good practice for deciding changes and ensuring stakeholder engagement, such as the UNC Modification Panel in Great Britain.

ENTSOG should ask with the Commission, whether changes resulting from such a process could go through a streamlined comitology process to make these binding, provided there was a high level of consensus among stakeholders.

Question 4: How do you consider that a process to review the handbook, and to modify it where

necessary, should be designed?

Response:

We support the handbook approach for IT communication standards.

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:

Using quarterly products for long term auctions is the simplest approach for creating EU-wide common rules. Quarterly products also give shippers the flexibility to build long-term capacity bookings that best meet their needs.

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:

Yes, with the exception that incremental capacity has not been included in the FG and is therefore not covered in the NC. We urge ENTOSOG, ACER and the Commission to work on adding new capacity to the NC CAM, whether this is via an amendment to the ACER draft FG CAM or a supplementary set of Framework Guidelines.

Including a mechanism for incremental capacity to be allocated as part of the long-term capacity auctions removes many of the problems that could occur if capacity is constrained e.g. there is no need to pro-rata long-term when capacity can be economically added to meet demand.

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:

Centrica supports the use of auctions for the allocation of within-day capacity. We prefer a pay-as-bid mechanism.

In 4.9.10, clarification is needed on whether bids could be partially filled and the remainder rolled forward.

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.

Once within-day and day-ahead system are established, we do not see that there would be significant costs in maintaining these, relative to running a FCFS system. If auctions were suspended the TSO would still have to have systems manned to administer FCFS allocation 24 hours per day.

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

A close out mechanism has worked well in the GB system, but for the acquisition of capacity across multiple borders it would not be appropriate for an auction at one border to close ahead of another.

ENTSOG could consider setting a minimum bid volume e.g. of 100,000 kWh/d.

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:

We believe a pay-as-bid methodology would be more appropriate for auctions of shorter duration products as it can lead to better price discovery.

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. Once implemented, the number of bids required could then be reviewed 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:

Pay-as-bid would support price discovery for shorter term products.

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

Response:

It is concerning that ACER appears not to have examined the practicalities of bundling existing booked capacity and allocating this between existing holders. ACER should look at the current capacity split at key IPs and carry out a cost benefit analysis. Frontier, in its July 2011 report for ACER “Economic analysis of the sunset clause”, did not have access to any information on actual capacity holdings and assumed most capacity was linked to long term Gas Sales Agreements. Aside from the arguments against mandatory bundling, the complexity of current holdings at some points could make proposals such as a 50:50 split impractical.

Without knowledge of how existing capacity holdings are structured between other market participants, Centrica cannot make recommendations on how a split could be arranged. However, we do not believe companies should be forced to buy new capacity for which they have no economic justification in order to bundle their capacity.

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

Response:

There should be both bundled and unbundled products offered by TSOs.

Whilst we believe bundled products will help the market, mandatory bundling would place additional costs on network users who would not otherwise have chosen to enter neighbouring markets. These include the cost of being forced buy new capacity and the risks and operational costs of entering the neighbouring market.

In addition there could be legal challenges from some capacity holders, which could delay implementation of the positive parts of the NC and tie up the resource of TSOs and regulatory authorities, instead of allowing them to concentrate on implementing the 3rd Package. Addressing the inclusion of new capacity in the CAM NC would be of greater benefit to the market.

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.

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 the reserve price should be set at the regulated tariff. The level of reserve prices for day-ahead and within-day products should not provide a disincentive to shippers to hold longer term capacity. In the GB network, a zero or discounted reserve price has been proven to lead to significant under recovery by the TSO and therefore cross-subsidies between users.

We note the reasons for ENTSOG proposing a tariff multiplier mechanism. Whilst we believe there are strong reasons for not offering day-ahead or within-day capacity at a discounted price, we would be concerned that unduly increasing short-term reserve prices above their annual equivalent would make some wholesale trading uneconomic and be a barrier to entry.

Overall, we believe that the overall level of tariffs in some EU systems is too high. We hope that the implementation of the 3rd Package and development of tariff guidelines will contribute to bringing these tariffs down to a level that is appropriate for an efficient system operator.

Given the close linkages between CAM and tariffs, we urge the Commission to give the responsibility of drafting tariff Framework Guidelines to ACER, so that the FG/NC process can produce a Tariff NC that is fully consistent with the CAM NC.

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:

ENTSOG has run an efficient and transparent process in developing the draft CAM NC. A similar process should be used to develop future NCs.

Possible improvements could be the introduction of web streaming and holding workshops on key topics before the official start of the NC process, once the main contents of the draft ACER FG is known.

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:

There should be clearer direction from the home page of the ENTSOG website to the page(s) dealing with the Network Code subjects.

The actual web page containing the CAM NC documentation is simple and effective. It is useful to be able to see all the documents and meeting dates in one place. These characteristics should be retained.

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

Response:

Definition of “business day” and “day”: more detail is needed on where and how these are defined and how the auction calendar will be decided, noting that the timing of public holidays varies between Member States. How will one-off public holidays be dealt with?

Definition of capacity levels: the use of available, maximum and technical capacity levels need to be clear and consistent throughout the document. Where an important term such as “available capacity” is defined elsewhere, in this case in Regulation (EC) 715/2009, it would be useful to specify which document it is in.

Publication deadlines: we would like greater clarity, i.e. precise timings or deadlines, on when items are published such as the allocation results after a Bidding Window 4.4.3.

Use of interim periods e.g. 10.3: A deadline or procedure for setting a deadline, for use of interim periods should be included.