

Minutes of Meeting

CAM Network Code: Stakeholder Joint Working Session 3
4 May 2011, Diamant Conference Centre, Brussels, 10.30-16.00

Rue Ducale, 83
B – 1000 Brussels

Tel: +32 2 894 5100
Fax: +32 2 894 5101

info@entsog.eu
www.entsog.eu

Name	Company/Association	Name	Company/Association
Nicolas Terracol	BOG GmbH	Sofia Rubio	Gas Natural Fenosa/EFET
Andrew Pearce	BP Gas Marketing/EFET	Claude Mangin	GDF SUEZ
Helen Stack	Centrica	Bernard Chassin	GDF Suez
Sophie Dourlens-Quaranta	CRE	Daniel Bonnici	GRTgaz
Ivo Van Isterdael	CREG	Thomas Huerre	GRTgaz
Friedrich von Burchard	E.ON Ruhrgas AG	Mark Hobbelink Wiekens	GTS
Christian Sidak	EconGas GmbH	Steinar Solheim	IFIEC
Laurent Brossard	EDF	Matthew Hatch	National Grid
Alex Barnes	EFET	Maria Hampel	OMV Gas GmbH
Cemil Altin	EFET	Marin Marinov	Overgas Inc.
Francesca Zanella	Eni Gas & Power	Aude Filippi	Powernext / Europex
Noel Regan	ENTSOG	Ralf Presse	RWE Supply & Trading GmbH
Heather Glass	ENTSOG	Christiane Sykes	Statoil
Frank Roessler	ENTSOG	Angelika Herzog	TAG GmbH
Nigel Sisman	ENTSOG	Peter J. Zehetner	Tauerngasleitung GmbH
Bernardo Rangoni	EURELECTRIC	Henrik Schultz-Brunn	Thyssengas
Margot Loudon	Eurogas	Maximiliano Miglio	TIGF SA
Edith Hofer	EC, DG TREN	Valentin Höhn	VIK / IFIEC Europe
Thomas L'Eglise	Fluxys		

1. Introduction

ENTSOG welcomed participants and outlined the next steps in the CAM network code drafting process. There will be a final SJWS on the 19th of May at which key topics from previous SJWSs will be further debated and ENTSOG will provide information on the form of the draft NC. On the 21st of June there will be a meeting in Brussels to present the draft code.

ENTSOG highlighted the links between CAM and related areas including balancing, tariffs and CMP, and noted that the involvement of ACER, the EC and other stakeholders would be crucial to resolving the significant issues that remain outstanding.

2. Links between CAM and other areas

Participants highlighted the importance of the links between CAM and other areas, notably Tariffs, Balancing and CMP. At present, the Commission and ACERs' final proposals in these areas are not known, meaning ENTSOG will have to make certain assumptions in order to produce a network code within the specified timescale. If these assumptions turn out to be incorrect, however, the regime set out in the network code is unlikely to work as intended.

A key example, raised a number of times during the session, is the reserve price for capacity. While the CAM FG specifies that the reserve price in capacity auctions should be equal to the regulated tariff, the Tariff FG may overturn this and impose a zero reserve price for day-ahead and (if auctioned) within-day capacity. Regulators are discussing this issue and all options are still open, but they are aware of the risk of cross-subsidy.

Users and ENTSOG believed that a zero reserve price for day-ahead and within-day capacity would lead to undesirable consequences. Very short term capacity would be sold more cheaply under this system, leading to a cross-subsidy from base load users to flexibility users. Overall, shippers would buy more capacity at short durations. This would undermine the long term contracts on which investments depend, lead to significant under-recovery by TSOs (demonstrated by existing examples), and may present shippers with the prospect of receiving a bill of unknown size at a later date. Shippers emphasised their desire to avoid this situation.

CRE said that ACER intended to resolve these issues within the Tariff FG process, but agreed to highlight SJWS participants' concerns within ACER and will seek to provide a preliminary ACER view on this issue during SJWS 4.

3. Within-day allocation process

CRE (representing ACER) explained the background to the framework guideline and summarised its requirements regarding the sale of within-day and interruptible capacity. Some key points were highlighted, including the choice of auctions or first come first served (FCFS) for the sale of within-day capacity at each IP, and the lack of a requirement for interruptible capacity to be bundled. ACER highlighted the need for co-ordination between TSOs.

ENTSOG explained the key features of the auction and FCFS options for within-day capacity. Under the proposal set out in the CAM NC launch documentation, interruptible within-day capacity would be offered on a FCFS basis, while firm within-day capacity could be offered either through auctions or FCFS. In either case, ENTSOG envisaged that capacity would be allocated according to a standard process throughout Europe.

Under a FCFS system, any within-day nomination above the user's pre-booked level of capacity (which may be zero) would be considered a request for within-day capacity. Any remaining firm capacity would be allocated before interruptible capacity. One participant asked whether shippers could signal a preference for interruptible or firm capacity using this system. It was explained that this would not be possible, as firm would always be allocated before interruptible and it would be unclear how to differentiate between firm and interruptible nominations.

Under an auction system, all remaining within-day capacity would be offered for sale each hour, and the rights to the capacity would commence in the current hour plus two, allowing a lead time for shippers.

Any allocation of within-day capacity would be for the balance of the day. It cannot be possible, for example, to request capacity from 8am-10am only. ENTSOG noted that an auction system need not be complex and that since all remaining capacity for the day would be offered each hour, users could meet their capacity needs for the rest of the day by bidding in a single auction.

Users pointed out that within-day capacity offered for sale should include capacity freed up by CMP measures.

ENTSOG did not believe that either auctions or FCFS was clearly 'better' from a TSO point of view, but noted that by allocating capacity to the user that valued it most, within-day auctions could provide benefits for users in the same way as auctions for longer-term capacity.

The majority of users expressed a preference for auctions over FCFS, giving a number of reasons. FCFS was felt to be an arbitrary system under which the user that succeeded in submitting its nomination fastest at the start of the gas day would win the capacity. At congested points, it would be possible for a single user to buy all the available within-day capacity and resell it for a profit on the secondary market. One user gave a recent UK example to show the crucial role of within-day capacity in enabling shippers to react quickly to changes in the system. An FCFS system could remove much of this flexibility.

Further reasons given in support of auctions included: that FCFS could introduce a need for labour-intensive post-event scrutiny to ensure that holders of capacity were using it; unlike FCFS, auctions would be compatible with a system incentivising TSOs to offer additional short term capacity to the market (which could be an effective way of maximising available capacity); under a system where re-nomination rights were restricted, as per the EC's CMP proposals, capacity would be freed up for sale within-day - it would be illogical to re-allocate it via FCFS where it could immediately go to the shipper that had just lost it.

ACER, and some shippers, felt that the main advantage of FCFS was its greater simplicity and potential for capacity allocation to be confirmed more quickly. A minority of shippers indicated that they would prefer FCFS to auctions. Others however pointed out that an FCFS system would have complicating factors of its own, such as the need to set an appropriate price for the capacity and that the nomination confirmation process would need to be completed before the system user could be confident he had access to the capacity.

It was suggested that auctions could be made less complex by reducing the number of bidding windows, though one user believed that hourly allocation was the minimum necessary to allow users to adjust their positions. Advance bidding is another option that could provide benefits to users, by allowing them to bid before the start of the gas day (although the quantity of available capacity could subsequently change).

In order to implement within-day auctions, ENTSOG noted that it would be necessary to disregard certain elements of the FG (article 2.2, paragraph 4, and later references), and of the Commission's CMP proposal (article 5, item 5) concerning firm and interruptible within-day nominations. ACER noted that it was still possible to amend the FG and the regulators present commented on a personal level that they believed a workable mechanism was more important than strict compliance with every aspect of the FG.

One user asked whether within-day constraints were likely with respect to the future balancing network code. This issue is being tackled by the ENTSOG Balancing area; while the draft Balancing FG refers to end of day balancing, it is likely that some within day constraints will be necessary.

4. Interruptible capacity

ENTSOG outlined the characteristics of interruptible capacity services, proposed a methodology for allocating this capacity through a sales process that would be aligned between TSOs, and set out how interruptions would take place, via a co-ordinated process and a defined interruption sequence.

The Prime Movers believed that interruptible capacity should be sold as a single product (there should not be different products with different probabilities of interruption) and that TSOs should provide as much information as possible to allow users to calculate the chances of interruption. The interruption process should be transparent and coordinated across borders, and lead times should be sufficient to allow users to mitigate their positions, for example through within-day re-nomination. The probability of interruption should be reflected in the price of the capacity; if capacity with a high probability of interruption were auctioned, a zero reserve price might be appropriate. They noted that there were some outstanding questions around the duration and amount of interruptible capacity that would be offered.

It was noted that there was a trade-off at IPs, as it would not be possible to harmonise both the interruption probability and the amounts on offer. CRE pointed out that although the FG does not require bundling of interruptible capacity, its intention in aligning interruptible services is to obtain the same amount of interruptible at both sides of the border (same amount of a similar type of service).

CRE noted that the nature of interruptible services and the calculation methodology should lead to a finite offer, rather than an infinite one. Since the purpose of an auction is to allocate scarce resources to the person who values them most, an infinite offer would not in any case be compatible with an auction methodology.

Users asked what would happen to the revenue from interruptible capacity, given that it would be sold only once all firm capacity was allocated. If the reserve price were equal to the regulated tariff this would, under regimes where income from interruptible capacity is not taken into account when calculating the regulated tariff, imply that the TSO had already recovered its allowed revenue. This issue is still to be resolved.

One user asked whether it would be possible to convert existing long term interruptible contracts into firm ones, if firm capacity were available – as is currently possible in some member states. This issue goes beyond the FG and is not currently being considered by ENTSOG. TSOs are therefore free to investigate their own solutions to this issue at a national level.

5. Next steps

ENTSOG will carefully consider all views raised at this and previous SJWS sessions, and will where feasible take account of stakeholder feedback when drafting the network code. ENTSOG also welcomes feedback from stakeholders outside these meetings, either by phone or email.

At SJWS4 ENTSOG will recap key CAM issues with respect to the drafting of the CAM network code, inform users what changes are planned following their feedback, and highlight questions that remain to be discussed.

Next SJWS: 19th May 2011 from 10.30 – 16.45 (note later finishing time)