

Summary of responses

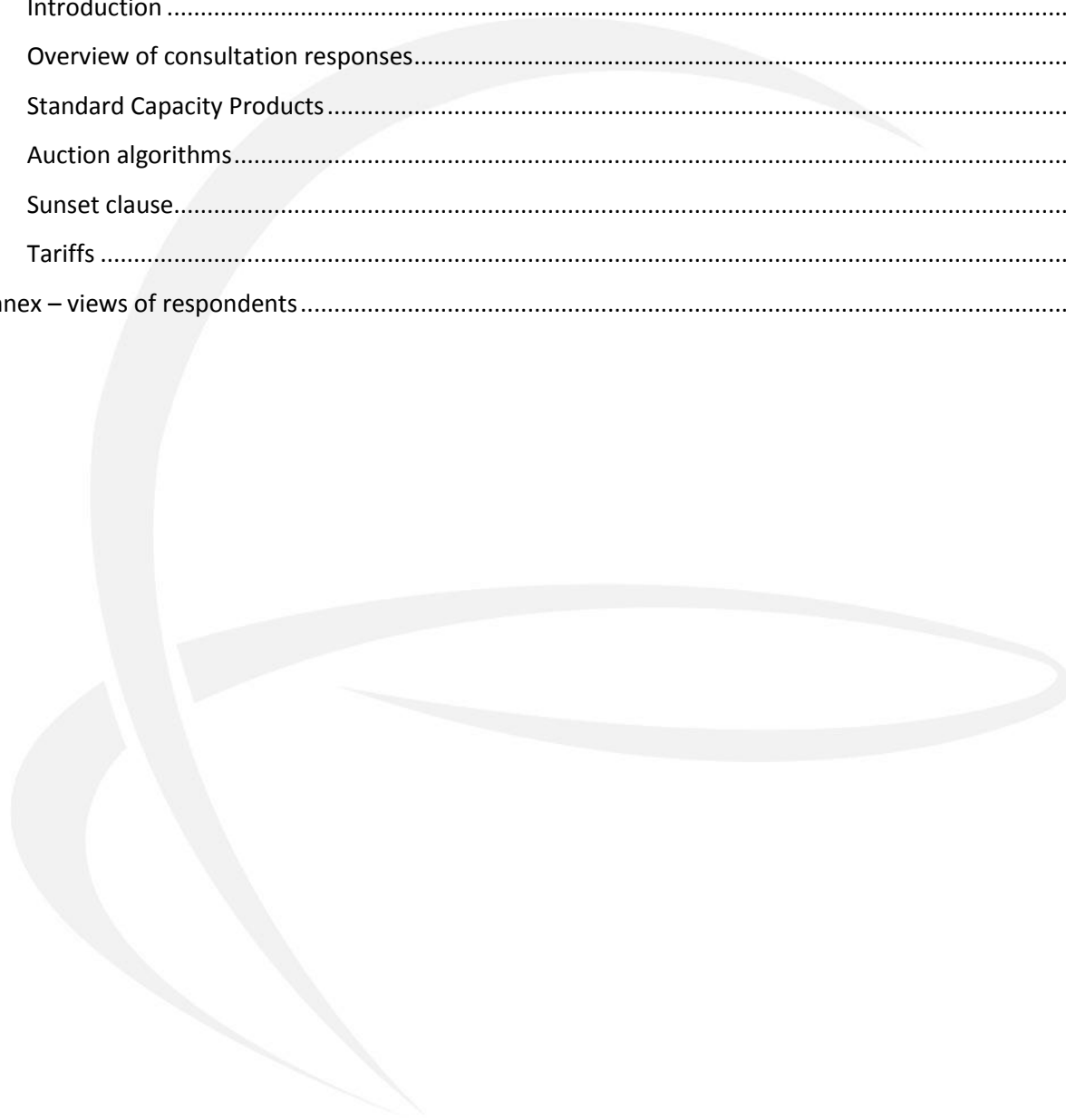
to the

Capacity Allocation Mechanisms (CAM) Network Code – Second formal consultation on new or modified concepts

Please note: this report covers ENTSG's analysis of responses and does not indicate any assessment of ENTSG's view as to the final network code proposal. The opinions expressed in this document are those of respondents to the second formal draft CAM NC consultation and not those of ENTSG.

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A. Introduction

On 24 October 2011, ENTSOG launched a second market consultation on the draft CAM network code (NC), covering issues that had changed in the final ACER framework guideline (FG) and issues on which ENTSOG is re-evaluating its positions following feedback in the original CAM NC consultation. The second consultation closed on 14 November 2011.

This report summarises the responses received to the consultation. It is intended to provide an accessible summary of market opinion on the issues raised in the consultation responses, and should be read alongside the full responses themselves, which are available on the ENTSOG website. Within ENTSOG, the report will form a key input to the discussions of the Capacity Working Group and its specialist sub-groups during preparation of the final NC.

Respondents' views are set out as they were provided to ENTSOG. This report does not offer any view on the merits of these arguments.

A supporting document will be published alongside the final NC, setting out the decisions taken by ENTSOG in preparing the final NC, together with an explanation of the consideration that we have given to the views of the market (together with other important factors including the constraints faced by TSOs) when taking these decisions.

This report first gives an overview of the positions set out by respondents. The remainder of the document, sections C-F, then examines each of the areas covered by the consultation:

- Standard capacity products (consultation questions 1 and 2)
 - Auction algorithms (questions 3-5)
 - The sunset clause (questions 6 and 7)
 - Tariffs (question 8).
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B. Overview of consultation responses

ENTSOG received 39 responses to the consultation. Respondents are listed at the end of this document. 38 responses were provided in the format requested by ENTSOG and are summarised below. The other response was received from an association, setting out a number of general principles that should be borne in mind when developing the CAM NC. While ENTSOG will take this response into account, it is not considered as part of this document.

Table i: Overview of results of multiple choice questions

1. Products		2. Start date		3. Algorithm		4. Limit price steps	
Quarterly	14	1 st Jan	5	Multiple round	28	Unlimited	35
Yearly	24	1 st Oct	29	Single round	6	Limited	1
No preference	0	No preference	4	No preference	4	No preference	2

5. Minimise unsold		6. Default rule		8. Auction premium split	
Minimise	9	Maximum rule	12	Proportional	12
Draft NC	24	Partially unbundled rule	5	Equal	9
No preference	5	No preference	21	No preference	17

Question 7 was not a multiple choice question.

C. Standard Capacity Products

Question 1 (Standard Capacity Products to be auctioned): which option do you prefer, and why?

14	Option 1: Quarterly only
24	Option 2: Integration of yearly product (Post consultation proposal)
0	No preference

NB. All respondents expressed a preference for one of the two options; however a few suggested alternatives that they would prefer. These are listed in the 'Additional points' section below. None of these alternatives was widely preferred.

Table 1a

Argument in favour of quarterly only/against integration of yearly	Number of respondents
Bookings reflect requirements more accurately – can be seasonally profiled or flat. Can build profiled contracts at an earlier stage – greater flexibility.	13
Prefer 10% to be released in annual monthly auction not month ahead. Month ahead is too close to flow and may be an inefficient way to allocate. (May lead to regulatory concern)	11
Reduces contractual congestion, especially in summer (shippers likely to book according to peak demand)	10
Annual monthly auction adds useful flexibility (particularly for new entrants wishing to gain capacity)	9
Yearly increases reliance on secondary market and CMPs (which are less efficient than primary market)	6
Stranded capacity risks are overstated. If a shipper is prepared to pay enough he can get capacity for any period. Gaming can be managed through UIOLI, transparency and market monitoring.	6
Avoids need for harmonised capacity year	5
Provides flexibility regarding length and start date of contract (including matching of capacity periods to supply periods)	3
In UK system, users have been able to secure capacity for long periods through quarterly	2

auctions	
May be no capacity available in annual quarterly auctions if yearly is first offered	2
Can't combine yearly with quarterly unless some priority rules for allocation between the two – and this would result in price distortion if demand didn't match allocation	2
Yearly product leads to inefficient capacity use	1
Easier for shippers to combine storage use and supply contract flexibility using quarterly	1
Could allocate longer periods by assuming those wishing to book them were willing to meet the clearing price	1
Complexity/gaming risks are overstated; problems seen in auction workshop are due to lack of incremental not to quarterly product	1
Yearly product is incompatible with investment incentives	1
Yearly product also vulnerable to gaps in booking	1

Table 1b

Argument in favour of integration of yearly/against quarterly only	Number of respondents
Reduces risk of stranded capacity or gaps in capacity. (Particularly important for power plants)	15
Yearly products contribute to security of supply	8
Yearly is a better fit with commodity, supply, storage and regasification contracts	8
Reduces number of auctions and therefore complexity/cost of participation in auctions – particularly important for small operators who may not have the resources to monitor large numbers of auctions	8
Users likely to book base needs through yearly and adjust profile through shorter term products once gas needed is better known (so yearly product doesn't increase congestion risk)	3
More coherent with nature of storage use. Quarterly may reduce usage and valuation of storage	2
Annual quarterly/shorter products compensate for any loss in flexibility	2
Any risk to long term contracts could favour non EU operators in European spot market	2
Any risk to long term contracts could harm consumers by giving market power to producers through spot market	2

Easier to book long durations	1
Quarterly products aren't appropriate as seasonal reserve price is not guaranteed	1
Yearly product is better for cross border/pan EU investment signals	1
Prefer reservation of 10% for month-ahead	1
715/2009 obliges offer of services with a duration of 1 year or more	1
German experience indicated that quarterly auction presented operational problems for shippers, even with fewer IPs/quarters on offer than will be the case across EU	1
Secondary market mitigates any overbooking problems	1

Table 1c

Additional points	Number of respondents
Should include surrendered capacity and oversubscription in annual monthly auction	2
Would prefer quarterly products offered 15 months ahead in order to allow operators with long term contracts to "complete" the profile of their contract in case of different starting dates between gas contracts and capacity yearly products.	2
If 10% is released in rolling monthly, the auction should be held earlier in the month	1
Would have preferred quarterly for next few years and yearly for later years	1
Annual monthly auction should take place in June for the year beginning in October	1
Rolling annual products would be preferable in order to avoid capacity hoarding by dominant operators	1
Would prefer higher % of capacity to be reserved for shorter duration products (25%)	1
Prefer reservation of quota for quarterly products (e.g. 20%) to allow profiling > month ahead, and allocation of quarterly five years ahead not one	1
Either option will work ok as long as secondary market works well	1
Should deviate from framework guideline (which was formulated when quarterly was proposed as longest product) and release 10% in annual quarterly auction. Would be symmetrical with previous proposal.	1

Question 2 (Start date for yearly product): which option do you prefer, and why?

5	Option 1: Yearly product starts on 1 st January
29	Option 2: Yearly product starts on 1 st October
4	No preference

Table 2a

Arguments in favour of 1 st of January	Number of respondents
1 st of October as start of gas year is biased in favor of users with supply contracts that start in October.	2
1 st of January is more in line with yearly products traded at virtual hubs and facilitates regulators' tariff setting for a calendar year.	2
Traded commodity products are almost purely traded as calendar years. Hedging is hardly possible for gas years.	1
Aligned with electrical year in order to adapt to CCGTs' needs.	1

Table 2b

Arguments in favour of 1 st of October	Number of respondents
In line with the gas year	18
Consistent with starting date of most existing annual products	2
Gas year that starts 1 st of October avoids booking level disconnect during mid-winter.	1
Allows for preparing for the demanding winter months and gives time in the summer months to prepare for this.	1
Fits better with review of tariffs in the Irish market	1
This date gives participants a couple of months of preparation before auctions.	1

D. Auction algorithms

Question 3 (Auction algorithms: overall methodology): which option do you prefer, and why?

28	Option 1: Multiple round ascending clock auction
6	Option 2: Single round volume based auction
4	No preference

Table 3a

Arguments for multiple round ascending clock auction/ against single round	Number of respondents
The multiple round auction allows shippers to respond to “binding” bid information and is therefore more transparent with respect to price formation.	25
The multiple round auction is considered as simple, straightforward and easy to implement.	13
The single round auction is made more complex because additional stability measures have to be defined and implemented.	10
For the multiple round auction, a bidding assistant will facilitate in case there would be too much administrative effort.	7
The single round auction is more prone to manipulation (multiple round minimises strategic behaviour).	6
In the single round auction, the user is not incentivised to reveal his true value/demand (the one who waits has advantages over those who share information). Multiple round auction better reveals the real demand.	5
The multiple round auction can clear immediately (at uncongested IPs) which is an advantage for locking in price spreads between market areas (considered as potentially less time consuming – for traders the 10 days are too long).	4
Allows bidders to know their position so they can decide whether to bid or not in the following round (without being reliant on the behaviour of others).	4
Voted for single round but said that there is also merit in multiple round (“single round is essentially a form of multiple round”). It was also stated that there is not much merit	3

in a single round auction if it is close to a multiple round auction anyhow.	
Re-bidding in multiple round auctions and publishing of aggregated interim information is fundamental for price discovery and efficient allocation (allows determining the correct market values of capacities).	2
With the single round auction, various risks and shortcomings were identified which were confirmed by the ENTSOG workshop(s)	2
Shippers will get more detailed and immediate feedback on the elasticity of capacity demand.	2
The Multiple Round auction can be easily modified for future requirements.	1
The multiple-round auction mechanism has already been tested and implemented in many different settings (at least from an electricity perspective).	1
That single round auctions all end on the same day (unless there is no congestion) creating the risk that shippers end up with unwanted capacity or no capacity at all (in multiple round you can step out)	1
In order to react to competitor behaviour, shippers would have to participate during the 10 days in the single round (more operational costs)	1

Table 3b

Arguments for single round auction/ against multiple round	Number of respondents
Shippers requiring capacity at several IPs have the ability to adjust their demanded quantity based on the interim results published at the end of each day (whereas in a multiple round capacity demand cannot be increased). As rounds are non-binding this leads to the application of early closure rules with the consequence of auctions ending at different times.	7
When shippers enter their bid stack for the first time the Single round auction provides better price discovery (demand curve present). Multiple round only reveals demand curve at the end.	4
Request single-round, but it should be changed in some aspects: <ul style="list-style-type: none"> - Max. 5 days - Only if you bid on day one can you participate in the auction - No value discovery/early closure mechanisms wanted → auction must run until a defined moment in time to be left with mismatching capacity 	3
The three price steps per round in a multiple round model as suggested in the second consultation leads to complications (no downward adjustment possible, different clearing prices in one round). There should only be a single price per round.	2

Provides shippers with the transparency they require as results of each day’s activity being published at the end of the day.	1
The limitation of possible bid revisions in the multiple round auction in the ENTSOG auction workshop led to the auction clearing at the regulated tariff. This did not reveal a complete demand curve.	1
All auctions should clear at the same time, although this is not compatible with early closure mechanisms.	1
The single round auction has generally worked well in GB.	1
Auction should carry on from 2 (considering early closure) up to 10 days as defined in GB.	1
As long-term users have a pre-defined strategy, there is no lack of value discovery in the single round	1
Single round is most simple, least time consuming and hence less costly auction design.	1

Question 4 (Limitation of price steps): which option do you prefer, and why?

- | | |
|-----------|---|
| 35 | Option 1: Do not limit number of price steps (Post consultation proposal) |
| 1 | Option 2: Limit number of price steps |
| 2 | No preference |

Table 4

Main arguments for unlimited price steps
Is market-based as it allows the market to define the price limit
Pro-rata should be avoided – nobody would get the capacity requested. The FG states that all capacity should be auctioned – no room for pro-rata allocation possible.
Fits with multiple round auctions
No reason why price-steps should be limited.
The definition of price-steps is crucial (pre-defined small price steps to minimise underselling of

capacity; or price-steps could be calculated after each round).

Unlimited price-steps better reveal the investment demand or congestion.

Question 5 (Minimisation of unsold capacity): which option do you prefer, and why?

9 Option 1: Minimise unsold capacity (Post consultation proposal)

24 Option 2: Draft CAM NC proposal

5 No preference

NB: 9 respondents explicitly supported small price steps but did not support pro rata.

Table 5a

Argument in favour of draft NC proposal/against minimising unsold	Number of respondents
Unsold is minimised due to roll over to later auctions (Unsold capacity at a price level above P_0 implies that demand was higher than the offered capacity, so most likely the capacity will be sold at the next long term or short term auction.)	10
Draft NC proposal is straightforward. Step 2 (pro rata) proposal adds unnecessary complexity for minimal benefit	6
Selling unsold capacity in later auctions increases flexibility for shippers	6
Pro rata should be avoided as means that no bidder receives the quantity demanded	6
Pro rata is contrary to market based approach specified in FG	3
Draft NC proposal leads to more efficient price discovery. Pro rata undermines true price discovery by under-valuing capacity	2
Pro rata would lead to 'backward step' in auction mechanism	1
Don't support small price steps as standard – could lead to 'bidding marathon' – but do support them where size of price step leads to extreme demand reduction (German model).	1
Auctions should be market based without administrative intervention	1
Pro rata introduces unnecessary uncertainty even with opt out. Opt out preference may vary depending on circumstance so not possible to state in advance.	1

If demand > offer and pro rata, no capacity would be sold in annual quarterly auctions so profiling would be month ahead only	1
Pro rata may allocate capacity that shipper cannot use	1
Pro rata distorts bidding behavior as bidders may ask for more capacity than they need	1

Table 5b

Argument in favour of minimising unsold/against draft NC proposal	Number of respondents
Support small price steps (should be sufficient to minimise unsold)	10
Shippers may pay less for capacity under pro rata option	3
Draft NC proposal could lead to significant unsold capacity with sale postponed for significant period in case of LT products.	1
Support small price steps and multiple steps per round as economically efficient to allocate capacity where $P > P_0$.	1
Don't support pro rata as results in uncertainty (but could be introduced if small price steps don't work).	1
Opt out from pro rata avoids allocation of unusable capacity and allows reallocation to others or roll forward if necessary	1
Encourages bidders to participate rather than hoping to pick up unsold capacity at a lower rate – improves predictability for TSOs and avoids speculation on short term.	1
Shippers bidding more will get all capacity they want while shippers bidding less may still get some. Optionality of pro rata is crucial to this.	1

Table 5c

Additional points	Number of respondents
Shippers should have choice to subscribe to pro rata or not.	5
Small price steps around expected market price.	1

E. Sunset clause

Question 6 (Sunset clause: choice of default rule): which option do you prefer, and why?

12	Option 1: Maximum default rule with cap at technical capacity
5	Option 2: "Partially unbundled" default rule
21	No preference

Table 6a

Arguments in favour of the Maximum default rule with cap at technical capacity	Number of respondents
Allows better optimisation of the capacity sold so a shipper doesn't lose capacity	3
Shippers are not left with unbundled capacity (assuming that there is no shortage of technical capacity on either side of the flange)	3
Supports a pure hub to hub market with no trading at the flange via interruptible	3
Modify maximum rule to allow it without the technical limitation	2
A pragmatic approach which maintains booking levels and doesn't adversely impact revenue recovery	2

Table 6b

Arguments in favour of the "Partially Unbundled" default rule	Number of respondents
This option does not force users to take on additional/unwanted capacity	6
Not difficult to implement where there is different technical capacity on either side of the flange	2
Partially unbundled approach maintains the commercial element of existing contracts	1

Table 6c

Additional points	Number of respondents
Concerns about/opposed to mandatory bundling and/or the sunset clause because it infringes on existing contracts and rights, and may not be legally sound	12
Disadvantages of mandatory bundling are disproportionate to the advantages of mandatory bundling	4
Bundled and unbundled capacity should co-exist, should be able to book to hub or flange	3
Neither option is coherent with the framework guideline principle of maximizing available capacity	2
The minimum default rule could work positively	2
No urgent need for the detailed and immediate definition of this rule, a more general rule could apply for the time being.	2

Question 7 (Sunset clause: further questions): Please provide any views, information or evidence in relation to the further questions raised by ENTSOG in section F.2 regarding the sunset clause.

Table 7

Response	Number of respondents
Against the application of the sunset clause/mandatory bundling; concerns regarding feasibility particularly with regard to renegotiation of supply contracts/reopening of contractual agreements (e.g. when counterparty is outside EU law)	16
'Partial agreements' between shippers should be respected even if not all have agreed on the split of bundled capacity. Otherwise one shipper will have the power to trigger the application of the default rule for the whole capacity	5
Questions over value of interruptible/firm bundled product	4
Interruptible capacity is important to allow non-matching capacity to be bundled	3
VIPs should have same procedures as physical IP	3
Capacity must be allocated via auctions since non-discriminatory	2

Issues around taxation and credit must be addressed	2
Treatment of incurred costs/tariffs for existing capacity should be considered	2
Firm/interruptible bundling should be forced if needed to ensure all capacity is bundled	2
TSOs should minimize any retrospective allocation of capacity	1
Voluntary surrender arrangements should form part of bundling process to allow 'tidying up' of mismatched capacities	1
Need clarity that future market design will allow use of unbundled capacity if this is the outcome of the default rule	1
All companies' members from the same group should be considered as the same shipper entity	1
Flange trading should not be allowed	1
Partial agreements are not possible because of competition issues	1
Any unbundled capacity should be split proportionally to capacity booked	1
Users should be able to turn down unbundled capacity	1
In complex cases with >2 TSOs, coordination between TSOs is important	1
NRA should facilitate multi-lateral meetings where shippers holding capacity on either side of an IP openly meet and discuss/negotiate way forwards. This will not prevent bilateral agreements, but will ensure that any shipper has the opportunity to identify and negotiate with shippers holding capacity on the other side of the IP.	1
Bundled products should have same characteristics. Bundled firm/interruptible is not desirable	1
Capacity which can't be allocated by agreement should be offered in the primary market	1
Shippers should have the right to cancel existing capacity contracts	1

F. Tariffs

Question 8 (Tariffs: split of auction premium from bundled products): which option do you prefer, and why?

12	Option 1: Keep split of auction premium proportional to reserve prices as default (Post consultation proposal)
9	Option 2: Split of auction premium into equal shares as default
17	No preference

Table 8a

Arguments in favour of proportional split	Number of respondents
This is the fairest way of allocating revenues	4
Reserve prices are determined according to regulated revenues which are coherent with volume of investments.	2
NRAs will ensure cost reflective tariff setting	1

Table 8b

Arguments in favour of equal shares	Number of respondents
Proportional split would create perverse incentives/distort behaviour	6
While a proportional split would conceptually be most appropriate, it is not appropriate until tariffs are harmonised/prices are truly cost reflective	4
Simpler and fairer	1

Table 8c

Additional points	Number of respondents
This issue should be resolved through a Tariff NC	7
This is a TSO issue, not a shipper issue	5
Issues of incentives arise under both options	2
There should be no cross-subsidies	2
The existence of an auction premium signals the need for incremental capacity	2

Annex – views of respondents

Name	Q1 Quarterly/ Yearly	Q2 1 st Jan/ 1 st Oct	Q3 Multiple/ Single	Q4 Unlimited/ Limited	Q5 Minimise unsold/ Draft CAM NC	Q6 Maximum/ Part unbundled	Q8 Proportional/ Equal
AEP	Quarterly	1 st Oct	Multiple	Unlimited	Draft NC	No pref	Equal shares
AFG	Yearly	1 st Oct	Multiple	Unlimited	Minimise	Maximum	Proportional
BDEW	Quarterly	No pref	Multiple	Unlimited	Draft NC	Maximum	No pref
BP	Quarterly	1 st Oct	Single	Unlimited	Draft NC	Part Unbundled	Proportional
Centrica	Quarterly	1 st Oct	Single	Unlimited	Draft NC	Part Unbundled	Proportional
Distrigas	Yearly	1 st Oct	Multiple	Unlimited	Draft NC	No pref	Proportional
E.ON	Quarterly	1 st Oct	Single	Unlimited	Draft NC	Maximum	Equal shares
Econgas	Yearly	No pref	Multiple	Unlimited	Draft NC	No pref	No pref
EDF	Yearly	1 st Oct	Multiple	Unlimited	No pref	No pref	No pref
Edison	Yearly	1 st Oct	Multiple	Unlimited	Minimise	No pref	No pref
EDP/ Naturgas	Yearly	1 st Jan	Multiple	Unlimited	Draft NC	No pref	Equal shares
EnBW	Yearly	1 st Oct	Multiple	Unlimited	Draft NC	Maximum	No pref
Endesa	Yearly	1 st Oct	Multiple	Unlimited	Minimise	No pref	No pref
Endesa Ireland	Yearly	1 st Oct	No pref	Unlimited	Draft NC	Maximum	Proportional
ENEL	Yearly	1 st Oct	Multiple	Unlimited	Minimise	No pref	No pref
Energie-Nederland	Quarterly	1 st Oct	Multiple	Unlimited	No pref	No pref	No pref
ENI	Yearly	1 st Oct	Multiple	Unlimited	Draft NC	Maximum	Proportional
ESB	Yearly	1 st Oct	Multiple	Unlimited	Draft NC	Part Unbundled	Proportional
Eurelectric	Yearly	No pref	Multiple	Unlimited	No pref	No pref	No pref
Eurogas	Yearly	1 st Oct	Multiple	Unlimited	Draft NC	Maximum	No pref
ExxonMobil	Quarterly	1 st Jan	Single	Unlimited	Draft NC	No pref	No pref

Gas Natural	Yearly	1 st Oct	Multiple	Unlimited	Minimise	No pref	Equal shares
GasTerra	Quarterly	1 st Oct	Multiple	Unlimited	Draft NC	No pref	Proportional
Gazprom M&T	Quarterly	1 st Oct	Single	Unlimited	Draft NC	Part Unbundled	Proportional
GDF Suez	Yearly	No pref	No pref	Limited	Minimise	No pref	Proportional
GSE	Yearly	1 st Oct	No pref	No pref	No pref	No pref	No pref
OGP	Quarterly	1 st Jan	Single	Unlimited	Draft NC	No pref	No pref
Poweo	Yearly	1 st Oct	Multiple	Unlimited	Minimise	Maximum	Proportional
RWE	Quarterly	1 st Oct	Multiple	Unlimited	Draft NC	Maximum	Equal shares
Sorgenia	Yearly	1 st Oct	Multiple	Unlimited	Minimise	Maximum	Equal shares
SSE	Quarterly	1 st Oct	Multiple	Unlimited	Draft NC	Maximum	Equal shares
Statkraft	Yearly	1 st Jan	Multiple	Unlimited	Draft NC	Maximum	Equal shares
STASA	Quarterly	1 st Oct	Multiple	Unlimited	Draft NC	Part unbundled	No pref
Storengy	Yearly	1 st Oct	No pref	No pref	No pref	No pref	No pref
Uprigaz	Yearly	1 st Oct	Multiple	Unlimited	Minimise	No pref	Proportional
Verbund	Quarterly	1 st Jan	Multiple	Unlimited	Draft NC	No pref	No pref
VNG	Yearly	1 st Oct	Multiple	Unlimited	Draft NC	No pref	Equal shares
Wingas	Yearly	1 st Oct	Multiple	Unlimited	Draft NC	No pref	No pref

A further response was provided by EFET which did not answer the questions posed due to a diversity of views among its members, but instead raised some general principles that it felt ENTSG should bear in mind when developing the CAM NC.

All responses are available on the ENTSG website.