



Opening and Introduction

Frank Roessler – Capacity Subject Manager

**CAM NC Stakeholder Support Process
- Information Session -**

31st January 2012 – Brussels

We've come a long way



Network Code

Comitology

Technical Workshops

Bilateral discussions

Stakeholder Joint Working Sessions

ENTSO-G Capacity WG

Commission and ACER

Framework Guideline



Information session

Agenda

ENTSOG opening and introduction	11.00-11.15
ENTSOG President's overview of the CAM NC process	11.15-11.30
Capacity products and auction design	11.30-11.55
Bundling and sunset clause	11.55-12.20
The NC in a nutshell	12.20-12.45
Lunch break	12.45-13.30
The stakeholder support process	13.30-14.00
Outstanding issue: day-ahead auction timing	14.00-14.30
A Prime Movers' view on the CAM NC development	14.30-14.45
Wrap up and close	14.45-15.00

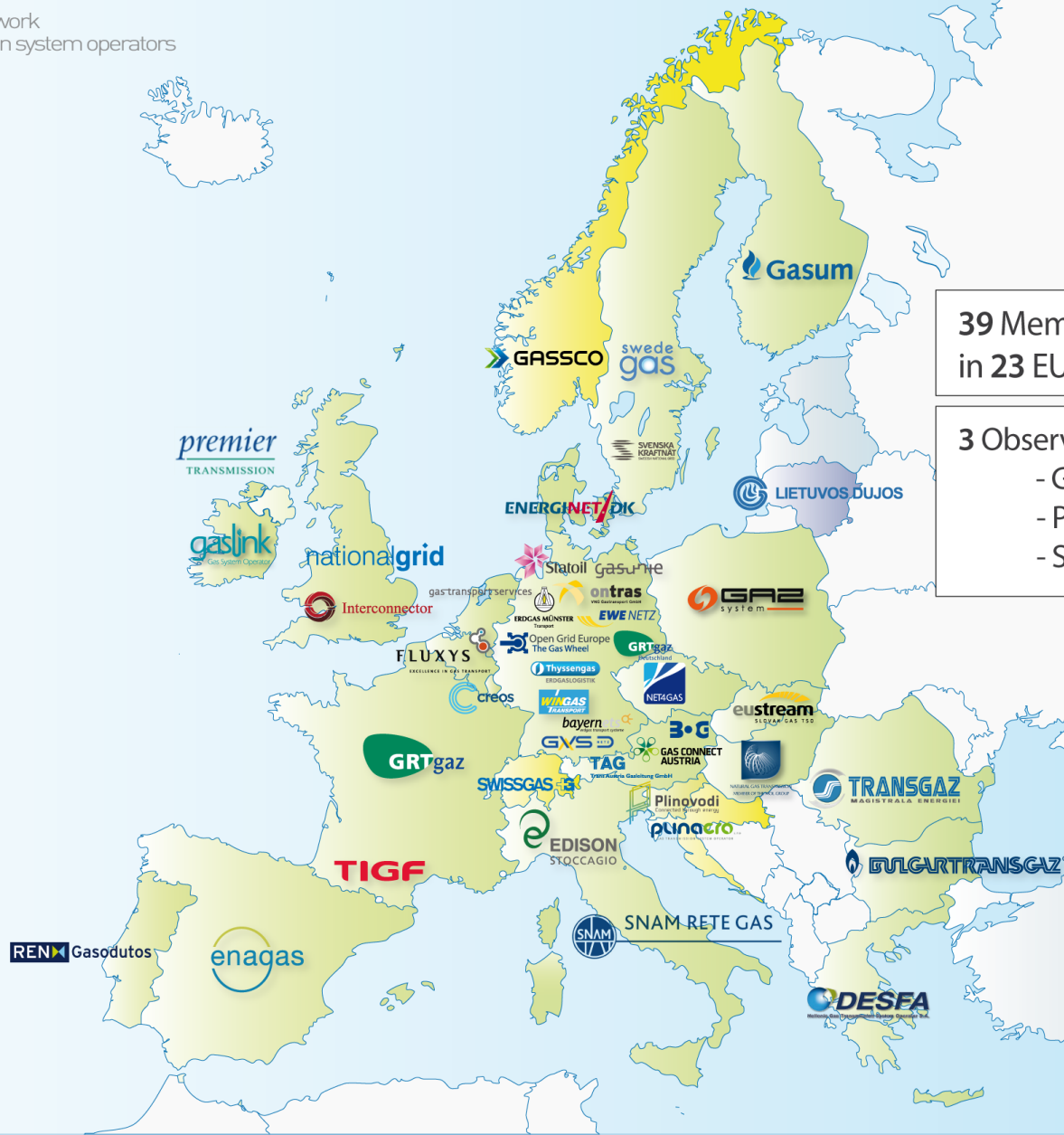


Overview of the CAM NC development process

Stephan Kamphues – ENTSOG President

**CAM NC Stakeholder Support Process
- Information Session -**

31st January 2012 – Brussels



**39 Members and 1 Associated Partner
in 23 EU countries**

3 Observers from EU affiliate countries

- Gassco AS (Norway)
- Plinacro Ltd (Croatia)
- Swissgas AS (Switzerland)

Network Codes in the 3-year-plan

Deliverable	Scoping Phase		ACER FG draft		EC	ENTSO-G code drafting		ACER evaluate	Comitology	2011				2012				2013				2014				2015			
	Start	End	Start	End	Request	Start	End		Start	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
ESTABLISHED PRIORITIES																													
Framework Guideline (FG) on capacity allocation methodologies (CAM)			Q1/11	Q3/11																									
EC invitation to ENTSG					Q3/11*																								
Network code on CAM (1)						Q1/11	Q1/12																						
ACER Evaluation of NC								Q2/12																					
Comitology Process start									Q3/12																				
ACER Framework Guideline on balancing rules			Q1/11	Q3/11																									
EC invitation to ENTSG					Q4/11																								
ENTSO-G network code on balancing						Q4/11	Q4/12																						
ACER Evaluation of NC								Q1/13																					
Comitology Process start									Q2/13																				
Harmonisation of transmission tariff structures - Scoping phase(2)	Q1/11	Q1/12																											
Path 1: Guideline Development																													
Path 1: Comitology Process start									Q3/12																				
Path 2: ACER Framework Guideline on harmonisation of transmission tariff structures			Q2/12	Q3/12																									
Path 2: EC invitation to ENTSG					Q3/12																								
Path 2: ENTSO-G network code on tariffs						Q3/12	Q3/13																						
Path 2: ACER Evaluation of NC								Q4/13																					
Path 2: Comitology Process start									Q1/14																				
ACER Framework Guideline on interoperability rules	Q3/11	Q4/11	Q4/11	Q2/12																									
EC invitation to ENTSG					Q2/12																								
ENTSO-G network code on interoperability rules						Q2/12	Q2/13																						
ACER Evaluation of NC								Q3/13																					
Comitology Process start									Q4/13																				

1.
CAM

2.
Balancing

3.
Tariffs

4.
Interoperability

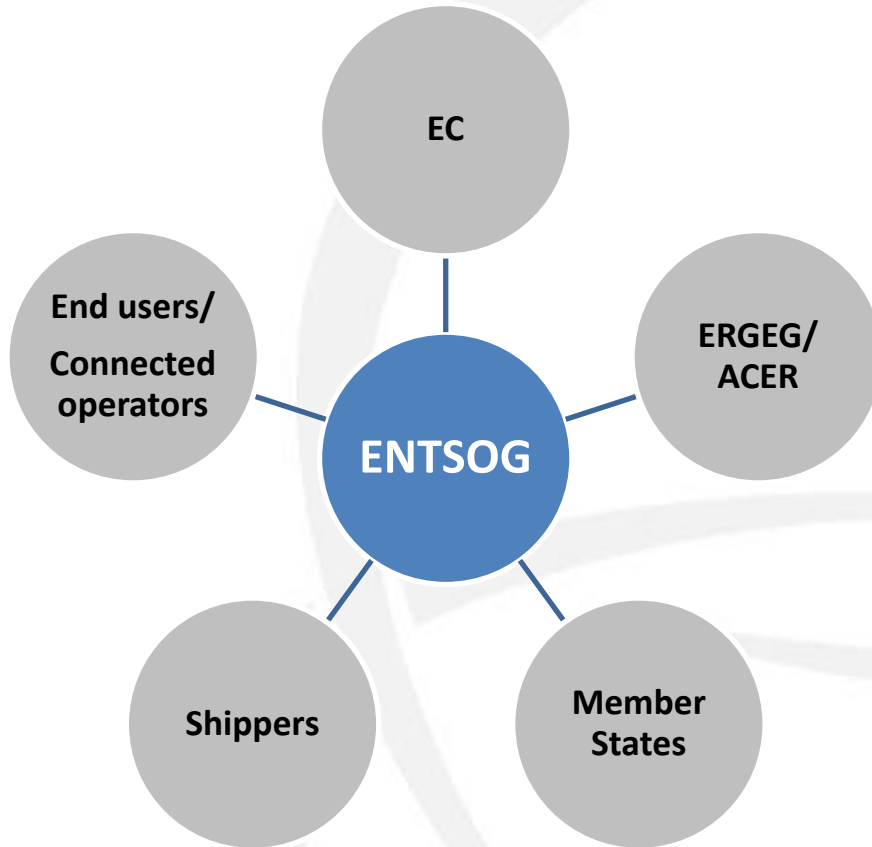
1.
CAM

2.
Balancing

3.
Tariffs

4.
Interoperability

ENTSOG at the heart of development



- Stakeholder consultation is at the heart of the team's work
- Huge progress made in engaging a range of market participants



- Market participants see ENTSOG as a fair partner
- Stakeholders have responded very positively to our processes and outputs

... interaction and communication strategy with stakeholders EC, ACER and MSs

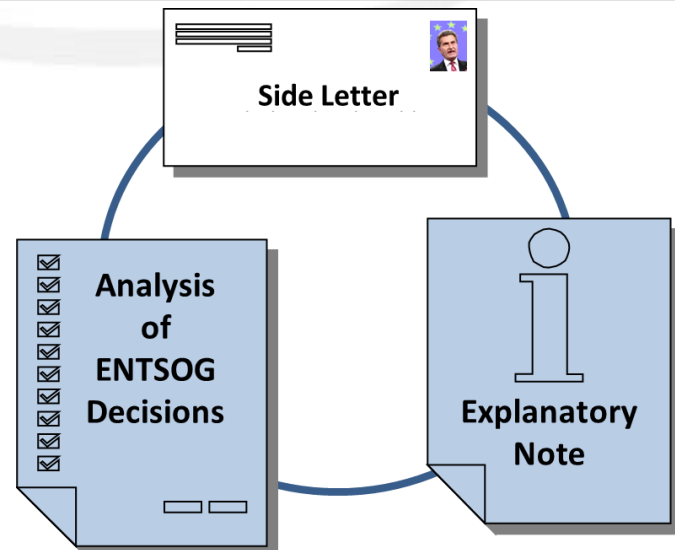
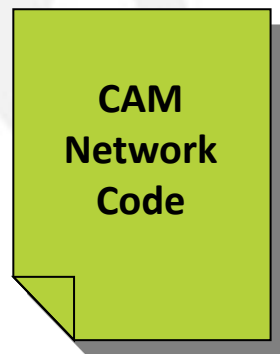
The CAM NC – Tasks and Deliverables

Tasks of a network code

- Be in line with the ACER framework guideline
- Key subject is to set EU-wide harmonised rules for
 - Standard products and auction design
 - Exclusive bundled capacity and Sunset Clause

**Users
helped
drive
the
decisions**

Deliverables



The CAM NC development

6th March 2012

We need your support !!!

31st Jan 2012

Delivery



Workshop

Update

Workshop

Workshop

Workshop

Oct – Nov 2011
Second consultation

Summer – First consultation

SJWS 4

SJWS 3

SJWS 2

SJWS 1

Apr – May – Interactive NC development
+ SJWSs

Workshop

Jan 2011 – EC Invite



CAM Network Code delivery

Official code presentation – 6th March 2012

- Official opening of the ENTSOG offices
- Dinner at ENTSOG for members, stakeholders, EC, ACER, etc.
- Official and ceremoniously presentation of the code to ACER and the Commission



Content of the CAM network code

1. Rationale of the CAM NC (legal clauses, definitions, confidentiality etc.)
2. Application of the Network Code
3. Principles of co-operation (maintenance, communication, calculation)
4. Allocation of firm capacity (products, auction design, algorithms)
5. Cross-border capacity
6. Interruptible capacity
7. Tariffs (assumptions needed for auctions)
8. Booking platforms
9. – 11. Exceeding decisions, Implementation time, Entry into force



Capacity products and auction design

Oliver Altenhoff – Leader of Auctions specialist group

**CAM NC Stakeholder Support Process
- Information Session -**

31st January 2012 – Brussels

Standard Capacity Products

FG Requirements

- Firm and interruptible capacity at any IP in both directions
- Consultation to include yearly, quarterly, monthly, daily and intraday
- 10 % of the firm capacity set aside for duration of less than one quarter

Consultation outcome

- Overall acceptance for ENTSOG's proposal of products
- However, the yearly product was intensively discussed among all stakeholders
 - Consultation showed some preference for integration of a yearly product
 - ENTSOG consulted and drove discussion in additional stakeholder workshops

Standard Capacity Products


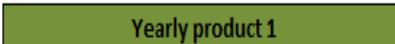
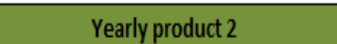
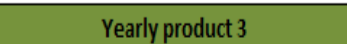


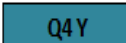
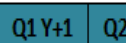
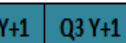









Conclusions


- Yearly product introduced to meet stakeholder request
 - Start date 1st October
- Quarterly product retained to meet needs of stakeholders requiring a profiled product
 - 10% reservation ensures capacity is always available as quarterly and/or shorter duration products

Standard capacity product	Frequency of auctions	Number of products per auction per IP
Yearly	Annual	15
Quarterly	Annual	4
Monthly	Monthly (rolling monthly auction)	1
Daily	Every day	1
Within-day	Every hour	1 (balance of day)


Standard Capacity Products

- Firm auction schedule:



Auction	Calendar Year												Calendar Year +1												Calendar Year +2												Calendar Year +3												--> Y +15													
	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12														
Annual Yearly													 Yearly product 1												 Yearly product 2												 Yearly product 3												 ... --> ...													
Annual Quarterly													 Q4 Y				 Q1 Y+1				 Q2 Y+1				 Q3 Y+1																																					
Rolling Monthly											 M	 																																																		
Rolling Daily											 D	 																																																		



Standard Product of specified duration



Auction and allocation for respective product(s)

-  Standard Product of specified duration
-  Auction and allocation for respective product(s)


- If interruptible capacity is offered, auction is held after corresponding firm auction.
- Minimum requirement is interruptible day-ahead product if firm capacity is sold out.

Auction design

FG Requirements

- Allocation procedures take place at every IP in a time-coordinated way
- Allocation of all firm and interruptible capacities via auctions
- Anonymous, transparent online-based auction procedures

Consultation outcome

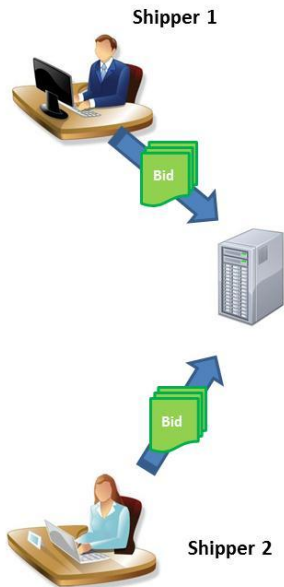
- Multiple round preferred  “Ascending clock auction”
 - Multiple round auction allows users to respond to binding bids; transparent with respect to price formation
 - The multiple round auction is considered as simple, straightforward and easy to implement
- Uniform price auction for day-ahead and within-day

Auction design

Conclusions

- Users show a significant preference for the ascending-clock auction (multiple round)
 - Two workshops on auctions
 - Stakeholder Joint Working Sessions
 - Two consultations
- Large and small price steps to clear auction as quickly as possible while minimising unsold capacity and avoiding pro rata
- Unlimited price steps
- Interruptible capacity sold via same process (subsequent)

Auction design



Price step	Quarter 4 (example)			
	Avail. qty	S1	S2	Σ
5	120			
4	120			
3	120			
2	120			
1	120			

Price step	1 st bid Q4			
	Avail. qty	S1	S2	Σ
5	120			
4	120			
3	120			
2	120			
1	120	120	100	220

Price step	2 nd bid Q4			
	Avail. qty	S1	S2	Σ
5	120			
4	120			
3	120			
2	120	100	80	180
1	120	120	100	220

Price step	3 rd bid Q4			
	Avail. qty	S1	S2	Σ
5	120			
4	120			
3	120	80	60	140
2	120	100	80	180
1	120	120	100	220

Announced price step

1. Large price steps (1,2,3,4...) announced sequentially

Auction design

Announced price step

2. When demand falls below supply, auction 'steps back' to next lowest large price step and small price steps (3.1, 3.2, 3.3.....) are announced sequentially

3. Auction closes and capacity is allocated when small price steps lead to demand falling below supply

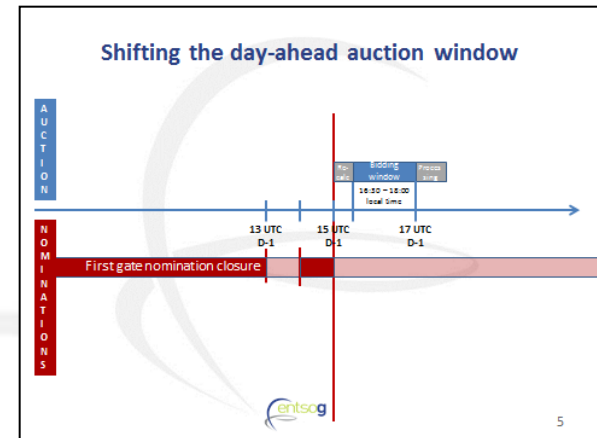
Price step	4 th bid	Q4		
	Avail. qty	S1	S2	Σ
5	120			
4	120	70	40	110
3	120	80	60	140
2	120	100	80	180
1	120	120	100	220

Price step	5 th bid	Q4		
	Avail. qty	S1	S2	Σ
4	120	70	40	110
3.3	120			
3.2	120	72	45	
3.1	120	76	50	
3	120	80	60	140

Price step	6 th bid	Q4		
	Avail. qty	S1	S2	Σ
4	120	70	40	110
3.3	120			
3.2	120	72	45	117
3.1	120	76	50	126
3	120	80	60	140

Day-ahead and within-day allocation

- Daily product (firm and interruptible) is offered via a rolling day-ahead auction
- **Timing of day-ahead auction has been reviewed very recently and will be discussed this afternoon**

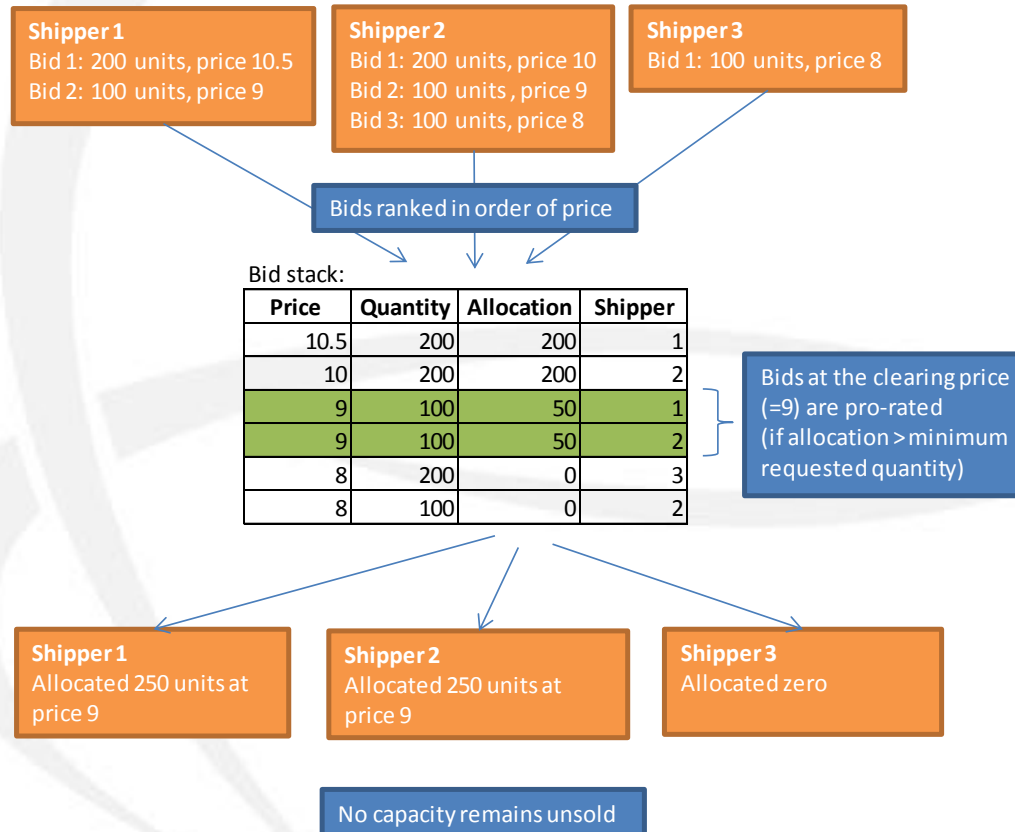


- Within-day firm capacity (balance of day) is offered via hourly auctions
- Within-day interruptible capacity is offered via over-nomination once firm is sold out

Uniform price algorithm

- For day ahead and within day auctions

Day-ahead auction: 500 units available





Bundling and the Sunset Clause

Heather Glass – Capacity Adviser

**CAM NC Stakeholder Support Process
- Information Session -**

31st January 2012 – Brussels

Bundled capacity services, virtual IPs

FG Requirements

- ACER FG requests that
 - corresponding, available firm capacities are jointly offered in a bundled manner (single allocation/single nomination)
 - capacities becoming available are bundled progressively
 - capacity at two or more points connecting the same two adjacent entry-exit systems is integrated into a virtual IP

Consultation outcome

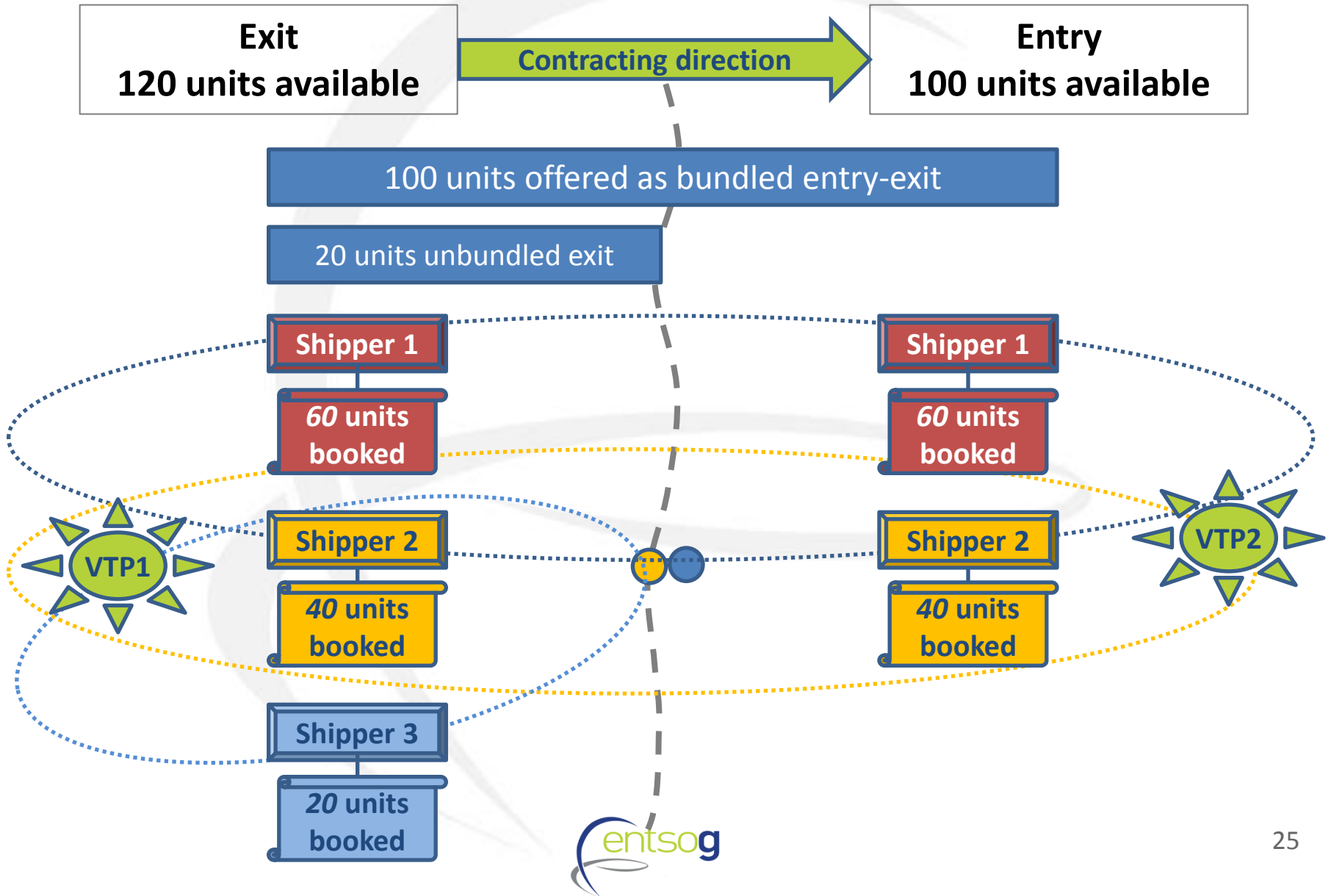
- Majority has strong opposition to mandatory bundling of new capacity: voluntary model preferred. However, ENTSOG's bundling concept (single allocation procedure, single nomination) widely supported
- ENTSOG's approach to establish VIPs between transmission systems in order to reduce complexity accepted by stakeholders

Bundled capacity services, virtual IPs

Conclusions

- **Bundling concept**
 - Shipper books a single firm capacity product and is allocated a bundled entry/exit capacity product
 - In case of mismatches for technical reasons, non-matching amounts could be offered unbundled
 - Bundling will also apply to secondary market
- **Virtual Interconnection Points**
 - To be established between transmission systems where technically and economically feasible and where virtualized capacity \geq sum of separate capacities

Bundling example



Amendment of existing contracts

FG Requirements

- ACER FG specifies that existing capacity contracted before the entry into force of the NC shall be bundled no later than five years thereafter (“Sunset Clause”)
 - The existing contracts will be amended to translate the bundling arrangement(s) into the existing capacity contracted
 - Where no agreement is reached on the bundling, capacity is split proportionally according to capacity rights by application of the “Default rule”

Consultation outcome

- Very large majority of stakeholders strongly objects to the sunset clause.
- If included (which is the case), “maximum default rule approach” preferred

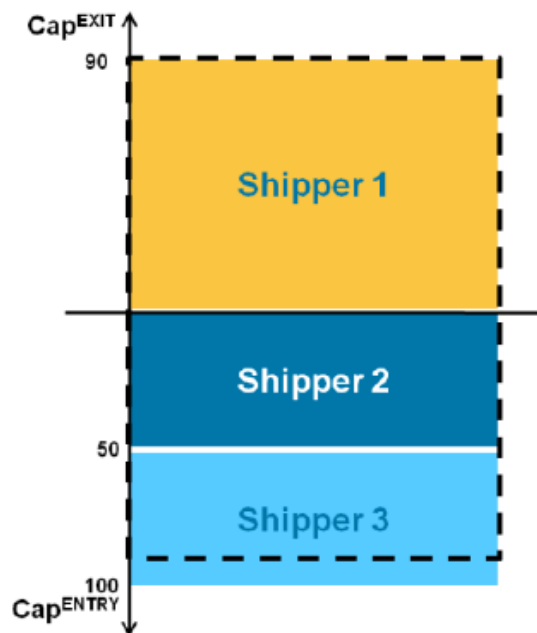
Amendment of existing contracts

Conclusions

- Despite the amendment of the FG, concerns remain from legal and technical perspectives
- Discussion of how to deal with non-matching capacities → “partially unbundled default rule approach” was identified as only possible option
- **Please note:** the contracting parties will have to amend the existing contracts in accordance with the bundling arrangement(s) which results either:
 - from agreements reached among capacities holders provided feasibility is approved by TSOs; or
 - from application of the default rule.

Amendment of existing contracts

Partially unbundled default rule approach



	Exit capacity before bundling	Entry capacity before bundling	Exit capacity after bundling	Entry capacity after bundling
Techn. Cap.	90	120	90	120
Cap. to be bundled	90	90	90	
Booking S1	90	0	42.5	42.5 + 5 unb.
Booking S2	0	50	23.75	23.75 + 3 unb.
Booking S3	0	50	23.75	23.75 + 3 unb.
Sum	90	100	90	100

(values rounded)

The NC in a Nutshell



Ann-Marie Colbert – Capacity and Tariffs Adviser

**CAM NC Stakeholder Support Process
- Information Session -**

31st January 2012 – Brussels

CAM Network Code

1. Rationale of the CAM NC (legal clauses, definitions, confidentiality etc.)
2. Application of the Network Code
3. Principles of co-operation (maintenance, communication, calculation)
4. Allocation of firm capacity (products, auction design, algorithms)
5. Cross-border capacity
6. Interruptible capacity
7. Tariffs (assumptions needed for auctions)
8. Booking platforms
9. – 11. Exceeding decisions, Implementation time, Entry into force

3. Principles of Co-operation

FG Requirements

- *'The NC shall define standard communication procedures that are applied by TSOs to exchange information with network users'*

WHAT data is
to be
exchanged



NC Content

- Draft NC proposed a 'Data & Solutions Handbook' to allow rapid modification of communication procedures
 - Not legally possible
- Final NC fully specifies data requirements
- Technical IT requirements to be specified in future NC on Interoperability



WHEN is the
data to be
exchanged?

7. Tariffs

FG Requirements

- *‘Regulated tariffs shall be used as reserve price in auctions for firm and interruptible capacity’*

Tariff section of the CAM NC

- “Revenue Equivalence Principle” of profiled bookings versus flat bookings retained
- Different approaches possible (e.g. seasonal pricing)
- Reserve price and auction premium split proportionally to reserve prices as default



8. Booking Platforms

FG Requirements

- FG requests that
 - Adjacent TSOs establish joint platforms for joint allocation/trading of primary and secondary capacity
 - NC lays down an action plan including interim steps and timetable how to reduce the number of platforms and eventually establish a single EU-wide platform

Consultation Outcome

- High level of complexity, required time and significant challenge to set up EU-wide platform acknowledged
 - However, EU-wide platform preferred over e.g. border-specific solutions by stakeholders
 - Trade-off between early implementation of harmonised auctions/bundling and EU-wide platform recognised

8. Booking Platforms

Conclusions

- ENTSOG prioritises the possibility to jointly offer capacity between adjacent TSOs over the establishment of a single EU-wide platform
- In the interim, TSOs should have some freedom to choose between options enabling them to jointly offer capacity: existing platforms, through one or both TSOs, a new platform or any other approach in line with NC
- Action plan to reduce the number of platforms and to eventually establish a single EU-wide platform
 - ➔ Report about platform scene one year after NC comes into force
 - ➔ 12 month consultation process to identify and report the market's needs
 - ➔ Consultation report including assessment of costs and time for next steps and a detailed road map





The Stakeholder Support Process

Frank Roessler – Capacity Subject Manager

**CAM NC Stakeholder Support Process
- Information Session -**

31st January 2012 – Brussels

Purpose of the Stakeholder Support Process

Why does ENTSOG include this process?



Purpose of the Stakeholder Support Process

Drivers

- To inform the internal decision making process
- Next steps in increasing the dialogue with the market
- Future project management will benefit from the experience
- The further process – ACER position on the code compliance – and the – EC review before comitology – shall be informed of users' considerations of the work done

ENTSOG understands that some may prefer different details

Timing does not allow further refinements, but it's key to find out if the overall outcome is considered as a step forward for the EU

Stakeholder Support Process

Question 1: Perception of the process

Do you consider that the network code development process carried out by ENTSOG was appropriate, given the constraints of the framework guideline? In particular, was the level of stakeholder engagement appropriate? Please give brief reasons or suggestions for improvement.

Stakeholder Support Process

Question 2: Day-ahead auction

Following the EC request to shift the day-ahead auction to the afternoon D-1, please explore whether a day-ahead auction between 15.00-18.00 local time in central Europe is feasible.

To be explored next

Stakeholder Support Process

Question 3: Supporting the code articles

Support / Do not support

Sections 1-2: Rationale and Application

Section 3: Principles of Co-operation

Section 4: Allocation of firm capacity

Section 5: Cross-border capacity

Section 6: Interruptible capacity

Section 7: Tariffs

Section 8: Booking platforms

Section 9: Legal provisions

Stakeholder Support Process

Reflection

- ENTSOG tried hard to understand and consider all views
 - Final code concepts considered as workable compromise
 - Majority views incorporated
- ENTSOG is looking forward to the implementation
 - What will we learn from applying the rules?



Next steps

31 January 2012	Stakeholder Support Process info workshop
13 February 2012	Stakeholder Support Process ends
6 March 2012	General Assembly approval
Subsequently	Final CAM NC submitted to ACER
23 March 2012	NC presentation at MF XXI

Please stay engaged in our work – more is to come



CAM next steps and interfaces with CMP

ENTSOG CAM Stakeholder support session

31 January 2012

CAM has come a long way...the end is in sight!

- *March 2012*: Publication of final CAM NC
- *June 2012*: Submission of ACER opinion on CAM to EC
- *≈ December 2012*: Launch of Comitology
- *≈ Q3 2013*: EC adoption of CAM NC and subsequent entry into force
- *Q1 2016*: first yearly auction (assuming 9 + 18 months of adaptation and implementation) – target should be to launch auctions in 2015!



- Plenty of work left to do and we encourage an emphasis on early implementation and preparation!

EC aims to assure full compatibility between CAM and CMP (DA auction timing)

- Morning DA auction was problematic for the following reasons:
 - » TSO could *oversubscribe capacity* in the *morning* DA auction knowing that some capacity would be freed up in afternoon within-day auction creating *perverse incentives*
 - » Potentially *skewed price developments* and *effects on liquidity* through 2 *quasi-DA auctions* (morning and afternoon)
 - » The *purpose of firm DA UIOLI* is *not to restrict DA capacity just acquired* in the morning session
 - » Potentially *different tarification regimes* between the two *quasi-DA auctions* could lead to unintended effects
 - » Difficulty of having a *WD auction* with *essentially the same character as a DA auction*
 - » DA market starting after LT Contracts are nominated would allow for combining all sources of DA capacity

EC open as regards timing of afternoon DA auction

- Based on the arguments set out EC considered a shift of the DA auction to the afternoon necessary to align CMP and CAM
- Final auction time to be put forward by ENTSOG reflecting the timing most appropriate for market players
- EC's CMP public consultation has shown the majority of stakeholders preferring a 14h nomination time, in line with the EASEE-gas CBP



Day-Ahead Auction Timing

Frank Roessler – Capacity Subject Manager

**CAM NC Stakeholder Support Process
- Information Session -**

31st January 2012 – Brussels

Day-ahead auction process

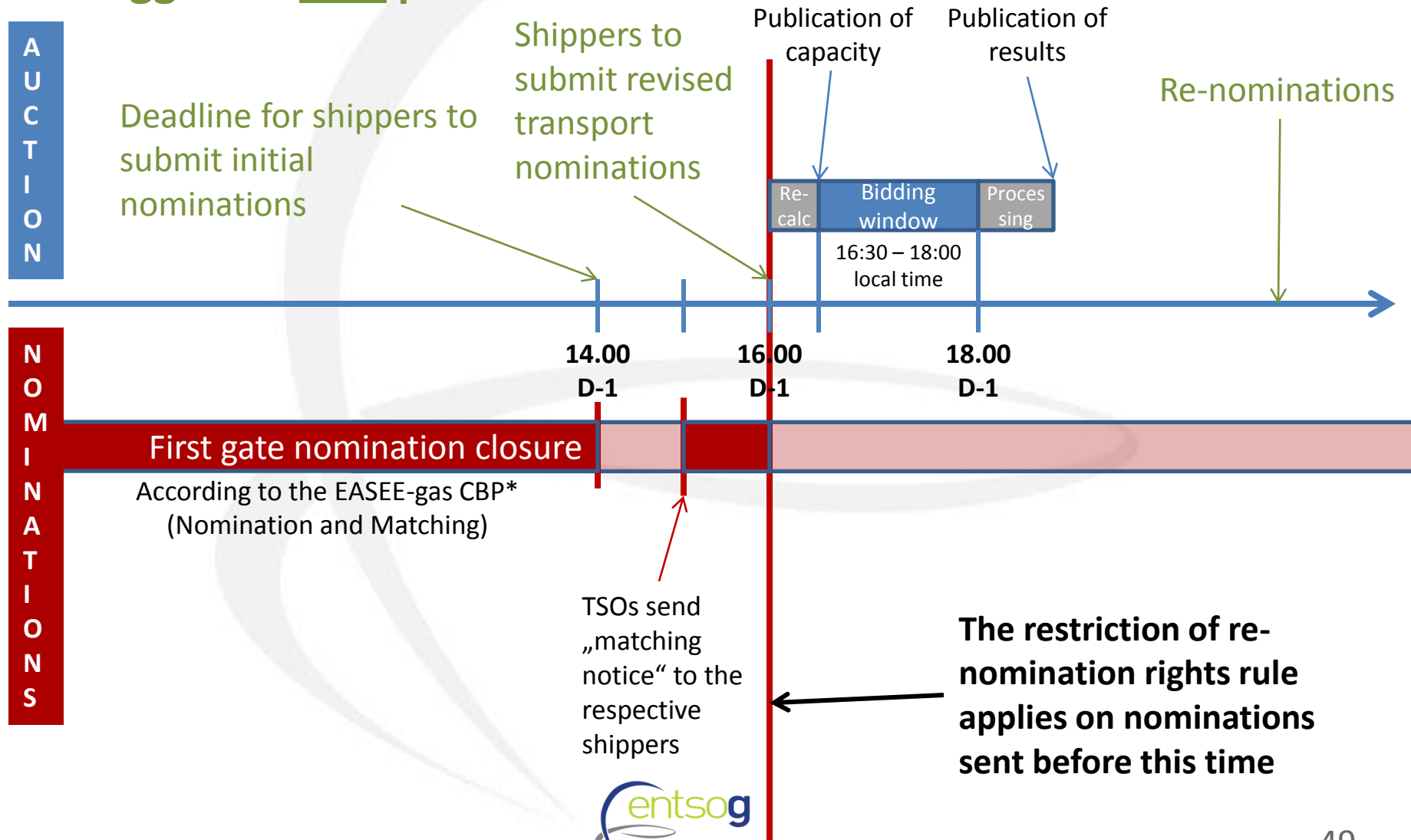
Considerations

- On 12th Jan - EC asked ENTSOG to take into consideration the importance of alignment with Day-Ahead UIOLI (CMP)
 - Shift of the auction from the morning to the afternoon
- On 23rd Jan - ENTSOG agreed to consider this change
 - The deadline for users to adjust the matched nominations to be used as basis as nomination time reference = 15:00 UTC
- Day-ahead auction takes place from 15:30 UTC until 17:00 UTC
- Some users consider auctions late in the day as preferred
 - Better information quality closer to the day

Technical consideration ...

Shifting the day-ahead auction window

Suggested new process



Day-ahead auction process

What will happen next?

- After ENTSOG's decision - the change has to be in the NC
- Stakeholders are invited to provide their position on how ENTSOG reflected the EC request in the NC
 - The suggested timing is considered as best possible solution
- **Views to be provided alongside the Stakeholder Support Process**
- However, in the light of timing the CAM NC cannot be changed before the code delivery
 - Possible stakeholder requests for amendments will be forwarded to ACER and the Commission



A prime movers' view on the CAM NC process

A shipper's perspective

On the NC process

- Benefit of having a harmonised European NC :
 - Increased competition to increase the social welfare
- Congratulations to ENTSOG :
 - Well organised, fruitful debate, transparent and constructive dialogue, pragmatic approach...
- Interactions with the other NC / guidelines CMP, Balancing, Tariffs, ...
 - Difficult to imagine without assuming or setting some parameters or features
 - The discussion on reserve price has only be touched upon

On the bundled products

- Most of the shippers and TSO's seems to be opposed to mandatory bundling
- Non proportionate measure that imposes an excessive burden (renegotiation of capacity and commodity contracts) in relation to the “objective” (to increase market's liquidity)
- Weak legal impact assessment and economic analysis

On the default rule

- Allocation of bundled and unbundled capacity proportionate to shippers booking.



- Shippers force to pay for unwanted capacity.
- Value of unbundled capacity in a bundled world ?
- There may be no “good” default rule. The solution is “do not implement the sunset clause”.**

On the auctions design

- Trade off between some national systems
 - Yearly versus quarterly products
 - Single round versus multiple round ascending clock model
- Latest developments :
 - 10% short term will be offered already during the annual auction
 - Large & small step prices

On the day-ahead auction timing

- Should happen, once
 - the allocation of the day before is available
 - the nomination of the day-ahead has been made
 - the secondary market and the potential limitation of renomination rights (firm UIOLI - CMP) has free up capacity that will be offered during the day-ahead auction
- EC proposal (i.e. latest nomination at 4 p.m. and DA auction between 4.30 pm and 6 pm.) seems acceptable.

Conclusion

- We support the NC except on the bundled products...
 - ... that should not be mandatory
 - the sunset clause and the default rule should not be implemented.
- Thanks to Entsog and especially to the CAM NC team.



Thank you very much!

We hope our work is supported ...

Your Brussels Team

ENTSOG -- European Network of Transmission System Operators for Gas
Avenue Cortenbergh 100, B-1000 Brussels

T: + 32 2 894 5107
EML: Info@entsog.eu
WWW: www.entsog.eu