

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: Europex welcomes the work achieved by ENTSG in drafting the First Network Code (NC). The current NC is quite detailed. However, certain flexibility should be guaranteed to allow the further development to react on market evolutions as well as the establishment of studies and/or pilot projects. E.g. in a later stage as part of growing maturity of natural gas markets implicit capacity allocation mechanisms could achieve better results than explicit allocations.

Europex represents the view of gas exchanges and some questions were not directly linked to the business of Exchanges. That is why some questions remain unanswered (NA).

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: Europex is in favour of a detailed NC that can be changed by a simplified process insofar as this simplified process involves all the stakeholders (and not only ENTSG and ACER).

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: NA

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

Response: NA

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: Europex believes that capacity products should be linked to the standard commodity products that can be traded through the wholesale market (Exchanges and OTC) so that shippers can easily coordinate their capacity and commodity products. As a result, Europex agree with the NC proposal to offer quarterly capacity products but do not understand why yearly capacity products that correspond to Calendar commodity products should not be proposed as well.

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: NA

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: Europex questions the need for auctions for within-day capacity market. Within-day capacity markets are not very liquid and an auction per hour seems to be complex to implement. Principally, the needs of the market should be taken into account which could be met by using best practices. In this respect other methods that link within-day capacity allocation and within day commodity trading could be studied in a second time; in this case, capacity allocation would have to be embedded in continuous trading.

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: NA

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: Europex agrees with the volume-based auction algorithm in general for long term capacities. Europex thinks that pro-rata for the remaining part of capacities (between two price steps) could be applicable without prejudice if the prices steps are well determined.

Yet, for short term capacity products, implicit allocation of capacities can be more efficient than explicit auctions. That is why the NC shall allow implicit allocation of capacities insofar as the market coupling design has been studied to be applicable to the gas market.

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: NA

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: NA

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: NA

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

Response: Europex supports the introduction of bundling products as it would foster hub-to-hub trading. The best way of bundling unbundled capacities between shippers would that they find the best agreement that suit them. Europex acknowledges that the “sunset clause” and “default clause” may be difficult to implement from a legal and a business point of view.

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

Response: Mandatory bundling for new available capacities would foster hub-to-hub trading by limiting the trading at the flange and concentrating liquidity on hubs. Europex is convinced of the necessity to bundle new capacity products available at each IPs.

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: The approach to bundle capacity seems coherent. About divergent amounts of capacities available from each side of the IP for contractual reasons, if the sunset and default clauses are not applied, Europex agrees with the possibility to sell unbundled products of a duration smaller than the contractual duration of the contract on the other side of the IP. Single nominations at each IPs should be the general rule for all bundled products. As for interruptible capacities, Europex do not understand why interruptible capacities cannot be bundled and can only be aligned.

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: Europex agrees that in general interruptible products should play a less important role in the future. Mechanisms of oversubscription and buy-backs of firm capacities could be more efficient than interruptible capacity products.

Question 17: ENTSG would welcome feedback, observations and suggestions related to this section of the supporting document and to Annex 2. Do you consider that ENTSG has correctly identified the key tariff issues in these sections?

Response: Europex understands the problem of over or under recovery of costs by the TSOs. Everything is about having the right allocation of costs between shippers. The problem of too high a reserve price for short-term capacities is that it can hamper short term hub-to-hub trading. Harmonisation and good allocation of tariffs are key for the development of a well-functioning gas market. If it is too expensive to transport gas to a peculiar hub, liquidity of the hub will decrease. Yet a zero-reserve price should not be the only solution explored. Short term capacities could be implicitly allocated even with a non-zero reserve price.

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: Europex warmly thanks ENTSG for its professionalism in organizing the NC drafting and the stakeholders' involvement. However, the timing to respond to consultation is sometimes quite short. It can be difficult to think about the consequences of all those changes in the gas market in a so short period of time. Workshops are very interesting to hear the views of other stakeholders and express its own view but do not replace written answers.

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: NA

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

Response:

Europex welcomes the paragraph 2 (8) on implicit allocation of capacities and is convinced that market coupling can bring benefits to the gas market if well designed taking into account the specificities of the gas market. Yet Europex would prefer the word “implicit allocation of capacities” instead of “implicit auction” as implicit methods should be also embeddable in the continuous trading of the commodity. Studies and/or pilot projects in designing a suitable model for gas market coupling should be made in cooperation with exchanges, TSOs, NRAs and market participants.

In so far we propose to constitute the paragraph as follows:

“2 8) In accordance with article 4, this Network Code describes the methods for explicit auctions without prejudice to the application of implicit ~~auctions~~ allocation of capacities, with the understanding that once an implicit ~~auction~~ allocation of capacities is applied the provisions in articles 4 to 6 and article 8 of this Network Code shall not apply. “

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