

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 Storengy's view the draft NC provides sufficient level of details for the provisions it contains. However, we would like to express some concerns regarding the NC content – please see our remarks below.

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: As mentioned above, the level of detail for the provisions included in the NC seems sufficient. Where changes are necessary, they should be made wherever possible through a separate procedure where modifications can be made following stakeholder request and discussion.

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: In our view, it seems more pertinent to address principles and details of CAM mechanisms in a joint, rather than separated, manner.

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

Response: *No answer.*

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: Storengy is strongly concerned about the NC proposal for long term capacity auction via quarterly auctions as the sole option included in the NC. We believe that this proposal does not take into account the physical characteristics of gas storage which is mainly used to cover seasonal variations in gas demand: i.e. gas is injected in the summer period when demand is low and withdrawn in the winter period when demand is high. This cyclical nature of storage use determines also the performance of storage facilities. Moreover, as argued below, we consider that the proposal may be counterproductive for security and continuity of gas supply.

While we take note of the preference expressed for this type of CAM by some shippers taking part in

the SJWS, we do not fully understand the rationale behind limiting the number of options for long-term products. In our view, restricting long-term CAM exclusively to quarterly products could prove detrimental to the utilisation of storage capacity, which is inextricably linked with the availability and the price of transmission capacity, as well as to the security of supply to consumers. This could in turn significantly undermine the value of storage for users. Several reasons account for this:

The draft NC envisages that long-term quarterly products would be sold via independent but concurrent auctions and that participants would bid separately for their desired quantity of capacity for each of the 60 quarters offered. Although such a scheme could in principle provide certain flexibility for shippers, it may prevent them from ensuring continuity of capacity over longer time periods. In fact, bidding in multiple concurrent quarterly auctions may lead to a situation where shippers who have not managed to successfully bid for all the quarterly products desired end up without sufficient transmission capacity over the timeframe required. This may in turn impact the use of storage by such users and affect its value. Moreover, it could even impact on the ability of shippers to ensure supplies to customers.

Although the draft NC allows re-bidding (adjustment of bids) during the 10-day bidding window, it remains dubious whether this is sufficient to successfully cope with the complexity of such an operation, in particular if shippers would need to re-bid for multiple products and at multiple interconnection points. On top of that, as mentioned in the NC Supporting Document Annex 2, strategic booking behaviour of shippers during bidding could take place resulting in some shippers with more diversified portfolios trying to outbid their competitors in the hope of getting back all or part of their auction premiums in the event of auction over-recovery. There is no doubt that redistributing auction over-recovery or charging auction under-recovery back to users will pose serious challenges and could potentially result in discriminatory treatment. Running 60 quarterly auctions at each interconnection point would further increase such risks. This could in turn result in inefficiencies and discrimination thus reducing the advantages of the auction system.

Moreover, we would like to note in the proposed approach regarding the price multipliers for quarterly, monthly and daily products contain some shortfalls. This is because the average peak quarterly, monthly and daily flow allocation levels which will be taken into account to calculate the multipliers not properly reflect seasonal variations of flows (i.e. the averages will be significantly lower for winter periods and higher for summer periods). This would, as a result, affect storage value for shippers as it would increase the cost of transmission capacity over the summer (storage injection) period and decrease it over the winter months. This, as well as the fact that the probability of congestion is higher in the winter period, could further hamper security of supply. Therefore, we believe that the calculation method of multipliers should be adjusted so as to ensure that the resulting capacity pricing reflects the reality and does raise concerns over security of supply.

We would also like to point out that the volume-based auction design which the draft NC proposed for long-term capacity involves the risk of suboptimal capacity allocation, as some part of the capacity for which the bid price is lower than the clearing price does not get allocated but is instead rolled forward to the next shorter term product (please refer to our answer to question 9).

Finally, we would like to note that the NC proposal concerning long-term products is not compatible with the definition of “long-term services” as contained in the Regulation 715. It is worth recalling that according to Article 14.1 (C), a TSO shall offer to network users both long-term and short-term services, whereas “long-term services” are defined by the same Regulation Art 2.1, item 14) as

services “[...] with a duration of one year or more”.

Having said the above, Storengy believes that the NC should include annual yearly auctions as a long-term CAM. Maintaining annual yearly auctions would considerably reduce problems linked with long-term quarterly auctions, which have been described here above, and would ensure consistency of the NC with the Regulation 715. Moreover it would help to reduce the unnecessary risks that the roll-out of quarterly auctions as the only long-term capacity allocation mechanism could have for the use and the value of storage as well as for the supply to customers. As such it would reduce the risk of hampering security of supply. Finally, it seems to us that long-term annual auctions should in principle present more advantages for TSOs in terms of investment rather than long-term quarterly products.

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: As mentioned above, the auction design for long-term capacity could turn, out insufficient to allow system users to purchase the long-term capacity they need. We believe that long-term annual auctions should be maintained.

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: Whereas Storengy does not take a formal position on the within-day action proposal, it seems that the FCFS allocation method for within-day capacity should be less complex and more flexible for users.

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: Perhaps rather than suspending these auctions an alternative mechanism could be envisaged, such as FCFS which could probably reduce operational costs yet allow to continue offering those products.

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: As noted in the response to question 5, the volume-based cleared-price auction algorithm has some shortcomings that could result in suboptimal capacity allocation. This is recognized in the draft NC Supporting Document however the possibility of prorating the remaining capacity at the clearing price has been dismissed on the grounds that participants of the SJWS did not favour this solution. The reasons for that remain unclear for us.

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: *No answer.*

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: *No answer.*

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: Whereas Storengy does not take a formal position on this issue, out of the three proposed value discovery mechanisms, the option of “obligation to bid from the first day of the bidding window” seems the most reasonable.

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

Response: *No answer.*

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

Response: Although Storengy is not directly concerned by this proposal, we do agree with the general objections voiced by the stakeholder community concerning mandatory bundling of capacity as potentially negative for (in particular long-term) supply contracts.

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: *No answer.*

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: *No answer.*

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: Please refer to the answer to question 5 where we have included some remarks to certain elements regarding the tariff issues discussed in the draft NC Supporting Document.

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: We would welcome notification emails once new documentation relating to the NC development process is uploaded to the website.

Question 19: ENTSG 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 ENTSG website, www.entsog.eu, and what could be improved?

Response: *No answer.*

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

Response: We would like to note that should the NC need to be refined to take into account new legislative development concerning CMP (EC comitology proposal), the involvement of stakeholders should be ensured.

