**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**](mailto: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:  DONG Energy believes that the current draft of the NC is appropriate for an EU wide regulation – but the references made in the NC are not in conformity with current legislation. The NC refers to ERGEG’s “Revised Pilot Framework Guidelines on Capacity Allocation Mechanisms” (FG) dated December 7th, 2010 as the legal framework for the development of the NC. DONG Energy would like to point out that these Framework Guidelines does not constitute a binding document. Historically all ERGEG’s Guidelines were voluntary and furthermore it is clearly stated in the Pilot FG that it is “a report intended as input to ACER”. As ACER became operational on March 3rd, 2011 they published a draft consultation paper based upon the ERGEG input. Many stakeholders are not in agreement with major parts of the draft consultation paper, which has been expressed in writing during the FG hearing process, which is still ongoing. As an example many stakeholders including DONG Energy are very strongly in opposition to the suggestions in the hearing on mandatory bundling of all firm capacities and the amendment of existing contracts. Therefore, it is not acceptable that the NC includes these provisions as if they have already been confirmed in the FG.  The ENTSOG cover letter to this NC states that “this network code was developed under the assumption that the TSO’s revenues are guaranteed by a tariff system, which is consistent with the capacity allocation mechanisms proposed in this Network Code”. Seen from our perspective it is not the NC but the services of the TSO’s, which should determine the revenues of the TSO’s. DONG Energy does not support an automatic revenue guarantee for TSO’s.  DONG Energy would like to emphasize that we do not favour the single round auction system as outlined in the NC – instead we prefer coordinated, multi-round ascending clock auctions which will allow the bidders to adjust their strategy and demand according to the price developments across the total volume of different products as the auction progresses. This method has proved itself worldwide e.g. by the allocation of balance margin in the USA. |

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| **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 stakeholderrequest and discussion? |
| Response:  DONG Energy believes that the level of detail expressed in the NC will suffice. If changes are to be made we think it must happen in a transparent manner with the full involvement of stakeholders. If comitology is used, then it should be under full control of Member States and the EU Parliament. |

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| **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:  DONG Energy would like to see that all changes of principles and essential details should go through the full comitology approval process. Minor “handbook” changes may be agreed upon by a lighter process involving all stakeholders. |

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| **Question 4:** How do you consider that a process to review the handbook, and to modify it where necessary, should be designed? |
| Response:  The scope of the proposed “handbook” seems right; however DONG Energy would like to suggest that this handbook and other operational matters should be handled by the Network Codes for Interoperability. This would also be the right forum to discuss lead-times, change of operational details etc. |

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| **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:  DONG Energy strongly encourages the use of annual products for years 3-15 instead of the proposed quarterly products as proposed by ENTSOG.  Taking into consideration that the physical environment on the continent is very different compared to the UK e.g. with regard to the changing needs for transport of transit volumes we think that shippers are likely to face physical congestion – especially during certain winter quarters, which cannot in time be resolved though new investments because the investment trigger will be activated too late.  At the same time we think that TSO’s would be likely to try to secure their full revenues on the two winter quarters only (via profiled reserve prices) subsequently leading to a steep increase in the regulated/reserve price for these two quarters – and perhaps also increasing reserve prices for the summer quarters. It would definitely not be in the interest of the general gas market to artificially raise the cost-level for gas – neither is it acceptable if the shippers as a consequence shall have to cope with greatly fluctuating tariffs on one side and re-allocation of under/over recovery on the other side. This will lead to very unpredictable tariffs and undermine the business calculation of shippers.  We think that ENTSOG should adopt the new German regulation (Gasnetzzugangsverordnung) whereby TSO shall over annual products only for year +3 to +15; quarterly products only for year +1 and +2; and quarterly, monthly and d-head products for current year. |

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| **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:  It is DONG Energy’s assessment that capacity booking opportunities for 15 consecutive years should suffice to cover the long-term general interests of the shippers. |

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| **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:  FCFS is our preferred allocation method for within day capacity products. Appropriate timestamps will secure efficient day-to-day operation as well as non-discrimination of market players.  If the majority of market players prefer auctions also for this type of products, then DONG Energy shall recommend two daily intraday auctions. An early morning auction and a late afternoon auction at around 16:00. This should also allow shippers to cover their increasing capacity needs for balancing purpose. |

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| **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:  We think that it should always be possible for stakeholders to voluntarily supply capacity to the auction platform. The platform must do its utmost to actively market such capacities. There should be a method whereby the platform provider quickly can assess whether demand is available. Such a method would be available if a multi-round auction model was adopted. If there is no demand at the start of a particular auction then the auction should automatically be called off. However, lack of demand during one particular day might change for the following day, therefore all scheduled auctions must be initiated. |

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| **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:  Generally we strongly prefer multi-round ascending clock auctions over single round auctions. The multi-round model will secure that there will be no pro-rating of capacity and bidders will know their positions at all times during the auction process.  We do not think that the suggested single-round model (including the algorithms) is user friendly – it leaves bidders very much in the dark since it is not possible to get information on the development of demand throughout the bidding window. A 10 day bidding window may often not be needed, then the full auction capacity may be in demand at the clearing price on the first day.  With reference to our response to question No. 5, DONG Energy would prefer annual products for year 3-15 instead of quarterly products.  The auction algorithms must include an incentive program for TSO’s and a clear and harmonized valuation of the existing pipelines, compressors and other TSO assets including time and method of depreciation. Also the capacity calculation methods of the TSO’s should be aligned. |

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| **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:  As stated previously DONG Energy is strongly supporting the multi-round ascending clock model as well as FCFS for intraday products. In order to provide for correct, unbiased investment signals, the regulated price used as reserve price should always be zero. |

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| **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:  10 bids seem sufficient – however, limitations may not be needed. |

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| **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:  DONG Energy thinks that bidders must participate from the first bidding window and it should not be possible to increase the volume-bid during an auction. |

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| **Question 13:** In your view, how could a split of bundled capacity between existing holders of unbundled capacity best be arranged? |
| Response:  DONG Energy is strictly against mandatory bundling of capacity held under current capacity contracts. We reject a sunset clause. Bundling of booked capacity can only happen on a voluntary basis. In the future TSO’s should offer both bundled and unbundled capacity. It is of utmost importance to maintain cross-border points as possible delivery points. |

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| **Question 14:** In your view, what effect would mandatory bundling have on network users? Please provide supporting evidence, if available. |
| Response:  Mandatory bundling will increase the transport costs for shippers: If a shipper takes delivery at a cross-border point, then the shipper will only have to pay one entry fee to get into market area A or market area B. If he must choose one hub (hub A) as point of delivery when entering into a long-term contract, then the shippers faces double transport charges if he suddenly needs the gas in market area B (exit area A and entry area B).  Shippers will be forced to deal with contractual transport issues in market areas, where they may have no experience and thus facing new risks and threats.  Thus, DONG Energy is strictly against mandatory bundling. |

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| **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, DONG Energy disagrees.  The FG is still in the hearing process with very strong opposition on especially the draft proposition of bundling of capacity. It must therefore be expected both bundling and non-bundling capacities will be included in the final version of the FG. Consequently, the NC should reflect this outcome. |

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| **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:  DONG Energy believes that the TSO’s must offer interruptible products equivalent to their product portfolio of firm products. This will secure that the market has an opportunity to utilize the full technical capacity even if firm capacity holders may choose not to flow gas. The volume of interruptible should not be limited. Interruptible products should be offered on FCFS basis. |

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| **Question 17:** ENTSOG would welcome feedback, observations and suggestions related to this section of the supporting document and to Annex 2. Do you consider that ENTSOG has correctly identified the key tariff issues in these sections? |
| Response:  DONG Energy disagrees with Article 7 (3) of the “Tariff Provision” stipulating a principle, “which ENTSOG considers self-evident: regardless of the booking behaviour of network users, whether they procure longer term products or a set of products forming a profile, the target revenues shall be attained”. We do not think that the revenue of the TSO’s shall be legally guaranteed. TSO’s should be remunerated according to the perceived product quality, which they provide to the market. For this reason we would like to suggest that the quality of the standard deliveries of a TSO is described in detail. Thereafter, the market can punish poor performers and reward excellent TSO’s. |

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| **Question 18:** What is your view of the process that ENTSOG has followed in order to produce the draft NC? Would you recommend that ENTSOG use a similar process to develop future NCs? What approaches would you suggest to enable ENTSOG to improve the process? |
| Response:  DONG Energy is not fully satisfied with the process. It is clear that the Network Codes on CAM are drafted while the most important issues are still being heavily debated on higher levels i.e. Framework Guidelines and Gas Target Model. Caution should therefore be taken when drafting the NC not to use the current draft FG as the only fix point.  The consultation process including meetings at various levels has been greatly improved, although stakeholders should try to concentrate on solving outstanding issues instead of using still a lot of time on repeating matters, which have been resolved. |

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| **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](file:///C:\Users\vaped\AppData\Local\Microsoft\Windows\Temporary%20Internet%20Files\Rg1563\Local%20Settings\Temporary%20Internet%20Files\AppData\Local\Microsoft\Windows\Temporary%20Internet%20Files\Low\Content.IE5\VYR5GE1D\www.entsog.eu), and what could be improved? |
| Response:  Currently, the web side seems to adequately fulfil its purpose. |

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