

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:

Generally, yes. E.ON believes that unambiguous and identical application of the elements of the Framework Guideline and the Network Code throughout the EU should be ensured. This can only happen when a relatively high level of detail is secured in the Network Code. Although we believe a high level of detail is already realised in the proposed NC, a further insurance could be created by clarifying that, although the Handbook itself does not have legal status, all Member States must apply its content. . The level of flexibility should ensure a non-discriminatory application of Capacity Allocation rules across the EU.

However we believe that there is still room for more specific and factual statements in the NC. National NCs usually include practical and factual processes. In some parts the proposed NC does not define processes but intentions to cooperate on practical issues.

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:

Yes, E.ON believes the Network Code must set out detailed rules. However, to ensure a workable solution to adapt to changes in the EU markets, the change process should be designed to facilitate necessary adjustments in a timely manner. We believe this can be realised by creating a faster and less formal change process for the operational issues, such as time schedules. A more fundamental change process, through the official process as mentioned in the 3rd package, should be in place for any changes to the principles of the FG and NC.

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:

See our answer to Question 2. The lighter change process should follow a process of Stakeholder consultation that must be described in the CAM NC and therefore approved by the EC. However, this should only apply to the underlying practical organisation of the principles, e.g. the operational issues. The principles and the fundamental parts of the NC should provide a stable framework to the market and should not be changed without a thorough assessment and official procedure through ACER and the Commission.

Additionally, any changes that require IT adjustments should ensure sufficient implementation time

for Stakeholders.

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

Response:

If it is indeed necessary to include specifications in a separate handbook, these should be limited to practical rules and consistency with the NC contents must be ensured. The Final approval should be subject to the Agency evaluation. The review and possible modification of this handbook should at least consist of the following steps:

1. Stakeholder feedback triggers the decision of the TSO to review the handbook
2. Standard consultation period, that can be differentiated depending on the 'urgency'/importance of the proposed changes, giving sufficient time to Stakeholders to analyse and respond to the consultation
3. The proposed changes should include reasoning, explanatory notes, parts of the handbook subject to change and analysis of the expected effects and costs. It should be possible to organise workshops when deemed necessary by TSO or Stakeholders.
4. Stakeholder feedback results and its analysis should be included in the decision of the TSO to review the handbook
5. TSO analysis and (adjusted) proposal for change is submitted to ACER for approval

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:

Yes, E.ON agrees with and supports long-term auctions of 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:

Yes, the ability to place bids for 15 consecutive years is necessary and at the same time sufficient to cover long-term interests.

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:

A within day capacity auction involves a considerable amount of time and effort for both TSOs and shippers, compared to the relatively small amounts of capacity. We believe ENTSG should take less burdensome allocation methods, such as FCFS, into consideration. This appears to be more coherent with continuous trading market design, typical of most of the intraday commodity markets across Europe. In addition, it is in line with the intentions mentioned in the Framework Guideline on CAM.

Naturally, this within day allocation mechanism has to abide by the rules of non-discrimination and transparency.

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:

As stated in the answer to Question 7, it would reduce costs for market participants to choose FCFS as an allocation method for within-day capacity. It would not be advisable to suspend the allocation since TSOs are not able to predict exactly whether there is demand for day ahead or within-day capacity or not. A suspension mechanism is therefore likely to decrease stability and predictability of the allocation process, which is an undesirable effect.

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:

Firstly, E.ON signals a possible challenge in the multi-day auction process. When designing a single round auction process which encompasses such a large bidding window for long-term products as proposed by ENTSG, it has to be kept in mind that shippers are likely to place their bids towards the end of the bidding window, i.e. on day ten, as to not expose themselves to early to the scrutiny of their competitors. Therefore, the first nine days could be a waste of resources for both the shipper and the TSO.

E.ON suggests reviewing the possibilities to avoid this situation. One solution could contain a set of described triggers that will lead to the closing of the bidding window when no significant changes are registered, but at a time unknown to the market parties. This ensures market parties make a

best effort on their bidding at all times, but allows for a multi-day bidding window process that can facilitate transparency and price discovery.

As it is very challenging to determine the above mentioned characteristics to trigger the end of a bidding process, E.ON suggests a single bidding round auction with a limited bidding window is likely to be the best suited mechanism for auctions, whereby incremental capacity is not included in the allocation process.

Secondly, E.ON wishes to flag the issues arising from the fixed amount of price steps in an auction with limited volume. The idea of auctioning a scarce good is to allocate this good to those who value it the most, i.e. are willing to pay the highest price. E.ON explicitly supports this allocation method as it is market based and non-discriminatory. Therefore, E.ON rejects the proposal to define a fixed amount of price steps, since it would then be possible that the demand at the highest price step P29 is still higher than the available capacity, leading to a pro rata allocation. To avoid the application of pro rata allocation E.ON strongly prefers no ex ante limitation of price steps, to ensure demand can meet supply through market valuation. Naturally, if and when the capacity price increases significantly, this is an indication that investments may be required.

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:

E.ON supports the cleared price mechanism, as a pay-as-bid mechanism may be a disadvantage for smaller shippers and newcomers, as they may not have a large portfolio to use for short-term optimization and therefore be more dependent on short-term auctions.

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:

Yes, ten bids are sufficient.

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:

As stated in the answer to Question 9 E.ON would prefer a provision that closes the auction if there are no significant changes to bids for a specific amount of time to speed up the process. This would eliminate the possibility to manipulate the outcome of the auction by bidding for large amounts of capacity and then dropping out at the last moment before the auction closes. Moreover, the

possibility for shippers to withdraw their bids in context with bidding for alternative routes is only of value if the auctions for the individual IPs would end at different times, which is not the case in the current proposal.

In addition to that, ENTSG should consider a provision that bidders have to participate from the first bidding window on. This would increase the value of the information provided throughout the bidding process as there would be no “late arrivals”.

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

Response:

As stated in previous documents regarding CAM, E.ON is not in favour of adapting existing capacity contracts, as this decreases the stability of the market and could cause issues with the underlying commodity agreements that were the driving force behind booking the capacity to begin with. If the existing contracts must be adjusted, this should take place in the commercial context these were originally signed in, e.g. through bilateral negotiations between market parties with the TSO as facilitator of the agreed solution. A minimum transition period of 5 years, as mentioned in the FG, is vital to facilitate these changes.

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

Response:

Bundling of capacity will force one of the parties that were previously ‘meeting’ at the flange, to move into the bordering market. This move will have an array of effects on the relevant market party and the possibilities to utilise this booked bundled capacity. These effects range from administrative (e.g. registration in this market and at the relevant traded hub, reporting obligations, transport and trading licences, etc.) to financial (e.g. taxation in the market that is entered, additional hub fees).

In addition, the bundling of already booked capacity is likely to result in a necessity to review the underlying commodity agreements. If these need to be adjusted, this is likely to lead to additional changes in value and flexibility due to commodity contract renegotiations. It is also possible that these discussions will lead to the exposure of the commercial strategies of market parties to their counterparts, as these negotiations relate to both capacity and commodity agreements and structures.

It is not possible to provide a detailed overview of the impact, as this will be different for each capacity contract and will depend on the parties that the negotiations will take place with.

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:

E.ON supports the prescribed approach to bundled capacity allocation of available, e.g. non-booked capacity.

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: If interruptible capacity is to be allocated via auctions, the amount of interruptible capacity has to be limited to create scarcity. The price paid should then be a parameter in the interruption sequence.

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:

The role of tariffs in the auctions is immensely important as it is the key factor in determining the allocation sequence and the height of demand and supply. This importance has grown even more due to the separation of existing and incremental capacity in the allocation process, as this leaves price to be the only determining factor in the allocation.

E.ON supports a redistribution of tariffs of a single capacity product, such as quarters, over the year, to mirror the average flow profile of the relevant market. This ensures that the quarters that are in higher demand will have a higher reserve price than the quarters in lower demand. The higher price will help ensure the TSOs cost recovery and the lower reserve price for the low demand periods will ensure that the price of this product is better suited to meet (lower) demand, allowing for an optimized utilization of the capacity between markets.

We support ENTSGs statement in the supporting document that tariffs should be set in a way that does not cause cross-subsidies between system users. To E.ON this signifies that the reserve price of capacity must be based on the marginal cost to the TSO of making the capacity available. Setting the reserve price equal to the marginal cost of providing capacity allows the market to determine the price of capacity, which will lead to the efficient allocation of capacity between market participants. Any artificial constraints, such as price multipliers for different types of capacity products, may lead to capacity being withheld by reason of price and could impose artificially high costs on Shippers seeking short-term capacity to efficiently optimise their supply portfolio.

The tariff structure of capacity allocation will determine the success of the auctions. However, this topic has not been discussed in great detail up to now, due to the fact that a separate Framework Guideline and Network Code will be drafted on tariffs. As the effects of tariffication and the

underlying cost recovery regulation can and will greatly affect the European gas markets, we believe the topic deserves and requires more attention than it has been given up to now. For this reason, we do not support the inclusion of article 7.3) in the Network Code.

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:

E.ON strongly supports the transparent and inclusive manner in which this first NC is being drafted. We hope and trust that the Stakeholder inclusion and information will continue for this NC, as well as the following ones.

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:

E.ON believes the website could be improved by posting a general calendar with all upcoming events, likely publication dates and workshops on it, in addition to the current separate list per topic. Additionally an email alert service to inform about publication of documents or upcoming events would be very much appreciated.

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

Response:

4.1(6) and 4.1(7) The definition of “available capacity” should be clarified to indicate at which time this is assessed. Currently it is not clear if the 10% reservation is applied over the total technical capacity of an IP, or if it is reserved from the available capacity each year on the first Monday of March.

4.9(13) Publication of aggregate information regarding the within day allocation should (especially at the start of the new regime) be more frequently than once a year. If this data cannot be published at the end of each day, due to operational reasons, it should be published at least at the end of each month.

4.11(2) and 7(2) Especially for the shorter term auctions, we believe it is beneficial to the price discovery, and therefore for the analysis on congestion, when the reserve price can drop below the regulated price per unit. Naturally this should not impact the possibility of TSOs to recover their overall (regulatory approved) costs. However, it should allow the market to signal areas of surplus

capacity or inefficient allocation situations.

7(7) E.ON does not support an ex post adjustment of capacity tariffs for already booked capacity, for cost recovery purposes. This decreases the stability of the market and poses serious financial risks for market parties. If and when under recovery occurs, this should lead to an adjustment in the future regulated capacity tariffs.

9.2 E.ON strongly believes that a consistent approach to capacity allocation at EU IPs is necessary to ensure we can move towards a harmonised European market. Allowing the detailed specifications of the auction design, as well as other parameters, to be discussed on a bilateral basis will undermine this possible and necessary progress. We believe the auction design should be the same at all relevant points, unless clear proof has been provided to ACER and the Commission that the application of this uniform process is not possible. This exemption should be accompanied by a plan, with timeline, on how to solve this discrepancy.

10.3 and 11 It is absolutely essential to limit any interim period for auctions of available primary capacity. Firstly, we understand that currently expected timeline for implementation implies that ENTSG does not expect to have EU auctions for capacity allocations before the start of 2014. This long implementation period should provide all EU markets with sufficient time to prepare their market for this change. Secondly, we believe it should be up to the national regulator and/or the European Commission to approve the suggestion that a market is not considered appropriate for the application of auctions, rather than allow the TSOs to determine this themselves. An exemption to the general rule should therefore not be placed in the NC. In addition, we believe the implementation of auctions can be facilitated even when the internal markets are still set up in several different ways.