

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?

We appreciate the content and the level of detail of the draft NC and we believe that it could represent the right step toward integration of the EU gas markets, defining a transparent and not-discriminatory access to transport capacity through the harmonisation of capacity products and allocation procedures at all the EU Interconnection Points.

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?

We believe that only a NC containing detailed rules could be binding in order to ensure a sufficient level of harmonisation across the European gas system.

Given the deep impact of NC rules on network users workability, we believe that shall be given them the possibility to ask for NC modifications, according to the significance and the impact of each request. In particular, similarly to the Italian case, we believe that the NC shall entitle network users or associations to request to ENTSO-G (and/or ACER) amendments of the NC, properly motivated, in relation to all its operational aspects. On the other hand, changes concerning general principles of the NC, shall be made through the process foreseen in the Third Package (i.e. comitology procedure). In any case, a request of modification of the NC should be consulted with the market in order to collect stakeholders' observations.

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?

Given that all the details of CAM mechanisms have an high level of interdependency, it is necessary to jointly define, and even change or modify, them in order to help the whole mechanism function more effectively and efficiently.

As concerns the elements that might be considered for a "lighter" change process, we believe that such a kind of process should be pursued for all the operational aspects contained in the NC. As suggested in the answer to the previous question, we think that it could be appropriate to give stakeholders the first hand opportunity to ask for NC modifications concerning operational aspects, because of their impact on network users' workability. After the consultation process, requested changes should be made binding through the final approval of ACER of the NC amendments.

Question 4: How do you consider that a process to review the handbook, and to modify it where

necessary, should be designed?

Given that the handbook will contain dispositions on technical matters, we believe that should be given to both TSOs and network users the possibility to ask for amendments and modifications. The requests accepted by ENTSO-G should be submitted to a consultation process and then to ACER 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.

We believe that long term auctions of quarterly products generate the risk for network users to do not succeed in booking capacity for subsequent periods without gaps (for example, an operator would like to book transport capacity for a full year but do not succeed in obtain four quarterly consecutive products within the annual quarterly auction). This risk, in our opinion, could represent an element of great uncertainty for network users. Consequently we highly recommend to maintain the offer of quarterly products for short term auctions, as they contribute to increase system flexibility, but to introduce yearly products on a long term basis.

As an alternative, we propose to introduce in the annual quarterly auction design, the possibility for operators to submit “restricted” offers: for instance, it could give the possibility to make an offer for four quarterly products under the restriction of completing a minimum booking for each quarters or nothing.

Moreover, the offering of yearly capacity products will be consistent with the EU Regulation 715/2009, which states that “long term services are services offered by the TSO with a duration of one year or more” (art. 2).

In addition, we believe that the introduction of the possibility to book capacity up to 15 years could represent a potential obstacle to the development of competition across EU gas markets and it could prevent, rather than encourage, new comers from entering the market. This kind of provision in fact goes against a market rationale because it could potentially immobilize available capacity. Even if this opportunity has to be read together with the rules that will be applied in terms of CMPs, which implementation could theoretically ensure to free up additional transport capacity, we believe that an over reliance on secondary measures (like CMPs) to make capacity available is unlikely to increase sustainable competition.

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?

As exposed above, we suggest to introduce the offer of yearly capacity products in order to fulfil yearly supply contracts’ need for constant firm capacity over the year.

As regards the design of the auction for long-term capacity products, we believe that a 10 working days bidding window does not represent an advantage for operators and could be even counterproductive for them. Moreover, it should be considered that the high variability of gas markets during a so long period of time, would require a daily constant monitoring on markets conditions and the consequent adaptation of capacity bids. This represents only an additional operational cost for operators (with no proportionate added value), considering even the potential high numbers of offers for several capacity products that have to be contemporaneously monitored. In our opinion, a multi-rounds auction doesn't provide incentives to reveal the actual willingness to pay for transport capacity during the bidding window. With regard to this, the introduction of "value discovery measures" could represent a mechanism for preventing potential distortive behaviours, but they could hamper the auctions well-functioning and the achievement of efficient results in terms of reliable price signals.

For all these reasons, we propose to apply a standard bidding window for all capacity auctions (long and short term), lasting one business day at the longest. In our opinion this time period should be sufficient for network users and should allow bids adjustment anyway.

We also have some concerns about the adoption of a volume-based auction algorithm for long-term capacity products. In our opinion, such an auction design could reduce operators flexibility in bidding for capacity products, because they are obliged to bid against pre-defined price steps, thus preventing them to disclose their actual willingness to pay. Moreover, a poor mechanism to define the price steps could lead to an inefficient auction outcome and market distortions. In consequence, our proposal is to implement a single-round uniform-price auction algorithm not only for the allocation of short-term capacity products but even for long-term products. In this way operators can freely choose the price at which they submit their bids.

In addition, adopting the same auction mechanism for all standard capacity products has the advantage of simplifying network users workability and removes the need to define "value discovery measures".

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?

We highly agree with the within-day auction design proposed within the NC because it represents a mechanism that could cope with network users' needs, in particular if compared to a First Come First Served mechanism. We think that the adoption of a market based mechanism is fundamental for the development of competition across EU gas markets.

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?

Given that short-term capacity auctions aim first of all at allowing network users to adjust their

portfolio regularly, we believe that suspend temporarily those “desert” auctions goes against this rationale. In fact, the potential variability of gas market conditions requires for network users a certain grade of flexibility in purchasing transport capacity

Moreover, as regards the implementation of auction mechanisms at all IPs, we would welcome if the NC would contain an updated list of all IPs at which its provisions have to be applied.

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?

We strongly agree with the homogeneous implementation of a single-round uniform-price auction design for all standard capacity products, because in our opinion this represents the mechanism that could best meet a market-based rationale. The positive outcome of the implementation of this allocation mechanism in the electricity sector, gives support to this solution.

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?

We believe that the most suitable auction design for all standard capacity product should be the cleared-uniform-price mechanism.

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?

According to our suggestion to implement a uniform-price auction for all standard capacity products, we believe that 10 bids per user is a sufficient number for both long and short term capacity products.

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?

As underlined above, the implementation of a uniform-price auction mechanism for all standard capacity product avoid the need of defining and implementing “value discovery mechanisms”.

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

We agree with the introduction of bundled capacity products because it would encourage the development of cross-border trade, reducing the operational costs connected to capacity purchasing by network users. We are aware that bundling existing contracted capacity is necessary for this purpose, but we believe that priority should be given to flexibility for network users, in order to cope with long term supply contracts. For this reason we believe that decisions on capacity bundling should be primary left to negotiation of contracting parties, leaving the option to maintain unbundled a certain percentage of contracted capacity (until the expiration date of existing capacity contracts). If and only if an agreement cannot be reached, each NRA should be entitled to take a decision on how bundle and split existing contracted capacity between original capacity holders.

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

Sorgenia does not agree with a possible implementation of a mandatory bundling, through a unilateral change imposed neither by the TSOs nor by a competent body. In general we believe that the regulatory framework has to give certainty to network users operations and a unilateral imposition on existing capacity contract could, in our opinion, damage shippers' operational activities and their efforts made for optimizing their portfolio.

Question 15: Do you consider that the approach to bundled capacity set out in the NC is appropriate, within the constraints of the FG?

Sorgenia agrees with the approach to bundled capacity set out in the NC.

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?

We do not agree with the provision according to which the order of interruption depends on the contractual timestamp of interruptible capacity contracts. In our opinion this mechanism would lead to more uncertainty and less transparency. As an alternative, we suggest the adoption of a simple pro-rata mechanism for all interruptions.

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?

In general, we do not share the proposal to apply a reserve price for capacity auctions, especially with regard to the allocation of short-term capacity products. In fact, we believe that setting a reserve price goes against market-based principles and the concept of market value for capacity. In

addition, if reserve price is fixed at a level higher than the average willingness to pay for capacity of network users, it could arise the risk of unsold capacity thus generating an inefficient outcome. Consequently, Sorgenia believes that transport capacity has to be purchased according to its market value, even providing a signal on its scarcity or otherwise. In particular, fixing the regulated tariff as reserve price would require, in our opinion, the harmonization of transport tariffs design (together with the timing of their update) among Member States. . In addition, fixing a zero reserve price, implies that if no purchases of capacity are made in the auctions, the cost of transport capacity would decrease to zero, as occurs in auctions for the allocation of electricity transmission capacity.

As regards over recovery issues and ex-post correction of TSOs revenues, we believe that the decision on which mechanism (in particular lowering transport tariffs or using extra-revenues to invest in incremental capacity) should be left to NRAs according to the specific characteristic of the national gas system.

In case the provision on reserve price is necessary, we propose as an alternative to what suggested above, to use over recovery mechanisms to lower the reserve prices of the auction for the following years.

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?

We appreciate the process followed by ENTSG in order to produce the draft NC. In particular we welcome the publication on ENTSG website of all the supporting documentation for the NC production, in order to make all stakeholders (from prime movers to inactive) aware of the status of the process. We also agree with the high level of involvement of stakeholders through the joint working session and the presentation of the draft NC, even if our Company could not take part in it.

Moreover, we would recommend to ENTSG, if feasible, to provide stakeholders with streaming tools or videoconferences in order to involve as many operators as possible in all ENTSG meetings and discussions.

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?

Sorgenia thinks that the ENTSG website is well designed and its organization provides a useful navigation for users.

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

We suggest to progressively introduce within the NC the possibility for network users to purchase

transport capacity on coupled IPs in order to ensure shippers the transport of gas along a certain route according to their supply requirements. This could, in our opinion, foster even more gas trading and develop wholesale gas markets liquidity.

According to the ACER FG on CAM, we believe that the NC should define in a more detailed way the management of secondary capacity services for capacity trading between network users.

