Capacity Allocation Mechanisms (CAM) Network Code

Stakeholder Engagement Document: Potential Modifications to the Network Code Following Receipt of ACER Opinion

Contents

A. Introduction

On 6 March 2012, ENTSOG delivered the final CAM network code (NC) to ACER. On 5 June 2012, ACER provided ENTSOG with its reasoned opinion on the NC[1].

For the majority of topics in the CAM NC, the ACER opinion concludes that the NC is in line with the relevant framework guideline (FG) and does not recommend changes. The opinion focuses on 11 remaining areas in which ACER considers that changes are required to the NC. Following discussions with ACER, ENTSOG's indicative view is that:

- in **six** of these areas, it is **possible to change the CAM NC** in line with ACER's opinion while maintaining a workable network code. This document explains the proposed changes;
- in **two** areas, it is **possible to provide the necessary information** that has been requested by ACER in order to justify why no change to the CAM NC is appropriate;
- in **two** areas, it is **possible to make some changes to the CAM NC** in order to address ACER's concerns. This document explains why the modifications requested by ACER have not been fully incorporated; and
- in **one** area, **the changes requested by ACER are not considered appropriate** given the aims of delivering a workable network code and promoting a well-functioning market. This document sets out brief justification for ENTSOG's decision not to modify the network code in this area.

In addition to the areas set out in the ACER opinion on the CAM NC, ENTSOG has itself identified some changes to the sections of the NC dealing with day ahead and within-day auctions, particularly in relation to the timing of the bidding and allocation processes. These changes are considered necessary in order to have a well-functioning capacity allocation system that is compatible with other forthcoming network codes and anticipated CMPs. This document explains the changes and asks for stakeholders' views.

In the Stakeholder Support Process for the CAM NC conducted in early 2012, all sections of the network code developed by ENTSOG except one (relating to bundling and the sunset clause) received a strongly positive response from market participants. In light of this, ENTSOG is reluctant to change the CAM NC without discussing the proposals with stakeholders and receiving their support.

ENTSOG's preferred approach is always to involve stakeholders fully in all network code development processes, and to allow them adequate time to consider and react to any proposed changes. ENTSOG has however been formally requested by the EC (in a letter sent on 18 July) to resubmit the CAM NC to ACER by 17 September 2012. Regrettably therefore, it is only possible to conduct a very short process of stakeholder engagement. ENTSOG strongly believes, however, that such involvement of stakeholders is worthwhile even if its duration is limited. Nevertheless, ENTSOG notes the risk that the timeline envisaged for the resubmission of the CAM NC does not allow for a full risk analysis of any changes.

[1] ACER opinion no 04-2012: 'Reasoned Opinion on the network code on capacity allocation mechanisms for the European Gas Transmission network'.

Once ENTSOG has received and considered responses to this document, and before the NC is resubmitted to ACER, it will update market participants on the next steps for the CAM NC.

B. How to respond

ENTSOG welcomes responses to this document. Responses should be limited to the issues covered in the present document[2].

Respondents are asked to answer the questions raised throughout this document and listed together in Annex 1. ENTSOG would be grateful if respondents could clearly indicate their position and provide a brief but fully reasoned justification. This applies equally whether you agree or disagree with any ENTSOG proposal as it is important that ENTSOG is able to clearly determine the views of all respondents. If you do not respond to a question, ENTSOG will assume that you have no view on this issue.

Annex 1 is published separately as a Word document on ENTSOG's website. Please use this form to submit your response.

If you would like any part of your response to be treated as confidential, **please mark these sections clearly and explain why it is not possible for the information to be made public**. Please note however that ENTSOG's approach to developing the CAM NC relies heavily on the sharing and debate of views by all market participants. We encourage you to allow your full response to be made public.

Please send responses to this document via email using the subject title, "Response to the CAM NC stakeholder engagement document" to **info@entsog.eu** by 10 August 2012. Any questions regarding this document can be sent to the same email address.

Stakeholders are encouraged to contact ENTSOG at any time during the engagement period to discuss any of the issues under consideration. On 7 August 2012 there will be an informal session in Brussels, during which any interested parties are welcome to visit the ENTSOG offices to learn more about the changes under consideration and to ask questions.

[2] This document is intended to cover only areas in which changes to the CAM NC submitted to ACER in March 2012 are proposed. These are in some cases issues of detail. The document does not address issues, particularly around the concept of mandatory bundling and the related sunset clause, that were identified by stakeholders as problematic during the Stakeholder Support Process. ENTSOG's position on these issues has not changed and will be reasserted at the time of resubmission of the NC in September.

C. Issues highlighted in the ACER opinion on the CAM NC

C.1 Definitions

ACER's opinion is that:

- *The definition of "virtual interconnection points" should be amended in line with the CAM Framework Guidelines, which take into account that there can be more than one transmission system operator within an entry-exit system*
- *The definitions of "additional capacity" and "capacity contract" should be amended so that they are consistent with those in Regulation 715/2009 and Directive 2009/73/EC*

ENTSOG considers that it is possible to modify the NC on these points.

Virtual interconnection points

ENTSOG's indicative view is that the definition of virtual interconnection points can be changed to refer to virtualisation between adjacent entry-exit systems rather than adjacent transmission systems, as requested by ACER. However, there must be provisions to ensure that this will only happen where technically and commercially feasible, and where it will not create detrimental effects on the parties involved.

ENTSOG proposes to modify section 5.1 (10) of the CAM NC so that it reads as follows:

> *"Where two or more Interconnection Points connect the same two adjacent entry-exit systems, the adjacent transmission system operators concerned shall offer the available capacities at the Interconnection Points at one Virtual Interconnection Point.*
>
> *In case more than two TSOs are involved because capacity in one or both entry-exit systems is marketed by more than one TSO, the VIP should include all of these TSOs, if possible.*
>
> *In all cases a VIP will be established only if the following conditions are met:"*

The conditions set out in 5.1 (10) points a)-d) remain unchanged.

Related article 1.2 (y) will also be modified accordingly.

Additional capacity

ENTSOG's indicative view is that the definition of additional capacity can be changed for alignment with that in the CMP Guidelines. ENTSOG proposes to modify Article 1.2 (a) as follows:

> *"'Additional capacity' means the firm capacity offered in addition to the technical capacity of an interconnection point calculated on the basis of Article 16 (1) of the Regulation."*

ENTSOG considers that this change has no impact on the application of the CAM NC[3].

[3] This change links to the request from ACER to remove references to incentive regimes (see section C.10), as the wording in the CAM NC submitted to ACER referred to additional capacity being released at the discretion of the TSO in accordance with incentive regimes.

Capacity contract

ENTSOG's indicative view is that definition provided for "capacity contract" can be adjusted to be in line with Article 2 of the Regulation and to refer to "transport contract". Article 1.2 (f) will then read as follows:

> *"'Transport Contract' means a gas transportation contract between a transmission system operator and a Registered Network User as defined in article 2 of the Regulation."*

C.2 Application of the Network Code to New Technical Capacity[4]

ACER's opinion is that the CAM NC should be modified to specify that the following elements of the CAM NC apply to new capacity as well as existing capacity:

- *Standard capacity products*
- *Bundling of capacity*
- *Rules on capacity breakdown (quotas)*

ENTSOG considers that it is possible to make some changes to the NC on these points.

Standard capacity products

ENTSOG's indicative view is that the CAM NC can be modified so that the standard products (yearly, quarterly, monthly, daily and within-day) for existing capacity also provide the basis for the sale of new capacity, in line with ACER's opinion, although ENTSOG doubts whether this change will have a beneficial impact on the operation of access arrangements. In line with the FG, the NC will retain the provision that new capacity is exempt from the NC rules on allocation. This means, for example, that on a national level it may continue to be possible to offer capacity in blocks of more than one year when allocating new technical capacity.

ENTSOG proposes to modify Article 2.3 and any other relevant articles of the CAM NC accordingly.

Bundling

ENTSOG's indicative view is that the CAM NC can be modified in line with the opinion expressed by ACER, to remove the exemption from bundling for new capacity. This means that new capacity must be offered as a bundled product wherever matching capacity is available, whether that matching capacity is new or existing. ENTSOG considers however that this change may not be beneficial, as it may limit the options that can be considered as part of current and future work on the allocation of incremental capacity[5].

[4] 'New capacity' in this case relates to physical investment in the network which results in an increase in the technical capacity that can be offered. It is distinct from the 'additional capacity' referred to in C.1, whose release is a commercial decision by TSOs.

[5] This work is being led by CEER. See http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/Investment%20Procedures%20for%20Gas%20Infrastructure

ENTSOG proposes to modify Article 2.3 and 5.1 (1) of the CAM NC accordingly.

Capacity breakdown (quotas)

If ACER's opinion on this topic were adopted, the impact would be that a TSO receiving a demand signal for new capacity would either have to build more capacity than demanded, or would have to withhold some capacity from those who requested it. For example, if the TSO received a signal for 100 units of new capacity and was compelled to reserve 10% for short term release, it would either have to build 111 units of capacity and reserve 11 units (10% of 111), or would have to build 100 units, allocate only 90 units to the users that demanded it, and reserve 10 units for short term release.

ENTSOG therefore concludes that no change to the CAM NC can be made in this area, for the following reasons:

- Any qualifying user can signal a demand for incremental capacity[6], and TSOs will create this capacity providing the relevant criteria are met and their national regime provides for the building of the capacity. This means that users wishing to purchase capacity for particular quarters or months, for example, can indicate their willingness to do so. There should therefore be no need to wait until very close to gas flow to see if there is additional demand.
- The risk of capacity hoarding should be eliminated or at least minimised by new congestion management procedures (which will apply to all capacity).
- If the TSO were compelled to build more capacity than indicated by the incremental signal (111 units in the example above), this measure would result in 'gold plating' of the network and potentially a negative effect on investment, tilting the playing field against those making financial commitments to secure new capacity.
- If the TSO were required to reserve some of the capacity demanded by users (building 100 units and reserving 11 in the example above), this would create artificial scarcity and could drive up prices for both long and short term capacity.
- This measure would result in a risk that capacity is created for which there is no demand. If the cost of this capacity must be covered by those signalling a (lower) demand for incremental capacity, this would create cross subsidisation between those booking long term and short term capacity[7].
- If users cover the cost of the additional build through tariffs, they will pay inflated prices.

[6] This forms part of the general rights regarding access to the network. Additionally, under Article 16 (5) of Regulation 715/2009, TSOs are required to assess the market for new investment.

[7] Article 13 (1) of Regulation 715/2009 specifies that tariffs shall, among other aims, avoid cross-subsidies between network users while providing incentives for investment. Consistent with this, the EC's invitation to ACER to develop a framework guideline on tariffs noted that the framework should 'aim to achieve cost-reflectivity, the avoidance of cross-subsidies, the promotion of efficient new investment, and greater transparency.'

C.3 Standard Contracts

ACER's opinion document asks ENTSOG to provide ACER with an assessment of whether standardisation of transmission contracts can be implemented in future, and a timeline for carrying this out.

ENTSOG will provide further information to ACER on this point.

Further to ACER's request, ENTSOG will seek to provide further justification regarding this aspect of the CAM NC content, and possible next steps, at the same time the CAM NC is resubmitted to ACER. ACER has not requested that the CAM NC should be changed in this respect.

C.4 TSO co-operation

ACER's opinion is that the CAM NC should be modified to include specific minimum requirements for the exchange of information between adjacent transmission system operators, as referenced in section 1.5 of the CAM framework guidelines.

ENTSOG considers that it is possible to modify the NC on this point.

ENTSOG's indicative view is that a new article can be inserted into section 3 of the CAM NC in order to address ACER's concerns in this area:

> *"Adjacent transmission system operators shall exchange (re)nomination matching and confirmation information at relevant IPs on a regular basis.*
>
> *Adjacent transmission system operators shall exchange information about the maintenance of their individual systems in order to contribute to decision making with regards to the technical use of physical interconnection points including those combined in virtual interconnection points.*
>
> *Auction results shall be shared between adjacent transmission system operators to help highlight potential congestions on their respective systems and congestion management procedure information shall be shared via the transparency platform as required by Annex 1 chapter 3 of the Regulation[8]."*

Each of these provisions is covered by existing legislation or will be covered by forthcoming legislation, for example the Interoperability NC which will specify the content of interconnection agreements. There is therefore a question of whether this new article is necessary.

[8] This reference will be inserted providing the CMP guidelines, which are currently subject to approval, are adopted.

C.5 Capacity Breakdown

ACER's opinion is that the requirements of the CAM NC with regard to the reservation of capacity for release on a timescale shorter than 15 years are insufficient and may not contribute adequately to the completion and well-functioning of the internal market in gas and cross-border trade. The CAM NC should therefore be modified to specify that:

- *A significant proportion of capacity should be reserved for release in the medium term (for example 4 or 5 years), in addition to the minimum 10% already reserved for release the year before gas flow; and*
- *There should be full flexibility to implement additional short or medium term quotas at any interconnection point*

ACER also asks ENTSOG to consider whether additional auctions for quarterly products should be included in the auction calendar, to allow for learning by those network users who are unable to acquire capacity at their first attempt.

ENTSOG does not consider that it is appropriate to change the NC in this area, for the following reasons:

- ENTSOG has already taken into account ACER requests in this area by specifying that 10% of technical capacity (not available capacity as per FG wording) is reserved. For example, if technical capacity is 100 units of which 80 units were sold prior to the CAM NC coming into force, the reserved quantity would be 10, rather than 2 as implied by the FG.
- During the CAM NC development process, there was very little demand from market participants for higher quotas.
- Inappropriate quotas have some significant disadvantages in principle: they create artificial scarcity and thus risk driving up prices for existing capacity and reducing the value that can be placed on demand signals for incremental capacity. For example, if a TSO has 100 units of technical capacity but can only offer 80 units, and if users demand 95 units in long term auctions, either the price at which the capacity is sold will be artificially inflated, or the TSO may wastefully invest in up to 15 additional units, or both.
- The EC recognised in a January 2012 note to ENTSOG regarding day ahead auctions[9] that limiting the amount of capacity on offer in a given auction may lead to "unnecessary and skewed price developments". While this specific note discussed very short term products, ENTSOG considers that the same argument applies equally to the allocation of longer term products.
- The network code already provides flexibility to allow higher quotas on a case-by-case basis, where warranted by local circumstances: Article 4.1 (6) specifies that the 10% reserved for release in annual quarterly auctions is a minimum while Articles 9.1 and 9.2 specify that the amount can be increased following consultation and a decision at cross-border level.

[9] The note discussed the EC's request for ENTSOG to change the CAM NC for consistency with the day ahead use-it-or-lose-it provisions in the draft CMP guidelines.

- ENTSOG does not believe that it would be valuable to introduce additional auctions for quarterly products, as suggested by ACER, unless these are associated with reserved capacity (and consequent artificial scarcity). The timing and sequence of auctions was discussed fully with stakeholders during the CAM NC development and additional auctions were not requested by the market. Inserting additional auctions into the calendar may also create practical problems, particularly if they are expected to run alongside existing processes.

C.6 Sale of Unbundled Firm Capacity

ACER's opinion is that any unbundled capacity resulting from a mismatch in technical capacity at two sides of an interconnection point should not be offered on the same timescales as bundled capacity. Offering such capacity up to 15 years ahead creates the risk that capacity becoming available on the 'lower' side of the IP on a shorter timescale cannot be bundled, as the matching capacity has already been sold. The CAM NC should be changed to specify that this capacity can only be offered in the rolling monthly auction or shorter duration auctions.

ENTSOG considers that it is possible to make some changes to the NC on this point.

The solution is intended to address the concern expressed in ACER's opinion, that progressive bundling of capacity should not be prevented where a technical mismatch could be solved via the availability of the matching capacity at that IP.

ENTSOG's indicative view is that the CAM NC can be changed to specify that any unbundled capacity resulting from a technical mismatch can be offered for a pre-defined and limited period, e.g. 5 years ahead[10]. This shall be in line with investment lead times. This modification means that there will be an opportunity for any technical mismatch to be corrected through investment on the side of the interconnection point with lower technical capacity, before the unbundled capacity is offered to the market.

ENTSOG proposes to modify Article 5.1 (5) of the CAM NC accordingly.

The possibility to offer unbundled products at least in the medium term is considered by ENTSOG as necessary, in particular to comply with the obligation on TSOs to maximise their firm capacity offer[11], and also to limit the risk of revenue shortfalls which must be made up by those purchasing bundled capacity.

C.7 Amendment of Existing Capacity Contracts

ACER's opinion is that the CAM NC should be modified to specify that NRAs "may" mediate between parties affected by the sunset clause, rather than (as currently) that they "shall" mediate.

[10] Interconnection points where competing capacity is offered (see section D.4) may need to be exempt from this provision

[11] Article 16 Regulation EC 715 /2009

Following discussions between ACER and ENTSOG on this point, ACER asked ENTSOG to provide further justification for the current wording of the CAM NC.

ENTSOG considers that it is possible to provide further information requested by ACER on this point.

ENTSOG's indicative view is that the NC does not require amendment on this point; the existing wording ("shall upon request") achieves the aim of the Framework Guidelines. In addition this is in line with the Directive (EC) 73/2009 and related regulations referring to the role in dispute resolution of NRAs, as the sunset clause will affect the transport contract and conditions of access to the network.

C.8 Interruptible Capacity

ACER's opinion is that the CAM NC should be modified to require that NRAs approve any downward deviation from the default minimum interruption lead time

ENTSOG considers that it is possible to modify the NC on this point.

In line with ACER's opinion, the CAM NC can be changed to state that if two TSOs wish to shorten the default lead time, they will seek the approval of the relevant NRAs.

In section D.3 below, ENTSOG is also proposing a change to the default lead time. ENTSOG proposes to modify Article 6.2 (2) of the CAM NC as follows, to incorporate these two changes:

> *"The default minimum interruption lead time for a given gas hour shall be the closure of the re-nomination cycle for that gas hour minus 45 minutes to allow for processing and messaging. This means that if the re-nomination lead time is 2 hours, the interruption lead time is 1 hour and 15 minutes. If two TSOs wish to shorten the lead time for interruptions then any agreement on a shorter lead time will be subject to NRA approval."*

C.9 Tariffs

ACER's opinion is that certain changes should be made to the CAM NC in relation to tariffs:

- *The revenue equivalence principle in Article 7.3 of the CAM NC goes beyond the requirements of the CAM framework guideline and should be deleted*
- *The specification that any auction premiums from bundled products are (as a default rule) attributed proportionally to the reserve prices of the capacity products forming the bundle should be changed. The NC should specify an equal split of auction premium revenues as a default rule*
- *The provision that NRAs shall recognise revenue shortfalls by adjusting tariffs accordingly, where allowed revenues are set, should be deleted.*

ENTSOG considers that it is possible to modify the NC on these points.

In response to ACER's opinion, ENTSOG has developed new wording that is designed to eliminate references to particular tariff structures, while retaining the key principle that changes introduced by CAM NC should not adversely impact TSOs' revenue or cash flow positions.

ENTSOG's indicative view is that the text of Article 7.3 of the CAM NC can be changed to read:

> *"The appropriate tariff arrangements for the implementation of the Network Code shall be set forth on a national level in due time. These arrangements shall enable the due implementation of the capacity allocation mechanisms contained herein without incurring any detrimental effect on the revenue and cash flow positions of transmission system operators."*

Equally important is the principle that national-level tariff arrangements should not contribute to cross-subsidy between network users, or between national systems. Article 13 of Regulation 715/2009 already provides some protection for users in this area. In order to ensure that the tariff principles enshrined in this article remain the foundations for tariff setting, ENTSOG will seek assurances from ACER and EC that these principles will be highlighted in the first chapter (Recitals or general provisions) of the CAM NC.

Additionally, it is proposed to delete the final sentence of Article 7.6, on correction of under-recovery, in line with ACER's opinion.

ACER's proposal that the CAM NC should specify a default rule providing for a split of auction premiums on bundled products in equal proportions can, in ENTSOG's indicative view, be incorporated. During the CAM NC development process, stakeholders commented on this question and a majority found it to be an issue of minor relevance to network users. Although those stakeholders who indicated a policy preference were slightly in favour of a split proportional to the reserve prices of the capacity in a bundled product, this was not a very clear majority.

ENTSOG is still of the opinion that there are few convincing arguments for a default split of an auction premium in equal proportions, and retains its view that a proportional split is more appropriate. However, it recognises that arguments can be made against both options; ACER claims that a proportional split would incentivise national regimes to raise reserve prices in order to reap a higher proportion of an auction premium. ENTSOG considers that the most important consideration for NRAs is the avoidance of distortions in the reserve price setting process. At the same time, given the lack of a comprehensive discussion of the issue of the auction premium split so far, and the need to clearly identify and test arguments for different approaches, a debate is required in the light of the upcoming framework guideline/network code process. Therefore, ENTSOG will urge ACER to include this question in its imminent consultation on tariff structures.

C.10 Incentive Regimes

ACER's opinion is that the reference to appropriate incentive regimes being decided at a cross-border level following stakeholder consultation in Article 9.2 (d) of the CAM NC goes beyond the framework guidelines and should be deleted.

ENTSOG considers that it is possible to modify the NC on this point.

ENTSOG's indicative view is that Article 9.2 (d) can be deleted from the CAM NC in order to address ACER's opinion. However, ENTSOG continues to believe that it is essential to address the issue of incentives at an EU level given the danger that incompatible incentive regimes in neighbouring systems will damage the offer of bundled capacity to the market. ENTSOG also notes that ACER's request to remove this article from the CAM NC conflicts with the principles included in the draft Balancing NC, in the draft CMP guidelines, and in discussions on incremental capacity allocation, that incentive-based approaches should play a fundamental role in developing the internal market. It is essential that NRAs assure an appropriate package of incentives relating to CAM as foreseen in the third energy package, particularly Article (8) of Directive 2009/73/EC.

C.11 Interim Period

ACER's opinion is that the reference to an interim period in Article 10.3 of the CAM NC is not appropriate since such matters should be decided during the comitology process, and should be deleted.

ENTSOG considers that it is possible to modify the NC on this point.

ENTSOG's indicative view is that Article 10.3 can be deleted from the CAM NC. This provision aimed to refer to the right to seek an exemption that could be needed on a national level in any circumstance. However, the EC has indicated to ENTSOG that this reference is superfluous and should not appear in the CAM NC.

Question 1: A number of changes to the CAM NC submitted to ACER in March 2012 are proposed in sections C.1 – C.11 above. Please indicate whether you support these changes. If you do not support some changes, please indicate which changes you do not support, and why.

D. Changes proposed by ENTSOG

The development of the Balancing network code, which is due to be submitted by ENTSOG to ACER in November 2012, has prompted detailed discussions within ENTSOG on the issue of nominations. These discussions have highlighted a limited number of areas within the CAM NC in which technical changes are necessary in order to ensure that the code is fully workable and compatible with other network codes.

The proposed changes relate to three sections of the CAM NC: day ahead capacity allocation, within-day capacity allocation, and interruption lead time. These are explained below in sections D.1, D.2 and D.3.

A further proposed change has been identified following discussions on the 'competitive allocation' mechanisms that are used to allocate capacity at certain IPs, and the need to ensure that the CAM NC does not prevent such competitive processes from taking place. This change is explained below in section D.4.

D.1 Day ahead capacity allocation

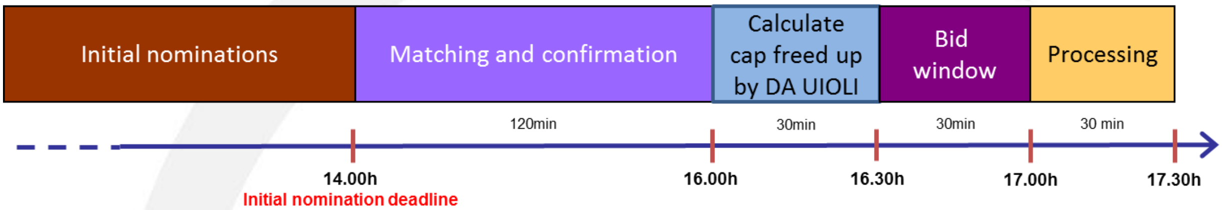
In the Stakeholder Support Process for the CAM NC, launched on 30 January 2012, market participants were asked to give a view on a proposal to change the timing of day ahead auctions. ENTSOG indicated at the time that it would not be possible to make further changes to the CAM NC before it was submitted to ACER, but that the views of stakeholders would be taken into account during subsequent review processes. ENTSOG is therefore taking this opportunity to address the comments raised.

The proposal to move the day ahead auction from the morning to the afternoon of D-1 was broadly supported by respondents; however, a large number of stakeholders raised concerns regarding the auction end time. It was felt by many that a bidding window finishing at 18.00 local time with allocation results potentially not known until 19.00 (all local time references are to central European time) would restrict the usefulness of the capacity purchased with undesirable consequences for the market, as it could be difficult to obtain the gas needed before the closure of day ahead commodity markets. These stakeholders expressed a preference for a shorter auction window and an earlier closing time for the auction. Many also asked for the time allowed for TSOs to process bids and allocate capacity to be shortened.

In light of these comments, ENTSOG proposes to shorten the day ahead auction window to 30 minutes. This means that the auction would open at 16.30 local time and close at 17.00 (15.30-16.00 UTC winter time, 14.30-15.00 UTC when daylight saving is applied). The allocation window would also be shortened, from 60 to 30 minutes, meaning that users would know how much capacity they had been allocated by 17.30 local time, rather than 19.00 as under the current CAM NC.

CAM NC submitted to ACER	Proposal	Reasoning
- Opens 16.30h local time - 90 minute bid window - 60 minute processing time	- Opens 16.30h local time - 30 minute bid window - 30 minute processing time	Request from users in stakeholder support process for allocation as early as possible to allow participation in day ahead commodity markets

Proposal (all times are local time CET):



Considerations:

- 60 minute processing time provides limited advantages over 30 minutes: no manual interventions can be made on either time frame so the process must be fully automated.
- 60 minutes could allow for IT system recovery in the event of a crash but a longer processing window in all cases could be a disproportionate reaction to this.
- ENTSOG's preferred approach is therefore to respond to user concerns about the closing time of the day ahead auction, and to shorten the processing time.

Question 2: do you support this change to the day ahead auction timing? If not, why not?

D.2 Within-day capacity allocation

The CAM NC submitted to ACER specifies that there will be hourly auctions for firm within-day capacity (balance of day product), providing capacity is available. Under the current drafting, each bidding window opens 3 hours before the start of the capacity product and close 2 hours before.

An unintended consequence of this drafting is to restrict the usage of the capacity product, due to the length of the processes that must take place between the end of the auction and the start of gas flow.

In summary, these processes include:

- The TSO must first collect the bids and determine the allocation of capacity according to the auction algorithm. This stage can take place within 30 minutes;

- Users must have a reasonable window for nominations against their newly acquired firm capacity. ENTSOG considers that 60 minutes is likely to be the minimum necessary;
- The TSO must then carry out the confirmation and matching process. In order to carry out all the necessary steps, including implementing any physical flow changes required, a minimum of two hours is needed.

As within-day auctions close 2 hours before gas flow and the necessary follow-up processes require at least 3 hours 30 minutes, this means that at least the first two hours of a within-day capacity product cannot be used (that is, two hours after the start of the product would be the first time by which the user could nominate against the capacity they have acquired and have their nominations confirmed). This may not be considered a satisfactory situation.

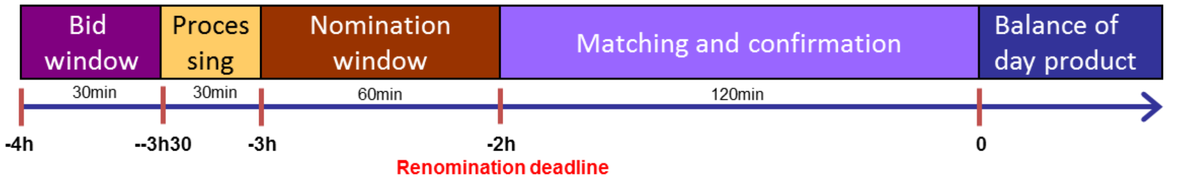
ENTSOG therefore proposes that each within-day bidding window should open 4 hours before the start of each capacity product and last for 30 minutes. This allows sufficient time for allocation, nomination, confirmation and matching processes to take place before the start of the capacity product.

The processes and timing for within-day re-nominations has been discussed with the market during the development of the Balancing NC and the preparation for the Interoperability NC.

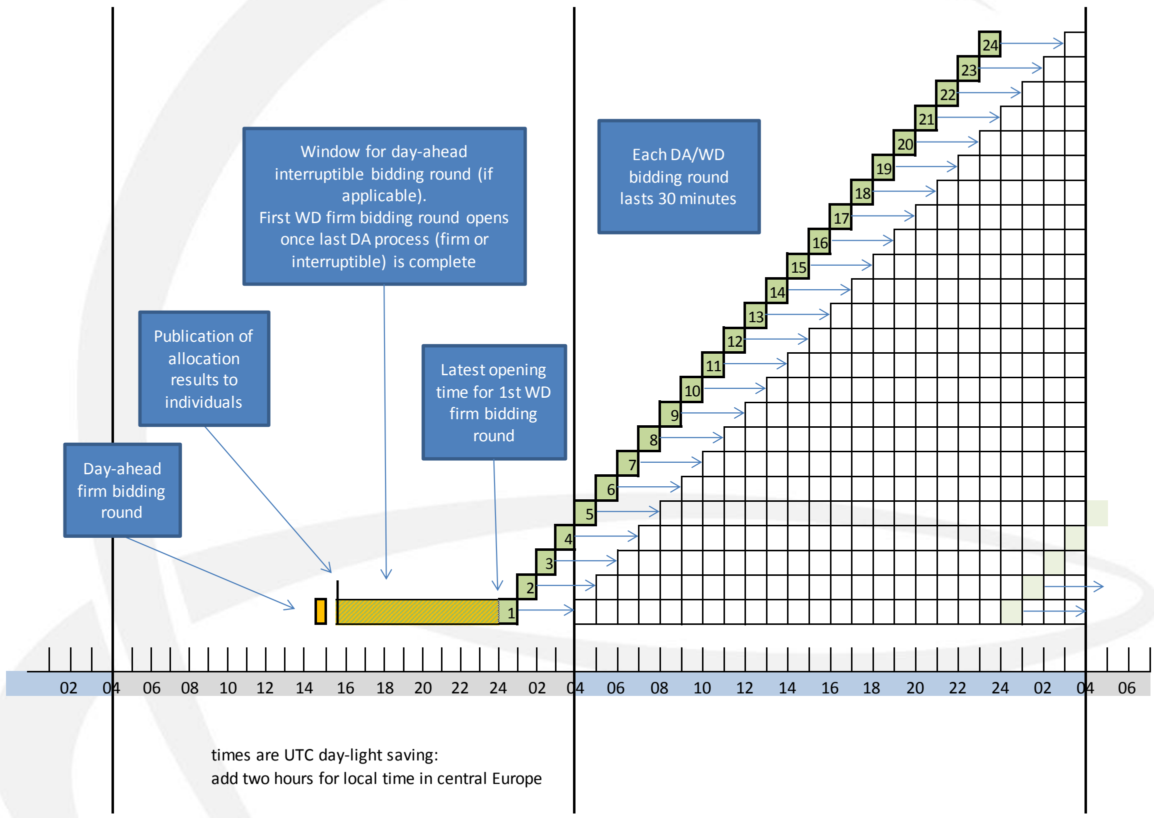
ENTSOG proposes one further change to the CAM NC: the first bidding round should open after the end of all day ahead allocation processes, including if applicable any auction for day ahead interruptible capacity. At the latest, the first bidding round will open 4 hours before the start of the gas day, but it will open earlier if possible.

CAM NC submitted to ACER	Proposal	Reasoning
- 1st bidding round opens after publication of DA auction results - Each bidding round closes 2h before gas flow - 60 min bid window, - 15 min processing time	- 1st bidding round opens after end of interruptible DA allocation process - Each bidding round closes 3h30 before gas flow - 30 min bid window - 30 min processing time	- Avoid overlapping auctions and associated reduction in capacity offer - Consistent with TSO need for 30 min processing time and 2h confirmation/ matching time - Consistent with informal stakeholder views on time needed for WD bidding and nomination

Proposal:



The diagram below updates the information shown on page 17 of the 'Explanatory Note for the CAM NC' document published by ENTSOG on 30 January 2012[12].



Question 3: do you support these changes to the within-day auction timing? If not, why not? In particular, do you believe that a 30 minute bidding round and 60 minute re-nomination window are sufficient for a within-day process?

D.3 Interruption lead time

ENTSOG's indicative view is that the CAM NC should be changed so that it refers not to an absolute number for the default lead time, but to a time period after the deadline for re-nominations. This

[12] http://www.gie.eu.com/adminmod/show.asp?wat=120306 CAP0227-12 Explanatory note for the CAM NC FINAL.pdf

means that if the re-nomination deadline is shortened in future for any regime (to the benefit of users), the interruption lead time will automatically adjust in line with this.

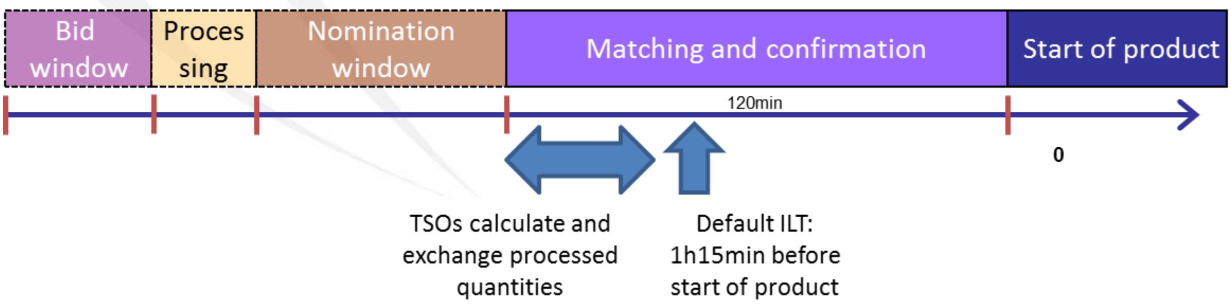
ENTSOG considers that it is necessary to allow 45 minutes after the re-nomination deadline for the processing of nominations and determination of whether interruptions may be necessary. As the Balancing NC is likely to provide for a two hour re-nomination lead time, this implies a default interruption lead time of 1 hour 15 minutes. Users receiving an interruption notice will therefore have a short window to re-nominate against their capacity before the next hour bar, if they wish to do so. They may also, or alternatively, choose to participate in the firm within-day auction starting on the next hour bar, in order to bid for capacity starting 4 hours later.

This additional 45 minute period allows time for TSOs to make interruption decisions on the basis of processed quantities, and therefore to include useful information in the interruption notices, e.g. the proportion of the user's nomination that is curtailed. Allowing less time than this between the re-nomination lead time and the interruption lead time would mean that TSOs could not provide significant information to users and could only indicate that there was some likelihood of interruption.

Section C.8 sets out the proposed drafting to address this issue.

CAM NC submitted to ACER	Proposal	Reasoning
- 2h default interruption lead time - Adjacent TSOs may jointly decide on different ILT	- 1h15 interruption lead time - Adjacent TSOs may implement different ILTs subject to NRA approval	- Minimum 45 min needed for processing and messaging after closure of re-nominations, in order to give useful information in interruption notice - NRA approval requested by ACER

Proposal (all times are local time CET)



To note:

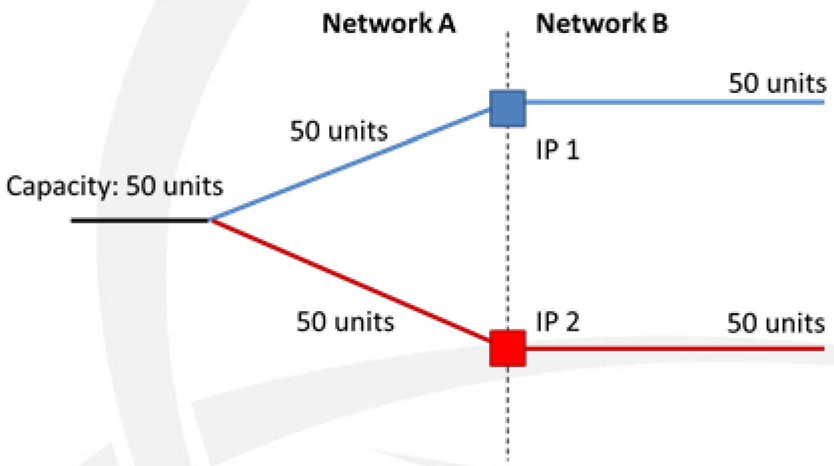
- Adjacent TSOs can agree different lead time, if NRAs approve
- In an emergency situation (network problems) the default lead time does not apply

<u>Question 4</u>: do you support these changes to the interruption lead time? If not, why not?

D.4 Competing capacity

ENTSOG has identified an issue concerning the allocation of competing capacities, that is, capacity that can be allocated as either bundled product A or bundled product B, but not both. At present, such processes take place at a limited number of interconnection points across Europe, but early experiences of implementation suggest that this number may increase in future, particularly once the CAM NC requirements on bundling come into force.

The diagram below shows a simple example. In this example, virtualisation between the two points is not possible for technical reasons.



A total of 50 units of cross-border capacity can be offered, either at IP1 (bundled product A), or at IP2 (bundled product B), or a mix of the two.

In such a case, it would not be possible for the auctions for product A and product B to be independent. At present, however, the CAM NC specifies that all auction processes must be independent of each other. ENTSOG understands that the allocation of competing capacities is considered by NRAs and users with experience of such processes to work well. It would not therefore wish for the CAM NC to prohibit Member States from implementing such competitive arrangements for the efficient usage of existing capacities.

ENTSOG's indicative view is therefore that Article 4.1 (2) of the CAM NC should be changed as follows (underlined text is new):

> *"At all Interconnection Points the same auction design shall apply. The relevant auction processes shall be started simultaneously for all concerned Interconnection Points as far as reasonably possible. Each auction process, relating to a single Standard Capacity Product, shall allocate capacity independently of every other auction process, <u>with the possible exception of auction processes allocating competitive capacity at two or more interconnection points."</u>*

<u>Question 5</u>: do you support this change to article 4.1 (2) of the CAM NC, in relation to competing capacities? If not, why not?

Annex 1: Response sheet

Please complete the fields below and send via email using the subject title, "Response to the CAM NC stakeholder engagement document" to **info@entsog.eu** by 10 August 2012.[13]

Name
First and Last Name:

Organisation
Company/Organisation Name:
Job Title:

Contact details
Email:
Tel:
Mobile:

Address
Street:
Postal Code:
City:
Country:
Countries in which your organisation operates:

How would you describe your organisation?

☐	Association (please specify type)
☐	End user

[13] If you would like any part of your response to be treated as confidential, **please mark these sections clearly and explain why it is not possible for the information to be made public**. Notwithstanding any confidentiality undertaking upon request, ENTSOG indicates that this cannot prevent ENTSOG from disclosing all or part of the response that would be requested by a competent authority or judicial body.

☐	Network user
☐	Trader
☐	Other (please specify)

In the questions below, ENTSOG would be grateful if respondents could clearly indicate their view and provide a brief justification.

Question 1
A number of changes to the CAM NC submitted to ACER in March 2012 are proposed in sections C.1 – C.11 above. Please indicate whether you support these changes. If you do not support some changes, please indicate which changes you do not support, and why.

Question 2
Do you support the proposed changes to the day ahead auction timing set out in section D.1? If not, why not?

Question 3
Do you support the proposed changes to the within-day auction timing set out in section D.2? If not, why not? In particular, do you believe that a 30 minute bidding window and 60 minute nomination window are sufficient for a within-day process?

Question 4
Do you support the proposed changes to the drafting on default interruption lead times set out in section D.3? If not, why not?

Question 5
Do you support the proposed changes to article 4.1(2) of the CAM NC, in relation to competing capacities? If not, why not?