

Response Sheet for Stakeholder Engagement Document: Potential Modifications to the CAM NC Following Receipt of ACER Opinion

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 2012.¹

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¹ 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.

How would you describe your organisation?

<input checked="" type="checkbox"/>	Association (please specify type): Association of European Energy Traders
<input type="checkbox"/>	End user
<input type="checkbox"/>	Network user
<input type="checkbox"/>	Trader
<input type="checkbox"/>	Other (please specify)

In the questions below, ENTSG 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.

C1 – EFET agrees with the proposed changes.

C2 – EFET supports the proposed changes for capacity bundling and standard products. However EFET does not support ACER's proposals for capacity quotas for new capacity. As ENTSG has indicated, this would lead EITHER to TSOs providing more capacity than has been requested by the market in order to meet the short term quota, OR TSOs would not be able to allocate 100% of the capacity that market participants have requested in order to keep some back for the short term. The former course of action increases the risks of stranded assets if in the short term there is no demand for the additional capacity. The costs of such stranded assets will ultimately be borne by consumers. The latter would mean that market participants would face increased risk in their capacity bookings since they might be competing with other bidders when the capacity was released in the short term. This is perverse given that the bidders in the auction that triggered the new capacity in the first place, and ensured the economic test was met, would have taken the risk of making long term bookings to enable TSOs to build new capacity, whereas short term players could free ride on this and bid in the short term auctions for capacity that would not have existed if other players had not made long term bookings in the first place.

Furthermore concerns about all new capacity being booked up in long term auctions leading to foreclosure of the market are unfounded. The new CMP rules (over selling and buyback, short term UIOLI and long term UIOLI) mean that there is – as intended by the European Commission - no incentive to book capacity for hoarding purposes as opposed to a genuine expected need. Any capacity which is booked but which is not used is at risk of UIOLI without compensation, so there is no gain to be made by booking capacity which a shipper knows it cannot use. Overselling and buyback also prevents hoarding from being effective as TSOs can simply release unused capacity to the market. In addition shippers should have the opportunity to bid for new capacity on a regular basis; as EFET has proposed in the incremental capacity discussions TSOs should sell new capacity to the market whenever bids for capacity in the long term auctions exceed available capacity, subject to an economic test. This means that if a bidder is unable to bid in an auction in Year 1, he has the

opportunity to bid the following year. Thus there is no risk of capacity being hoarded in the long term auctions.

We would encourage a more extensive discussion of this issue in the context of the ongoing CEER consultation on Market-based Investment Procedures for Gas Infrastructure.

C3 – In principle, EFET would support future standardisation of transmission contracts. However, further information on what is meant by ‘standardisation’ is needed. In addition, such a proposal would need to take into account aspects like the credit laws in different EU Member States. We would encourage ENTSG to discuss the issue with market participants before a final proposal is submitted to ACER.

C4 – EFET is in favour of the suggested modifications to the CAM NC encouraging greater cooperation among adjacent TSOs. We would like to remind that the forthcoming Interoperability Network Code will also deal with this issue, and that consistency between the two documents would be essential.

C5 – Greater flexibility must be offered to shippers, not least to new entrants, to profile capacity. We had previously suggested that not more than 80% of capacity should be available to be allocated on a long-term basis on the basis of quarterly products in the long term auctions (Letter to ACER 2nd May 2012). This was a balanced proposal, and is still our overall preference. We note however that much depends on the pricing of capacity products and the structure of capacity tariffs and reserve prices will affect the way the auctions work, and shippers’ bidding behavior. (See attached EFET letter from 2nd May 2012)

C6 – EFET supports the changes to the draft Network Code suggested by ENTSG.

C7 – EFET trusts that TSOs and Regulators will find an appropriate solution, which would not put shippers at a disadvantage.

C8 and D3 –EFET supports the efforts of ENTSG to create a schedule that facilitates the orderly functioning of the market. We appreciate and support the attempt to provide more accurate interruption information and understand this requires additional time for TSOs. However, this issue highlights just one of the important interactions between balancing and capacity codes which we, as an industry, need to ensure fit well together (with Balancing Code taking pre-eminence).

Although we believe that at this point in time the ENTSG proposal is the best achievable, we would like to point out that a lead time of 2 hours or less limits the possibilities of market parties to take action to prevent imbalances following from interruptions. Especially in markets with within day obligations, or when an interruption takes place towards the end of the gas day, it is necessary to take action in the same hour as the interruption. If the lead-time is shorter than about 2.5 hours, only very short lead time measures offer the possibility to correct the physical situation. This implies that in many cases only the traded hub can be utilised. In some cases even this is not possible. This may lead to increased imbalance charges, decreasing the value of interruptible capacity. To help mitigate this problem, it is necessary that there should be a maximum 30 minute lead time for trade notifications within the Balancing Network Code, and there should be warning of interruption on a best endeavours basis at least 30 minutes before the last re-nomination deadline.

In short, a balance needs to be struck between providing accurate interruption information and allowing time for market parties to act upon this information. At this point in time we cannot guarantee that ENTSG has found the perfect balance and would appreciate additional time to analyse the situation, and discuss with those involved in both the CAM and Balancing code discussions. However, we believe the proposed schedule is workable.

C9 – EFET believes that any issues related to tariffs belong to the Framework Guidelines and Network Code on Tariffs and their discussion should be postponed. If such a reference is considered necessary in the CAM NC, it should be of a very general nature, so as not to constrain future discussions on tariffs. For instance, issues like auction premium revenue split would be better suited for the Network Code on Tariffs.

C10 – EFET supports the suggested modifications.

C11 – In the view of EFET, a clear interim period should be put in place. Deciding on such a period through Comitology, however, would substantially reduce the transparency of the process. We would like to highlight the usefulness of workshops and to encourage greater openness.

Question 2

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

D1 – EFET strongly supports the proposed shortening of the processing time in day-ahead auctions. The continuous optimisation of the time schedule should be a major objective for TSO. We believe that there is room for efficiency improvements in the day-ahead nomination/matching/auction schedule so that capacity results are published at 17:00 CET at the latest.

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?

EFET considers the proposal reasonable.

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?

See comment to C8 and D3 above.

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?

EFET considers further clarification to be needed on the number of interconnection points where this is an actual issue. In case there are only a limited number of such points, the problem should be solved via capacity buy-back mechanisms rather than by adding additional complexity to the auction design.