# Responses to CAM Network Code – second formal consultation on new or modified concepts

***Consultation Response Sheet***

Please complete the fields below and send via email using the subject title, “Response to the CAM NC consultation” to **info@entsog.eu** by 14 November 2011.

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| How would you describe your organisation? |
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| | |
|---|---|
| | Association (please specify type) |
| | End user |
| X | Network user |
| | Trader |
| | Other (please specify) |

In the questions below, ENTSOG would be grateful if respondents could clearly indicate their preferred option and provide a brief but **fully reasoned justification** for their choice. This applies equally whether you agree or disagree with any ENTSOG proposal as it is important that ENTSOG is able to extract the clear views of all respondents. If you do not respond to a question, ENTOSG will assume that you have no view on this issue.

**Question 1 (**Standard Capacity Products to be auctioned): which option do you prefer, and why?

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| | Option 1: Quarterly only |
| X | Option 2: Integration of yearly product (Post consultation proposal) |

Edison welcomes ENTSOG's proposal to integrate the range of standard capacity products to be auctioned with yearly products. As we explained in our response to the first consultation, relying on the auctioning of quarters to supply long term capacity consistently increases the risk faced by shippers, who could not be able to book long (one year and longer) consecutive periods without intermediate gaps. It is also important to underline that the new auction mechanism, that will be implemented by the Network Code, will represent a great change for shippers: especially at the beginning, we believe that managing 60 quarterly auctions at the same time for all European IPs, instead of 15 yearly auctions, could be too complicated.
Moreover, we think that a yearly capacity product will be better consistent with the typical structure of gas markets, where supplies to final customers are generally negotiated for a duration of one year or more and shippers generally require to book flat capacity for a long period of time.

As concerns the possible loss of flexibility mentioned by ENTSOG as a drawback of this proposal, we think that the possibility to purchase quarters one year ahead and as "intermediate" product between yearly and monthly capacity, will provide enough flexibility to profile shippers' consumptions in advance.

**On the basis of the above considerations, Edison supports the idea to have both kind of products: yearly products and quarterly products.**

**Question 2** (Start date for yearly product): which option do you prefer, and why?

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|---|---|
| | Option 1: Yearly product starts on 1st January |
| X | Option 2: Yearly product starts on 1st October |

Edison suggests that yearly products start on **1st October**, which is the starting date of the gas year in most European countries and is generally adopted as reference date for gas supply contracts.

**Question 3** (Auction algorithms: overall methodology): which option do you prefer, and why?

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| X | Option 1: Multiple round ascending clock auction |
| | Option 2: Single round volume based auction |

Edison is in favour of the introduction of a **multiple round ascending clock option** for the following reasons:

1) Provided that price discovery mechanisms suggested by ENTSOG would improve the degree of transparency of the single round auction, there could anyway be room for strategic behaviours. On the contrary, we think that such behaviours could be minimised in a multiple round ascending clock auction, where participants know that every round could result in allocation and will therefore be incentivised to bid for a quantity reflecting their real needs.

2) The introduction of the "bidding assistant" will remove one of the main concerns about this model, related to the complexity of managing a multiplicity of auctions at the same time.

| **Question 4** (Limitation of price steps): which option do you prefer, and why? |
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| X — Option 1: Do not limit number of price steps (Post consultation proposal)<br>☐ — Option 2: Limit number of price steps |
| We think that **any limitation to the number of price steps would finally result in a "price cap", impeding to the real value of the capacity to emerge.** In Edison opinion, this situation should be avoided, in particular on congested points where the final price resulting from the auction will be important to signal the need for investments in additional capacity. |

| **Question 5** (Minimisation of unsold capacity): which option do you prefer, and why? |
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| X — Option 1: Minimise unsold capacity (Post consultation proposal)<br>☐ — Option 2: Draft CAM NC proposal |
| Edison believes that ENTSOG's proposal to minimize unsold capacity has two main advantages:<br>1) All shippers would pay a cheaper price for capacity<br>2) Shippers willing to pay more will get all the capacity they asked for, while the other shippers that bid at a lower price - and whose demand, considering other alternative mechanisms, wouldn't be satisfied - will have the possibility to have part of the volumes they asked. In order for this mechanism to maintain this advantage is however important that ENTSOG confirms the possibility for shippers to specify if they do wish or not to take part in the pro-rata allocation. This part of the proposal is crucial to avoid that the application of pro-rata automatically implies an obligation for shippers to buy capacity they do not need.<br><br>If ENTSOG is not going to apply the whole minimization mechanism, we think that **it should in any case implement the first step of Option 1, which is the limitation of the price differential.** According to Edison, this measure is paramount to limit the amount of unsold capacity and should therefore be applied "per se" and not only being part of the mechanism to minimize unsold capacity, as ENTSOG seems to do in its proposal. |

| **Question 6** (Sunset clause: choice of default rule): which option do you prefer, and why? |
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| ☐ Option 1: Maximum default rule with cap at technical capacity<br>☐ Option 2: "Partially unbundled“ default rule |

Edison agrees with ENTSOG that all the possible approaches on the sunset clause involve drawbacks and that these could not be solved until a clear regulatory framework for the management of bundling is defined.

1) Minimum default rule will result into the creation of unbundled capacity that could not be utilised by network users if the future regulatory evolution will confirm the exclusive presence of a “bundled” world.

2) Maximum default rule forces some users to have additional capacity allocated and, in presence of technical constraints, it is not clear how the consistency between the capacity at both side of the IP (which is a crucial pre-requisite to design a functioning bundled product) could be ensured, if not through making available interruptible capacity.

3) A similar (or even worse) situation, compare to the minimum default rule, could happen with a partially unbundled default rule, where network users could eventually being allocated and pay for several units of unbundled capacity that they cannot use, lacking the corresponding capacity at the other side of the IP.

To summarise, Edison thinks that before implementing any default rule, it should be clear if the future market design will allow to use unbundled capacity. If this will not be the case, option 3 would not be feasible, as some network users will end to hold and pay for capacity that they cannot use. At the same time the application of a minimum default rule in presence of capacity constraints (difference in technical capacities at each side of the IP) will imply that TSOs are not maximising available capacity, as some units corresponding to the difference in technical capacity between the two sides of the IP will not be allocated to the market at all.

Nevertheless, if the maximum default rule will be the choice, it should be better defined how correspondence between the two sides of the IP could be ensured in presence of technical constraints: will network users hold a partially interruptible bundled products? In this case, how will they be compensated if they originally paid for firm capacity?

In our opinion, the minimum default rule could instead work positively in absence of physical constraints and when previously booked capacity is less than technical capacity at one side; indeed, if we assume a situation as the one in the table below, the minimum default rule would allow to offer on the market 10 additional bundled units instead of losing 30 units.

| | TSO1 before | TSO2 before | TSO1 after | TSO2 after |
|---|---|---|---|---|
| Tech. capacity | 100 | 120 | 100 | 120 |
| Cap. To be bundled for pre-existing shippers | 90 | 90 | 90 | |
| Booking S1 | 90 | 0 | 42,5 | 42,5 |
| Booking S2 | 0 | 50 | 23,75 | 23,75 |
| Booking S3 | 0 | 50 | 23,75 | 23,75 |
| Sum | 90 | 100 | 90 | 90 |
| Cap to be bundled for the mkt | | | 10 | |

**Question 7** (Sunset clause: further questions): Please provide any views, information or evidence in relation to the further questions raised by ENTSOG in section F.2 regarding the sunset clause.

Edison has no additional comments.

**Question 8** (Tariffs: split of auction premium from bundled products): which option do you prefer, and why?

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|---|---|
| ☐ | Option 1: Keep split of auction premium proportional to reserve prices as default (Post consultation proposal) |
| ☐ | Option 2: Split of auction premium into equal shares as default |

Edison thinks that all tariffs topics should be appropriately assessed in the Tariff Guideline and Network Code.