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?	
	Association (please specify type)
☑	End user
☑	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?	
	Option 1: Quarterly only
☑	Option 2: Integration of yearly product (Post consultation proposal)

Please justify your choice. ENTSOG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible.

GDF SUEZ is in favour of Option 2 ("Integration of a yearly product") because of the seasonal reserve price tariffs issue. Indeed, to avoid cross-subsidization between shippers booking storage especially for final customer's needs and other shippers, one must have different reserve price between summer and winter quarters. **Since, we do not know yet what are the FG on Tariffs about, we cannot agree yet with quarterly products and, furthermore, it seems difficult to evaluate the ratio between summer and winter reserve prices.**

In addition GDF SUEZ considers that yearly capacity products contribute, among other means, to the continuity and the security of supply.

Option 2 should, however, be revised regarding the 10% of capacity reserved for short term :

- The FG on CAM in clause 2.3. demands "at least 10 percent" and not 10% as indicated in table 4 of "CAM NC – further consultation on concepts".
- Clause 2.3. of the FG on CAM does not prevent to sell short term capacity on an annual monthly auction like in option 1. GDF SUEZ does not understand why ENTSOG must make a quarterly product auction as annual auction. **It should be wiser to have long term yearly auction and then annual monthly auction because else one will create artificial contractual congestion** by offering 10% of the available capacity only at the rolling monthly auction

(which is a bit late).
- Even more if this rolling monthly auction takes place the 3rd Monday of each month. An earlier date in the month should be preferable.

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

☐	Option 1: Yearly product starts on 1st January
☐	Option 2: Yearly product starts on 1st October

Please justify your choice. ENTSOG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible.

GDF SUEZ has no preference since supply and customer contracts start at different dates in various proportions depending of the country, the producer and the type of final customer. A shipper is used to deal with such calendar issues.

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

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

Please justify your choice. ENTSOG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible.

Both options are manageable. Option 2 (“the single round volume based auction”) offers the possibility to arbitrate between price and quantity (e.g. if the aggregated demand is reduced, a shipper can increase its demand without changing the clearing price). Option 1 is easier to develop and implement.

Question 4 (Limitation of price steps): which option do you prefer, and why?

☐	Option 1: Do not limit number of price steps (Post consultation proposal)
☑	Option 2: Limit number of price steps

Please justify your choice. ENTSOG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible.

GDF SUEZ thinks that 30 price steps as drafted in the network code are enough. One will not solve the pro rata issue or the lack of a mechanism for incremental capacity with a “no limit” measure.

Question 5 (Minimisation of unsold capacity): which option do you prefer, and why?
☑ Option 1: Minimise unsold capacity (Post consultation proposal) ☐ Option 2: Draft CAM NC proposal
Please justify your choice. ENTSOG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible. GDF SUEZ would like ENTSOG to minimise unsold capacity by appropriate price steps (i.e. small price step around what should be the "market" price). Regarding the pro rata described in the second step, the shipper, indeed, should have the choice to subscribe or not the additional allocation due to the pro rata. In figure 7, shipper 2 may not be able to supply its customer with 16.7 units instead of 50 requested.

Question 6 (Sunset clause: choice of default rule): which option do you prefer, and why?
☐ Option 1: Maximum default rule with cap at technical capacity ☐ Option 2: "Partially unbundled" default rule
Please justify your choice. ENTSOG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible. **GDF SUEZ is strongly opposed to making bundled capacity mandatory and to the application of the sunset clause and the default rule.** Apart from serious doubts on the legality of imposing and enforcing mandatory bundling for existing contracts, GDF SUEZ believes that the disadvantages of imposing mandatory bundling (risks and costs resulting from the re-negotiation and/or termination of existing capacity contracts on IPs and of commodity contracts) are disproportionate to the advantages, an increased liquidity of the markets. Also, Frontier's report on the Economic Analysis of the Sunset Clause is not convincing. In addition, the implementation of the sunset clause represents a risk for the transporters' revenues. At last, the sunset clause represents a threat to the coexistence of short term and long term contracts, which are both necessary to the gas industry. Therefore GDF SUEZ is of the opinion that bundling capacity should be an option, not an obligation. TSOs should leave shippers the choice between purchasing bundled capacity and trading gas at the border ("on the flange"). Option 1 ("maximum default rule with cap at technical capacity") cannot technically be implemented in those situations where the technical capacity on both sides of the IP is different. Moreover, option 1 ("maximum default rule") will lead to additional but unwanted costs for shippers which have no other purpose than to help the concept of mandatory bundling "function" for existing contracts.

Regardless of the option that is retained, GDF SUEZ believes that shippers should get the possibility to re-sell to the TSO capacity that remains unbundled. The TSO could then use this capacity to offer new bundled products. With option 2 ("Partially unbundled default rule") shippers do not know if unbundled capacities will be usable or not. Furthermore, as described above, if a shipper does not agree with the split of its capacities, it should be possible to surrender capacities to the TSOs. The way to apply the split of capacities is also questionable after having read all the numerical examples.

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.
All the questions in section F.2. are relevant but answers are not straightforward. It indicates the regulatory chaos that the sunset clause and the default rule will bring in the gas industry.

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

Please justify your choice. ENTSOG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible. The split of auction premium between TSOs is not a shipper issue. So, GDF SUEZ has no preference as long as NRAs assure that the reserve price will not create cross-subsidiaries between IPs or between IPs and exit tariffs towards final customers. Nevertheless, option 1 seems the fairest in case of investment in incremental capacity assuming the marginal cost is proportionate to the reserve price.