

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.

Name
First and Last Name: Nabil Mezlef

Organisation
Company/Organisation Name: EDF SA
Job Title: Regulatory adviser

Contact details
Email: nabil.mezlef@edf.fr
Tel: + 33 1 40 42 30 84
Mobile: + 33 6 65 06 55 52

Address
Street: 22-30 avenue de Wagram
Postal Code: 75008
City: Paris
Country: France

Countries in which your organisation operates: France

How would you describe your organisation?

<input type="checkbox"/>	Association (please specify type)
<input type="checkbox"/>	End user
<input checked="" 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 preferred option and provide a brief but **fully reasoned justification** for their choice. This applies equally whether you agree or disagree with any ENTSG proposal as it is important that ENTSG is able to extract the clear views of all respondents. If you do not respond to a question, ENTSG 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?

<input type="checkbox"/>	Option 1: Quarterly only
<input checked="" type="checkbox"/>	Option 2: Integration of yearly product (Post consultation proposal)

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

As stated in the previous consultation, for long-term auctions, EDF strongly advises to include annual products, for simplicity and coherence with regard to supply and commercial contracts.

Indeed the ENTSG proposal relying on independent quarters for duration up to 15 years induces complexity, and a possible fragmentation of the capacity on the long term since shippers could get capacity to flow gas, only part of the year (for example only in summer and nothing in winter...).

Therefore, there is a risk for market operators not to be able to secure a continuous supply on the long term. If the risk of not getting the desired capacity (missing one or few quarters in case of quarterly products or one of few years in case of annual products) is of course inherent to auctions,

EDF believes that it would however be easier to find an alternative solution when capacity is missing for one year rather than for single quarters, spread out over 15 years. The suggestion is consequently to introduce yearly products along with quarterly products as proposed now by ENTSG.

However, EDF wonders why ENTSG did not choose an option with quarterly products for the next available years (next 3 years for example) and then yearly products for later years, which would have been an interesting trade-off between securing “baseload” capacity with yearly products on the long-term and being able to profile reservations on the medium-term.

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

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| <input type="checkbox"/> | Option 1: Yearly product starts on 1 st January |
| <input checked="" type="checkbox"/> | Option 2: Yearly product starts on 1 st October |

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

EDF considers that yearly products should start on 1st October because it is coherent with most supply contracts and with the internal processes of most companies involved in the gas market. Furthermore, yearly products starting on 1st October avoid cutting the winter season into 2 parts.

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

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| <input checked="" type="checkbox"/> | Option 1: Multiple round ascending clock auction |
| <input type="checkbox"/> | Option 2: Single round volume based auction |

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

EDF considers the first option (the multi-round ascending clock auction) to be superior. In a nutshell, we consider that the multi-round format is a more standard and better understood platform. It can be easily modified for future requirements, including the replication of the key difference with the single-round option (namely, upward bid revisions) that was seen by some stakeholders as an

advantage.

First, the key apparent difference between the two options is the possibility offered by the single-round format to revise one's previous bids upwards during the auction (see analysis 2 below). If desirable, this can be replicated in the multi-round design simply by always allowing shippers to bid up to their initial quantity bid at the reserve price.

Second, the single-round option will have a paced 'price-step by price-step' progression much like a multi-round clock auction, as soon as enough shippers understand they are not obliged to disclose a full demand curve. This will remove much of the apparent difference between the formats (see analysis 1 below).

Third, the multi-round ascending clock auction offers a more standard format -potentially with lower costs of implementation?- and also a more practical platform for future evolutions. This is a key advantage: new market design and codes tend to receive many modifications during their first years of implementation. We see a great advantage in adopting a mechanism that has already been tested and implemented in many different settings, and of which the properties have been well studied. For instance, it makes it easier to analyse whether upward bid revisions is a desirable feature or whether it should be somehow partially limited.

Finally, EDF is also concerned that in the single-round format, some large gas players can succeed in manipulating the auction thanks to the possibility to communicate 'demands' over all possible price steps from the beginning (see analysis 3 below). This concern is less acute with the multi-round format.

Analysis:

1. The single-round volume based auction will behave close to the multi-round one:

The workshop simulation illustrated that this design does not constrain the shippers to communicate their demand levels at price steps higher than the provisional clearing price of the previous "day". The key point is that if the auction does not clear again at the previous clearing price, it will not close. Therefore a shipper does not need to "fully participate" by posting bids for price steps higher than the previous clearing price.

Moreover, a shipper does not improve his view of the possible closing price by communicating in advance on higher prices, but he improves the view of his competitors, including those who choose not to communicate. As soon as enough shippers understand this, the auction will progress in a paced, price-step by price-step manner, as was observed during the workshop. This progression is close to the one obtained in a multi-round clock ascending auction.

Illustration: If all shippers behave as explained, they present demand bids at the price steps lower and equal to the previous clearing price (price step P_{x-1}) and bid quantity zero at price step P_x and above; if their aggregate demand is now lower than the capacity offered, the clearing price remains P_{x-1} and the auction is closed; if the demand at P_{x-1} now exceeds the capacity, the clearing price moves to P_x where aggregate demand is zero and the process goes on. Note that bids at price steps

lower than the previous clearing price (P_{x-1}) are irrelevant since the clearing price never goes down since bids have to be maintained or upped.

2. The distinctive trait of the single-round auction - upwards bid revision- can easily be replicated in the multi-round:

Both proposed design options are clearly different as regards upwards or downwards adjustments of bids: During the workshop, some participants noted that in the multi-round design they were prevented to raise their demands on some products, after they had realised that other products had closed to lower prices than they expected. While in practice shippers can decide not to reduce their bids too soon (at a risk for their budget), this is certainly a difficulty.

In the single round design, by contrast, one has to realise that the first bid made at the reserve price is the sole ceiling on future bids at higher prices. If really desirable, this rule could be very easily implemented in the multi-round format: simply by always allowing shippers to bid up to their initial quantity bid at the reserve price.

Conversely, it is simple to modify the single-round design in order to remove this possibility of upwards revision: it suffices that each bidder be committed to the portion of his demand curve up to the price step below the provisional clearing price. Or to use the notations of the consultation document: call P_j the provisional clearing price on any day j , then supplement 'measure B' with : for $P_x < P_j$ (strictly), $Q_{Px,Di+1} = Q_{Px,Di}$. Flexibility is maintained for quantity bids at P_x greater or equal to P_j .

3. Taken together, points 1 and 2 demonstrate the very close nature of both options: their main difference is removed through the addition of one single rule to one or the other design. The choice of design should therefore be focused on other properties such as the understanding of the design by auction analysts, and the risks of manipulation. Auctions with wider communication possibilities (like the single-round design) are more prone to manipulation, especially repeated auctions.

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) |
| | 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.

Along with a multiple round ascending clock auction, EDF considers that ENTSOG should not limit the number of price steps, in particular for IPs where congestion can be expected. However, it is

important to make sure that price steps are correctly defined in order to avoid long-lasting auctions. For example, for expected congestionned IPs, it could be envisaged to have big price steps at first and then smaller ones when getting close to the expected clearing price.

At the same time, since auctions will run at all IPs throughout Europe, it will be very important to give enough time to bidders to adjust their strategy at all IPs between each round. Indeed, bidders need time to “digest” what the signals are.

Question 5 (Minimisation of unsold capacity): which option do you prefer, and why?

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Option 1: Minimise unsold capacity (Post consultation proposal)

Option 2: Draft CAM NC proposal

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

EDF understands the ENTSG post consultation proposal since it is economically efficient to allocate capacity when demand exists for this capacity above the reserve price. That is why EDF supports the step 1 proposed by ENTSG which consists in (1) setting small price steps (in particular, in a multiple round model, when getting close to the clearing price) and (2) offering a number of price steps within each auction round.

However, EDF does not support the step 2, in particular because of the well-known counterproductive effects of pro-rata (in particular the uncertainty brought by pro-rata in terms of the capacity finally allocated). Furthermore, EDF finds the ENTSG proposal a bit too complicated in particular when you know that it will be useful only for congestionned IPs.

As a consequence, EDF would recommend applying only step 1 which should be enough to minimise unsold capacity (that will be, in any case, offered then to the next auction). Then, ENTSG should monitor the application of this option and if it is noticed that an important volume of capacity had not been sold while demand above the reserve price existed, an implementation of step 2 could be envisaged.

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

Option 2: "Partially unbundled" default rule

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

EDF considers that both options have important drawbacks. Indeed, the maximum default rule forces some users to take on additional units of capacity and the "partially unbundled" default rule leaves some unbundled capacity that will be totally useless. Furthermore, both options are not coherent at all with the Framework Guidelines principle of maximizing the available capacity.

As a consequence, EDF wonders why the minimum default rule is an option totally rejected by ENTSG. Indeed, this solution may have some interest. For example, we can imagine two possible scenarios :

- First, if the unbundled booked capacity is the same at both side of the IP, there is no problem while bundling it,
- Second, there is a mismatch between the booked capacity at both sides of the IP like in the ENTSG example (figure 11 , page 26 of the second formal consultation paper), the minimum default rule could be applied the following way:
 - o First, capacity is bundled under the minimum rule (*i.e.* on the ENTSG example, on the basis of 90 units)
 - o The remaining unbundled capacity (10 units) on Network B is given back to TSO B
 - o We can assume that if there is a mismatch in booked capacity, the technical capacity is the same (most of the time) and thus TSO B is able to bundle these 10 units, with 10 technical units from TSO A (that are available). This newly bundled capacity can be then sold through the auction.

EDF considers this solution could be envisaged because it would incentivised shippers to bundle the capacity by themselves without waiting for the default rule to be applied. Besides, it would maximize the capacity available offered to the market through the auction.

Obviously, there will be some cases where a mismatch will happen between technical capacity at both sides of the IP but EDF believes that those cases will be limited.

All in all, EDF considers that any default rule has its disadvantages but believes that this rule has to be established in order to incentivize shippers to bundle the capacity by themselves during the sunset clause period.

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.

EDF does not have any 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)

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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.

EDF considers that this question should be treated in the Tariff guidelines and Network Code as this is linked to the issue of how TSOs calculate capacity reserve prices.