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.

This reaction of Energie-Nederland is **NOT confidential.**

Name
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Organisation
Company/Organisation Name: Vereniging Energie-Nederland. **Energie-Nederland** is the sector association representing the common interests of the energy producers, traders and retailers in the Netherlands.
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Countries in which your organisation operates: The Netherlands.

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.

Energie-Nederland prefers option 1 (“Quarterly only”).

In the consultation in June 2011, Energie-Nederland has indicated to prefer long term auctions of quarterly products. We still have a preference for quarterly products (option 1). We agree with the evaluation of options in table 4 of the second consultation document.

Main reasons for quarterly products:

- Better fit between gas market needs (determined by end users) and transport capacity because option 1 allows seasonal profiling more than 1 year ahead.
- Short term capacity (monthly auctions) are released sooner.
- Reduce the risk of contractual congestion, because a) shippers are not obliged to book capacity which they cannot use (e.g. during summer months) and b) quartarly products do not rely on a fully functioning secondary capacity market (which have been a struggle to develop over the last few years).

The disavantage of having more auctions in a quarterly based system (60 auctions in 15 year instead of 15) do not weight up to the advantages (see above).

We do not see that quarterly products create a significant higher risks for shippers to acquire the right amount of capacity during the year.

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.

See answer question 1: Energy-Nederland has a preference for quarterly auctions, in which case the question of the yearly start date is void.

However, in case a yearly auction is offered, this should start at October 1st because that gives a better fit with the majority of the international sales contracts.

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.

Energie-Nederland prefers option 1 ("Multiple round ascending clock auction").

We do not support an auction design for long-term capacity products with only one single round. A single round auction for products of the same duration which have the same end dates all of Europe creates the risk that shippers end up with unwanted capacity or no capacity at all. With the current status of the secondary market development the shipper cannot sell this unwanted capacity easily. In a multiple round auction algorithm for long term products as quarterly and monthly products, market parties have the chance to actively decide whether a bid is placed at a higher price or not without being reliant on the behaviour of others. In our view re-bidding in multiple rounds and publishing of aggregated interim information is fundamental for price discovery and efficient allocation.

In a multiple round auction algorithm with predefined steps the market party (shipper) has at the end of every bidding round the highest degree of transparency without the need for additional rules.

In our opinion the value discovery mechanisms described under Option 2 risk complicating the auction process. Whilst they improve the single round methodology, the effect of them is to make the single round methodology very similar in principle to the multiple round ascending clock methodology.

In addition:

- We do not see any need for auctioning within-day capacity. For within-day capacity we prefer a quick first come first serve solution (FCFS). If there is a business opportunity during the day it must be possible to book the available capacity directly without the need to wait for the next auction round (click - book - nominate).
- Auction systems will allocate existing capacity to the market parties. However we do miss how new capacity investments are triggered.

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.

Energie-Nederland prefers option 1 (“Do not limit number of price steps“).

Option 1 results in a better fit between shippers needs and the available transport capacity. Energie-Nederland is strongly against a fixed number of price steps, as it is possible that at P30 the congestion has not yet been successfully removed. Applying a pro-rata approach in this situation would interfere with the principle of a market-based allocation. With pro-rata allocation none of the participating shippers would receive capacity according to their needs, thus resulting in strategic bidding behaviour which in any case must be discouraged. In the revised FG CAM it is explicitly stated that capacities are allocated via auctions. This does not leave any room for a pro-rata mechanism.

ENTSOG notes that there may also be some advantages to an approach with a limited number of price steps: i.e. limit the clearing price. We believe that high auction prices should trigger new capacity investments.

In addition:

- We recommend pre-defined small price steps to minimise underselling of capacity. This is the best way for the market to evaluate the true value of capacity and at the same time to signal where physical congestion appears to necessitate investment.

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. Energie-Nederland has <u>no</u> clear preference for one option. Energie-Nederland would like ENTSOG to minimise unsold capacity by using small price steps. Option 1 is somewhat more complicated then option 2. In option 1 it is possible that a shipper ends up with more capacity than needed. To overcome such a situation there must be a possibility to give the unneeded capacity back to the TSO/market. In option 2 the risk of large quantities of unsold capacity rolling into the next auction of shorter time duration, should be minimised (by using small price steps).

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. **Energie-Nederland cannot choose between the presented options.** **Energie-Nederland 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, Energie-Nederland believes that the disadvantages of imposing mandatory bundling (risks and costs resulting from the renegotiation and/or termination of existing capacity contracts on IPs and of commodity contracts) are disproportionate to the advantages, an increased liquidity of the markets. We should be aware of the fact that a lot of supply contracts are with parties outside the European Union. They don't feel any pressure to renegotiate contracts and so therefore contract parties in the EU are in a bad negotiating position. Also, Frontier's report on the Economic Analysis of the Sunset Clause is not convincing. Therefore Energie-Nederland 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") 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. This option cannot technically be implemented in those situations where the technical capacity on both sides of the IP is different.

Under option 2 ("Partially unbundled" default rule) it is not clear whether shippers would be able to do anything with their unbundled capacity.

Regardless of the option that is retained, Energie-Nederland believes that shippers should get the possibility to resell to the TSO the capacity that remains unbundled. The TSO could then use this capacity to offer new bundled products.

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. That indicates clearly the regulatory chaos that the sunset clause and the default rule will bring in the gas industry. If bundled products for existing contracts are imposed, it will lead to the simultaneous reopening across Europe of contractual agreements. The shift from a physical delivery point to a virtual one necessarily implies a delicate renegotiation of additional basic terms of the existing agreement, such as nominations, re-nominations, taxes and laws applied at the new delivery point. The impact of fuel and transport costs because of the transfers of the delivery point also has to be considered in the renegotiation.

On the first question, Energie-Nederland does not think partial agreements are possible because of competition issues. It is not sane to have a multilateral discussion on the split of a bundled IP capacity and, at the same time, bilateral discussions between shippers and producers present at this IP.

We fully agree with ENTSOG that application of the sunset clause and the default rule will lead to a large series of commercial, technical and administrative problems, which should be solved first. Therefore, it is far better to sell bundled capacity from a certain starting date onwards. The use of this capacity in a bundled form should not be mandatory. The existing contracts should be maintained. The whole matter should be investigated in detail first before drafting the NC.

Energie-Nederland welcomes the establishment of bundled products as an option, which is an important step for more liquidity on the gas markets as they allow easier trading from hub to hub. Without interfering with existing contracts market participants can already reach the virtual trading points with the help of released capacities and additional capacities (e.g. via overbookings).

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. Also Energie-Nederland believes this question should be treated in the Tariff guidelines. Therefore, Energie-Nederland 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.	

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