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
X	Network user
X	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?

X	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.

We believe that quarterly products have the added benefit, when compared to yearly products, of allowing shippers to build up structured capacity portfolios which closely match their expected usage of the capacity. This lessens the risk of contractual congestion as it ensures shippers are not obliged to book capacity which they cannot use, e.g. during summer months. Quarterly products also have the advantage of avoiding the need for an EU wide standardised capacity year and place less reliance on there being a liquid fully functioning secondary capacity market, which have struggled to develop over the last few years.
Concerns have been expressed that quarterly products create stranding risks for shippers seeking to acquire yearly capacity and gaming opportunities. However, we believe these

risks are overstated and can to a large extent be overcome by shippers bidding strategies, effective UILOI arrangements, transparency and market monitoring.

Finally, we are concerned that Option 2 effectively removes the option of acquiring monthly capacity other than at the month ahead stage, making it no longer possible to profile capacity bookings in advance on a monthly basis within a year.

Having said this, it is important that the capacity products and auction timetables agreed now, without the benefit of hindsight, can be easily enhanced at a later date, to allow greater flexibility and to make it easier for shippers to acquire flexibility at the point in time they conclude their commodity contracts.

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

	Option 1: Yearly product starts on 1st January
X	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

October is the beginning of the gas year in a number of EU countries and is therefore an appropriate date to start yearly products, but quarterly products remove the need to determine this.

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

X	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.

We outlined our preference and the advantages of a multiple round ascending clock auction in our response to ENTSOG's previous consultation and in various meetings. We strongly believe that this system will be the most transparent and straight forward auction methodology which will ensure an efficient price formation process. Shippers will get more detailed and immediate feedback on the elasticity of capacity demand and will be able to make a conscious decision to adjust their capacity bid after each auction round. Auctions will clear immediately at uncongested interconnection points, which would be an advantage for any shipper seeking to lock in price spreads between market areas.

It is not clear from ENTSOG's proposal whether it envisages multi round ascending clock auctions having one price step per round, or multiple price steps. Three price steps are shown in the example on page 18, which relate to the proposal to minimise unsold capacity, but we are not sure if this would still apply if minimisation of unsold capacity is not implemented. We do not support minimisation of unsold capacity (see Question 5) and would not want to see more than one price step per auction round as this could lead to sub-optimal allocation (as witnessed at the auction workshop on 3rd November we understand, although we did not participate).

Providing a bidding assistant to accompany a multiple round ascending clock auction will enable shippers that are not confident bidding under this methodology, or who find it administratively challenging, to mimic the bidding strategy they would adopt under a single round auction.

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. 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). As all available capacity will already have been made available via auction up to the day-ahead stage FCFS is not a discriminatory solution but simply one based on economic rational.

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

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.

We strongly believe that there should be no limitations of price steps so that any pro rata solution can be avoided. Limiting price steps would also be inconsistent with a multiple round ascending clock methodology. 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. It is not clear under Option 2 whether limiting the number of price steps would mean TSOs adopting the same number of price steps at all interconnection points (e.g. 30), or whether this could differ by TSO or interconnection point. Also it is unclear as to whether TSOs will be required to adopt an element of consistency in the price differential that is applied between price steps. Limiting the number of price steps may be more appropriate if the auction methodology can trigger incremental investment.

Question 5 (Minimisation of unsold capacity): which option do you prefer, and why?	
	Option 1: Minimise unsold capacity (Post consultation proposal)
X	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. Option 1 to minimise unsold capacity seems unduly complicated and we prefer the straightforwardness of Option 2. Combined with an unlimited number of price steps and using small steps, Option 2 should minimise the risk of large quantities of unsold capacity rolling into the next auction of shorter time duration.	

Question 6 (Sunset clause: choice of default rule): which option do you prefer, and why?	
X	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.	

As stated in our response to the previous ENTSOG consultation, and in other meetings, we continue to have major concerns regarding the introduction of the sunset clause and the default rule for splitting bundled capacity between existing unbundled entry and exit capacity holders.

However, if this mechanism were ever to be required the maximum rule should apply but without the proposed technical limitation. Based on the ENTSOG example there may be an additional option. The Example shows that at least only 90 units can be used in reality and that in the past the flow was always limited to 90. If there are no future requests for 100 or more (via a multi round auction this would be easily find out) shippers must be allowed to give the capacity back (without any future payment) to the network operator, because the network operator sold something without any chance of using and therefore it has no value.

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.

From our point of view mandatory bundling would unnecessarily restrain possibilities to trade. As mentioned in previous consultations on the CAM NC, RWEST thinks that limiting flange trading by mandatory allocation of bundled products would require the adaptation of all existing cross-border supply contracts with delivery at a flange. This would not just be a matter of substituting a flange for a hub in the contract. Instead it would lead to renegotiation of the entire contract, since the delivery point has strong implications on the management and distribution of risks between the involved parties. This is particularly true for import contracts with non-EU producers.

If bundled products for existing contracts are imposed, it could 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.

Finally it is worth noting that even 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 overbooking). RWEST nevertheless welcomes the establishment of bundled products as an additional option, which is an important step for more liquidity on the gas markets as they allow easier trading from hub to hub.

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)
X	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.

This is more a TSO related question than a shipper one and we do not feel able to answer it fully at this stage.

At least in the case of option 1 the TSO revenue stream will be influenced by the individual allocation of costs to the entry-exit points. Therefore we would recommend using option 2. From the shipper perspective there will be only one base price for the bundled product and the auction premium in cases where demand exceeds available capacity. From this perspective it must be secured that the auction premium is used to overcome the physical congestion.

Conceptually, we agree with the logic of cost reflective transport costs being used as a pertinent apportionment driver. However, we can equally see that in the absence of some degree of harmonisation in the methodology for setting entry/exit reserve prices either side of an interconnection point, misallocation of revenues could arise, leading to under/over recovery.

We believe this issue should be addressed in the forthcoming Tariff guidelines. It should also be considered in context of allocating incremental capacity and defining an EU wide economic test for new investment. As such it does not seem appropriate or relevant from a shipper's perspective to include any split of auction premiums in the CAM Network Code. In our view the same reasoning applies to the extent to which auction reserve prices should be scaled for revenue equivalence, or set to incentivise short/long term booking.