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
	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
X	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.

For the reasons stated in the answer to the previous consultation, eni strongly supports the integration of yearly capacity products as the main way to allocate long-term capacity.

We understand that ENTSOG decision on this point would greatly depend on the outcome of the current consultation. For this reason, if that outcome were not clear, we ask ENTSOG to still keep yearly products in place by looking for options different from those here presented.

Regarding this, we incidentally note that under ENTSOG Option 2, capacity available to be rolled over to quarterly auctions could often be limited, or even no capacity could be available at all if – following the result of this consultation – ENTSOG decides to apply the proposed mechanism to

minimize unsold capacity (step 2).

This would reduce the possibility for shippers to profile their booking, giving them the only option to do it by means of month-ahead monthly products.

A possible way to reformulate Option 2 could entail:

- **reserving a t.b.d. quota (max 20%) of the available capacity to quarterly products. This would effectively give users confidence about the possibility to bid for quarterly products to profile their capacity booking**
- **at the same time – in order to (a) keep in place the possibility for shippers to book long-term 90% of available capacity and (b) not to increase too much the number of auctions – quarterly products should be allocated for at least the following 5 years (15 auctions for yearly products + 20 auctions for quarterly products vs 60 auctions under Option 1)**

We are available to discuss further this proposal.

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

	Option 1: Yearly product starts on 1^{st} January
X	Option 2: Yearly product starts on 1^{st} October

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

We don't see the start date of yearly products as a particularly "critical" issue and not at all critical enough to call into doubt the need to introduce yearly products.

In any case we suggest that ENSTOG selects Option 2 as thermal year starting from 1st October is the most commonly used in Europe. Therefore, this could represent the most practical solution to be implemented.

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.

Even considering the introduction of the suggested price discovery mechanisms within the OPTION 2, we continue to prefer the multiple-round ascending clock model as it provides the most transparent basis for delivering an efficient price formation process.

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.

The number of price-steps should be unlimited in order to avoid pro-rata allocation: shippers have to be granted access to capacity accordingly to their availability to pay for it. Furthermore, this would effectively reveal the market value of capacity at each IP, giving more efficient signals on congestion.

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.

Unsold capacity should be minimized by defining "reasonably" small price-steps.

The main perplexity we have about the mechanism proposed by ENTSOG is that - if demand is higher than offer at P_0 – no capacity would ever be allocated by means of quarterly products, thus offering only month-ahead monthly products to profile capacity booking. Our view could therefore change depending on outcome of what stated in Answer 1.

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.

<u>To state again our strong opposition to the „sunset clause</u>" and the mandatory application of the bundled concept is <u>our priority</u> in this context.

We see it as a <u>non proportionate measure</u> and we also question the <u>legal basis for imposing it through the CAM network code</u>.

We also note that the work ENTSOG has done searching for an "appropriate" default rule has revealed <u>many additional legal and operational complications</u> (see also answer to Q7). And more could emerge when introducing the issue of the different durations of capacity contracts.

Thus, whereas "benefits" of the sunset clause in the short and in the long term continue to appear uncertain, the awareness of "costs" for network users continues to increase.

Having said that, between the options proposed by ENTSOG we consider as preferable OPTION 1, but we note that the problem of "what to do with the unbundled capacity" (which will have no clear value in a bundled world) would occur again even in a „maximum default rule world" in case of technical constraints on one side of the IP.

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.

We would like to comment in particular the question raised by ENTSOG about the "partial agreement":

- **if partial agreements were not allowed, every single shipper would have the power to trigger the application of the default rule for the whole capacity;**
- **this matter cannot be seen on a stand alone basis, without taking into account that – while negotiating the splitting of bundled capacity – some parties could also be re-negotiating their supply contracts providing gas delivery at the border.**
  Should a <u>decision of a party about capacity</u> it wants to keep in its portfolio influence the re-negotiation between <u>third parties about an e.g. long term supply contract</u>?

This issue - together with many other (see also answer to Q6) - demonstrates that the application of the "sunset clause" would have ramifications and complications <u>not fully taken into account</u> when introduced.

In particular, notwithstanding being presented as "not meant to regulate supply contracts", it would have substantial - and inacceptable - impacts on commercial contractual relationships among market players.

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

X	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.