

## 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](mailto:info@entsog.eu) by 14 November 2011.

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Countries in which your organisation operates:

(In Europe:) **Belgium, France, Germany, Ireland, Italy, Netherlands, Norway, Poland, Romania, United Kingdom.**

How would you describe your organisation?

<input type="checkbox"/>	Association (please specify type) - :
<input type="checkbox"/>	End user
<input type="checkbox"/>	Network user
<input type="checkbox"/>	Trader
<input checked="" type="checkbox"/>	Other (please specify) -: <b>Oil &amp; Gas Producer</b>

In the questions below, ENTOSG 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 ENTOSG proposal as it is important that ENTOSG 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?**

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

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

**ExxonMobil continues to prefer the quarterly product for long term auctions. The quarterly product provides the flexibility to build a longer capacity contract that covers a season, a calendar year or a gas year, depending on the user's individual needs. The quarterly product has proven itself in the U.K., also to secure capacity for long-term commitments. Moving to a yearly product seems a step backwards, at least for the U.K.**

**The proposed Option 2 has a further drawback in only releasing the 10% of capacity reserved for short-term on a month-ahead basis. This means that when all capacity that is available for the long-term auction would be sold as an annual product, there would not be any capacity available for the subsequent auction.**

**In case Option 2 is selected, we recommend that the 10% capacity reserved for short-term is**

released in an annual monthly auction, just like under Option 1. We accept that this would eliminate the quarterly product under Option 2, but it avoids that there would not be any capacity available for the proposed annual quarterly auctions.

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

- ☒ Option 1: Yearly product starts on 1<sup>st</sup> January
- ☐ Option 2: Yearly product starts on 1<sup>st</sup> October

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

We prefer not having to make the selection above because we support the quarterly product. One of the benefits of the quarterly product is that it avoids having to decide on the start date for the yearly product. Starting on 1<sup>st</sup> of October could be viewed as discriminatory in favour of users with supply contracts that start in October. Starting on 1<sup>st</sup> of January is more in line with the yearly products traded at the virtual hubs, and also facilitates regulators in setting tariffs for a calendar year.

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

In the auction workshop on the 3<sup>rd</sup> of November both auction algorithms resulted in very similar results in terms of capacity allocation. The Single round auction took some time to reach stability, but this was likely caused by shippers putting in their bids only step-by-step, in fact turning the auction into a Multiple round ascending clock auction. When shippers enter their bid stack from the first time the Single round auction provides better price discovery. Also the Single round volume based auction allows shippers that want capacity at several IPs to adjust their bids at one IP based on the interim results at other IPs. We note that the proposed stability measures also have downsides. They are intended to prevent 'false' bids to be placed, but work out to prevent shippers with a genuine need for capacity to bid for additional volume when another bidder has removed his bid. Perhaps other measures should be used to discourage 'false' bids instead of the stability measures.

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

- |                                     |   |
|-------------------------------------|---|
| <input checked="" type="checkbox"/> | Option 1: Do not limit number of price steps (Post consultation proposal) |
| <input type="checkbox"/>            | Option 2: Limit number of price steps                                     |

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

**ExxonMobil wants to stress that incremental capacity should be included in the long-term auction process. This will remove the price escalating (demand still higher than offer at the highest price step) for a product that would otherwise be constrained.**

**Pro-rata allocation should be avoided and users should be allowed to raise their bids in order to try and acquire the capacity they would like to contract. Pro-rata would result in a situation that none of the successful bidders would actually get the amount of capacity they bid for. Also pro-rata allocation would be in conflict with the Framework Guidelines that specify allocation via auctions in paragraph 3.1.1.**

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

- |                                     |   |
|-------------------------------------|---|
| <input type="checkbox"/>            | Option 1: Minimise unsold capacity (Post consultation proposal) |
| <input checked="" type="checkbox"/> | 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.

**The sequence of long term and short term auctions aims to minimise unsold capacity for which there is demand. Capacity which remains unallocated after the long term auction is assigned to the next auction. Hence under the draft CAM NC proposal unsold capacity would also be minimised.**

**Option 1 aims to avoid that unsold capacity remains after the first auction, as if there are no subsequent auctions, making the auction design overly complex. Moreover the use of pro-rata allocation under Option 1 should be avoided for the reasons mentioned under Question 4.**

**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.

**ExxonMobil does not support the sunset clause and continues to question the legal basis for imposing a default rule through the CAM network code. Both Option 1 and Option 2 as described in the consultation document would result in the obligation on a shipper to conclude a new contract with a new counterparty. This would be a violation of contractual freedom (this was also raised in the legal impact assessment by RAUE on request of NRA's).**

**According to the Framework Guidelines, existing capacity should be bundled no later than 5 years after the entry into force of the network code. This implies that the default rule would only be applied by approximately 2017/2018. Hence there is no urgent need to define this rule in much detail now. At this stage the network code could be limited to a general rule: "parties to existing contracts are obliged to agree to an adjustment of the respective capacity contracts in such way that the bundled capacity is split between the original capacity holders proportionally to their capacity rights, and that the existing capacity contracts are adjusted accordingly" (with reference to the alternative sunset clause proposed by RAUE). This would also leave more flexibility for parties to existing contracts to reach agreement on bundling.**

**Question 7** (Sunset clause: further questions): Please provide any views, information or evidence in relation to the further questions raised by ENTSG in section F.2 regarding the sunset clause.

**An agreement by a subgroup of shippers at an interconnection point on bundling of their existing capacity contracts should be respected. In the consultation document it is suggested that such a partial agreement could have an impact on (how the default rule would apply on) third parties and might therefore be discriminatory. The fact that third parties might be affected by a partial agreement only demonstrates the weakness of the default rule, but should not be used to block a partial agreement. Shippers that pro-actively agree on voluntary bundling of existing capacity should not be allowed to be kept hostage by other shippers that cannot reach agreement.**

**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)

☐

Option 2: Split of auction premium into equal shares as default

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

**We have no strong views on this issue.**