

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

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How would you describe your organisation?

- | | |
|-------------------------------------|-----------------------------------|
| <input checked="" type="checkbox"/> | Association (please specify type) |
| <input type="checkbox"/> | End user |
| <input type="checkbox"/> | Network user |
| <input type="checkbox"/> | Trader |
| <input type="checkbox"/> | Other (please specify) |

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?

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

Given the underlying assumptions of the two options BDEW agrees to the principle that long term capacities should be auctioned only in the form of seperate quarterly products.

Quarterly products – in contrast to yearly products – allow shippers to build up structured capacity portfolios which closely match their expected usage of the capacity. This ensures that shippers do not have to book a surplus of capacity which they would not use due to e.g. seasonal fluctuations in demand. Hence the auction of quarterly products reduces the risk of contractual congestion.

Quarterly products also have the advantage of avoiding the need for an EU wide standardised capacity year (see question 2) and place less dependence on a fully liquid 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. These risks, however, are

overstated. To a large extent they can be overcome by shippers' bidding strategies, effective UILOI arrangements, transparency and market monitoring focussing on contractual congestion.

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.

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

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Option 1: Yearly product starts on 1st January

Option 2: Yearly product starts on 1st October

Please see the answer to Question 1.

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

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Option 1: Multiple round ascending clock auction

Option 2: Single round volume based auction

BDEW supports a multiple-round ascending clock auction algorithm for long-term products such as quarterly and monthly products, as this system will be the most transparent and straight forward auction methodology which will ensure an efficient price formation process.

In multiple round ascending clock auctions, shippers always have the chance to actively decide whether they place a bid at a higher price or not, without being reliant on the behavior of others.

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.

Providing a bidding assistant to accompany a multiple round ascending clock auction will enable shippers that are not confident in bidding under this methodology, or who find it

administratively challenging, to mimic the bidding strategy they would adopt under a single round auction. This potentially increases the number of market participants and the liquidity in the market.

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 directly book the available capacity without having to wait for the next auction round (click - book - nominate). As all available capacity will already have been made available via auction on 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?

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| <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 |

Under a multiple round ascending clock auction there is no need for limitations of price steps so that any pro rata solution can be avoided. BDEW recommends pre defined small price steps to avoid underselling of capacity. This is the best way for the market to evaluate the capacity and at the same time to signal where physical congestion appears to necessitate investments.

With a pro rata allocation, however, none of the participating shippers would receive capacity according to his needs – thus also resulting in strategic bidding behaviour which in any case must be avoided. Furthermore, 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 if TSOs will be required to adopt an element of consistency in the price differential that is applied between price steps.

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

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| <input type="checkbox"/> | Option 1: Minimise unsold capacity (Post consultation proposal) |
| <input checked="" type="checkbox"/> | Option 2: Draft CAM NC proposal |

We prefer the straightforward approach of Option 2. In combination with an unlimited number of small price steps option 2 will minimise the risk of large quantities of unsold capacity

rolling into the next auction of shorter time duration. A pro-rata solution or component in the auction design does not follow the market-based approach of the Framework Guidelines. Option 2 – allowing unsold capacity to be allocated via the next product – also prevents an auction mechanism to move a step backwards if not all capacity has been sold in the last round.

Option 1 (minimise unsold capacity), though, seems unduly complicated.

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

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| x | Option 1: Maximum default rule with cap at technical capacity |
| | Option 2: "Partially unbundled" default rule |

We have concerns regarding the introduction of the sunset clause and the default rule for splitting bundled capacity between existing unbundled entry and exit capacity holders.

Given the fact that the mechanism will be binding only the maximum rule can apply, but without the proposed technical limitation. By modifying Option 1 the discriminatory potential of the default rule as described by ENTISO should be eliminated. Based on the ENTISO example there may be an additional option for the default rule. That 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 units (via a multi round auction this could be easily found 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 to use it and therefore without any value.

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

In section F2 ENTISO raises important additional questions of which we would like to answer a few.

As regards the bundling of firm and interruptible capacity we see an added value in the sense that unused firm surplus capacity on one side of an IP could still be of use. In the bundled-only world as envisioned by the NC we still see the need for firm and interruptible products. However, the moment you combine the two qualities of entry and exit capacities (one being firm, the other interruptible) to form a bundled product it must be well understood that the resulting product can only be an interruptible bundled product (both in terms of quality and price; the lesser quality of the interruptible product is setting the benchmark).

Whenever there is freed up capacity to be allocated, be it freed up by CMP or as a left over after the application of a default rule, this newly available capacity can only be allocated through by auctions and hence non-discriminatory.

Concerning the question of bundling at Virtual Interconnection Points we see the need to apply exactly the same procedures and default as at physical IP.

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

This is more a TSO related question than a shipper one and we do not feel able to answer it 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 a case where more demand than available capacity is. 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.