
Meeting between ENTSOG and ERGEG on CAM & CMP

3-February-2010 from 10:30 to 15:30 hours

ENTSOG Office, rue Ducale 83, 1000 Brussels

MINUTES

Participants		
Frank	Rössler	ENTSOG
Matthew	Hatch	ENTSOG (National Grid Gas)
Thomas	L'Eglise	ENTSOG (Fluxys)
Stefan	Königshofer	ENTSOG (OMV Gas)
Abel	Enriquez	GIE Secretariat
Maria Angeles	de Vicente	ENTSOG (Enagas)
Joachim	Gewehr	DG TREN
Benoît	Esnault	ERGEG (CRE)
Alexandre	Soroko	ERGEG (CRE)
Fiete	Wulff	ERGEG (BNetzA)
Erik	Sleutjes	ERGEG (Ofgem)
Markus	Krug	ERGEG (E-Control) – took notes

1. Process

Meeting participants discussed the ongoing ERGEG consultation process with a critical view to the length of the consultation period. On the pilot FG on capacity allocation, ERGEG underlined that there had been long discussions with stakeholders already a year before the official start of the 6 months period. Some participants had doubts whether the tight 6 months period can be sufficient for subsequent Framework Guidelines such as balancing.

Meeting participants agreed that the purpose of the pilot was to also test the process and the appropriateness of the timeline to undertake all the envisaged tasks in the interim period. It will be important to draw lessons from the pilot FG processes in electricity and gas and to improve them where necessary. For this purpose several groups have been set up. Joachim Gewehr outlined the aim of the Monitoring Group which is:

- to inform each other on the state of play on the pilots

- to inform each other of the good/bad functioning of the process defined (including the appropriateness of the timeline) (collect experiences)
- to ensure consistency in the process between ERGEG/ENTSOs/COM

A first meeting of the Monitoring Group took place on 17 November 2009. Ana Arana Antelo, Matti Supponen, Mark van Stiphout (COM), Walter Boltz, Asta Shivonen-Punkka, Nadia Horstmann (ERGEG), Jacques Laurelut, Vittorio Musazzi (GTE+) and Konstantin Staschus (ENTSO-E) participated in that meeting.

The High Level Group, composed of Heinz Hillbrecht (COM), John Mogg (ERGEG), Stephan Kamphues (ENTSO-G) and Daniel Dobbeni (ENTSO-E), met for the first time on 26 January 2010. The objective of this group is to assure coordination at a high level of the work plans and consultations between ERGEG and the ENTSOs (following the request by some stakeholders in Madrid) as well as to discuss the ENTSOs statutes. In their first meeting the group set up a Planning Group which should meet back-to-back with the Monitoring Group with the aim to develop a vision on which codes and guidelines shall be developed in the medium term.

ENTSOG considered it could be beneficial to be involved in the ERGEG Stakeholder organization meetings (e.g. EFET) in order to provide expertise but especially to understand the topics from each party's point of view.

Each issue or question raised should be properly understood, discussed and if not taken into account, properly explained. ERGEG highlighted that the on-going consultation would be done according to ERGEG's published Consultation Practices.

Conclusion: The issues raised especially concerning timing issues should be brought to the respective representatives of the Monitoring Group. The aim should be to have a process that is as efficient as possible. ERGEG will discuss the proposal made by ENTSOG that ENTSOG should be invited to join bilateral meetings between ERGEG and stakeholder organizations at the ERGEG Gas Working Group on 9 February.

2. Existing contracts

ENTSOG requested clarification on which clauses in existing contracts would need to be amended according to the FG on CAM and CMP guidelines respectively. ERGEG clarifies that general terms and conditions and national network codes could be affected, not the capacity contracts themselves. The exact provisions which would have to be amended are better known to TSOs and their shippers. Furthermore, ERGEG clarifies that only provisions which are in conflict with the CAM & CMP proposals would need to be amended.

Also, potential legal risks for TSOs were raised by ENTSOG, as shippers might challenge the obligations for TSOs to unilaterally amend contracts, leading either to court acts or contract cancellation. On this, ERGEG clarified that, if at all, it will not be the contracts themselves which would be legally challenged but rather the legal act itself, i.e. the comitology procedure on the network code.

ENTSOG also highlighted that current national legislative or regulatory framework might foresee a well defined process to amend standard terms and conditions or network code and that these would also need to be amended if EU-level regulation is imposed regardless of these existing processes. Concerning the potential conflicts of national grid codes, general terms and conditions and/or secondary legislation, Joachim Gewehr pointed out that EU law will take precedence over national laws and regulations.

Conclusion: The subsequent changes in contracts which might follow due to the FG proposals do not question the existence of existing contracts. It was clarified by ERGEG that the coexistence of “old” and new contracts is ensured. To establish a better understanding of the topic the parties furthermore agreed that ERGEG will identify “relevant clauses” which might need to be changed according to the Pilot Framework Guidelines based on the general terms and conditions and all other contractual documents published by the TSOs. The respective results will be discussed during next meeting.

3. Auctions vs. pro-rata

Meeting participants discussed the capacity allocation mechanisms with regard to the merits of pro-rata under certain market conditions. Also, the question whether auction prices should affect the prices of existing contracts was raised. ENTSOG pointed out that price differences between different products (durations) may be justified. ERGEG stated that in cases where there is scarcity of capacity the prices for new entrants will go up and this may not allow them to enter the market. In sum, the main issue relates to potential abuse of market power or artificial scarcity affecting new entrants. Joachim Gewehr questioned whether prices at the auctions will skyrocket and points out that an auction mechanism could be found that resolves this issue and protects new entrants. ENTSOG points out that cleared price auctions are an example how this matter may be handled.

Conclusion: This issue will be further discussed at the next meeting, especially in the light of ENTSOG consultation on CAM and a discussion on UK experience in this area.

4. Bundling

ENTSOG has identified potential cases on a map for which cross-border products could be relevant in order to continue the debate on how cross-border products should work in detail. The TSOs asked for explanations about definition of relevant products and impacts to the wider market place also in regards to the possible impacts on Tariffication, Balancing, etc. as this Code needs the capacity arrangements to support such a gas model. Furthermore, ENTSOG raised some specific questions on how bundled products could be implemented where several adjacent entry-exit zones exist and also how the tariff issue resulting from bundling could be resolved. Also, the question was raised whether bundling of products should also affect existing contracts thereby prohibiting flange trading or whether flange trading and trading at virtual hubs can coexist. ENTSOG suggested to study all the proposals under a contractual point of view and to identify ways of attracting shippers to voluntarily accelerate the transition towards bundled products dependent on what the product offers and its relative pricings are.

ERGEG underlined its views that bundled products will lead to increasing liquidity at the virtual hubs and that trading at the flanges should be phased. The aim is to concentrate gas trading at as few as possible virtual hubs. Currently, gas is traded at several interconnection points which represent an impediment for liquid wholesale markets to develop. Bundled products should also apply after a certain transition period to all existing contracts. ERGEG points out that the two systems in parallel would be complex to sustain for TSOs. ERGEG clarifies that right now there is the understanding that ERGEG means the co-existence of flange and virtual hub trading but that the vision is clear that this co-existence is limited in time by nature. The idea of transitional period before achieving the target model could be made clearer in the FG as there is currently no reference to such time limitation, except for the “amendment of existing contracts”, which, on the other hand as referred here above, is only considered as being related to administrative problems.

Conclusion: This issue will be further discussed at the next meeting. ERGEG will look to clarify the steps to be taken in the interim period to arrive at the target model.

5. Scope

Meeting participants discussed the level of detail of the FG and NC and the level of harmonization of the rules needed to achieve a single European gas market. ENTSOG pointed out that the FG should be more prescriptive and to set out one clear European standard for all the issues. ERGEG stated that the FG will set out the framework in which the network code shall be developed by ENTSOG. This framework leaves some flexibility in order to leave ENTSOG some capacity to work on the concrete design of codes. In particular, it is important to keep some dialogue with the market when elaborating the allocation mechanisms at different IPs. The TSOs pointed out the importance of Governance of Code Development; reference was made to the Uniform Network Code in GB where the details are developed by the TSO together with the industry and approved by the NRA. This ensures the avoidance of contradictions of the given interactions between different areas (e.g. tariffs, balancing, CMPs). In the UK all parties are very clear of UNC arrangements and changes (i.e. clear and unambiguous code rules). Otherwise, there would be confusion in the market if the Governance Process is not clear and no mechanism is in place to allow comprehensive provisions adopted for all areas.

Conclusion: ENTSOG and ERGEG will continue to work in close cooperation throughout the process of developing the framework guidelines and network codes.

6. Next meeting

2 March 2010

Items to be discussed:

- Existing contracts - results in respect of “relevant clauses test”
- Product definition (short-term, long-term)
- Bundling (how do you manage interruptions, nominations?)
- UK example on capacity offer
- Scope of the FG
- Auctions vs. pro-rata (requesting rounds, windows)
- Timelines (priorities and implementation times)

7. Summary of all ongoing and outstanding action points

Action	Description	Who	When Due	Status
1	Product definition (short-term, long-term)	Thomas L'Eglise	Next meeting	ONGOING
2	List of questions on bundling	Thomas L'Eglise	Next meeting	ONGOING
3	Presentation on UK example on capacity offer	Matthew Hatch	Next meeting	ONGOING
4	Identification of relevant clauses in existing contracts that would need to be amended	Alexandre Soroko (France), Markus Krug (Austria)	Next meeting	ONGOING