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Market Design & Regulatory Affairs

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Response to CAM Network Code Consultation

Dear Sir or Madam,

RWE Supply and Trading welcomes the opportunity to comment on the above consultation as follows.

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Question 1: Do you consider that the level of detail in the draft NC is appropriate for an EU Regulation?

Response:

Overall we do believe that the current draft of the NC reached a level appropriate for an EU wide implementation. But we would recommend that if there is any interim period (e.g. 10.3.) necessary in one of the Member States there should be a clear deadline set. We do not favour any pro rata allocation solution (e.g. 4.11.8)) in the auctioning process. Capacity not sold in one auction should be used for auctions of the next shorter time duration.

We recommend that ENTSOG should take into account the discussion during the Stakeholder Joint Working Sessions (SJWS) and auction design workshop last month, especially regarding the auction design. The stakeholders requested to implement a multiple round ascending clock system. From this point of view we do not support the ENTSOG proposal of the single round system as proposed in draft NC.

We do support ENTSOG's decision not to include any rule regarding the so called "sunset clause" and the proposed fall back (50:50 split) solution, both of which are included in the actual FG CAM. RWEST and the other main stakeholders have clearly and repeatedly stated their concerns regarding the "sunset clause", both in the ENTSOG and in the CAM consultation processes.

Question 2: Should this NC set out detailed rules? If so, do you consider that where changes are necessary, they should be made through the change process foreseen in the Third Package, or (if legally possible) through a separate procedure where modifications can be made following stakeholder request and discussion?

Response:

We do believe that the current level of detail is the minimum absolutely necessary to make an EU wide harmonized implementation happen. As we pointed out in the past, a simplified change process is requested for changes which are not substantive e.g. if the market develops in a direction which makes a change of the standard capacity products necessary or changes in the auction calendar. But strong involvement of the market is especially necessary in such a simplified process. For other more substantive changes the foreseen process including comitology is appropriate.

Question 3: In your view, is it credible that principles and details of CAM mechanisms could be separately identified? What elements of this (or other) code(s) might be considered for a "lighter" change process and how might such changes be made binding?

Response:

RWEST currently sees two areas where a lighter change process should be implemented. As set out under question 2 one area should be the adjustment of the capacity products to reflect the market development. We believe it is not necessary in such a case for the whole process, including comitology, to be followed because it is too time consuming. We would also like to recommend adjustments regarding the auction process for a lighter change process. In the beginning of multiple round auctions it could be necessary initially to limit the number of rounds within a day. However, later on more rounds per day could make sense as market participants become more familiar with the process and as booking platforms facilitate automated bidding (e.g. 1-2 years after first implementation). However, a full consultation of all stakeholders must always be undertaken.

Question 4: How do you consider that a process to review the handbook, and to modify it where necessary, should be designed?

Response:

The ENTSG idea to develop a handbook where a lot technical more details could be laid down seems to be a useful tool. It must be clear however, that the content of the handbook will have the same binding obligation as the NC. The handbook itself and any future changes would have to be properly consulted with the market and stakeholders' requests should be clearly reflected. The market should be informed two months ahead if changes are introduced with four weeks

consultation time. Changes should enter into force 1.10.XXXX and to start the change process a yearly evaluation should be implemented. The handbook and any changes would have to be finally approved by ACER.

Question 5: Do you agree with the NC proposal for long term auctions of quarterly products? If not, please explain your proposed alternative and the rationale for this.

Response:

RWEST agrees with the long term auctions of quarterly products but not with the proposal to do this via a single round auction. The ENTSOG auction design workshop on 20th July clearly shows that the proposed single round approach fails the basic requirement of a transparent market based price formation process for capacity.

Question 6: Do you consider that the auction design set out in the draft NC includes sufficient measures to allow system users to purchase the long-term capacity they want? If not, how could the measures be improved, while remaining consistent with the FG and keeping the complexity of the auction design to a manageable level?

Response:

The ability to bid for 15 consecutive years is sufficient to cover long-term interest in existing capacity. RWEST does not support the ENTSOG proposal regarding the auction design for long-term capacity products with only single round. Please see our response to questions 5 and 9 for more detailed argumentation. Re-bidding in multiple rounds and the publishing of aggregated interim information is essential for efficient allocation and price discovery. In a single round, when market participants can withdraw their bids or delay posting them until the last day, market participants may submit unrealistic bids or game the system (as happened in the auction design workshop on 20th July). Auction systems themselves give a fair chance for all market participants to get the capacity they want. As it was addressed during the SJWS by most of the stakeholders what is also missing from the process is how to trigger the necessary investments in case of congestion. Here we believe that the UK solution of having a pre-defined investment trigger relating to bids in the long term auction is a sensible solution. This should be further developed and included in NC as appropriate.

Question 7: Do you consider that the within-day auction proposal set out in the draft NC could be improved from a user perspective? If so, what improvements would you suggest?

Response:

RWEST sees no need for auctioning within-day capacities. 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.

In Article 4.3 the draft NC allows a choice between kWh/h or kWh/d. We would like to point out, that this might lead to difficulties in the technical handling. If two TSOs are implementing systems with different time units there might be the possibility for a mismatch between the TSOs. Therefore we would recommend using kWh/h.

Question 8: The draft NC proposes that TSOs will implement all auction systems at all Interconnection Points (IPs). However, if no purchases of capacity are made in within-day or day ahead auctions at a particular IP over a certain period of time, do you consider that it would be appropriate to suspend these auctions for some time, in order to reduce operational costs?

Response:

There should be a regular auction process implemented at all interconnection points. To implement two processes is more costly. With the implementation of a multiple round ascending clock system as requested by RWEST the day ahead auction would be finished after the first round and within day auctions are not necessary because we prefer a first come first serve solution. So the advantage is to have one transparent system in place everywhere.

Question 9: Do you consider that the auction algorithms set out in the draft NC are appropriate for the Standard Capacity Products to which they are proposed to apply? If not, what modifications would you suggest?

Response:

As pointed out above we are not of the opinion that the auction algorithms are

adequate. A single round auction for products of the same duration which have the same end dates all over Europe creates the risk (through participation at several auctions giving access to same entry-exit-systems) of shippers ending up with unwanted capacity or no capacity at all. This is in contradiction with the request that shipper should only book close to their demand. With the status of the secondary market development in the different European countries shippers may not be able to sell this unwanted capacity easily.

Therefore RWEST supports a multiple round ascending clock auction algorithm for long term capacity auctioned as quarterly and monthly products. In this multiple round ascending clock auction a shipper always has the chance to actively decide whether a bid is placed at a higher price or not without being reliant on the behaviour of others.

It is not sensible to design a one-step auction with a bidding window amounting to ten working days. First, it is quite plausible that almost all bids will be submitted on the last one or two days of this period. The rest of the bidding window would therefore be simply a waste of time and would unnecessarily complicate the timing of the various auctions.

Secondly, as a perceived benefit of such a long bidding window some have mentioned an increased transparency of the bidding process and more flexibility for shippers. However, as long as it is possible to withdraw submitted bids up to the end of the bidding window, there is no useful information that can be taken from the bidding behaviour during the main part of the bidding window.

In a multiple round ascending clock auction algorithm with increasing predefined incremental price steps each round the shipper has at the end of every bidding step the highest degree of transparency without the need for additional rules.

The underlying principle of an auction is to allocate scarce capacity in a market based way. The auction process delivers a market clearing price which displays the value of the capacity under consideration. The capacity is given to those who value it most, i.e. who are willing to pay the highest price. Therefore we do not support ENTSOG's definition of a fixed number of price steps, as it is possible that at P30 the congestion has not yet been successfully removed. Applying a pro rata mechanism in this situation would interfere with the above mentioned principle of a market-based allocation. With pro rata allocation none of the participating shippers would receive capacity according to their needs – thus also resulting in strategic bidding behaviour, which in any case must be discouraged.

With predefined smaller price steps and with a no limitation of auction rounds it is easier to reach a level where most of the capacity will be sold. It is not necessary that 100% must always be sold. On reaching a level close to 100%, when demand is less than or equal to supply, the auction could stop and the remaining

capacity could be used in the next auction with products of shorter time duration.

It should also be taken into consideration that the revised FG CAM explicitly states that capacities "are allocated via auctions". This does not leave any room for a pro rata mechanism which would violate the Framework Guideline and thus be vulnerable to later changes by ACER and the EU Commission.

RWSET as mentioned above supports a single round auction mechanism for day-ahead products and a first come first serve solution for within day.

Question 10: Do you believe that any of the potential alternatives described would be more suitable? In particular, do you consider that a Pay-As-Bid methodology would be more appropriate than uniform price, particularly for auctions of shorter duration products?

Response:

As mentioned above we think that a multiple round ascending clock auction algorithm for long term capacity products is more effective for a shipper as it:

- Provides greater transparency for the shipper
- Establishes a price formation process
- Lowers the risk of double reservations of capacity
- Ensures a market-price will be found even when this is greater than P29 without the necessity for a pro-rata allocation
- Requires active decisions from the Shipper to make the next bid or leave the auction
- Could reduce allocation times if auctions clear sooner than 10 consecutive dates,
- Allows for the possibility of shippers using an bidding assistant

RWEST believes that a cleared price approach is the most appropriate for long term capacity allocation.

As ENTSOE pointed out during the discussions, a pay-as bid allocation with a zero price starting point creates the risk that there will be cost under recovery by the network operator, as has been the case in the UK. However, from our point of view such a solution would stimulate the shorter term capacity market, facilitate a more market based price formation for capacity and could avoid over dependence

on long term booking, thus reducing contractual congestion.

Question 11: Under an open-bid algorithm (whether uniform price or pay as bid), do you consider that ten bids per user is a sufficient number?

Response:

We think that ten bids per user per offered product are sufficient.

Question 12: Do you consider that mechanisms supporting value discovery should form part of the NC? If so, which mechanisms do you believe would be most effective?

Response:

Yes. The basic request is that there should be a transparent and market based capacity allocation system throughout Europe. As described above we believe that for long term auctions the multi round solution with predefined price steps is the best solution to fulfil the requirement. In case of a one-step auction we strongly recommend including value discovery mechanisms (i.e. a much shorter bidding window and prohibition of bid withdrawal) otherwise a non transparent price formation process would be the result.

Question 13: In your view, how could a split of bundled capacity between existing holders of unbundled capacity best be arranged?

Response:

We support the ENTSOG decision not to include any rule regarding the so called "sunset clause" and the proposed fall back (50:50 split) solution despite their inclusion in the actual FG CAM. RWEST and the other main stakeholders have clearly and repeatedly stated their concerns regarding the "sunset clause" both in the ENTSOG and in the CAM consultation processes.

Question 14: In your view, what effect would mandatory bundling have on network users? Please provide supporting evidence, if available.

Response:

From our point of view mandatory bundling would unnecessarily limit the possibilities to trade. As mentioned in previous consultations on the CAM NC, RWEST thinks that limiting flange trading by mandatory booking 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. It would rather lead to the renegotiation of the entire contract, since the delivery point has strong implications on the management and distribution of risk 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 has to be considered too in the renegotiation.

Finally it is noteworthy that – even without interfering with existing contracts – producers can already reach the virtual trading points with the help of released capacities and additional capacities (e.g. via overbooking), interruptible contracts or the Rucksack principle. 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 15: Do you consider that the approach to bundled capacity set out in the NC is appropriate, within the constraints of the FG?

Response:

Yes. However as noted above RWEST does not believe that bundling of capacity should be mandatory and therefore does not agree with the proposals in the FG (see answers questions 13 and 14)

Question 16: Do you consider that the process set out in the draft NC for determining the sequence of interruptions is appropriate? If not, what system would you prefer?

Response:

The framework guideline requires an option-based approach. But as interruptibility should be an optimisation tool for the TSO, it is questionable if an auction system is the right solution. Whether any auction should be on a cleared-price or

pay-as-bid basis has to be analyzed further. The logic of a cleared-price approach may require an artificial limit to be set on the amount of interruptible capacity to be offered, which would not be an ideal solution. In a pay-as-bid approach, the prices offered could determine interruptible capacity release but the base price must respect the risk of interruptibility.

Therefore we do not support the proposed allocation procedure (6.1. 6)) of interruptible capacity via an auction process, or that the reserve price should be the regulated tariff. Interruptible capacity should not be offered whilst firm capacity is still available so as to minimise the potential of under recovery at non-congested interconnection points. If interruptible capacity is offered it should be booked when needed by the shipper on a FCFS basis.

As regards the sequence of interruption, it is important that there is transparent and easily accessible information available to the shipper to evaluate the risk of interruption. Unless shippers know the respective time stamps of other interruptible capacity contracts applicable for that day, basing the sequence of interruption on the contractual timestamp may not enable shippers to effectively evaluate the risk of interruption.

Question 17: ENTSG would welcome feedback, observations and suggestions related to this section of the supporting document and to Annex 2. Do you consider that ENTSG has correctly identified the key tariff issues in these sections?

Response:

RWEST supports the idea of investing auction revenues in order to eliminate physical congestions at the respective IPs (or further downstream) or to guarantee firmness of the allocated capacities. However, there is need to establish whether these physical congestions are enduring or temporary in the first place. Hence, we strongly recommend using auction price signals to identify excess demand. We would also recommend adding a pre-defined investment trigger system based on the tested UK experience.

Regarding the "multipliers", we are in favour of a single regulated tariff per day, applicable for all capacity products (e.g. for a quarterly product, shippers would be required to pay the single regulated tariff each day during the quarter and for a monthly product each day during the month). Setting different reserve price for summer quarters or months than for winter is a more complex issue. Seasonal pricing could be an option but not as presented in Annex 2. Indeed, in the example, "Monthly multiplier = maximum yearly flow allocation / average peak monthly flow allocation" means that during summer when average peak monthly flow allocation is less than during winter month, the reserve price will be higher in summer

than in winter. The formula attempts to procure the same monthly revenues for the TSOs assuming profiled booking by shippers compared to that experienced in the past (i.e. through annual non-profiled bookings). However the assumptions will inevitably be wrong and cross-subsidization that will inevitably arise between different kinds of shippers. We accept that the regulatory system should ensure that network operators are able to cover their annual cost. However, any valuation of capacity should be determined by the market alone and should not be distorted by artificially adjusting the reserve prices in anticipation of possible shipper behavioural patterns in the auction.

Question 18: What is your view of the process that ENTSOG has followed in order to produce the draft NC? Would you recommend that ENTSOG use a similar process to develop future NCs? What approaches would you suggest to enable ENTSOG to improve the process?

Response:

From our perspective the process of developing the NC was transparent. Shippers and other stakeholders had the possibility to participate and comment on the process and the content. The frequency of the meetings, the opportunity for inputs, and the system of identifying and employing Prime Movers helped to stimulate constructive debate. If possible, however, it would be a welcome improvement to have the working papers for the different Stakeholder Sessions available two days before the meeting so as to enable a proper preparation. We would welcome a similar process would being used for further NCs.

Question 19: ENTSOG is developing a new website and would welcome stakeholder views on how to make it as useful as possible. What are your views about the current ENTSOG website, www.entsog.eu, and what could be improved?

Response:

In general the website is well structured. It would be clearer, however, certainly for new visitors to the website, if there were a heading to click on directly linked to the Codes, instead of at present reaching them through Publications and Events heading.

Do you have any other comments or observations you would like to make?

Response:

4.1(6) and 4.1(7) The definition of "available capacity" should be clarified to indicate at which time this is assessed. Currently it is not clear if the 10% reservation is applied over the total technical capacity of an IP, or if it is reserved from the available capacity each year on the first Monday of March.

Incremental capacity:

The NC code leaves out concrete steps to fully integrate the question of how to incentivize the creation of incremental capacity. ENTSG should include a stronger link for investments in its auction logic.

Yours sincerely,



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