

## Responses to Draft CAM Network Code Consultation

### *Consultation Response Sheet*

Please complete the fields below and send via email using the subject, "Response to the CAM NC consultation" to [info@entsog.eu](mailto:info@entsog.eu) by 3 August 2011.

#### Name

First and Last Name: Nick Wye

#### Organisation

Company/Organisation Name: The Gas Forum

Job Title: Spokesperson

#### Contact details

Email: [nick@waterswye.co.uk](mailto:nick@waterswye.co.uk)

Tel: +44 1295 750 099

Mobile: +44 790 005 5144

#### Address

Street: 10 Fenchurch Street

Postal Code: EC3M 3BE

City: London

Country: UK

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

Response:

The Gas Forum supports the level of detail provided in the draft NC as capacity allocation is essential to market opening and should be applied consistently at all interconnection points, removing, as far as possible, the potential for inconsistent interpretation and application.

**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:

The rules for amendment are clearly laid out in the Regulation and on this basis we do not see a need to consider alternative routes for change.

**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:

The Gas Forum has sympathy with the view that certain procedures might be dealt with more effectively via a “lighter” change process, however, given the CAM mechanisms are based on clear principles it is difficult to envisage how a “carve out” of certain provisions could be achieved and agreed. In our experience in the UK, it is difficult to ascertain *ex ante* which principles are likely to be less significant than others until parties acquire operational experience.

An alternative mechanism may be appropriate in relation to technical details such as the Data & Solutions handbook which lends itself more readily to pragmatic modification

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

Response:

It would appear that it is intended that the Handbook will be a supplementary document to the NC. It is important that the modification rules for the handbook can be relatively easily altered to allow for the amendment of the NC to be achieved in a timely manner as required, with minimal costs. On this basis it would be appropriate that the handbook is referenced in the NC to ensure it is binding on

market participants, but the actual modification rules should sit within the handbook.

**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:

The Gas Forum supports the proposal for long term auctions of quarterly products.

**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 Gas Forum believes that the auction design is sufficient to permit users to purchase long term capacity, while at the same time provide the flexibility to access shorter term products to better meet deviations away from predicted long term requirements. However there needs to be a process in place for the allocation of incremental capacity, this was clearly shown to be the case at the auction workshop that ENTSG held on the 20<sup>th</sup> July. If demand exceeds supply at an IP the TSO will use pro-rata to allocate the capacity. Without a system in place to allocate incremental capacity users are going to bid for more capacity than required to counter the effect of pro-rata.

**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:

We believe that the within-day proposal is appropriate to meet users needs. In particular, we are encouraged by the level of detail provided in this proposal which will ensure consistent application.

**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:

The Gas Forum understands the desire to seek out cost efficiencies and sees merit in this proposal. That being said, it is not evident that the costs associated with operating these auctions, which we

would imagine would be systematised, would be in any way material. In the event that it is shown that the costs are material, then we would not oppose the suspension of auctions as long as, following a request from a user, these auctions can be reinstated. The process by which a User is able to signal a request for an auction should be detailed in the NC.

**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:

In addition to our comments in Question 6, there should also be a mechanism in place to close the long term auction early if there is little or no movement over a certain period of time. This would encourage users to place bids early in the auction and would assist in value discovery.

**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:

The Gas Forum agrees with the auction methodologies set out in the draft network code.

**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 believe that ten bids is 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:

The Gas Forum is against any restriction being placed on users to amend bids during the bidding window. Also we do not agree with the obligation to place bids on the first day of the bidding window. As stated in our answer to Question 9 having early closure of the bidding window after a defined period of stability would encourage users to place bids early thus giving value discovery.

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

Response:

The Gas Forum does not agree with enforced bundling of capacity.

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

Response:

The Gas Forum does not support mandatory bundling, but optional bundling. We believe that the market rules should always aim to offer flexibility in the way that parties carry out their businesses. Mandatory bundling seems to limit that commercial flexibility and thus could impact cross border trade, against the general thrust of the liberalization agenda.

The Gas Forum is concerned that mandatory bundling could limit the availability of capacity in some Member States if the cost and complexity of bundling places too much of a financial burden on some network parties to deliver bundled products. This would be detrimental to cross border trade.

There are contracts that specifically deliver gas to interconnection points. Delivering at the flange should be acceptable. If parties had to sign agreements with two TSOs, at either end of the interconnectors, they will face increased costs, regulatory risks, legal costs, etc... Such obligations may result in parties withdrawing from some markets, reducing liquidity and competition to the detriment of the customers.

The time limits proposed for the bundling of capacity could also force parties to reopen contracts and renegotiate them, with all the associated resource and costs issues. As well as the issues that forcing the re-negotiation of contractual agreements will cause, there are tax and credit issues that need to be taken into account. Users would incur increased costs in administration and credit by having to be operational in adjacent member states. The mandatory bundling of capacity could even be seen as a barrier to entry for small players in the market.

**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:

As stated above we are against the mandatory bundling of capacity and as such we do not agree with its inclusion within this draft network code.

**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:

We support the process set out in the NC.

**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:

ENTSG has not correctly identified the tariff issues as it does not take into account incentives for investments. Regulation (EC) 715/2009 on conditions for access to the natural gas transmission networks, Article 13: Tariffs for access to networks, stipulates that tariffs, or the methodologies used to calculate them, shall avoid cross-subsidies between network users and provide incentives for investment. Under 7 (6) of the NC, it states that auctions revenues exceeding the allowed revenue shall be used for different aims, which has the potential to create cross-subsidies between different users and does not incentivise investment. The issue of cross subsidisation and incentives for investment could be resolved through a mechanism for triggering incremental capacity, whether included within the NC or progressed alongside it.

The Gas Forum do agree that ENTSG is right to have identified that the profiling of capacity purchases is likely to lead to a mismatch in recovered revenues and allowed revenues.

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

Response:

A number of Gas Forum members have been actively engaged in the development process. As an organisation the Gas Forum welcomes the opportunity to comment on the draft NC.

**Question 19:** ENTSG 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 ENTSG website, [www.entsog.eu](http://www.entsog.eu), and what could be improved?

Response:

No comment.

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

Response:

None.

