CAM network code development
- Stakeholder Joint Working Session 4 -

ENTSOG material

Brussels – 19th May 2011

Part 1

Opening and introduction

SJWS 4 – Opening and Introduction

CAM concepts to be discussed

- ERGEG's CAM framework guideline is basis for ENTSOG concepts

#	Date	Remarks	Topic to be tackled
1	6th April 2011	SJWS 1	Bundling and platforms
2	21st April 2011	SJWS 2	Auctions
3	4th May 2011	SJWS 3	Within-day allocation and interruptible capacity
4	19th May 2011	SJWS 4	Wrap-up

SJWS 4

- Wrapping-up, further debating and concluding the past three SJWSs
- Challenging process to conduct in very limited time
  - All material to be published after the session

SJWS 4 – Opening and Introduction

ENTSOG highly appreciates the engagement of all involved parties

Inter-dependencies

- Discussions showed the strong interlink of other areas
  - CMP / Tariffs / Balancing / Interoperability
  - Newly introduced inter-dependencies may require code adaptions

Parallel discussions on CAM

- Possible content changes possible (announced by ERGEG)
  - ACER CAM FG consultation / Sunset Clause / Target Model

In case different measures are introduced code work needs to be reviewed (planning and timing)

SJWS 4 – Opening and Introduction

ENTSOG's approach for the draft Network Code

ENTSOG is currently developing the draft
→ SJWSs' conclusions already reflected

- Draft will be consulted as of June 21st
- Stakeholder session to present the draft Network Code

- PLAIN Network Code will be accompanied by a Consultation Document outlining:
  - Code text
  - Rationale
  - Explanations
  - Questions and considerations for further progress
  - Issues to be further investigated within ENTSOG

SJWS 4 – Opening and Introduction

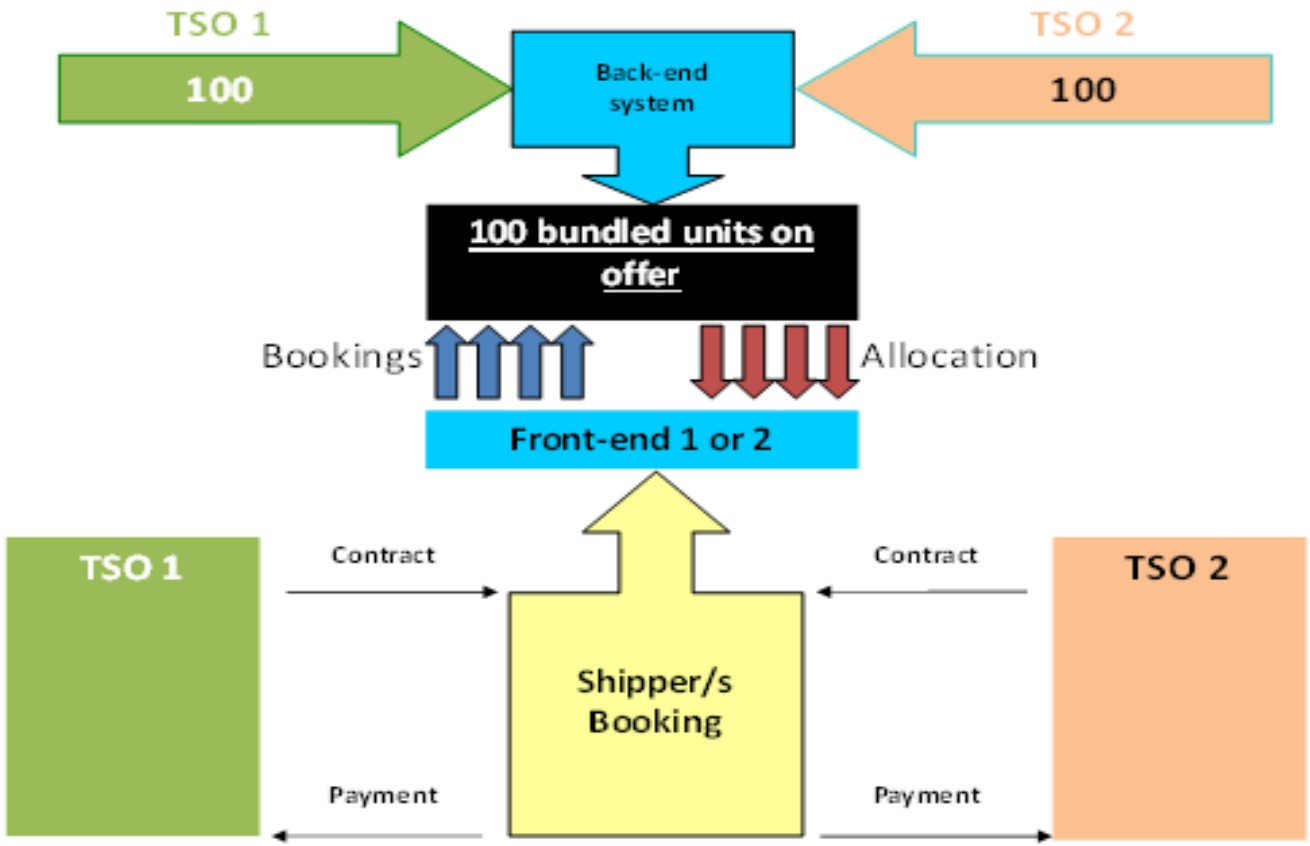
Agenda

No.	Description	Time
2.	CAM NC development process – European Commission	10.45-11.00
3.	ACER – insight on tariff development	11.00-11.15
4.	Platforms and bundling – NC consequences	11.15-12.00
6.	Auction design – NC consequences	12.15-13.00
	Lunch Break	13.15-14.00
8.	Within-day and interruptible – NC consequences	14.00-14.45
10.	Prime Movers' conclusions from the SJWSs	15.00-15.30
11.	Outlook for the NC	15.45-16.00

Part 2

Platforms and bundling – NC consequences

Summary of bundling concept



Summary of bundling concept

Key characteristics of concept

- Capacity (bundled service) request via one joint auction
  - Same level of capacity allocated on both sides – no stranded capacity

- Uniform nomination resulting in no flange trading (respecting ERGEG's framework guideline)
- Developed with focus on user needs: coordinated capacity, timing, type, etc.
- Feasible model fully coordinated via two contracts (invoices etc.)
- Avoids: tax issues, liability questions, legal issues, complexity

Conclusion of debate on bundling concept

Main points of discussion

- ENTSOG model describes the sale of capacity available on both sides
  - Differences of capacity level during the transition phase remaining at both sides treated via: smeared forward to short term / recycled as interruptible / re-localised to other IPs / sold as unbundled
- Interest for one single nomination managed by the TSOs highlighted (recognising existing unbundled products during transition)
- Interest for ENTSOG providing a list of relevant virt. IPs requested
- Two-contract model allows for progressive implementation while limiting complexity associated with a single contractual framework

- Preference raised to allow market to chose where to trade gas (bundling as an option)

- Great concerns raised on obligation to offer exclusive bundled products (sunset clause under discussion)

- → ENTSOG has to take an assumption

Further development on bundling – handling differences in technical firm

Possible principles

- Smeared forward to short term
- Recycled as interruptible
- Re-localised to other IPs
- **Sold as unbundled**

- According to regulation, TSOs must offer all available capacity
- Therefore ENTSOG will allow for firm capacity to be sold as unbundled on one side of the border

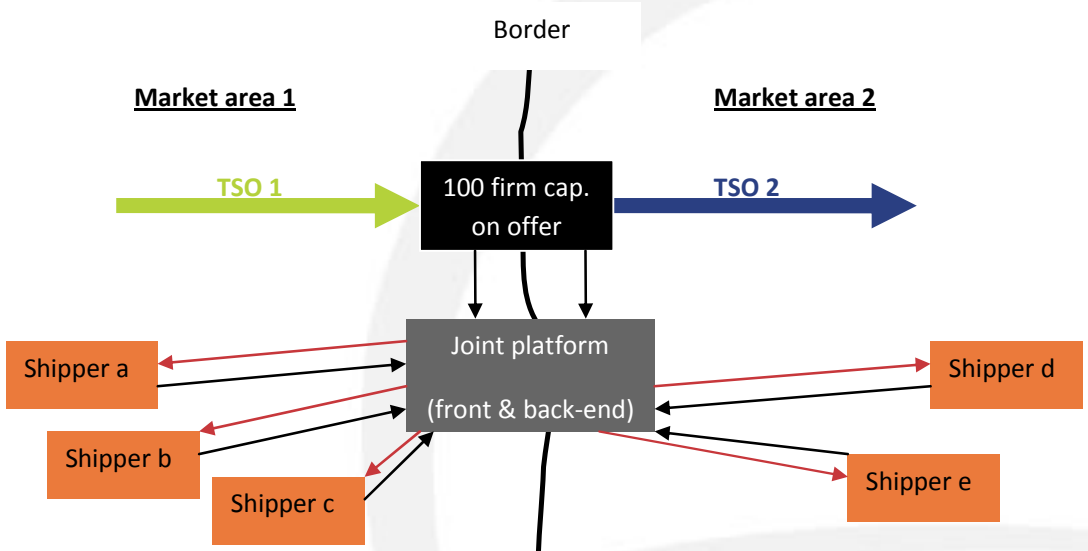
Further development on bundling - nominations

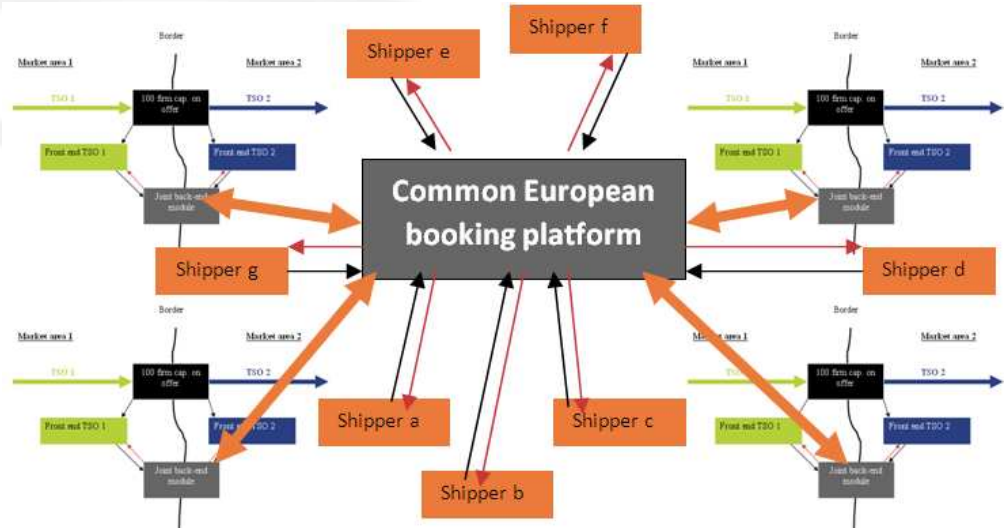
Flow nomination principle

- Current nomination systems still necessary due to:
  - Interruptible capacity is sold unbundled
  - Extra technical firm on one side is sold unbundled
  - Existing contracts remain unbundled in the interim (sunset clause)
- Therefore two nomination principles are needed:

- Adjacent TSOs shall develop a nomination principle, where nominations are sent via a single message
  - ➢ Requires the development of new data formats
- Current nomination systems must be maintained

Summary of booking platforms





Summary of booking platforms

Key characteristics of concepts

- Different platform approaches described
  - Start: platforms for each TSO/country/IP
  - End: common European platform
- Reducing platforms along with the development
- Market demand should drive the decision
- Facilitates bundling and joint allocation methods/procedure at borders
- Promotes cooperation of adjacent TSOs
- Development /or decision on /of platform option/step should focus on need to have and based on cost/benefit

Conclusion of debate on booking platforms

Main points of discussion

- Recognition of complexity, required time and challenge to set-up a pan-European Platform
  - EU platform preferred over managing numerous IP-specific solutions
  - Trade-off to be solved between early implementation of harmonised auctions and pan-European platform development

Complexity to establish a common approach recognised

- Standardised procedures/front-office is a must-have
  - Anyhow, NC focuses on standardisation of commercial aspects
- Interest raised on the harmonisation of back-office matters (as subsequent steps)

Commission, ACER, MSs, market and ENTSOG to work together

ENTSOG platform dilemma

Two directions to proceed

- Either:
  - Work directly towards a common European platform

Dilemma: a European platform will take long time to develop, but FG requires immediate development on market design, because bundling requires a joint platform

- Or:
  - First develop a number of platforms before reaching a common platform

Dilemma: opening and closing x number of platforms, before reaching end solution

Part 3

Auction design – NC consequences

Standard products

	Type of Auction		Possible Maximum "Service Duration"	Standard Capacity Product	Share of total calculated capacity
Long Term	Alt 1	Annual Quarterly Auctions	From 1 Quarter up to [60] consecutive Quarters	Quarterly	Maximum 90% of calculated available long-term firm capacity
	Alt 2	Annual Yearly Auctions	From 1 Year up to [15] consecutive Years	Yearly	Maximum 90% of calculated available long-term firm capacity
	Alt 3	Annual Quarterly & Yearly Auctions	From 1 Quarter up to [15] consecutive Years	Quarterly + Yearly	Maximum 90% of calculated available long-term firm capacity
Short Term	Annual Monthly Auctions		From 1 Month up to 12 consecutive Months	Monthly	Total calculated available short term firm[13] capacity minus allocated quantities from previous firm auctions
	Rolling Monthly (Month-Ahead) Auctions		One month	Monthly	Total calculated available short term firm capacity minus allocated quantities from previous firm auctions plus any surrendered capacity
	Rolling Daily Day-Ahead Auctions		One day	Daily	Total calculated available short term capacity minus allocated quantities from previous firm auctions
	Within-day[14]		Remainder of the day	Daily (or balance of day)	Any remaining available capacity

The 60 consecutive quarterly products will be auctioned simultaneously to offer long-term capacity.

The draft Network Code will focus on the option favoured during SJWS 2

Auction calendar

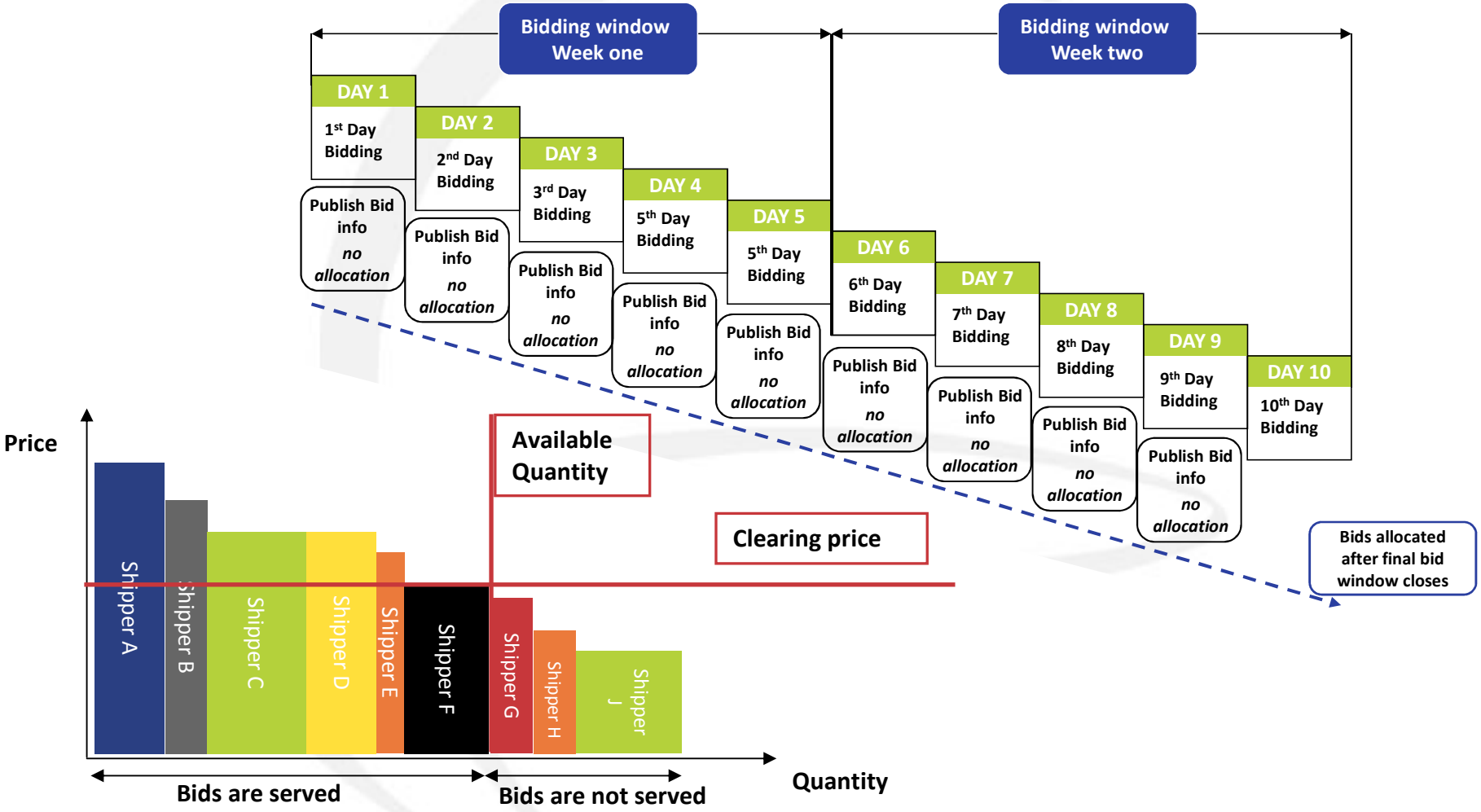
European-wide Auction Calendar

- Details the timing of all auctions run within a year
- Published end of January (every year)

- Invitation ahead of auctions
  - Long-term: one month
  - Annual monthly: one month
  - Rolling monthly: one week

Auctions will take place at the same time throughout Europe

Bidding window and auction process



Bidding window and auction process

Key characteristics

- Sealed-Bid Auction
  - Relevant Information published before the auction
  - Bids are submitted throughout the bidding window
  - Aggregated market information provision
- Any unsold capacity is rolled over to next shorter duration

A simple and consistent design shall drive the auction process

Early views – Volume based design

- TSO provides a range of prices
- Starting reserve price (P0;reg. Tariff) up to 30 price steps
- Shippers may submit 1 sealed bid for each price step
- First price step at which total demand is lower or equal to supply defines clearing-price

$P_{i+1} = P_i + (x\% * P_0)$ Available = 500 units

Price Steps	Ship1	Ship2	Ship3	Ship4	Ship5	Total
P30	0	0	200	0	0	200
…	…	…				
P6	0	0	200	0	0	200
P5	0	0	200	10	0	210
P4	50	0	200	25	0	275
P3	100	0	200	35	0	335
P2	100	0	200	50	250	600
P1	100	100	200	50	500	950
P0	100	100	200	50	500	950

A clear and consistent design shall drive the auction process

Early views - Volume based design

Price steps?

- Shippers submit their own price range
- TSO aggregates the price and quantity information

$P_{i+1} = P_i + (x\% * P_0)$

Available = 500 units

Price Steps	Ship1	Ship2	Ship3	Ship4	Ship5	Total
Px	0	0	200	0	0	200
…	…	…				
P6	0	0	200	0	0	200
P5	0	0	200	10	0	210
P4	50	0	200	25	0	275
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A clear and consistent design shall drive the auction process

Early views - Volume based design

What if Demand > Offer at P30?

- Pro-rate bids at P30
- TSO to offer unlimited number of price steps (Px)
- Or work with several subsequent rounds

$P_{i+1} = P_i + (x\% * P_0)$ Available = 600 units

Price Steps	Ship1	Ship2	Ship3	Ship4	Ship5	Total
P30	0	0	200	0	0	200
…	…	…				
P6	0	0	200	0	0	200
P5	0	0	200	10	0	210
P4	50	0	200	25	0	275
P3	100	0	200	35	0	335
P2	100	0	200	50	250	600
P1	100	100	200	50	500	950
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A clear and consistent design shall drive the auction process

Early views - Volume based design

Clearing price

- Last price at which total demand is higher or equal to supply defines clearing-price?
- Would imply to pro-rate some bids / open additional round?

$P_{i+1} = P_i + (x\% * P_0)$

Available = 500 units

Price Steps	Ship1	Ship2	Ship3	Ship4	Ship5	Total
Px	0	0	200	0	0	200
…	…	…				
P6	0	0	200	0	0	200
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A clear and consistent design shall drive the auction process

Bidding window and auction process

Possible value discovery supportive measures

- A single round auction process with interim publication of relevant aggregated information
- Additional measures could be foreseen to meet the objective of reflecting actual demand from the beginning of auction
  - Obligation to bid from first day of the bidding window?
  - Restriction on placing and amending bids?
  - Early closure of the bidding window after a defined period of bid stability?

Measures are only needed to support bidding behavior

Part 4

Within-day and interruptible – NC consequences

Within-day options

Key characteristics of concepts

- FCFS
  - Nominate over current booking
  - Early application gets allocated capacity (pay-as-used based)
- Auction
  - Place quantity and price
  - Users who signal price gets allocated capacity (open market based)

Within-day options

Main points of discussion

The auction option is preferred by majority of all parties

- Arguments:
  - Market-based approach, structured sale
  - Auction process perceived as complex, but manageable
  - Reserve price is key to develop a sustainable solution
  - → Objective is to minimise over-and under-recovery and prevent cross-subsidy from base load to flexibility users
  - Extended bidding window (start d-1) to add flexibility
- Interrelation with CMP
  - Development of intra-day market through appropriate TSO incentives
  - Value of intra-day product dependent on flexibility to re-nominate

Within-day options

Main points of discussion

- Auction option preferred, but FCFS option prescribed by FG art. 2.2 and CMP GL art. 5
- If FCFS will be mandatory for within-day, then a simultaneous within-day auction??

  → the cost-benefit of applying both mechanisms in a workable way is questionable ??
- Both options will be consulted upon, but only one option can be included in the final ENTSOG NC

Interruptible capacity

Key characteristics of concept

- Same allocation process as firm
- Auction as the only allocation mechanism
- Reserve price to be the regulated tariff
- Co-ordination of calculation outcomes
- Harmonised interruption procedures, lead time and sequence

Interruptible capacity

Main points of discussion

- CAM FG changes value of interruptible capacity in general
- CMPs also impact on the value of existing interruptible contracts
- Probability of interruption will increase in the future
- Questions on long-term interruptible contracts to be dealt with under national law and regulation

Majority of users prefers firm capacity,

but see a role for interruptible in the CAM NC

Part 5

Outlook on the Network Code

Task

Drafting a legal document

- CAM NC shall become an amendment to Chapter 2 of Annex I to Regulation (EC) No 715/2009
- ENSTOG to develop proposal for Network Code on Capacity Allocation Mechanisms
- ENSTOG to detail the Framework Guideline provisions
  - Consulted upon
  - Submitted to ACER
- Without prejudice of outcome of Comitology procedure

Approach

Draft Network Code

- Plain text – legal proposal as applicable for a Regulation annex
  - Goal: Comprehensive NC with single option for each principle
- Assuming the document has passed Comitology

Goal is to present a final draft Network Code which could be easily considered directly by the EC

- Consultation Document to accompany the draft network code
- Draft Network Code Structure

Art 1 – Rationale

- **Subject Matter**
- **Introduction & "Whereas Clause"**
- **Definitions**
  - Meaning by 3rd Energy Package & catalogue of additional definitions
- **Legal disclaimer**
  - Public service obligations
  - Regulatory regime for cross border issues (Article 42 Directive 2009/73/EC) and responsibilities and powers of NRAs (Article 41 (6) Directive 2009/73/EC) subject to full harmonisation in NC
- **Equal treatment, non-discrimination and transparency**
- **Confidentiality**

Art 2 – Application

- **Scope**
  - Cross border IPs, whether they are physical or virtual, between two or more MS / IPs between adjacent entry-exit-systems within the same MS, insofar as the points are subject to booking procedures by users
- **Capacity**
  - All existing capacity / capacity being made available, freed-up, etc.
- **Harmonisation**
  - Capacity products / capacity allocation / focus on firm capacity
- **Definition of standardised content**
  - Transportation contracts and general terms and conditions
  - Implementation requirements

Art 3 – Principles of Cooperation

- **Coordination of maintenance activities on IPs**
  - Rough description of coordination activities on Interconnection Points
- **Standardisation of communication**
  - Implementation of common communication procedures and data exchange
- **Capacity calculation and maximisation**
  - In accordance with Article 18 (3) of Regulation (EC) No 715/2009

Art 4 – Allocation of firm capacity
Art 5 – Cross-border services

- **Allocation methodology**
- **Standard capacity products**
- **Applied booking unit**
- **Auction design**
- **Long term capacity auctions / Annual monthly / Rolling monthly / Daily capacity auction**
- **Auction algorithm**

- **Bundled services**

Art 6 – Interruptible capacity
Art 7 – Within-day services / allocation

- **Allocation of interruptible capacity**
- **Standardised interruption lead times**
- **Coordination of interruption process**
- **Defined sequences of interruptions**

- **Within-day firm allocations (via auctions)**

Art 8 - Tariff
Art 9 – Booking platforms

- **Tariff**
  - Reserve price
  - Split of auction revenues from bundled products
- **Booking platform**
  - Primary and secondary capacity
  - Interim steps and timetable
  - Action plan and timetable

Part 6

Final summing up and conclusion

Overall – SJWS Conclusions

General

- ENTSOG's SJWS process supported by the stakeholders
- Special thanks for the Prime Movers' contributions
- ENTSOG is pleased with the input received from stakeholders
  - Allows us to describe the preferred views and make the draft code a workable/comprehensive document

Numerous preferences are considered in the draft code

- The draft code will be plain legal text (single options for all aspects)
  - Supported by a Consultation Document
- Stakeholders request highest possible level of harmonisation
- Code modification to be elaborated upon

Overall – SJWS Conclusions

Tariffs

- Clarity on the distribution of long vs. short term tariffication yet to be provided
  - ACER discusses “Zero Reserve Price” as an option

Draft NC based upon the assumption that
Reserve Price = Regulated Tariff

Booking platforms

- Dilemma of user request for (only) one EU Platform requiring time to implement and ad-hoc implementation of bundled capacity acknowledged

Consensus: step-by-step approach from IP to EU platform(s)
while starting work on target as soon as possible

Overall – SJWS Conclusions

Bundling

- Stakeholders support ENTSOG's bundling concept
- Capacity stemming from technical differences (+ capacity from old contracts and interruptible capacity) is sold as un-bundled capacity
- ENTSOG is investigating technical issues that must be addressed in order to develop a single nomination procedure for cross-border capacity
  - To take account of the interim period (split contracts) and to allow selling unbundled capacity (e.g. interruptible) separated nominations will also be possible
- In the Study and the Impact Assessment on the "Sunset Clause", ACER will provide an analysis of the legal basis on which TSOs could force users to give up a part of their capacity and at the same time force others to take that share (without opening the validity of the contract)

Stakeholders oppose compulsory Bundling

Overall – SJWS Conclusions

Auction design

- Quarters still widely supported
- Auction Calendar supported by the market
- Proposed volume-based approach supported
  - ENTSOG presented new ideas
  - ENTSOG will draft a market-based approach that will be subject to consultation following publication of the draft NC
  - ENTSOG welcomes any comments stakeholders can make on this, including the questions that ENTSOG raised in the presentation
- Detailed design of NC supported to give sufficient stability
- Incremental capacity to be considered

A consistent auction process needs clarity and transparency to be rolled out all over Europe!

Overall – SJWS Conclusions

Within-day allocation

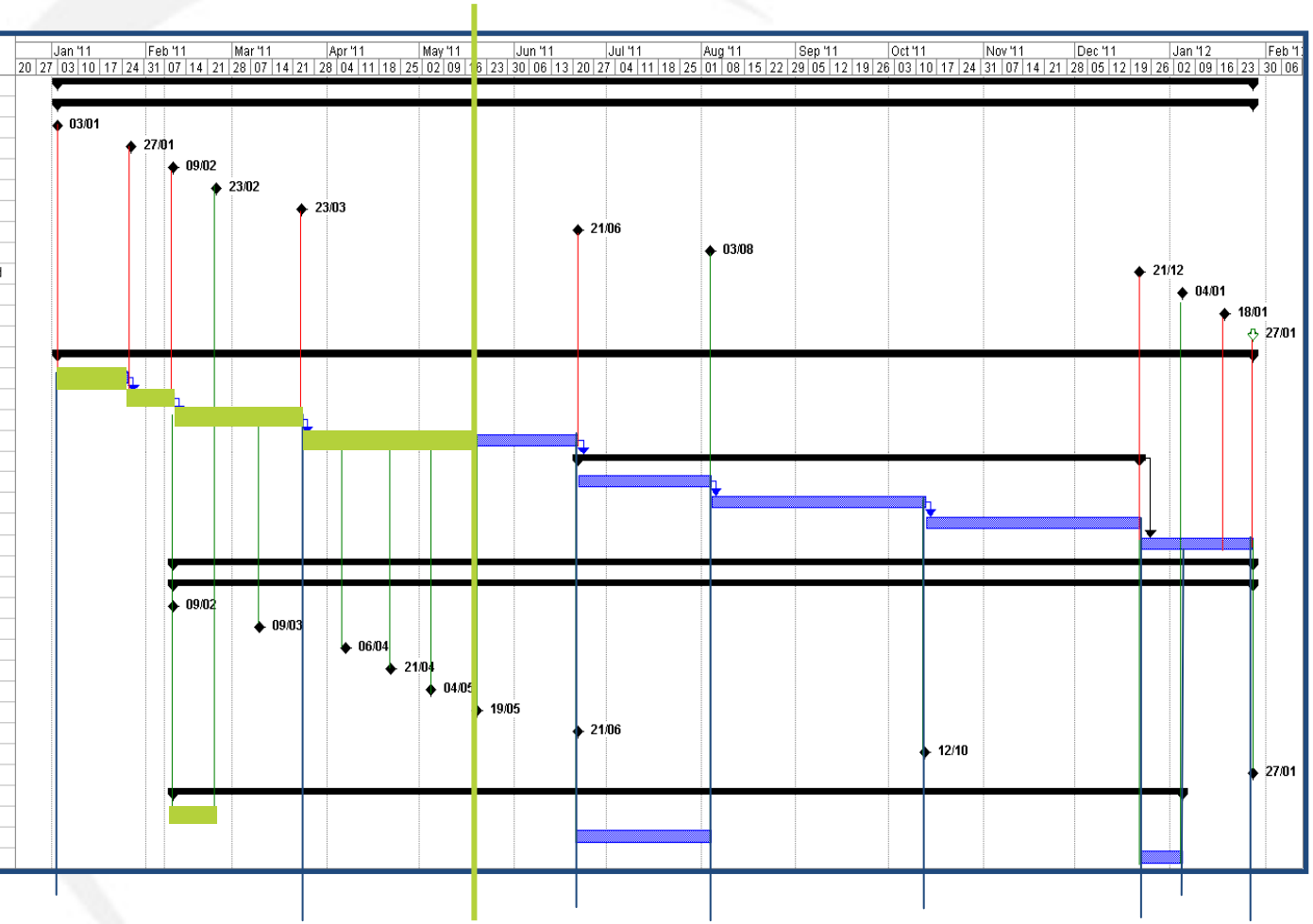
- Auctions broadly supported
  - FCFS option included in the consultation document
- TSOs should be incentivised to offer additional firm capacity beyond current Regulation

Interruptible capacity

- ENTSOG approach supported
  - Following similar design as firm auction process
- Future role of interruptible capacity unclear
- Reserve Price = Price at a proportion of the regulated firm tariff

Project Schedule

ID	Task Name
1	**Network Code Development**
2	**Milestones**
3	Project Kick-Off
4	Invitation Letter for EC
5	Draft External Project Plan published
6	End of draft Project Plan Consultation
7	Launch Documentation published
8	Draft CAM NC published for Consultation
9	End of Draft CAM NC Consultation
10	CAM Network Code and Consultation Response Analysis Report published
11	NC endorsed by Stakeholders
12	NC endorsed by ENTSOG
13	CAM Network Code published and Recommendation to ACER
14	**Project Lifecycle**
15	Phase 0 – Preparatory Works
16	Phase 1 – Project Planning
17	Phase 2 – Launch Documentation Publication
18	Phase 3 – Interactive Draft NC Development
19	**Phase 4 – Consultation on Draft NC & Revision**
20	Phase 4a - Consultation
21	Phase 4b - Review Consultation Responses
22	Phase 4c - Produce & Endorse Final NC
23	Phase 5 – NC Finalisation
24	**Stakeholder Interaction**
25	**Stakeholder Sessions**
26	Kick-Off Meeting
27	Project Plan Feedback Meeting
28	SJWS #1
29	SJWS #2
30	SJWS #3
31	SJWS #4
32	Draft Code Presentation
33	Consultation Feedback
34	Final Code
35	**Consultations**
36	Draft Project Plan Consultation
37	Draft NC
38	Final NC Endorsement



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