

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.

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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, ENTSG 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 ENTSG proposal as it is important that ENTSG is able to extract the clear views of all respondents. If you do not respond to a question, ENTSG 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?

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

Please justify your choice. ENTSG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible.

Within Eurogas, different views are held on this question. A substantial number of shippers consider that annual products will fit better with their supply and sales contracts while other shippers favour quarterly products, considering they will better contribute to the avoidance of contractual congestion. Therefore Eurogas accepts the wider options approach, provided that this will not impose any change in well running systems.

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

- | | |
|-------------------------------------|--|
| <input type="checkbox"/> | Option 1: Yearly product starts on 1 st January |
| <input checked="" type="checkbox"/> | Option 2: Yearly product starts on 1 st October |

Please justify your choice. ENTSG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible.

As the gas year commonly starts in October, this could present the most appropriate start-date for yearly products.

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

- | | |
|-------------------------------------|--|
| <input checked="" type="checkbox"/> | Option 1: Multiple round ascending clock auction |
| <input type="checkbox"/> | Option 2: Single round volume based auction |

Please justify your choice. ENTSG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible.

Eurogas considers that the multi-round ascending clock auction offers the most transparent basis for delivering an efficient price formation process, reflecting fundamental market developments. Market participants will be more likely to bid only for the capacity they need.

Eurogas members have identified various risks and shortcomings associated with single round auction design, and the outcome of the July trials workshop confirmed these.

With regard to the within-day auctioning question, Eurogas maintains its view that running an auction for within-day capacity would involve a considerable amount of effort relative to small amounts of capacity for both the TSO and the shipper. A within-day allocation method that reflects this consideration would be preferable, but transparency has to be ensured.

Question 4 (Limitation of price steps): which option do you prefer, and why?

- | | |
|-------------------------------------|---|
| <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 |

Please justify your choice. ENTSG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible.

Eurogas has suggested that a possible way forward would be not to limit the number of price steps, but instead to publish the price increment for each I.P., which will give shippers the information on which to create their own bid curve, using the price increments to state the amount of capacity with the respective price step.

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

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

Please justify your choice. ENTSG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible.

Unsold capacity will be minimized if the spread between price steps is not too high, in order to maximize shippers possibility to bid at the price they are willing to pay for the capacity. This should avoid pro-rata solutions, and give efficient signals on physical congestion.

See above. Any unsold capacity in the long-term auction should be sold in the next shorter-term auction to provide flexibility for shippers.

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

- | | |
|-------------------------------------|---|
| <input checked="" type="checkbox"/> | Option 1: Maximum default rule with cap at technical capacity |
| <input type="checkbox"/> | Option 2: "Partially unbundled" default rule |

Please justify your choice. ENTSG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible.

Eurogas recalls its often stated concerns at the obligatory introduction of bundled products, to the exclusion of other capacity products, and the proposal for a sunset clause, five years at the latest after the entry into force of the CAM Code.

Eurogas does not agree with the "partially unbundled" default rule, because shippers see no value in having unbundled units in a bundled world. This view was stated in the workshop on the Sunset Clause by several shippers.

Although Eurogas has marked Option I, we would encourage ENTSG to consider if other better options may not be possible. Perhaps companies' responses will raise concrete ideas for consideration. Therefore, Eurogas response is provisional, pending fresh thinking.

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

Although Eurogas would welcome bundled products as an additional product option, we repeat our concerns that an obligation to force renegotiations of contracts would be a high risk approach.

- **If bundled products for existing contracts were 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, renominations, 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.**
- **Furthermore producers might wish to widen discussions beyond point of delivery changes against the wish of the other party. This would create legal and commercial uncertainties.**
- **The reopening of existing contractual agreements will not necessarily lead to a successful outcome, since this depends also on the wish of a counterparty who may not be bound by European law; moreover a possibility of renegotiation is established by proper contractual clauses and many existing long term contracts have just been renegotiated under these clauses.**

- There is no evidence that the exclusive availability of bundled products could have significant benefits for longer-term liquidity in the market. The churn ratio of gas traded at the flange would not necessarily increase, if traded at the hubs, and big players would likely remain dominant, although increasingly these would be upstream producers.
- Bundled products could even cause some market participants to reduce their trading activities if the administrative, credit and additional capacity costs associated with moving from the flange to adjacent Member State hubs cannot be economically justified or does not fit with those companies' commercial strategies.
- Eurogas also recalls the main principle of the FG “in so far as the technical capacity resulting for the integrated service and at any virtual interconnection point shall not be lower than the sum of the previously separate bundled capacity products”. This condition must be fulfilled.

Question 8 (Tariffs: split of auction premium from bundled products): which option do you prefer, and why?

<input type="checkbox"/>
<input type="checkbox"/>

Option 1: Keep split of auction premium proportional to reserve prices as default (Post consultation proposal)

Option 2: Split of auction premium into equal shares as default

Please justify your choice. ENTSG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible.

This seems to be more a TSO related question than an issue for shippers, but perhaps it should be addressed in the forthcoming discussions on Tariff guidelines, rather than “solved” in the CAM Code.