

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.

Name
First and Last Name: Mathias Hocke

Organisation
Company/Organisation Name: VNG – Verbundnetz Gas AG
Job Title: Head of Disposition/Scheduling

Contact details
Email: Mathias.Hocke@vng.de
Tel: +49 (341) 443 2415

Address
Street: Braunstrasse 7
Postal Code: 04347
City: Leipzig
Country: Germany

Countries in which your organisation operates: **Germany, Czech Republic, Slovakia, Poland, France, Benelux, Austria, Switzerland, Italy, United Kingdom, Denmark, Norway**

How would you describe your organisation?

<input type="checkbox"/>	Association (please specify type)
<input type="checkbox"/>	End user
<input checked="" type="checkbox"/>	Network user
<input checked="" type="checkbox"/>	Trader
<input type="checkbox"/>	Other (please specify)

In the questions below, ENTOSG 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 ENTOSG proposal as it is important that ENTOSG is able to extract the clear views of all respondents. If you do not respond to a question, ENTOSG 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. ENTOSG would particularly welcome any views on why the alternatives to your preferred option may not be technically feasible.

VNG clearly supports the Integration of yearly products since the permanent monitoring and participation in 60 quarterly product auctions would be too time-consuming for shippers. Given the fact that long term capacity demand at the time of booking usually is not characterised by extensive structuring the long term booking of yearly products is more reflecting practical needs. Since there is the strong need for shippers to further structure capacity demand when looking at the short term based on better forecast and prognosis data we suggest to offer 25% of the technical available capacity for short term bookings < 1 year instead of 10% as suggested.

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

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|-------------------------------------|--|
| <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.

It is hard to find a clear position to that question. Today, most of existing supply and purchase contracts – especially the Long Term Contracts – are based on the Gas Year and start on 1st of October. It makes it easier to harmonise processes related to capacity bookings and operations if yearly products start on 1st October.

New yearly contracts especially those concluded in traded markets are based on trading products and are linked to the calendar year. We expect the proportion of these contracts to rise in future.

Therefore our position is to keep the link to the Gas Year for now and to adopt the system to calendar year once the situation has considerably changed.

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

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| <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.

VNG sees multi-round ascending clock auctions as preferred option for all auctions apart from Day-Ahead and Within-Day auctions. This mechanism is transparent and sufficient to deliver an efficient price based on the market needs.

For Day-Ahead and Within-Day auctions a more efficient procedure should be applied since due to operational requirements the procedure should be completed in a short time frame.

As far as the Single round model is concerned VNG sees various risks and possibilities to abuse the system so it should not be the preferred choice.

Question 4 (Limitation of price steps): which option do you prefer, and why?☒ Option 1: Do not limit number of price steps (Post consultation proposal)☐ 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.

See answer also in question 3. As far as Day-ahead auctions are concerned, price steps should not be limited. To enable shippers to bid on the price they are willing to pay, the spread between price steps should not be too high. Also a system where the spread is linked to the demand is conceivable (higher price steps in the beginning and lower price steps in the end).

In terms of Day-ahead and Within-Day auctions price steps should be limited to limit auction time and to keep the process operational.

Question 5 (Minimisation of unsold capacity): which option do you prefer, and why?☐ Option 1: Minimise unsold capacity (Post consultation proposal)☒ 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.

VNG supports a solution which will minimize underselling of capacity. Pro-rata should not be applied. Unsold capacity can be sold in the next auction.

Question 6 (Sunset clause: choice of default rule): which option do you prefer, and why?☐
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Option 1: Maximum default rule with cap at technical capacity

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.

As far as sunset clause is concerned VNG again stresses that we have various concerns in the obligatory introduction of bundled products and to the introduction of a sunset clause, five years at the latest after the entry into force of the CAM Code, as stated in the Framework guidelines.

We would like to encourage ENTSG to again seek intensive discussions with ACER and to draw their attention to the discussions at the workshop on the sunset clause. There it was obvious that even with a simple example (that is usually not existing in reality) neither negotiation between contractual parties nor developing a default rule, which meets all related interests was really successful. Instead of this the best solution would be to bundle capacity analogous to the German approach step by step. Bundled products are useful products that should be offered to the market for new capacities sold once existing contracts expired and once sufficient processes are in place to handle these products.

Because of these general concerns VNG is not in a position to decide whether option 1 or option 2 is preferable as a default rule. Nevertheless as far as the "partially unbundled" rule is concerned we do see no value in offering such a rule as in the end unbundled capacity will remain without any value for shippers.

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.

We strongly support Eurogas concerns, that an obligation to force renegotiations of contracts would be a high risk approach for the following reasons:

- 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.
- VNG 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?

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| <input type="checkbox"/> | Option 1: Keep split of auction premium proportional to reserve prices as default (Post consultation proposal) |
| <input checked="" type="checkbox"/> | 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 is basically up to the TSOs to decide upon that question. Anyway, we would recommend to apply option 2 as it is more simple to implement and fairer than option 1.