

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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Countries in which your organisation operates:

How would you describe your organisation?

- ☐ Association (please specify type)
- ☐ End user
- ☒ Network user
- ☐ Trader
- ☐ 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?

- ☐ Option 1: Quarterly only
- ☒ 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.

As underlined in response to the previous consultation, Sorgenia believes that long term auctions of quarterly products could only generate the risk for network users to do not succeed in booking capacity for consecutive quarters without gaps, with particular reference to capacity booking at congested IPs. This risk, in our opinion, could represent an element of great uncertainty for network users. Implementing the Option 2, the loss of flexibility for operators could be anyway compensated by the presence of annual quarterly products.

Moreover, quarterly products imply higher operational costs due to the large number of auctions to be monitored by operators.

Given the possibility to book capacity up to 15 years, we believe that auctioning rolling annual products could be preferable in order to avoid capacity hoarding by dominant operators.

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

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Option 1: Yearly product starts on 1st January

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Option 2: Yearly product starts on 1st October

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

Sorgenia prefers yearly products starting on 1st October because it would be consistent with starting date of the most of existing annual capacity products.

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

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Option 1: Multiple round ascending clock auction

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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.

In our opinion, Option 2 is not preferable first of all because it ensure less transparent price formation, requiring the implementation of value discovery mechanisms. On the contrary, the Option 1 gives operators incentives to disclose their actual willingness to pay for transport capacity, as every auction round could be the one in which allocation is completed, especially with regard to uncongested IPs.

Moreover, the possibility of bid revision during several days within Option 2 could generate great uncertainty for network users, because of a potential high variability of gas markets during the bidding window. This might increase operational costs for network users, as it would require a daily constant monitoring on markets conditions and the consequent adaptation of capacity bids. These costs even multiplies considering the potential high numbers of offers for several capacity products that have to be contemporaneously monitored.

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.

We believe that an unlimited number of price steps would be preferable in order to avoid or anyway minimise the implementation of pro-rata rules.

However, we would like to underline the critical issue concerning an appropriate definition of price steps in a way that avoids market distortions and inefficient auction outcomes.

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.

We suggest the implementation of Option 1 because on one hand this mechanism sets the clearing price at a price level lower than the one set within the Option 2. On the other hand, giving operators the possibility to decide whether they do not wish to be allocated additional capacity in the pro-rata allocation, avoids them to be allocated unusable capacity, for example because allocated additional capacity would be less than the minimum amount of capacity requested. In case of additional allocation refusal, the spare capacity would be first offered to those operators who have already participated in the pro-rata allocation and then rolled forwards to next relevant 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

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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.

Even though, as specified in response to the previous consultation, we do not believe that bundling of capacity should be mandatory, between the two proposed option we have a preference for Option 1 because it allows booking levels to be maintained. However, given the potential presence of technical constraints, we suggest to match this mechanism with appropriate incentives for TSOs to homogenize and, in case, increase technical available capacity of interconnection pipelines. A possible alternative could be represented by the allocation of non-matching units on an interruptible base.

Moreover, implementing Option 2 arises the critical issue concerning the feasible usage of unbundled capacity after the bundled splitting process.

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 we are not able to provide any further views in relation to the over-mentioned questions, we would like to dig up another critical issue concerning the regulation of costs already incurred by network users for existing capacity contracted before the entry into force of legally binding Network Codes. In fact, the implementation of any default rule should consider the need for TSOs and involved operators to reach an agreement or define an additional mechanism to regulate incurred costs for capacity already booked, taking into account that bundling existing capacity could mean for network users being allocated fewer units of bundled service with respect to previous unbundled capacity.

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

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

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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.

We believe that implementing Option 1 arises the critical concern connected to the presence of different tariff mechanisms between adjacent member states and the consequent risk of distortive behaviours, that might lead TSOs to hoarding auction revenues. We suggest a possible evaluation of implementing Option 1 only after the entry into force of Network Code's rules regarding harmonised transmission tariff structures.

Finally, regarding possible evolutions for the implementation of the CAM NC, as has been done for the allocation of transmission capacity in the electricity sector with CASC, we hope for the institution of a joint subsidiary to operate, as Joint Auction Office, a single auction platform for the allocation of transport capacity at all IPs in the EU region.