

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 type="checkbox"/>	Association (please specify type)
<input checked="" 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 checked="" type="checkbox"/>	Option 1: Quarterly only
<input 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.

Using quarterly products for long term auctions is the simplest approach for creating EU-wide common rules and will help to overcome potential difficulties arising from different definitions of contract year across the EU. Quarterly products also give shippers the flexibility to build long-term capacity bookings that best meet their needs. However, the release of quarterly products, and the sale of short-term products at significant discounts, as is the case in GB, inherently leads to TO revenue under-recovery and the discouragement of longer-term capacity bookings. Therefore, while we support the quarterly product we want to see the shorter-term products priced appropriately. This will provide greater certainty around revenue recoveries, stability in charges and provide meaningful indicators of future network usage.

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.

Whilst we maintain a preference for quarterly products alone, if yearly products were required we would prefer that these started on 1st October. In GB this corresponds with the start of the Gas Year and for planning purposes has been a key target date in advance of the next winter when greater capacity usage is expected. This allows parties to plan and prepare (including making provision for capacity) during the summer months.

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

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|-------------------------------------|--|
| <input type="checkbox"/> | Option 1: Multiple round ascending clock auction |
| <input checked="" 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.

We see merit in both options but, **subject to a proviso**, prefer Option 2 as this type of auction has generally worked well in GB. The **proviso** is that the auction mirrors that of GB where it is open for a period of 2 to 10 days with timely information provision after each day of the auction. The information provided helps with price discovery and provides an indication of how long the bidding process remains open. This form of auction is therefore essentially a form of multi-round process.

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

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

We are aware that a number of participants had concerns about the impact of the pro-rata allocation of capacity if the maximum price step was hit. This problem is exacerbated because the Framework Guidelines for CAM excluded the allocation of incremental capacity. Pro-rata allocation has been less of an issue in the GB system (where price steps are limited) because long-term auctions contain a mechanism to signal the need for new capacity to be built. We believe that adding incremental capacity to the CAM would help to mitigate this issue. However, in the absence of this we consider that Option 1 would better alleviate the problem and lead to more accurate price discovery for capacity.

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

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

Our preference is to have capacity sold out at as accurate a price as possible. Option 1 undermines true price discovery. Whilst it has merit in maximising capacity release it will do so at under-valuing the capacity.

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

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

Our strong preference would be for the minimum default rule so as to not unnecessarily encumber shippers with unwanted capacity. However, since this option has now been removed we would, for similar reasons, prefer option 2, the “partially unbundled” default rule.

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.

Network users should not be financially disadvantaged as a result of application of the Sunset clause – in particular network users should not be forced to buy new capacity that they would not have had sought to buy, including stranded capacity. TSOs should have a reasonable endeavours obligation to enable this and minimise any retrospective allocation of capacity. The level of commercial risk the bundling of capacity places on shippers was not perceived at the time when the original capacity was acquired. Had it been, then shippers would almost certainly have made different decisions regarding their capacity requirements. In fact, hitherto poor cross-border coordination in the sale of capacity led to sub-optimal procurement by shippers and this sub-optimality must not be exacerbated through the imposition of inappropriate allocation rules. Retrospective obligations are rarely, if ever, appropriate and undermine stability and confidence in the markets. It sets a bad precedent.

Instead, the bundling process should be seen as an opportunity to “tidy up” mismatched holdings between capacity holders at Interconnection Points. The application of the voluntary surrender arrangements that are in the draft Commission Guidelines on Congestion Management Procedures should form part of the bundling process. This will both facilitate the alignment of cross-border capacities as well as helping resolve contractual congestion.

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

☒ x

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 do not have a strong preference at this time but are inclined to favour Option 1 on the assumption that reserve prices are set on a consistent basis.