

Feedback provided by the market on ENTSOG's Capacity Allocation Mechanisms proposals during the interactive CAM Network Code development phase

Introduction

In line with its published Project Plan (CAP0115-11), ENTSOG has aimed to work closely with the market during the development of the draft CAM NC in order to produce a code proposal that, as far as possible, takes stakeholders' views into account. To facilitate the exchange of views between market participants, ENTSOG published a Launch Document on the 22nd of March 2011 describing various proposals for discussion during the draft CAM NC development process.

In order to enable ENTSOG to consider early recommendations on these proposals, the organisation held four Stakeholder Joint Working Sessions (SJWSs) during Q2 2011. These full-day sessions were open for all stakeholders to attend, and covered each of the key CAM topics addressed by the NC:

1. SJWS 1 (6th April 2011): Bundling and platforms
2. SJWS 2 (21st April): Auction design
3. SJWS 3 (4th May): Within-day allocation and interruptible capacity
4. SJWS 4 (19th May): Summing-up and considerations

Presented material, conclusions and notes of the discussions during these SJWSs are available on the ENTSOG website under: www.entsog.eu/publications/index_g_cam.html.

Interested parties were also invited to submit views to ENTSOG outside the SJWSs.

This document summarises the main comments received during this interactive process and the consideration that ENTSOG has given to these during the drafting of the NC. This is a summary document, and does not provide detailed explanations of the issues mentioned. It should be read alongside the draft NC (reference CAP0140-11) and the supporting document for the CAM NC consultation (CAP0142-11), which are available on the ENTSOG website.

Summary of stakeholder views and ENTSOG consideration

Topic	Stakeholder feedback	ENTSOG consideration	Relevant NC section
Bundling and platforms			
Mandatory bundling	Mandatory bundling is an unreasonable restriction on users' flexibility.	ENTSOG understands users' position and has highlighted concerns about mandatory bundling to ACER. ENTSOG is willing, in principle, to specify that TSOs should offer bundled alongside un-bundled products, if wanted by the market. Additional guidelines would need to be developed for such a parallel offer, in order to avoid offering competing products to the market. However, the current version of the FG requires the NC to include mandatory bundling.	5 1)
Sunset clause	Users claimed they do not want to be forced to cancel existing contracts relating to one network and at the same time be forced to sign new ones for other networks in order to implement bundling.	This issue is being examined by ACER as part of its impact assessment on the draft FG. ENTSOG's own legal advice suggests that TSOs cannot be required to terminate contracts unilaterally. Moreover, ENTSOG considers that the infringement of existing contracts creates great legal and financial risk whereas the benefits of such measure are not guaranteed to offset this risk. Pending the outcome of ACER's assessment, the NC can not include a provision implementing the sunset clause, though the final NC will address this issue if required to do so by the final ACER FG.	N/A
Divergent capacity	NC should make clear how capacity will be allocated where there are unavoidable differences in technical firm capacity at two sides of an IP.	The NC specifies that this capacity will be sold as un-bundled firm, in line with TSOs' obligation to maximise the total capacity offer. In any case, un-bundled capacity will have to be managed because of the interim period (pending the decision on the sunset clause), during which un-bundled capacity will be available. This approach is also consistent with the offer of un-bundled	5 5) and 5 6)

		interruptible capacity.	
Single nomination	Users should be able to use bundled capacity through a single nomination.	TSOs will develop procedures to allow capacity usage on the basis of a single nomination. Achieving this aim will however require significant work on new technical solutions from an interoperability point of view.	5 7)
Invoicing	One user suggested that standardised invoices could simplify operations for shippers.	This is not considered an essential part of CAM and it is not believed to bring benefits with regards to offering capacity in a more effective manner at this point in time.	N/A
Booking platforms	TSOs should focus on a single European platform (to save money, time and effort) while implementation of interim platform solutions should only be considered if needed.	Offering bundled capacity requires TSOs to implement platforms at each IP, unless the market is prepared to wait until a single EU platform can be developed to purchase bundled products. In order to implement bundling within a reasonable timescale, interim platforms will have to be developed. In parallel, TSOs will work towards a European solution. The NC sets out a timetable for this.	8
Auction design			
Auction design	Auction design should be driven by simplicity and consistency across the capacity product range.	Auctions for all capacity products follow a consistent design except where ENTSOG believes differences are well justified. These areas are explained in the draft NC supporting document. ENTSOG welcomes further user feedback on how to improve the auction design.	4
Auction design	NC should specify a volume-based bidding system for ease of use and to ensure that auction procedure is consistent with the principle of incremental capacity release (see below).	The draft NC specifies volume-based bidding in auctions for long term, annual monthly and rolling monthly capacity. This concept could incorporate incremental capacity allocation if introduced by a future regulation.	4.10
Auction design	Information released throughout the bidding window should give bidders	The draft NC specifies that information on every auction will be revealed at the end of each day during the bidding window. However, stakeholders are	4.4 3)

	the opportunity to review their positions, by showing what they would be allocated were the auction to close.	invited to provide their view on the allocation process included in the draft code auction design. Currently the NC includes a single-round process, where the allocation takes place only after the closure of the bidding window, during which bids can be amended or withdrawn.	
Auction design	Some users supported multiple bidding rounds to aid price formation and to have better information during the auction.	ENTSOG believes measures to aid price formation would be appropriate and welcomes further views from stakeholders on the best way to design these measures (e.g. tranches, early window closure, limitation on upwards or downwards bid revision).	N/A
Incremental capacity	Either the revised ACER CAM FG or a different future framework guideline should cover this issue. This is seen as a prerequisite if a market based on auctions is to function correctly. As a minimum, the auction design set out in the CAM NC should allow an incremental process to be included in future. Stakeholders recognised that the underlying investment climate must be addressed in order to implement incremental capacity sales.	ENTSOG is following the ERGEG Pilot CAM FG and could therefore not include incremental capacity auctions within the draft NC. However, ENTSOG has aimed to make the auction process set out in the draft code as compatible as possible with any future process for allocating incremental capacity. ENTSOG agrees that the investment climate will need to be addressed before incremental capacity can be auctioned.	4.10
Definition of Standard Capacity Products	The users in the SJWSs clearly preferred quarterly over annual products for long term auctions.	The NC takes into account the users' request and specifies quarterly products.	4.2/4.4
Firm capacity	One participant pointed out that there is a need to harmonise the definition	ENTSOG understands the concern, but in the current framework of CAM and considering the large differences in how firm is defined, this issue cannot be	

	of firm capacity.	solved at this point in time. A harmonisation would cannibalise capacity against the users' interest as a majority of the capacity is bound to certain network conditions.	
Long term capacity bookings	Auction design should allow users to purchase very long term contracts (several years or more).	Long term auctions offer the possibility for users to bid for up to 15 years of capacity, using 60 consecutive but independent quarters. Users can adjust bids within the bidding window to secure the capacity they want over a long period. The supporting document includes a question on whether this measure could be improved. ENTSOG notes that any additional rule linking results of independent auctions would increase the overall complexity.	4.2/4.4
Auction algorithm	Cleared-price auctions preferred by a majority to pay-as-bid for all capacity durations as long as the regulated tariff is equal to the reserve price (if not, pay-as-bid is better).	The NC takes into account the users' request and specifies that auctions for all durations will be cleared-price rather than pay-as-bid. This is one of a number of areas in which the auction design rests on the assumption that the regulated tariff will continue to be equal to the reserve price. Should this not be the case, because of upcoming changes from other areas, it must be clear that the auction design must be revised accordingly.	4.10, 4.11, 4.12
Auction algorithm	Avoid pro rating of capacity.	The volume-based cleared-price auction methodology proposed in the draft NC minimises the need for pro rating due to the way in which the clearing price is set. As a consequence of this methodology, there may be some unsold capacity which will be rolled over to the next auction.	4.10, 4.11
Within-day allocation and interruptible capacity			
Within-day allocation methodology	Most users felt that within-day allocation should be via auctions.	The NC takes into account the users' request and specifies that auctions will be used to allocate firm within-day capacity.	4.9
Frequency of within-day auctions	Auctions should be every hour to allow purchasers to balance their portfolios effectively.	The NC takes into account the users' request and specifies hourly auctions.	4.9

Advanced bidding	Allow users the option to bid day-ahead for within-day capacity.	The NC includes the option for users to have unsuccessful day-ahead bids automatically entered into within-day auction. Additionally, the first within-day bidding window will start on the previous gas day, once the day-ahead bidding window closes. Both of these options mean that users can obtain within-day capacity by bidding day-ahead.	4.9
Interruptible capacity	Some users claimed that TSOs should provide a transparent interruption process and sufficient information regarding the probability of interruption.	The NC provides a clear interruption process. With regard to the probability of interruptions, this would require that different types of interruptible products were defined and sold in an interruptible auction which would drastically complicate (by multiplying the number of auctions to be conducted) the process. Furthermore, many users informed ENTSOG that in an auction they would like to calculate the risk of interruption on their own in order to determine the price they were willing to bid. Given the users' request for simplicity it is not clear if such an information requirement should be included in the NC.	6
Interruptible capacity	Many users felt that the price should reflect the probability of interruption, and should not act as a disincentive to book firm capacity. One shipper believed that the reserve price for interruptible capacity should be zero.	This issue is being discussed by ACER as part of the Tariff FG preparation and is not included in the NC.	N/A
Interruptible capacity	Lead times should be sufficient to allow users to mitigate their positions, for example through within-day re-nomination.	The default lead time will be the next hour bar + 2 hours.	6.2
Existing interruptible	Some users asked how existing long term interruptible contracts would be	This issue goes beyond the FG and is not currently being considered by ENTSOG. TSOs are free to investigate their own solutions to this issue at a	N/A

contracts	treated.	national level.	
Other issues			
Detail of code	NC should be detailed to avoid scope for national deviations and encourage true harmonisation.	ENTSOG's intention is that the CAM NC should set out capacity allocation mechanisms in a high level of detail. The draft NC reflects this approach to the extent possible.	All
Code modifications	A rigid code is not appropriate but any changes should only be made following proper consultation.	This issue applies to other areas as well as CAM. ENTSOG understands users' views and will investigate whether it is possible to design a change process that incorporates them, taking the requested abovementioned level of detail into account.	N/A
Tariffs	Users believed that reserve prices should not incentivise short term capacity booking over long term. The regulated tariff should be the reserve price for all capacity durations. Zero reserve price for short term capacity would lead to significant cross-subsidisation among other disadvantages.	ENTSOG supports these views. The NC specifies that the reserve price is the regulated tariff for all capacity durations. This principle is considered as essential and indispensable by ENTSOG, and underlies the whole auction design (e.g. type of auction and range of products). If it is challenged in future, the entire auction design must be reconsidered.	7 2)
Tariffs	Users felt that it was crucial that over/under recovery should be minimised and there should be clear mechanisms to correct it.	ENTSOG supports these views and has adopted an auction design intended to minimise under and over recovery. The draft NC does not specify a methodology for correcting any under or over recovery that does occur, but the ENTSOG Tariffs Working Area is currently considering how to address these issues. The draft NC supporting document outlines some possible methodologies and asks for views.	N/A
Form of SJWSs	Participants were generally very happy with the form and content of the	ENTSOG has endeavoured to incorporate participants' views when planning CAM SJWSs and will pass on feedback to staff arranging SJWSs for future NCs.	N/A

	SJWSs but made some minor comments regarding, for example, the room layout, name signs, and catering.	We would welcome further views on how to make these sessions as useful as possible.	
ENTSOG website	Access is not possible at certain times of day.	ENTSOG has asked its IT providers to resolve this issue.	N/A