

Dear Stakeholder,

Update on CAM network code development – December 2011

I would like to update you on the development of ENTSG's final CAM NC, which is due to be submitted to ACER by 9 March 2012. Given the difficulty in finding a convenient time for a workshop in Brussels during December, due to many people's high level of existing commitments, we have summarised recent developments and set out next steps in this letter.

Recent developments

ENTSG held three stakeholder workshops during autumn 2011. On 6 October a workshop was held to discuss and develop the default rule for the Sunset Clause which according to the CAM framework guideline must be included in the NC. On 3 November there was a workshop to present and test the alternative auction designs being considered. The final workshop, on 20 November, gave an update on the whole of the NC development.

Shortly after the workshop on 20 October, ENTSG published a second consultation on the draft CAM NC, asking for views on a number of key policy issues. The consultation closed on 14 November and ENTSG published a summary of the consultation responses on 24 November (CAPO212-11).

The numbers of respondents favouring each of the options consulted on were as follows.

1. Products		2. Start date		3. Algorithm		4. Limit price steps	
Quarterly	14	1 st Jan	5	Multiple round	28	Unlimited	35
Yearly	24	1 st Oct	29	Single round	6	Limited	1
No preference	0	No preference	4	No preference	4	No preference	2

5. Minimise unsold		6. Default rule		8. Auction premium split	
Minimise	9	Maximum rule	12	Proportional	12
Draft NC	24	Partially unbundled rule	5	Equal	9
No preference	5	No preference	21	No preference	17

The level of stakeholder support, together with the arguments put forward by consultation respondents, formed a key input to recent ENTSG considerations, which are summarised below.

ENTSG considerations

- *Set of Standard Capacity Products*

ENTSG has taken account of the majority stakeholder view that a yearly product should be available. It has also noted that large numbers of stakeholders believe that a quarterly product is valuable, and that the 10% of capacity required by the CAM FG to be offered in shorter term auctions should be released sooner than in the month-ahead auction.

ENTSOLOG has sought to incorporate these viewpoints by including in the NC a set of Standard Capacity Products and auctions as follows:

Firm capacity product	Type of auction	What is sold
Yearly	Annual	15 yearly products
Quarterly	Annual	4 quarterly products
Monthly	Rolling monthly	1 monthly product
Daily	Rolling daily	1 daily product
Within-day	Within-day	Within-day (balance of day) product

This approach represents a slight technical deviation from the CAM framework guideline, which states that at least 10% of capacity should be set aside for products with a duration of less than one quarter. However, based on informal discussions with ACER, we understand that it may accept such a deviation from the framework guideline in this case.

- *Start date for yearly product*

ENTSOLOG has followed the large majority of stakeholders and specified that the yearly product will start on 1st October.

- *Preferred auction algorithm for longer term products*

Most consultation respondents preferred a multiple round algorithm and ENTSOLOG considers that the arguments put forward in favour of such a model are convincing. A multiple round model will be included in the NC in relation to longer term products (yearly, quarterly and monthly). Daily and within-day firm products will be sold via the simpler uniform price auction described in section 4.12 of the draft CAM NC.

- *Number of price steps*

Consultation respondents overwhelmingly believed that the number of price steps in a volume-based algorithm should be unlimited. The NC will not therefore specify the number of price steps.

- *Whether to minimise the unsold capacity during an auction*

A large majority of stakeholders believed that ENTSOLOG's suggestion of a pro rata-based methodology for minimising unsold capacity was not appropriate. In their explanations, however, many respondents did support the concept of minimising unsold capacity and suggested that a mechanism based on small price steps should be included in the NC. ENTSOLOG is therefore proceeding on this basis.

- *Which default rule (in the light of the Sunset Clause) is best suited*

Most consultation respondents did not express a preference for a default rule, with a large number arguing that the application of any default rule would be inappropriate. ENTSOLOG agrees with this view and will set out its reasoning clearly in a document to be published alongside the NC.

As the FG requires ENTSOLOG to include a default rule, however, ENTSOLOG has worked to find a solution to be in line with the FG as requested by Regulation 715/2009. ACER has indicated to ENTSOLOG in an email sent on 22 November 2011 that in their opinion a solution based on a partially unbundled rule would be more acceptable than one based on a maximum rule, in part because the latter would involve allocating capacity outside of an auction process. While stakeholders expressed a slight

preference for a maximum rule, ENTSOG has decided to proceed with a partially unbundled default rule option in order to ensure that the NC is compliant with the Regulation by being in line with the FG, and that the solution proposed is legally workable.

ENTSOG thanks those consultation respondents that provided views on how the detail of a default rule might work (although many of these respondents did not believe such a rule should be included in the NC). These views are being used to develop a default rule that aims to be the most workable approach possible.

- *How to split any auction premium between the involved TSOs*

ENTSOG has decided to proceed with leaving the split of auction premiums open to agreement. A split proportional to reserve prices is the default rule if no agreement is found. Stakeholders expressed a slight preference for this approach; differences in tariff setting at either side of an IP, as well as incentive issues arising from a proportional split were generally not regarded as very relevant. By many, the decision was seen as being primarily a TSO issue, not a system user issue, as long as capacity constraints are removed.

Next steps

ENTSOG has been working intensively on the draft NC. The Capacity Working Group has now produced a draft that will be subject to internal governance, and is working on supporting documentation which will explain key elements of the NC and will be published at the same time.

The table below sets out the key milestones until the submission of the NC to ACER.

January 2012	- Internal ENTSOG governance on CAM NC and supporting document
Week commencing 30 th January 2012	- Publication of draft CAM NC and supporting document - Workshop to launch 2-week stakeholder support process (final consultation)
Mid-February 2012	- End of stakeholder support process
Week commencing 5 th March 2012	- Final internal NC approval - Submission of code and supporting document to ACER

I would like to thank you all for your hard work and commitment to the CAM NC process during 2011, and to wish you a very Merry Christmas and a happy and prosperous 2012.

Yours sincerely,

Frank Roessler
Capacity Subject Manager
ENTSOG