

Minutes of Meeting

CAM Network Code: Stakeholder Joint Working Session 2

21 April 2011, Diamant Conference Centre, Brussels, 10.30-16.00

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1. Introduction and regulatory perspective

ENTSOG welcomed participants and thanked them for their input to the CAM network code process so far.

The question was raised whether to start and finish the SJWS3 early due to a Commission and an industry meeting which both take place in the afternoon on the 4th of May (parallel to the SJWS). Participants agreed that the session should follow the same timings as SJWS 2, starting at 10.30 and finishing at 16.00.

BNetzA (representing ACER) briefly explained the background to the framework guideline, summarised its requirements regarding what should be auctioned and when and how this should be done, and noted some outstanding questions that would need to be resolved during the network code drafting process.

2. Standard products

ENTSOG presented the proposal, set out in its launch documentation, for standard capacity products. Products would be well defined, their availability would be published before the auction, and the availability would not change during the bidding window. Longer-duration products would be marketed with longer lead times to ensure optimal use of capacity, and purchasers would be able to combine different products to produce a service of the desired length. A detailed auction calendar would be published each year.

For long-term capacity, ENTSOG has developed three alternatives based on different standard capacity products: annual, quarterly or an annual-quarterly hybrid. Users unanimously preferred the alternative solely based on the quarterly product, pointing out that this would allow them the flexibility to profile their capacity while avoiding unnecessary complexity (if the hybrid were applied).

Participants broadly supported other aspects of ENTSOG's proposals, and thanked ENTSOG for its efforts to devise proposals that met market needs.

ENTSOG acknowledged the link between the auctions section of the CAM NC and the Commission's proposals for the modification of congestion management procedures, such as the proposal to restrict re-nomination rights (which would free up additional short term capacity for auction). The final form of the CMPs is currently unknown and the CAM network code may eventually need to change to accommodate them.

One participant pointed out the need to harmonize the definition of firm capacity.

3. Auction design and bidding windows

ENTSOG outlined its proposals for the design of auctions, and the principles underlying them. Auctions would have a single round (during which bids could be adjusted), be sealed-bid, and each capacity service would currently be sold in a single tranche.

The proposal envisages cleared-price auctions for longer term products, to provide both users and TSOs with relatively predictable long-term capacity prices, supporting a more secure investment climate. For short-term products, pay-as-bid auctions would be used, to generate the real value placed by individual users on the short-term product and to help reduce the risk of under-recovery of revenue by TSOs (which would need to be recouped from all shippers).

Users pointed out that auction design was a complex area and it was difficult to predict how bidders would behave under the proposed model, or whether another model might work better. In general, however, simplicity and consistency all over the product range should drive the design.

In early auctions, users believed that TSOs would substantially over-recover revenue, since the FG specified that the regulated price provided a floor, and inexperienced users who were anxious to secure capacity were likely to over-bid. ENTSOG noted that over time, as bidders developed their strategies and became more aware of market demand, under-recovery would become increasingly likely if not all short-term capacity was sold. Participants were keen to minimise the extent of under- and over-recovery by TSOs, since this would expose them to future shocks, and since any means for distributing an excess or recouping a shortfall was likely to distort the market. Users hoped that it would be possible to alter the auction process in future in light of experience, but acknowledged the likelihood that any changes would need to pass through comitology.

Participants supported the use of cleared price auctions for longer term products. For short-term products, assuming that regulated tariff is used as reserve price for all such products, some stakeholders favoured the application of a cleared-price auction. There was some discussion of the links between auction design and the functioning of a potential overselling and buy-back mechanism within CMP. A number of participants remarked on the closeness of this and other links between auction design and tariff issues, and commented that it was difficult to give a view in the absence of a Tariff FG. ENTSOG noted that the CAM FG states that the regulated tariff should be applied as the reserve price for capacity auctions providing a future Tariff FG does not specify otherwise. If the Tariff FG rules that the reserve price, for example in respect of short term capacity, should be below the regulated tariff, TSOs would face substantial under-recovery of revenues.

The Prime Movers, who support the proposed ENTSOG auction process, commented that the calculation of the reserve price would need to be harmonised between Member States.

Regarding price formation, participants felt that the information released throughout the bidding window should give bidders the opportunity to review their positions, by showing what they would be allocated were the auction to close. There was some support for multiple bidding rounds, but little feeling that tranches would be an effective mechanism to support price formation. The rules surrounding information provision and prices are still to be defined within the detail of the network code.

Stakeholders would prefer an auction design which is volume-based where the users bid capacity against a price vector defined by the TSOs. This would reduce the complexity for them during the auction when placing bids (especially for those not experienced with auctions) and this approach would be more coherent if later incremental capacity were included in the process. ENTSOG was asked to consider these aspects for the draft network code.

Some participants were keen to consider the detailed issues further before providing a final view and were interested in a follow-up session. ENTSOG asked stakeholders to contact them by the 29th of April if they wished to express interest in a further debate to elaborate on the auction design. ENTSOG would then arrange a session if appropriate, either physically or via a telephone conference. It was noted that due to the close linkages between capacity auctions and other areas (notably tariffs), it is difficult for ENTSOG to answer all questions at this stage.

ACER hoped that the NRAs would be in a position to discuss this issue with ENTSOG before the publication of the draft CAM NC on the 21st June.

4. Incremental capacity

The Prime Movers highlighted that the ERGEG and ACER framework guidelines do not include any provision for auctioning incremental capacity. This would prevent shippers from signalling their need for additional capacity, meaning that TSOs may systematically over-recover revenue where the market's demand exceeds the technical availability of capacity. Shippers felt that this represented a significant hole in the current framework, and that it was essential that either the revised ACER CAM FG or a different future framework guideline must cover this issue.

ENTSOG explained that it would be following the framework guideline for CAM and thus did not intend to include incremental capacity auctions within the CAM NC. It acknowledged however that the long term auction process might be improved to be compatible with volume-based allocation, based on price range (a system that would work only when combined with a means of bidding for additional capacity).

ACER said that the NRAs intended to meet EFET and provide a view on this subject before the publication of the draft network code.

5. Next steps

ENTSOG will carefully consider all views raised at this and the previous SJWS session, and will where feasible take account of stakeholder feedback when drafting the network code. Issues on which further discussion with stakeholders may be worthwhile will be raised at the final Stakeholder Joint Working Session on the 19th of May.

Any stakeholders interested in a follow-up debate on auctions should contact Heather Glass (heather.glass@entsog.eu) by the 29th of April.

Next SJWS: 4th May 2011 from 10.30 – 16.00