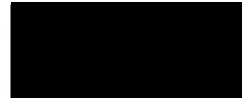


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Swindon, 28/08/2015

## Public Consultation on the Incremental Capacity Proposal and further NC CAM amendments – PC\_2015\_G\_05

Dear Sirs,

Please find below our response to the questions raised in the above consultation.

*1. Do you support the changes suggested by the Agency on Incremental Capacity (new chapter IVa and related articles)? If not, please list which new or amended articles you disagree with and explain why.*

No comment

*2. Do you support ENTSOG's envisaged proposals to change the default auction calendar in relation to the discussions on the draft Network Code on Tariffs (i.e. to move the annual yearly capacity auctions from March to July, the annual quarterly auctions from June to August and the rolling monthly auctions' start from the third to the second Monday of each month)? If not, please explain why.*

We do not support the proposals to change the rolling monthly auctions from the third Monday to the second Monday of each month.

ENTSOG's decision to bring forward the date of the rolling monthly auctions, as published in the auction calendar, and PRISMA's decision to act on this prior to the date when the CAM NC applies came as an unwelcome surprise for shippers. The fact this decision was taken without prior consultation, or explanation, by ENTSOG and was simply rubber-stamped by PRISMA, represents poor regulatory practice which should not be repeated.

We welcome the opportunity to provide our views on this issue now, albeit after the change has effectively occurred. However, this should not be seen as an impediment to maintaining the dates of the rolling monthly auctions envisaged in Article 13 of the CAM NC.

Bringing forward the date of the rolling monthly auctions by a week significantly reduces the time available to shippers to evaluate their need for monthly capaci-

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ty, in order to fulfil potential arbitrage opportunities or upstream/downstream portfolio requirements. Shippers, typically, will not have a clear picture of their month ahead portfolio supply and demand positions in the markets they operate in by the second Monday of the month and, as such, will be more inclined to rely on day-ahead capacity or interruptible capacity, if offered.

ENTSOG's supposed reason for bringing forward the date of the rolling monthly firm capacity auctions is to provide a standardised start date for monthly interruptible capacity auctions, even when numerous bidding rounds occur under the firm auctions. However, in our opinion this reason is flawed because:

- TSOs are not obliged under the CAM NC to make monthly interruptible capacity available and it is not clear at this stage how many of them will choose to do so;
- The various forms of 'conditionally firm' capacity that exist are not considered, by TSOs, to fall into the category of 'interruptible' capacity as defined under the CAM NC;
- Most of the pitifully small amount of firm capacity allocated through the rolling monthly capacity auctions to date has cleared at the reserve price, i.e. after one bidding round.

We believe rolling monthly firm capacity auctions can continue to be held on the third Monday of the prior month without compromising the ability to allocate monthly interruptible capacity, if any. This could be achieved by TSOs, or PRISMA, taking a more active approach to anticipating congestion and, where this is expected (based on previous auction results or price spreads), setting large price steps in the rolling monthly firm capacity auctions higher than the standard default 1c/kWh/h/y. Small price steps would also need to rise commensurately and a cap on the size of large price steps could be applied to avoid risks associated with over estimating congestion, for example 5c/kWh/h/yr.

Such an approach would significantly speed up the duration of the rolling monthly firm capacity auctions at congested points. Based on the worst example of protracted bidding rounds we can find<sup>1</sup> adopting a large price step of 2.5 c/kWh/h/yr would probably have ensured the clearing price was determined by the first Friday (19<sup>th</sup> Sep) after the third Monday (15<sup>th</sup> Sep) when the auctions commenced, leaving time for a monthly interruptible capacity auction to commence on the fourth Monday (22<sup>nd</sup> Sep).

As the vast majority of firm rolling monthly capacity auctions would then be likely to clear during the first week, ENTSOG could designate the fourth Monday of each month as the standard date in the auction timetable for monthly interruptible capacity auctions, if any. This should still leave a minimum of 3 business days and a maximum of 7 business days for these auctions to clear before the capacity becomes usable, which should be sufficient time in our view. Alternatively, if ENTSOG do not think this is sufficient time, it would be possible to apply a rule which says that monthly interruptible capacity auctions will commence on the first

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<sup>1</sup> Rolling monthly capacity auctions held in September 2014 for unbundled firm October 2014 German exit capacity at Oberkappel, which failed to clear after 54 bidding rounds

business day after the conclusion of the monthly firm capacity auctions. In practical terms this would have little difference, in terms of timing, to holding interruptible auctions on the third Monday of each month for the majority of non-congested interconnection points, and should still allow time for monthly interruptible capacity auctions to commence, and probably conclude, at congested points too.

In summary, it is not 'rocket science' to come up with a series of pragmatic steps to accommodate a harmonised timetable for monthly interruptible capacity auctions without moving the date of the monthly firm capacity auctions. The fact that ENTSOG failed to consider the wider impact of the changes it has made (or consult on the issue) is disappointing. But it is still possible to rectify this failing and reverse the disturbance it has caused to the capacity market.

*3. Do you support the further technical changes introduced (e.g. on the auction algorithms (Art. 17 (16) and Art. 18 (3d) & (9)); on the bundling of existing capacity (Art. 20(1); on the allocation of interruptible services (Art. 21(9)) etc.? If not, please list which amended articles you disagree with and explain why.*

Art 17.16 – The current drafting of Art 17.16 and its inter-relationship with Art 17.8 appears correct, so we are not convinced the technical change proposed by ACER is necessary. In our view a shipper's ability to increase its volume bids back up to the level bid in the round preceding the first undersell should be limited only to the first bidding round where small price steps are applied. Thereafter its bids in subsequent rounds of small price steps should be capped at what it bid in the previous small price step round (as per Article 17.8). ACER's proposal appears to us to create the possibility that the total amount bid could still exceed the available capacity after 5 small price steps, which would mean the auction doesn't clear.

Art 18.3(d) – We support the change

Art 18.9 – We support the change

Art 20.1 – Whilst we could accept the obligation on shippers to aim to reach 'bundling arrangements' applying to transport contracts existing at the date the CAM NC is implemented (i.e. 1st November 2015), we do not think this should apply to unbundled contracts entered into after this date.

The CAM NC restricts the circumstances under which unbundled capacity can continue to be offered which, as ENTSOG's recent paper on issues related to bundling of capacities makes clear, risks sterilising shippers' existing unbundled capacity or forcing them to buy bundled capacity and pay twice for the unbundled component they already hold. Urgent steps are needed to address this problem, but extending the scope of Art 20.1 to any unbundled capacity TSOs legitimately allocate once the CAM NC is implemented will not help progress these steps. If unbundled capacity is still able to be offered once the CAM NC is implemented and shippers choose to buy it, it will be because this is the most efficient way of managing their existing capacity and portfolio requirements. So discouraging this,

Page 4

by suggesting that somehow this too should be covered by a 'bundling arrangement' or questioning the judgement of shippers, will not help development of the internal market.

Art 21.9 – We support the change which should be considered in conjunction with our response to question 2 above.

*4. Do you have any other comments related to the proposed NC CAM, changes, and if so which?*

No

Yours faithfully,

