

VNG Response to ACER Consultation on CAM amendments.

Dear Sir or Madam,

VNG welcomes the opportunity to respond to the consultation on the proposed CAM amendments. VNG has long been a proponent of a market based approach to triggering release of additional capacity and it is good to see that the industry's efforts are now bearing fruit. Overall we believe the proposed amendments will enable network users to signal the need for additional capacity in a way that enables TSOs to invest and capacity to be allocated fairly to network users. Our detailed comments are below:

Article 2 – Scope.

VNG mainly supports the scope of the amendment proposal which is connected to the consultation on CAM NC. We only have concerns about the fact that if an alternative allocation rule according to Art. 20d will apply, the rules under Art. 19 (bundled capacity products) and furthermore Point 2 will not be binding. This case offers again the possibility for TSOs to offer such new incremental capacity products within separate open season procedures and thus there will be a negative affect for shippers as there are still different rules for capacity marketing in the future. The main challenging task of CAM NC and Tariff NC is to provide harmonized conditions with equal rules for all market participants (no open seasons are preferred). Furthermore considered should be to extend CAM to points connecting storage and power plants to the network to enable them to access within day capacity.

Article 3 – Definitions.

We note the reference to the Economic Test in the Tariff Network Code (Art. 2 (19)), and also that the Tariff Network Code is still under development. VNG supports the Economic Test Approach but we will need to see the final drafting to know if the Tariff Network Code still works in harmony with the proposed CAM amendments. VNG also supports the availability of a fixed price option for tariffs for new capacity, but recognizes further work needs to be done on the Tariff Network Code to ensure this does not result in unreasonable cross subsidies between network users.

VNG supports the definitions for paragraphs 20, 21, 22, and 23 of Article 2.

Article 11 – Annual Yearly Capacity Auctions.

We support the proposed amendments to Article 11. We welcome the change to the auction timetable to ensure that network users will know what reserve price they are paying ahead of the auction, rather than after it.

Article 12 – Annual Quarterly Capacity Auctions.

We support the proposed amendments to Article 12. We welcome the change to the auction timetable to ensure that network users will know what reserve price they are paying ahead of the auction, rather than after it.

Article 13 – Rolling Monthly capacity auctions.

We disagree with the proposed amendment to Article 13. Bringing the monthly auction forward will substantially reduce shippers' visibility and is likely to result in a decrease in bookings of monthly products. Shortcomings and unintended outcomes of the new timetable strongly outweigh the expected benefits of having more time for running the monthly interruptible auctions, even though interruptible capacity is a useful product for shippers. ACER and ENTSOG should also note that monthly auctions lasting several days are a rare event, which could be avoided altogether by re-calibrating the size of the price step at points which are expected to be congested.

Article 14 – Rolling day ahead capacity auctions.

No comments on the proposed amendments.

Article 17 – Ascending Clock auction algorithm.

We note the dependence of the changes to paragraphs 20 and 21 on the drafting of the Tariff Network Code which is not yet finalized.

Article 18 – Uniform Price auction algorithm.

No comments.

Article 19 – Bundled Capacity Products.

VNG would welcome clarification from ENTSOG as to how many TSOs have implemented Article 19 (5). VNG remains concerned related to open issues with the auction process of bundling capacity products as there is still no amicable solution for shippers which already have long term contracted single side up capacity. In this regard VNG wants to point out that double burdens e.g. paying twice for one and the same capacity product and reduced marketability cannot be accepted without available conversion of single side capacity contracts to ONE bundled contract. In connection to both official ENTSOG Stakeholder Workshops as well as the linked recommendation paper published by ENTSOG, VNG assumes that a "bundled contract" should mean that after an auction is completed, shippers will receive only one capacity contract for the total allocated bundled capacity. Further this would also support CAM NC (Chapter IV. Art.19 Point 8) as one capacity contract is necessary if shippers want to use secondary marketing effectively.

Article 20a – Demand Assessment.

VNG supports the proposed amendments subject to the following comments.

We welcome the approach of setting clear minimum timescales to which TSOs must adhere when assessing demand. We recognize TSOs' concerns that such demand assessment may prove overly costly if conducted every year, and therefore we believe that every 2 years is a good compromise. We welcome the option for TSOs to take account of indications of demand at other times, and would hope

that customer focused TSOs would make use of this option as far as they are able. TSOs and network users have a mutual interest in that network users need capacity to sell gas, and TSOs need to sell capacity to network users to generate revenues. We hope that this context would lead to a pragmatic approach where possible by both network users and TSOs.

We also welcome the specification of information required in demand indications and the market demand assessment report which should make the process of triggering incremental capacity run more smoothly.

Lastly we welcome the condition that any fees charged by TSOs for activities related to non binding demand indications should be approved by the regulator and reimbursed if the economic test is passed.

Article 20b - Design Phase.

VNG supports the proposed amendments subject to the following comments.

We welcome the approach of setting clear minimum timescales, requirements to cooperate with relevant other TSOs and regulators, and requirements for consultation to which TSOs must adhere when conducting the design phase. We also welcome the requirements placed upon regulators when making their decisions on proposed projects during the design phase. The design phase is crucial to ensuring that any projects are optimally sized and costed to minimize the risk that the allocation of incremental capacity is unsuccessful and thereby jeopardises the project's successful implementation.

VNG does not support the condition that, where regulators cannot agree on an alternative allocation mechanism for capacity, the auction mechanism shall be used. ACER, ENTSOG and other stakeholders have recognised that the auction mechanism is highly unlikely to work in cases where there are conditional bids and / or the proposed project connects more than two market areas. As this is the case, mandating use of a mechanism that is highly likely to result in a failed allocation does not appear to be sensible. Such an approach makes it more likely that recalcitrant regulators will simply refuse to cooperate with their neighbouring regulators, an approach that has already be seen in the implementation of the Congestion Management Procedures.

Article 20c – Auctioning of incremental capacity.

VNG supports the proposed amendments.

Article 20d – Principles for alternative capacity allocation mechanism.

VNG supports the proposed amendments. VNG welcomes the pragmatic approach taken which allows an alternative allocation mechanism to be used which can be appropriate to the project concerned, whilst still ensuring that such a mechanisms must be approved by regulators and must be transparent and non discriminatory. VNG also welcomes the ability to allocate capacity for a further 5 years in addition to the 15 year standard time frame.

VNG recognises regulators' concerns that the allocation mechanism should not be used in a way which unduly favours network users who wish to book large quantities of capacity (paragraph 4). VNG's view is the same as that expressed in paragraph 5, namely that any alternative allocation mechanism should ensure that all expressed capacity demand is satisfied where possible. For this reason we believe that the design phase is crucial in ensuring that interested network users have the opportunity to work with TSOs to size the project in the best way possible.

Article 26 – Tariffs

We have no comment on the deletion of this article, but would remind ACER that uncertainty of future tariff levels is likely to have an adverse effect on network users' willingness to book capacity for a sufficient period to ensure the economic test is passed.