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EU CAM Network Code implementation: remaining concerns and possible solutions

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The European Federation of Energy Traders (EFET)[1] welcomes the progress made by a number of National Regulatory Authorities (NRAs) and transmission system operators (TSOs) on the early implementation of the Capacity Allocation Mechanisms Network Code (CAM NC). To help achieve the objective of efficient cross-border capacity allocation, however, we would like to share a few remaining concerns. In the Annex below we offer some examples of actual and potential obstacles to cross-border trade related to inconsistent or delayed implementation of the provisions of the CAM NC. We also suggest possible solutions, which could help to mitigate these difficulties.

Consistency of capacity products, and contractual terms and conditions

As we have elaborated on a number of occasions, the ***consistency of capacity products*** is a pre-requisite for the effective bundling of cross-border capacity and for efficient secondary capacity trading. To avoid the potential locking-in of a wide range of contractual differences or inconsistencies for bundled products, EFET is working in close cooperation with TSOs to identify and resolve those differences in terms and conditions. In this context, we would encourage Regulators to urge TSOs participating in PRISMA to work towards more harmonious trading products, as the current diversity of primary capacity products effectively blocks further standardisation.

Furthermore, EFET supports the bundling of capacity as a means of enabling trade between hubs. However, for this to happen, it is important that the capacity bundle is made up of consistent products, in particular, products that have the same firmness. Across EU markets at the moment it is not the case that all 'firm' capacity is equally

[1] The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 100 energy trading companies, active in over 28 European countries. For more information, visit our website at www.efet.org.

‘firm’ and therefore, that it offers the same access to the hub. In Austria, for example, a different type of capacity is offered, which is only firm if shippers choose to nominate gas to certain entry or exit points, but access to the hub is, otherwise, restricted. Additionally, in Germany capacity products whose firmness depends on certain conditions, e.g. temperature, are offered.

In an entry-exit regime, which is a requirement of the Third EU Energy Package, capacity that does not give firm access to and from the hub should not be described as ‘firm’ capacity. By definition, it is not ‘firm’, since it is possible that the use of that capacity to access the hub is restricted.

The reason for bundling capacity is to facilitate hub-to-hub trading. However, if bundling includes the types of capacity described above, hub-to-hub trading is not facilitated, since access to the hub is not guaranteed. Instead, the interruptibility of one leg of the bundled product (the leg in Germany or Austria) has the effect of undermining the firmness of the entire bundled product by combining inconsistent capacity products: bundling a firm product with a different one results in one bundled non-firm product.

The simplest way to solve this problem is to **bundle only truly consistent capacity products**. This means bundling only capacity which gives full ‘firm’ access to and from the hub, in line with the European Commission’s vision for hub-to-hub trading, which we support. All other capacity should be called what it really is, that is, non-firm.

Implications for congestion management measures

It is also important to look into the interaction between the capacity bundling provisions (Art. 19) of the CAM Network Code and the implementation of mechanisms for tackling contractual congestion at cross-border points, required by the Commission Decision on amending Annex I to Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks (Guidelines on Congestion Management Procedures).

Bundled capacity cannot be sold on more than a day-ahead basis if on one side of an interconnection point (IP) the rules are based on an oversubscription and buy-back (OSBB) scheme to mitigate contractual congestion, while on the other, they follow the principle of restriction of renomination rights. If one side offers OSBB capacity for more than day-ahead, but this is not matched on the other side where OSBB is not implemented, this could create lost opportunities to maximise the amount of capacity on offer and an obstacle to trading beyond the day-ahead timeframe. Therefore, the decision of Regulators in Germany and Austria to implement short-term use-it-or-lose-it mechanisms constitutes a serious limitation to cross-border trade.

It is essential that, as required by Section 2.2.2 of the EU Guidelines on Congestion Management Procedures, **OSBB mechanisms are implemented across the whole of Europe as soon as possible** to ensure that the maximum amount of unused available capacity is released back to the market. For more information, see

the EFET paper *'Towards efficient and effective congestion management of the European gas transmission network: Difficulties with the current implementation approaches and possible solutions'*.

Within-day and day-ahead capacity auctions

Where TSOs are adopting early implementation of CAM, we would like to see them working with PRISMA to implement within-day auctions of capacity as soon as possible, and not to wait until November 2015, as this would benefit consumers and would help to improve the security of supply. As an interim step, we recommend implementing a second day-ahead auction to ensure that progress has been made before 1 November 2015.

ANNEX

Some countries have decided to go for (partial) early implementation of the CAM NC. Cross-border issues have been disregarded or not properly managed, ignoring the need for flexible arrangements in the period preceding the mandatory implementation in November 2015. The issues raised below should be taken into consideration by all NRAs implementing the provisions of the CAM NC.

Country	Issue priority	Part of code affected	Issue	Proposed solution
Austria [NRA: E-Control] **Germany [NRA: BNetzA]**	High	Art. 3(4) and Art. 19 of CAM NC	**Need for consistency of capacity products and contractual terms & conditions on both sides of an IP** • **Offering interruptible capacity as firm capacity:** According to the definition provided in Art. 1(16) of Regulation (EC) 715/ 2009, 'firm capacity' has to be 'contractually guaranteed as uninterruptible'. This means that capacity sold as 'firm' has to guarantee uninterrupted access to the hub. At a number of IPs in Germany and Austria, however, capacity, which is *de facto* non-firm, has been offered as firm capacity. In the case of Austria, for instance, capacity, which is firm *only* if shippers choose to nominate gas to certain entry or exit points, and which provides restricted access to the hub if shippers chose otherwise, is offered as 'firm' capacity. In Germany capacity products with firmness, which depends on certain conditions, such as temperature, are also offered as 'firm' capacity. This practice is not compatible with the bundling provisions in the CAM NC, as it creates a situation	The Commission and ACER should work closely with NRAs to encourage TSOs to maximise the amount of available firm capacity at IPs, in line with the provisions of the CAM NC. Bundling should be optional where capacity products are not yet fully consistent on the different sides of an IP. TSOs shall also work in close cooperate to harmonise capacity products and contractual terms & conditions for the timely and proper implementation of the CAM NC.

			where capacities that do not fully respect the principle of unrestricted access to the hub are bundled together. According to the definition of 'bundled capacity' in Art. 3(4) of the CAM NC, 'bundled capacity means a standard capacity product offered on a firm basis'. However, capacity products with different properties, such as BZK or DZK products in Germany, continue to be bundled together.	
Austria **[NRA: E-Control]** **Germany** **[NRA: BNetzA]** **France** **[NRA: CRE]** **Italy** **[NRA: AEEGSI]** **The Netherlands** **[NRA: ACM]**	High	Art. 21 of CAM NC	**Need for prompt implementation of within-day products** When not all firm day-ahead capacity is allocated, market changes taking place after 17:00 CET cannot be accommodated except with interruptible capacity, the spread between markets widens unnecessarily and balancing costs increase as many residual trades to balance and optimise positions cannot be concluded. **This is to the detriment of end consumers and it also endangers security of supply**, as there is less or no time for traders to respond to outages or considerable changes in the flows.	To mitigate this problem, within-day products should be offered to the market as soon as possible. The Commission and ACER shall also encourage the prompt implementation of Art. 21(5) of the CAM NC, offering the possibility to allocate within-day interruptible capacity by means of an over-nomination procedure. As an interim step, a second day-ahead auction should be implemented to ensure that progress has been made before 1 November 2015.
All countries	High	Art. 14 of CAM NC	**Need to improve the timing of day-ahead auctions** As the majority of TSOs do not apply ST UIoLI mechanisms, it is not logical to wait until 16:30 CET to sell day-ahead capacity, as this makes it quite late for balancing one's portfolio. Furthermore, having only 30 min to deal with day-ahead auctions in the whole of Europe can be quite challenging, as traders often have to cover a number of IPs at the same time.	Pushing the day-ahead auction back to 15:00/15:30 CET should provide TSOs with sufficient time to apply day-ahead use-it-or-lose-it mechanisms, should there be such a need after 2016. Alternatively, having two day-ahead auctions - one in the morning and another one in the afternoon – would also be helpful. Furthermore, a longer and earlier window, or a better platform allowing traders to upload several bids at different IPs at the same time should be offered.

Germany [NRA: BNetzA]	High	Art. 17 of CAM NC	**Need to reduce further the length of the PRISMA auction process** The parameters of the auctions are set in the CAM NC, but the size of the price steps is not specified. PRISMA, for instance, uses small price steps with the structure of 1/5 of the large steps, which is not entirely compatible with the CAM NC. The length of the auctions has to be taken into consideration when deciding on the price steps. TSOs may not have an incentive to reduce the timing, which would result in shippers spending unreasonably long time in front of the screens. For instance, on one occasion it took 15 rounds to obtain Medelsheim capacity for Q1 2014 from GRTgaz Deutchland. As a result of the delay between each round, the auction lasted for more than a day.	This practice is not compliant with Art. 17(11) of the CAM NC, which states that '[T]he determination of the large price step shall seek to minimise, as far as reasonably possible, the length of the auction process'. It is necessary to reduce the time between auction rounds and/or increase the size of the large price step. This could be done in a dynamic / real-time manner.
Austria [NRA: E-Control] **Germany [NRA: BNetzA]** **France [NRA: CRE]** **Italy [NRA: AEEGSI]** **The Netherlands [NRA: ACM]**	High	Art. 20 of CAM NC	**Need for a smooth transition to the bundling of all capacity** In this transitional period, no solution has been offered to shippers to help them deal with unmatched portfolios. CAM allows for unbundled capacity to be sold for a maximum period of one year in advance. However, if TSOs take the strict approach and sell available capacity *only as a bundled product*, in case of a mismatch, the remaining capacity on one side of an IP becomes useless, unless it is possible to match it with unbundled capacity already contracted on the other side of the IP. If a shipper needs to buy capacity on the side of the IP where the available capacity is *lower*, this would not be possible. The obligation to sell only *bundled* capacity under the CAM NC makes the possibility to sell capacity *unbundled* practically inapplicable.	The Commission with the support of ACER should require TSOs and NRAs to fully utilise the period until November 2015 to phase-in the capacity bundling provisions of the CAM NC, taking into account market participants' concerns and ensuring smoother implementation. TSOs should offer shippers the opportunity to restructure their capacity contract portfolios. For instance, Belgian TSO Fluxys have announced a 'reshuffling' service whereby shippers can swap capacity at different IPs within the same entry/exit zone. According to Art. 20 of the CAM NC, counterparties are allowed to discuss how to reach agreement on the bundling of the capacity via contractual arrangements. In this relation, NRAs should encourage further coordination among TSOs, improved secondary markets, and greater transparency.

Austria **[NRA: E-Control]** **Germany** **[NRA: BNetzA]** **France** **[NRA: CRE]** **Italy** **[NRA: AEEGSI]** **The Netherlands** **[NRA: ACM]**	High	Art. 6 of CAM NC	**Lack of common cross-border capacity calculation methodology** CAM requires a common methodology for capacity calculation between the different sides of an IP. Such a common method for capacity calculation is currently missing at most IPs. The resulting mismatches could lead to considerable inefficiencies, i.e. suboptimal offer of available capacity to the market, which is against the principles of the CAM NC. The problem will become particularly acute when capacity bundling becomes mandatory.	The Commission with the support of ACER should require TSOs/NRAs to fully utilise the period until November 2015 to implement common methods for capacity calculation at IPs, in compliance with the provisions of the CAM NC. Cross-border cooperation shall be encouraged. In this relation, the regional initiatives could serve as useful platforms for enhanced coordination.
Germany **[NRA: BNetzA]**	High	Although this measure has been neither integrated, nor explicitly forbidden in the CAM NC, it is clearly linked to the allocation of capacity and should therefore, be dealt with in the context of CAM NC implementation.	**Limitation of late renomination for day-ahead products** Germany imposes limitations on renominations after 20:00 for products that are booked in auctions day-ahead or later.	Other measures allowing TSOs to balance their portfolio intra-day are to be preferred. If this measure cannot be avoided, in order for it not to limit the offered capacity significantly, it should be restricted to certain IPs only and it should be applied only under certain circumstances, e.g. when the temperature forecast, or already announced maintenance or infrastructure failures would justify its use. If this is the case, the precise criteria for applying the measure should be fully transparent to shippers.
The UK **[NRA: Ofgem]**	Medium	Art. 19 and Art. 20 of CAM NC	**Lack of flexibility in relation to complex IPs** CAM is not designed to accommodate complex IPs (1) connecting more than 2 networks in different Member States and/or (2) connecting both cross-border IPs and entry/exit points outside the scope of CAM, e.g. production. In the UK both situations occur at Bacton. Overly strict implementation could lead to artificial supply constraints and increased costs. Furthermore, bundling results in the splitting of Bacton entry capacity into UK production entry capacity (entry in to the EU) and European entry capacity (European IP).	A more sensible approach to implementation is needed, as flexibility should not be taken away from a system that is functioning well. (This matter is currently subject to a UNC Modification proposal.)

All countries	Low	-	**Need for the development of weekend/ holiday capacity products** Market liquidity on weekends and during holidays is much lower than on a regular week-day. CAM makes no mention of weekend capacity products.	Allowing TSOs to offer weekend capacity products or daily products before 4.30pm in special circumstances, such as weekends or holidays would help improve liquidity.