

Meeting notes

Stakeholder Joint Working Session 2

for the Incremental Proposal

Wednesday 26 February 2014

ENTSOG offices, Brussels Belgium

Participants

First name	Surname	Company
Mark	Wiekens	ENTSOG (Chair)
Adam	Balogh	ENTSOG
Frederik	Thure	ENTSOG
Bijan	Glander	ENTSOG
Alexandra	Kiss	ENTSOG
Alex	Barnes	Gazprom Marketing & Trading Ltd.
Andrzej	Robaszewski	GAZ-SYSTEM S.A.
Alexander	Kronimus	
Alexander	Yankovskiy	Gazprom
Alesandar	Savic	Gasconnect Austria
Amroze	Adjuward	EDF
Ana	Barrera	CNMC
Andrew	Pearce	BP gas Marketing
Andrey	Konoplyanik	Gazprom Export, WS2 EU-Russia dialogue,
Antonijo	Bolanca	Croatian Market Operator
Antonio	Daniele	Snam
Borek	Kubatzky	Net4Gas

Carole	Mathieu	CRE
Colin	Hamilton	National Grid
Chris	Cuijpers	CREG
Dirk Jan	Meuzelaar	CEFIC & IFIEC
Elena	Bezrodnaya	Open Grid Europe
Elisa	Rondella	Edison Spa
Emmanuel	Bouquillon	TIGF
Fabrice	Desjardin	GRT Gaz
Goran	Babic	Croatian Energy Regulatory Agency
Hugues	De Peulfeilhoux	GRTgaz
Jan	Wagebach	Prisma
Jan Willem	Van Dijk	GTS
Kees	Bouwens	ExxonMobil / OGP
Laurent	Percebois	GDF Suez
Lewis	Hodgart	ACER
Marco	Gazzola	Snam
Michael	Kehr	Net4Gas
Niels	Krap	ONTRAS
Paloma	Izquierdo Fernandez	Enagas
Philipp Daniel	Palada	GIE
Tanja	Held	EC
Valtentin	Hoehn	VIK
Werner	Luyts	Fluxys

1. Opening and Introduction

The chair of the meeting, Mark Wiekens, welcomed all participants to the meeting. The chair opened the 2nd Stakeholder Joint Working Session by highlighting the objective of the meeting: to explore the second group of topics for the Incremental Proposal. The topics are: When to offer, Auctions and Open Season Procedures. These themes will then be revisited during SJWS 4.

2. When to offer

ACER presented the criteria for when-to-offer incremental and new capacity. ACER stressed the need for balancing appropriately addressed user demand and avoiding unnecessary, inefficient procedures for the TSOs. An incremental investigation process shall be conducted, if there is reasonable expectation that the investment will be underwritten by network user commitment. The TSOs shall have the flexibility to assess whether the 'when to offer' conditions are fulfilled sufficiently in order to offer incremental or new capacity with the final decision being subject to NRA approval. The three criteria are the following:

First criteria: A gap is identified in a reasonable peak scenario in the national Network Development Plan (NDPs) or the TYNDP.

Second criteria: Nothing on offer. In this case, incremental capacity will be offered if there is no yearly capacity product based on existing capacity. In case of several IPs connecting the same market area's, these IPs would be looked at in aggregate.

Third criteria: Non-binding user interest. Network users indicate in a non-binding manner to TSOs their need for and willingness to underwrite incremental or new capacity for a sustained number of years.

ACER invited ENTSOG to develop a 2-step process where Network Users express capacity demand within a time window, for instance on a booking platform and where the TSOs indicate to the NRAs whether the non-binding requests are sufficient to trigger a formal offer. ACER also confirmed that the criteria are non-additive, which means that any of the criteria can be trigger the investment process.

ENTSOG presented an elaboration of the three criteria. It was emphasised that the TSOs should conduct the technical studies in an aggregated way and shall take into account all 'when to offer' conditions when deciding on the amount of incremental/new capacity to be offered. With regards to the non-binding indications a network user can place a request any time, but the challenge is the offer of bundled capacity or capacity along the route. Therefore a common time window is necessary for TSOs to co-ordinate their technical studies. Furthermore, ENTSOG presented a list of information required in non-binding indication in addition to the criteria stated in the ACER Guidance, e.g. being the flow direction at a requested IP. In overall, the process shows that in order to get a solution, market input is needed. The best way forward is for the TSO to collect these market signals and leave it to the NRAs to establish and approve the proposed offer scenarios.

Stakeholders urged that any charges for technical studies on incremental/new capacity offer should be deducted from the price for future capacity. While ACER stated that TYNDP could be more efficient than NDPs in this process, NDPs could also be beneficial since the projects are being assessed in more detail than in TYNDP. There should also be enough flexibility to bid outside the time window in case capacity becomes available (for instance the construction of an LNG terminal). To underscore this, ACER stated that the criteria under development by ENTSOG serve as minimum requirements, meaning that offering incremental/new capacity more often would be possible.

3. Auction procedures

ACER recalled the minimum requirements for integrating incremental and new capacity into the CAM NC yearly capacity auctions. ENTSOG should also consider bid revision, although there are difficulties to accommodate this request. ACER highlighted the opportunity to keep an auction open for a longer period of time, which in turn would raise the chance for higher bids.

ENTSOG presented the initial proposal on Auction procedures stressing the need for a fair and transparent process based on the ascending clock algorithm for bundled capacity and the principle of willingness-to-pay of individual network users. ENTSOG presented some initial considerations on bid revision for cases in which the economic test does not pass. ENTSOG thinks that the principle of bid revision is not required if a reasonable design of a multiplicity of offer scenarios is conducted and bid revision should still be considered the second best option. ENTSOGs proposal for bid revision is to only allow bid revision in case the bidding ladder with the highest increment level on offer resulting in a positive economic test outcome would clear at a premium and only to allow bid revision for the next higher offer scenario. This would mimic the small price steps in existing capacity auctions after the first-time undersell occurs. ENTSOG will include the proposed principle for a revision of bids in the auction simulation in SJWS 4. Stakeholders underlined the importance of designing the auction of incremental capacity for the right amount of demand for capacity.

GCA's Incremental Capacity Pilot

Gas Connect Austria presented their Incremental Capacity Pilot, which was based on the current CAM NC and the current technical possibilities on PRISMA.

Open Season

ACER presented the thoughts behind Open Season Procedures chapter in the ACER Guidance and introduced the term Willingness-to-pay per unit of capacity. The main difference between auctions and open season procedures is that auctions has a 10 year limit (assuming a 5 year leadtime for an investment), whereas open season could provide for up to 20 years

commitments. ACER specified that the CAM algorithm could be used but with longer commitment period. However it was concluded that this would raise additional issues to consider: Because both existing and incremental/new capacity would be offered at the same time, it would be impossible to tell whether bids for capacity in the years of the extended horizon constitute demand for existing or incremental/new capacity.

Furthermore, an essential feature of the NC CAM ascending clock auction algorithm is that all auction take place at the same time. This enables competition between IPs and enables users to enter bids along a route of IPs. The implication of ACER's proposal would be that either booking horizons would have to be extended in all existing capacity auctions if that was done for the incremental/new capacity auctions, or that no booking horizon extensions would be possible at all. None of the participants showed any support for either of those two implications.

A stakeholder asserted that the new definition of willingness-to-pay-per-capacity-unit could have distorting effects because a shipper with a higher bid for 1 year of capacity could outbid a lower bid for 15 years of capacity and thereby risk a failed economic test. ACER stated that it could be highly unlikely that such a situation should occur and insisted that a hard rule should be applied. Upon invitation ACER stated to be prepared to take measures against bidders causing such situations. All participants recognised the tension between the concepts of willingness-to-pay-per-capacity-unit and allowing conditionalities between different bids. Since both concepts are in the ACER Guidance ENTSOG needs to find a workable compromise.

Another stakeholder emphasised that the different market players have different needs and demands. In the CAM auctions for existing capacity that doesn't matter. But with incremental/new capacity a minimum amount of booking is needed to make the investment happen. Another stakeholder were concerned that the performance indicator should be more competition on the market and more players having access to the market. ENTSOG stated that enhancing competition and market access are key features of incremental/new capacity, however the allocation mechanism of the Open Season is not the appropriate place to assure this. If an incremental/new capacity project doesn't materialise because of too restrictive legislation, certainly competition won't be enhanced.

ENTSOG presented a set of examples for when to use Open Season Procedures instead of Auctions and examples of amendments to the CAM NC with alternatives to the allocation rules. As a basis ENTSOG has taken the CEER Guidelines on Good Practice for Open Seasons(GGPOS). With regard to the allocation mechanism the GGPOS states that different methods can be used as long as NRAs ensure that the principles of transparency and non-discrimination are guaranteed. ENTSOG proposes to use the GGPOS formulation because prescriptive harmonisation e.g. limiting to one single allocation mechanism, would be detrimental to the investment process and is likely to create additional obstacles to projects instead of enabling their progress. The choice of the allocation mechanism should therefore be considered a function of the projects specifics and be subject to regulatory approval.

EC stressed that ENTSOG should be more prescriptive in defining when to use open seasons and not only focus on the flexibility issue. It should be clear who will decide and when the

decision will be taken. ENTSOG agreed to further develop this topic.

Gazpromexport presentation

Gazprom gave a presentation outlining a number of suggestions as to how an Open Season could be developed fully in line with the 3rd package provisions. This outline is written down in the OS Strawman Paper that has been made available via the ENTSOG website as part of the materials from the Kick-off meeting 14th January.