

Meeting notes

Stakeholder Joint Working Session 4

for the Incremental Proposal

Tuesday 25 March 2014

ENTSOG offices, Brussels Belgium

Participants

First name	Surname	Company
Mark	Wiekens	ENTSOG (Chair)
Jan	Ingwersen	ENTSOG
Bijan	Glander	ENTSOG
Aleksandar	Savic	Gas Connect Austria
Alex	Barnes	Gazprom Marketing & Trading Ltd.
Alexander	Sankovskiy	Gazprom export LLC
Alvaro	Andaluz	EDF
Andrey	Konoplyanik	Gazprom export LLC; Russian State Gubkin Oil & Gas University
Andrzej	Robaszewski	GAZ-SYSTEM S. A.
Anne	Weidenbach	BNetzA
Annick	Cable	Ofgem
Antoine	Guillou	CRE
Balazs	Tatar	FGSZ Ltd
Benjamin	Scholz	Gascade Gastransport GmbH
Cristiano	Francese	Trans Adriatic Pipeline
Colin	Hamilton	National Grid
Davide	Rubini	Statoil

Dirk Jan	Meuzelaar	CEFIC & IFIEC
Elena	Bezrodnaya	Open Grid Europe
Elisa	Kahl	ACM
Elisa	Rondella	Edison spa
Fabrice	Desjardin	GRT Gaz
Floris	Gräper	GTS
Henrik	Schultz- Brunn	Thyssengas GmbH
Hugues	De Peulfeilhoux	GRTgaz
Jacues	Van de Worp	IFIEC Europe
Jan	Wagebach	PRISMA
Jan Willem	Van Dijk	GTS
Johannes	Heidelberger	BNetzA
Kees	Bouwens	ExxonMobil / OGP
Laurent	De Wolf	Fluxys
Lewis	Hodgart	ACER
Marco	Gazzola	Snam
Maria	Popova	EFET
Niels	Krap	ONTRAS Gastransport GmbH
Robert	Feher	FGSZ
Sebastian Borek	Kubatzky	Net4Gas
Stefan	Ratschko	Gasunie Deutschland Transport Services GmbH
Sylvie	Denoble- Mayer	GDF SUEZ Infrastructure
Valtentin	Hoehn	VIK
Vinko	Nedelko	Energy Agency of Slovenia

1. Opening and Introduction

The chair of the meeting, Mark Wiekens, welcomed all participants to the meeting. The chair opened the 4th Stakeholder Joint Working Session by highlighting the objective of the meeting: to present and discuss the draft business rules for the second group of topics for the Incremental Proposal. The topics are: When to offer incremental/new capacity, Auction procedures and Open Season procedures. Furthermore, it was announced that an interactive auction simulation will be conducted within the Auction procedure part in order to present the principles of the parallel bidding ladders approach.

2. When to offer

ENTSOG presented the draft business rules and a short summary of the previous discussions on this topic highlighting that the initial ENTSOG proposal for a combined assessment of the 'when to offer' conditions is not pursued anymore based on stakeholder feedback in the Prime Mover meetings and the previous SJWS. In contrast, the draft business rules reflect a compromise that was reached between the parties involved which allows all conditions to trigger the incremental/new capacity process individually, however giving the flexibility to assess all conditions in combination when designing potential offer scenarios. As an additional safeguard, the proposal foresees the approval of the relevant NRA for the planned offer scenarios that are based on a TSO assessment.

Furthermore, the business rules reflecting the concept of non-binding indications were presented including the minimum requirements of these indications and the standardised time window for submitting them.

With regards to the time window for the submission of non-binding indications, some stakeholders raised the question on how this time window will interact with the non-binding phase of an Open Season, in case it is chosen as the allocation mechanism for an incremental/new capacity project. It was clarified that the 'when to offer' chapter will apply to all projects regardless of the allocation mechanism, as the allocation mechanism will only be decided after the 'when to offer' decision was taken. It could however in practise happen that, as parts of the discussions were already held in the time window for the submission of non-binding indications, the non-binding phase of an Open Season could be reduced.

Other stakeholders stressed that a two month time window each year could be too restrictive and could lead to immature indications if network users need to submit their indications at a specific point of time. It was suggested also to consider allowing non-binding indications to be submitted at any time in order to ensure that capacity is made available as quickly as possible if demanded. In contrast to that, it was also highlighted that the advantage of a standardised time window is a transparent process in which network users have a clear picture of the steps to be taken.

With the regards to potential fees for the submission of non-binding indications, one stakeholder requested further elaboration on the circumstances and ceilings of such fees in the business rules, in a way as this topic was explained in detail in the Launch Documentation. Others were however of the opinion that the business rules on potential

fees are sufficient as they are, as the business rules provide a specific case in which fees can only be charged and as the ceiling is defined as the actual study costs implied with a specific project.

3. Auction procedures

The topic on auction procedures was introduced by ENTSOG by giving a short summary on how the parallel bidding ladders approach will work in theory and by revisiting the issue of a potential bid revision mechanism in case the economic test fails for an offer scenario. ENTSOG explained that the proposed mechanism would allow the revision of bids in case the bidding ladder with the highest level of increment resulting in a positive economic test outcome clears with an auction premium. In such a case, network users could be allowed to revise their bids for the next highest offer scenario (if existent), as it can be assumed that the initial demand for capacity at the reserve price was in between the two respective offer scenarios. It was concluded that this approach can be tested in the auction simulation if such a situation will occur.

Presentations by booking platform operators

Before conducting the auction simulation, two presentations were given by the booking platform operators PRISMA and RBP. PRISMA concluded that incremental capacity auctions as currently foreseen in the business rules will have a notable impact on the current booking platform, as parallel bidding ladders for one capacity category are not possible with the current IT systems. However, keeping the ascending clock algorithm is regarded as positive, as this is already implemented and in use.

The Regional Booking Platform represented by FGSZ presented examples of how incremental capacity auctions will potentially work and look on the booking platform and highlighted that parallel bidding ladders are theatrically already possible with the current IT systems. It was however stressed that a bid revision mechanism would have a major impact and would require human interaction in an automated process which is regarded as a concern.

Auction simulation

For conducting the auction simulation, ENTSOG divided the meeting participants into 8 groups - representing an auction participant - and presented the framework of the simulation. It was explained that the simulation includes an auction with 4 parallel bidding ladders, representing a base case with existing capacity and three scenarios with different levels of incremental capacity on offer in addition to the existing capacity at the IP. The individual auction participants are asked to fill out an auction tool based on the individual mission and budget defined for each group.

The bidding results after three subsequent bidding rounds are illustrated in the diagram below:

BL 1		Capacity on offer:		800	800	800	800	800
			Sum of user commitments					
Bidding Round	Price Step	Tariff	Year 1	Year 2	Year 3	Year 4	Year 5	
5								
4	RP + 3 PS	8						
3	RP + 2 PS	7	624	609	752	767	767	
2	RP + 1 PS	6	932	895	1061	1061	1061	
1	Reserve Price (RP)	5	1120	1080	1260	1260	1260	

BL 2		Capacity on offer:		800	800	1000	1000	1000
			Sum of user commitments					
Bidding Round	Price Step	Tariff	Year 1	Year 2	Year 3	Year 4	Year 5	
5								
4	RP + 3 PS	8						
3	RP + 2 PS	7	795	766				
2	RP + 1 PS	6	932	895	968	968	968	
1	Reserve Price (RP)	5	1120	1080	1175	1175	1175	

BL 3		Capacity on offer:		800	800	1200	1200	1200
			Sum of user commitments					
Bidding Round	Price Step	Tariff	Year 1	Year 2	Year 3	Year 4	Year 5	
5								
4	RP + 3 PS	8						
3	RP + 2 PS	7	795	766				
2	RP + 1 PS	6	932	895				
1	Reserve Price (RP)	5	1120	1080	1190	1190	1190	

BL 4		Capacity on offer:		800	800	1400	1400	1400
			Sum of user commitments					
Bidding Round	Price Step	Tariff	Year 1	Year 2	Year 3	Year 4	Year 5	
5								
4	RP + 3 PS	8						
3	RP + 2 PS	7	795	766				
2	RP + 1 PS	6	932	895				
1	Reserve Price (RP)	5	1120	1080	1170	1170	1170	

The result of the simulation was that bidding ladders 3 and 4 cleared at the reserve price for the years in which incremental capacity was on offer (years 3 to 5), while bidding ladder 1 and 2 cleared at a premium for all years on offer.

The results of the economic test for the scenarios were as follows¹:

¹ Please note that the calculation of the actual PVUC and required PVUC are slightly different in these notes compared to the actual simulation at the meeting. As highlighted at the meeting, this difference is due to a calculation mistake that was noted in the meeting. The data was changed accordingly and the general result of the economic test remained the same.

BL 1	Year 1	Year 2	Year 3	Year 4	Year 5
Capacity on offer	800	800	800	800	800
Capacity allocated	624.1428571	609.1428571	751.8571429	766.8571429	766.8571429
Value of User Commitment					
Discount rate					
PVUC					
BL 2					
	Year 1	Year 2	Year 3	Year 4	Year 5
Capacity on offer	800	800	1000	1000	1000
Capacity allocated	795.1428571	766.1428571	968	968	968
Value of User Commitment	0	0	1008	1008	1008
Discount rate	0.05	0.05	0.05	0.05	0.05
PVAR	3000				
F-Factor	0.7				
Required PVUC	2100				
Actual PVUC	2490				
Economic Test Result	positive				
BL 3					
	Year 1	Year 2	Year 3	Year 4	Year 5
Capacity on offer	800	800	1200	1200	1200
Capacity allocated	795.1428571	766.1428571	1190	1190	1190
Value of User Commitment	0	0	1950	1950	1950
Discount rate	0.05	0.05	0.05	0.05	0.05
PVAR	5000				
F-Factor	0.7				
Required PVUC	3500				
Actual PVUC	4817				
Economic Test Result	positive				
BL 4					
	Year 1	Year 2	Year 3	Year 4	Year 5
Capacity on offer	800	800	1400	1400	1400
Capacity allocated	795.1428571	766.1428571	1170	1170	1170
Value of User Commitment	0	0	1850	1850	1850
Discount rate	0.05	0.05	0.05	0.05	0.05
PVAR	7000				
F-Factor	0.7				
Required PVUC	4900				
Actual PVUC	4570				
Economic Test Result	negative				

While the outcome of the economic test for bidding ladder 4 was negative, the outcome of the economic test for bidding ladders 2 and 3 was positive. In line with the ACER Guidance and the draft business rules, bidding ladder 3 would prevail as the bidding ladder reflecting the highest level of capacity being allocated and a positive economic test outcome.

The outcome of the auction did not meet the requirements for allowing bid revision in accordance with the ENTSG proposal, as bidding ladder 3 (being the bidding ladder that will pursue towards the next steps of commissioning) cleared at the reserve price for the years in which incremental capacity is on offer. The chair therefore explained the bid revision principle in theory based on a potentially different outcome of the auction.

Following the simulation, stakeholders expressed their support for the parallel bidding ladders approach and mainly concluded that the approach is comparably simple and allows for a high degree of flexibility. One stakeholder raised the question whether different demand levels for the different bidding ladders are realistic and whether therefore bidding separately for all parallel bidding ladders is really necessary. Other stakeholders responded that the discussion on potential booking behaviours is invalid in this process and that the possibility to differentiate between the bidding ladders should be provided anyhow, regardless of how this is being used by network users.

4. Open Season Procedures

ENTSOG presented the draft business rules for Open Season procedures and gave specific examples of how these will be applied in theory. One main point of this presentation was the allocation procedure to be used within an Open Season. The ENTSOG proposal foresees that the Open Season Procedure should aim at satisfying all demand. Only in the exceptional cases where this turns out to be economically inefficient an allocation mechanism should be applied. The 'willingness to pay per year', as introduced by ACER in the Guidance, should be the default principle for for these cases.

However, it became apparent during the SJWSs that there is a contradiction between 'willingness to pay per year' and another Guidance requirement, to allow conditionalities between bids, meaning a network user can send in two or more bids (for different IPs or years) which are only valid if all are successful. In a case where one user is bidding for long period of time with an 'all or nothing' conditionality, while another user is bidding for just one (or small number of) year(s) but with a very high willingness to pay, the 'willingness to pay' principle would give priority to the user bidding for the one year and the user bidding for a long duration would not receive any capacity due to its 'all or nothing' conditionality.

In such a case the 'willingness to pay per year' principle create a situation in which the economic test fails even though there clearly is enough commitment from users to pass the test if the allocation is done differently. For these cases where 'willingness to pay per year' cannot generate a positive economic test outcome the proposal has as a fall-back allocation principle; the use of the NPV contribution to the project of all bids taking into account the conditionalities.

While many stakeholders supported this approach, ACER stressed that it is likely that the alternative allocation principle within an Open Season is not acceptable to regulators and the EC. Stakeholders responded that the line of reasoning for the alternative approach is very valid and is in line with the provisions of the Gas Directive. ENTSOG explained that when setting the economic test parameters (ST reservations, external economic effects like enhanced competition) regulators already have all the tools to achieve their policy goals. ACER was therefore requested to consider this issue again.

5. Closure of meeting

The chair closed the meeting and thanked for participating at the meeting. The next meeting – SJWS 5 – will be held on 8 April 2013 in Brussels.