

Meeting notes

Consultation Workshop

for the Incremental Proposal

Tuesday 24 June 2014

ENTSOG offices, Brussels Belgium

Participants

First name	Surname	Company
Mark	Wiekens	ENTSOG (chair)
Jan	Ingwersen	ENTSOG
Frederik	Thure	ENTSOG
Bijan	Glander	ENTSOG
Jan	Vitovsky	ENTSOG
Ann-Marie	Colbert	ENTSOG
Alex	Barnes	Gazprom Marketing & Trading Ltd.
Amronze	Adjuward	EDF
Andrew	Pears	BP Gas Marketing
Andrey	Konoplyanik	Gazprom Export
Benjamin	Scholz	Gascade Gastransport GmbH
Borek	Kubatzky	NET4GAS, s.r.o.
Colin	Hamilton	National Grid Gas plc
Colm	O Gormain	Commission for Energy Regulation Ireland
Davide	Rubini	STATOIL
Dirk Jan	Meuzelaar	USG Utility Support Group/IFIEC/CEFIC
Elena	Bezrodnaya	Open Grid Europe

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Elisa	Rondella	Edison spa
Emmanuel	Bouquillion	TIGF
Francois	Leveille	CRE
Hugues	De Peuffelhoux	GRTgaz
Johannes	Heidelberger	BNetzA
Kristof	Kovacs	EC DG ENER
Laurent	Moriceau	Reganosa
Laurent	Percebois	GDF Suez Infrastructure
Lewis	Hoogart	ACER
Marco	Gazzola	SRG
Martin	Bliem	Gas Connect Austria
Niels	Krap	ONTRAS Gastransport GmbH
Paloma Izquierdo	Fernandez	Enagas S.A.
Philipp	Palada	GIE
Robert	Feher	FGSZ
Rosalía	Poblaciones Corencia	Gas Natural Fenosa
Stefan	Ratschko	Gasunie Deutschland Transport Services GmbH
Slawomir	Lizak	EuRoPol GAZ
Sylvie	Denoble-Mayer	GDF Suez Infrastructre
Thomas	L'Eglise	Fluxys
Thomas	Querrioux	ACER
Valentin	Hoehn	IFIEC Europe
Vinko	Nedelko	Energy Agency of the Republic of Slovenia

1. Opening and Introduction

The chair of the meeting, Mark Wiekens, welcomed all participants to the meeting. The chair opened the Consultation Workshop by highlighting the objective of the meeting: to present and discuss the initial Draft Incremental Proposal that is currently under consultation and to clarify the reasoning for decisions taken by ENTSOG in the drafting process. Furthermore, the Consultation Workshop gives market participants and regulators the possibility to provide preliminary views on the initial Draft Incremental Proposal before the submission of an official response in the consultation.

2. Project update and consultation procedure

The chair presented the milestones and process steps that were taken so far in the process of drafting the Draft Incremental Proposal and provided elaboration on the upcoming steps that are going to follow within the next phases of the project. It was announced that a report of the answers from the consultation will be published on August 22 2014.

Stakeholders were also instructed on how to access and to respond to the public consultation of the Draft Incremental Proposal.

3. ENTSOG presentation of Draft Incremental Proposal

Cross border co-ordination and information provision

ENTSOG presented the general cross border co-ordination and information provision principles foreseen in the Draft Incremental Proposal, including a graphical illustration of the individual process steps to be taken in an incremental or new capacity development project. ENTSOG highlighted the different procedures and milestones between the default auction approach and the open season procedure and addressed the additional requirements that might be necessary for large projects stretching across several IPs.

When to offer incremental and new capacity

In this section, ENTSOG focused on the criteria that should lead to launching an incremental/new capacity offer process and on the due date approach for the submission of non-binding demand indications. Regarding the second issue, ENTSOG reminded stakeholders about the alternatives that were being discussed during the SJWSs and provided argumentation for why the due date approach has been chosen in the drafting process.

Open Season Procedures

ENTSOG presented a list of examples that would speak in favour of applying an open season procedure instead of a standardised auction approach. Furthermore, ENTSOG highlighted again the general principles of open season procedures as foreseen in the Draft Incremental Proposal, including a high degree of transparency and non-discrimination. With regards to

the alternative allocation procedure in case the default 'willingness to pay per year' approach does not lead to a positive economic test, some stakeholders noted that the Draft Incremental Proposal does not provide a specified alternative approach but leaves the decision to the involved TSOs, NRAs and stakeholders on a case-by-case basis. Furthermore, it was also mentioned that a 'willingness to pay' approach as in a standardised auction might in general not be an appropriate allocation approach in an open season procedure, as such projects are often of a very complex nature. ENTSOG responded that, for that reason, a case-by-case alternative allocation rule seems appropriate.

Auction procedures

ENTSOG illustrated the functioning of the parallel bidding ladders approach as foreseen in the Draft Incremental Proposal by giving a specific example of how such an auction could look like in theory. Furthermore, ENTSOG presented the bid revision principles that are defined in the Draft Incremental Proposal including the specific conditions that lead to repeating individual auctions in case of suboptimal results.

A stakeholder was requesting clarification on the concrete effect of a positive economic test on the viability of an investment project. ENTSOG stressed that a positive economic test must not be mixed up with a final investment decision but that a positive economic test would mean that a project would proceed towards the next steps of project deployment which should in principle end with a final investment decision. For many reasons however, a final investment decision cannot be directly linked to a positive economic test, e.g. ensuring financing of a project or outstanding approvals of ministries or other responsible authorities. This differentiation between the economic test and the investment decision was also confirmed by ACER. However, a strong link between the two does exist since a positive economic test proves the fact that NRAs, TSOs and market parties all agree on the underlying regulatory parameters and the desirability of the project to be realised. Specific challenges to the process between a positive economic test outcome and a final investment decision will have to be addressed in the capacity contracts underpinning the project concerned.

Economic Test

ENTSOG presented the economic test formula and its parameters as foreseen in the Draft Incremental Proposal. Furthermore, ENTSOG provided an example of how individual economic test parameters of TSOs involved in an incremental/new capacity project would be combined into a single economic test.

Some stakeholders were responding that the share of 1-f is the most crucial part of an investment project and that the means for the recovery of costs associated with this part of the investment should be very clear. Furthermore, it was also suggested to include a specific order for means to recover the 1-f share of an investment.

Tariff-related issues

ENTSOG outlined some general challenges regarding tariff-related issues that could undermine the incremental/new capacity process. The importance of long-term commitments for the economic viability of an investment project was highlighted, and it was stressed that the regulatory framework and the current developments do not provide sufficient incentives for network user to commit long-term for capacity. In contrast, the current regulation only provides incentives for a more short-term oriented capacity market leading to a situation where users with long-term commitments would end up with clear financial disadvantages compared to short-term users.

ENTSOG stressed that the Incremental Proposal must include sufficient incentives for long-term commitments in order for an incremental/new capacity process to lead to tangible results. For this reason, ENTSOG presented the options that are foreseen in the Draft Incremental Proposal to make long-term commitments possible in a short-term oriented capacity market. These options include discounts/negative premium for long-term incremental/new capacity commitments, a depreciation rate (Note: not to be confused with the depreciation time!) that is adjustable to the outlook of the economic lifetime of the asset and the introduction of fixed tariff elements for incremental and new capacity.

4. Preliminary ACER feedback on Incremental Proposal

ACER introduced the steps the Incremental Proposal will undergo once it is submitted to ACER. These include a public consultation of the Amendment Proposal for the CAM NC and a reasoned proposal to the Commission, based on Article 7(2) of the Gas Regulation. For the tariff part of the Incremental Proposal, the usual Network Code process will be initiated, including a reasoned opinion to ENTSOG.

With regards to the Draft Incremental Proposal, ACER stressed that ENTSOG has run an inclusive and transparent process and that there is a general consensus on the fundamental principles of the CAM amendment proposal. Some issues, such as the sequence of process steps and the conditions for an alternative allocation procedure in open season procedures should be further specified in the refinement process and a few articles should provide clearer wording. Regarding the tariff section of the Incremental Proposal, ACER noted, that parts of it would go beyond the scope of the Framework Guidelines, including a fixed price option for incremental/new capacity and an adjustment of depreciation rates.

5. Prime Mover feedback on Incremental Proposal

OGP

OGP stressed that the Draft Incremental Proposal in general provides a good framework for the development of incremental and new capacity, however certain principles could still be improved. These principles include the acknowledgement of long-term commitments for the realisation of incremental and new capacity and the degree of stakeholder involvement along the process. In particular, OGP presented the opinion that the economic test parameters are of interest for the entire market and should therefore be consulted upon for

each project. Furthermore, the Network Code should in the end provide clear process steps and deliverables for TSOs and NRAs in order to provide more certainty to the market.

Finally, OGP concluded that long-term commitments and tariff stability and predictability are of major importance in order for a process to function. For this reason, fixed tariff elements would be the only option at least for capacity marketed via open seasons.

CEFIC - IFIEC

CEFIC – IFIEC focussed on the general aim of the 3rd package, being to stimulate an efficient internal energy market by increasing competition. For this reason, it would support any incremental/new capacity project, as long as it increases competition, is subject to all regulation of the 3rd package and decreases congestion. Nonetheless, CEFIC – IFIEC is of the opinion that the economic test as currently foreseen in the Draft Incremental Proposal does not always fully represent the interests of the end users and voices a concern that dependence on incumbent suppliers should not be increased. Furthermore, it stressed that open season procedures need to be very transparent and completely within the requirements of the 3rd package, including the full application of all Network Codes. The tariff-related option, depreciation rate adjustment etc. were welcomed as possible ways to develop new sources of supply for the Europe.

GIE

GIE presented the opinion that ACER's position only to allow floating tariffs would be detrimental to long-term capacity commitments and would result in problems for TSOs to recover costs, leading to increased tariffs in the following regulatory periods. Nonetheless, fully fixed tariffs would also provide disadvantages at some points for some network users. For this reason, the application of a combination of both principles should be allowed in the Network Code.

Specifically for incremental and new capacity, fixed tariff elements might be required in order to attract sufficient commitment in order to make a project economically viable.

Gazprom Group

The Gazprom Group highlighted that naturally there will be different investment projects in the future, including 'simple' projects at single IPs and very complex 'mega projects' that are stretching across several markets. If ACER and the Commission want to avoid exemptions in the future, the Network Codes need to provide a suitable framework for all kinds of projects according to Gazprom. Gazprom is of the opinion that the possibility of fixed tariff elements is crucial for such mega projects in order to give network users sufficient certainty on the costs, allowing them to commit for a long period of time. Furthermore, Gazprom stressed that regulators should be open to alternative allocation procedures in open seasons, since some projects might not otherwise be realised that would bring a major benefit to the market.

Gazprom reminded the audience of the alternative approach for new capacity mega projects that it developed in its strawman proposal and asked regulators and the Commission to assess again whether the principles outlined there can be acceptable to them.

6. Closure of meeting

Before the final closure of the meeting, the chair asked the Commission for a final conclusion of the discussions of the day. The Commission highlighted that they are satisfied with the process so far and acknowledge that ENTSOG is allowing debates on general policy decisions that are requested by the market. The Commission noted that although discussions are still on the same issues as at the beginning of the process they have reached a higher level of understanding and development.

The chair thanked all participants and closed the meeting. The next event is the Refinement Workshop which will be held on 23rd September in Brussels.