

Meeting notes

Stakeholder Joint Working Session 1

for the Incremental Proposal

Monday 10 February 2014

ENTSO-E Conference Center, Brussels Belgium

Participants

First name	Surname	Company
Mark	Wiekens	ENTSOG (Chair)
Frederik	Thure	ENTSOG
Aine	Spillane	ENTSOG
Bijan	Glander	ENTSOG
Ann-Marie	Colbert	ENTSOG
Alexandra	Kiss	ENTSOG
Irina	Oshchepkova	ENTSOG
Violetta	Bescos	ENTSOG
Alex	Barnes	Gazprom Marketing & Trading Ltd.
Alessandro	Gusetti	Snam
Alexander	Sankovskiy	Gazprom
Alvaro	Andaluz	EDF
Amroze	Adjuward	EDF
Andrew	Pearce	BP gas Marketing
Andrey	Konoplyanik	Gazprom Export
Annick	Cable	Ofgem
Borek	Kubatzky	Net4Gas

Carole	Mathieu	CRE
Colin	Hamilton	National Grid
Cristiano	Francese	Trans Adriatic Pipeline
Dirk Jan	Meuzelaar	CEFIC & IFIEC
Elena	Bezrodnaya	Open Grid Europe
Emmanuel	Bouquillon	TIGF
Francois	Leveille	CRE
Hugues	De Peulfeilhoux	GRTgaz
Ivo	Van Isterdael	Creg
Jan Willem	Van Dijk	GTS
Kees	Bouwens	ExxonMobil / OGP
Laurent	De Wolf	Fluxys
Lewis	Hodgart	ACER
Marco	Gazolla	Snam
Maria	De Vincente	Enagas
Nabil	Mezlef	EDF
Niels	Krap	ONTRAS
Nigel	Sisman	Sec
Paloma	Izquierdo Fernandez	Enagas
Philipp Daniel	Palada	GIE
Robert	Feher	FGSZ
Simone	Rossi	Eni
Sylvie	Denouble-Mayer	GDF Suez Infrastructure
Thomas	QUERRIOUX	ACER

1. Opening and Introduction

The chair of the meeting, Mark Wiekens, opened the 1st Stakeholder Joint Working Session (SJWS) for the Incremental Proposal and welcomed all participants to the meeting. The objective of the SJWS was to explore a group of topics consisting of cross-border co-ordination requirements, information provision, the economic test and tariff-related issues.

Another group of topics, 'when to offer', auction procedures and open season procedures, will be explored at SJWS 2 on 26 February. The two set of topics will then be further scrutinised in SJWSs 3 and 4 including discussions on concrete preliminary business rules proposals.

2. Results of project plan consultation

ENTSOG presented the results of the project plan consultation and the current state of the Incremental Proposal project. The groups of stakeholder participants were presented compiling in total 6 prime movers, 12 active SJWS participants and 6 consultation respondents/observers.

It was highlighted that the consultation respondents broadly supported the project plan as proposed by ENTSOG and appreciated that ENTSOG is making use of the known Network Code development process for the Incremental Proposal as well. Some proposals from stakeholders for ensuring an efficient process and for a specific focus on explicit topics were presented including a response from ENTSOG on how the proposals will be addressed in the project.

3. ACER outline of expectations

ACER presented its expectations on ENTSOG and stakeholders for the development of the Incremental Proposal with a specific focus on the topics relating to cross-border co-ordination and information provision, as well as economic test and tariff related issues.

With regards to cross-border co-ordination and information provision, ACER emphasised that while there are non-binding rules for co-ordination and information provision requirements defined in the Guidelines for Good Practice in Open Seasons, ENTSOG is asked to define binding rules in the Incremental Proposal. ACER presented a non-exhaustive list of co-ordination/information requirements to be included by ENTSOG which can be extended in the Incremental Proposal development process. The rationale behind the extensive lift of co-ordination/information requirements is to allow network users the ability to make informed bids in the Incremental process.

Concerning the economic test and tariff-related issues, ACER presented the formula to be applied in the economic test and the definitions for the parameters included in this formula. The economic test formula shall be a harmonised decision tool that allows TSOs and NRAs to decide whether or not an investment is economically viable. A specific focus was given to the f-factor and on the parameters that the NRA will have to take into consideration when determining the level of the f-factor for a specific project.

Stakeholders asked ACER for clarification with regards to the factors influencing the level of the f-factor, e.g. external financial support, increasing positive externalities and depreciation times for investments compared with the limited booking horizon. The discussions on these questions were postponed to the respective sessions in the afternoon part of the meeting.

One stakeholder asked ACER whether 'ring-fencing' will be allowed for new capacity projects in order to simplify certain parts of the process. ACER was of the opinion that if there is a need for 'ring-fencing' for a specific project, the sponsor shall apply for an exemption from specific provisions of the 3rd package.

4. Cross-Border Co-Ordination and Information Provision

ENTSOG presented detailed proposals for how to structure the co-ordination across borders in incremental/new capacity projects and for which information should be exchanged between the involved parties. It was stressed that a high degree of co-ordination will be ensured due to the obligation to offer incremental/new capacity as bundled capacity and that certain characteristics (e.g. commissioning dates, volumes, etc.) will be aligned by definition.

The time requirements for the phases of incremental/new capacity projects as expected by ENTSOG were discussed and stakeholders were asking for clarification on whether the time needed can be shortened, e.g. in case a project has already been assessed in a NDP. ENTSOG stated that of course, at least in theory, re-using earlier studies (or starting earlier) could shorten the time requirements. However, as a base case it will be unlikely that if a need for incremental capacity is exposed as the result of a yearly auction, it can already be offered in the next yearly auction one year later.

Furthermore, it was asked whether a general framework for economic tests could be agreed between TSOs and their respective NRA in order to reduce the time needed for agreeing on the economic test parameters. ACER and ENTSOG were of the opinion that a general framework would not allow for an appropriate consideration of project specifics and that the f-factor needs to be defined on a case-by-case basis, as e.g. associated positive externalities will differ for every project.

It was furthermore highlighted by a stakeholder that co-ordination is much more complex in cases of new capacity projects stretching across more than two entry-exit-zones and that the process should be different for these kinds of projects.

5. Economic Test

A detailed presentation on the economic test was held by ENTSOG compiling the topics of the structure of the economic test formula, the setting of the f-factor, the coverage of 1-f, publication requirements and the single economic test. ENTSOG highlighted that the section of 1-f is not guaranteed in all regulatory regimes via the revenue recovery system and that therefore other mechanisms have to be found for these regimes. Furthermore, ENTSOG provided a concrete example for the combination of individual economic tests into a single

economic test, based on the lowest level of network user commitment required to pass the individual economic tests on both sides.

Some stakeholders asked ACER for clarification on why the decision was taken to compare the asset lifetime of an investment with the limited booking horizon in the economic test, given the uncertainty of demand continuation after the initial booking horizon. ACER responded that depreciation times are set individually in the Member States and that such issues are not foreseen to be covered in a Network Code.

A stakeholder furthermore expressed the opinion that the f-factor should not be set on the basis of the asset lifetime but on the payback period that is required for the TSO in order to financially allow the investment and that this time horizon shall be defined by the TSO instead of the NRA. Other stakeholders added that shortened depreciation times were a useful concept but that, if applied, network users should not pay twice for the same investment, that is after the asset is depreciated.

Other stakeholders were asking ACER whether costs associated with the section of 1-f will be socialised and covered by other shippers in case e.g. no short-term bookings are conducted and. ACER confirmed that all costs leading to an increase in PVAR will be recovered by the TSO and that socialisation to other points and other users will be the case if no short-term bookings are conducted. In case socialisation is not an option (interconnectors, ratio transit/domestic etc.) ACER stated that some form of external subsidy (guarantee by member state or European institution) should cover these missing revenues or an exemption from the obligation to reserve technical capacity for short-term bookings should be granted leading to an f-factor of 1.

Stakeholder further queried whether there will be transparency on how the PVAR for a specific economic test has been calculated by the NRA. ACER was of the opinion that concerning transparency on the calculation of PVAR, everybody would be able to calculate this figure themselves as all components necessary for the calculation need to be published.

After explaining the ENTOSOG example on how to integrate the constituting, national economic test into a single economic test and thereby identifying the scope for potential cross border cost sharing agreements, ENTOSOG listed three different approaches on how to structure such a potential cross border cost sharing discussion. As all three approaches were identified to have their specific advantages, no favourite emerged. ACER stated that leaving all three option in would create flexibility in the final proposal to chose the option that best fits with the specific case at hand.

6. Tariff-related issues

ENTOSOG presented its proposals for the calculation of tariffs for incremental/new capacity and for tariff adjustments for cases in which an adjustment is regarded as necessary. ENTOSOG highlighted that the tariff used for the calculation of the PVUC will only be an estimation of future tariffs and that this tariff will most likely differ from the tariff actually paid at the time of usage of the capacity, due to the floating tariff approach. Furthermore, ENTOSOG provided some suggested approaches on how to estimate a future tariff as a component of the economic test formula (as a basis for the calculation of PVUC). In this

context, ENTSOG accommodated requests from stakeholders to present considerations of a fixed tariff approach for incremental/new capacity and the effects this would have on investment framework.

ACER stressed that a fixed tariff approach is not a viable option due to the risk of a need for cross-subsidisation in case the calculation of the tariff is wrong. Some stakeholders were responding to this point by stating that cross-subsidisation can occur in both tariff calculation approaches and that flexibility should be kept in case good argumentation can be found for an approach that is in opposition to the requirements of the Framework Guidelines. ACER confirmed that the issue of fixed vs. floating tariffs will be addressed in the Impact Assessment for tariffs.

Some stakeholders furthermore expressed that there should be a differentiation between incremental projects at existing IPs and new capacity projects stretching across more than two entry exit zones. A suggestion was to go from a 'system-based view' to a 'project-based view' which allows some kind of 'ring-fencing' for large new capacity investment projects. The suggestion furthermore included two separate, but close and parallel processes for the two different investment project types and e.g. to allow fixed tariffs for 'ring-fenced' new capacity investments where cross-subsidisation is not possible. Upon being asked for clarification on the differences to applying for an exemption of certain requirements of the 3rd package, the respective stakeholders explained that the proposal includes a process that is within all requirements of the 3rd package and that an exemption should not be the default rule.

The final remark on this topic was provided by ACER recognising that many stakeholders would prefer being out of the revenue recovery system of floating tariffs, however that would leave the question unsolved who should stay in to deal the increasing instability.

7. Conclusions

The chair summarised the main conclusions of the meeting and reminded stakeholders that SJWS 2 will be held on 26 February at the same location, focusing on When to offer, Auctions and Open Season Procedures.