

Incremental Capacity Allocation

Madrid Forum XXIII

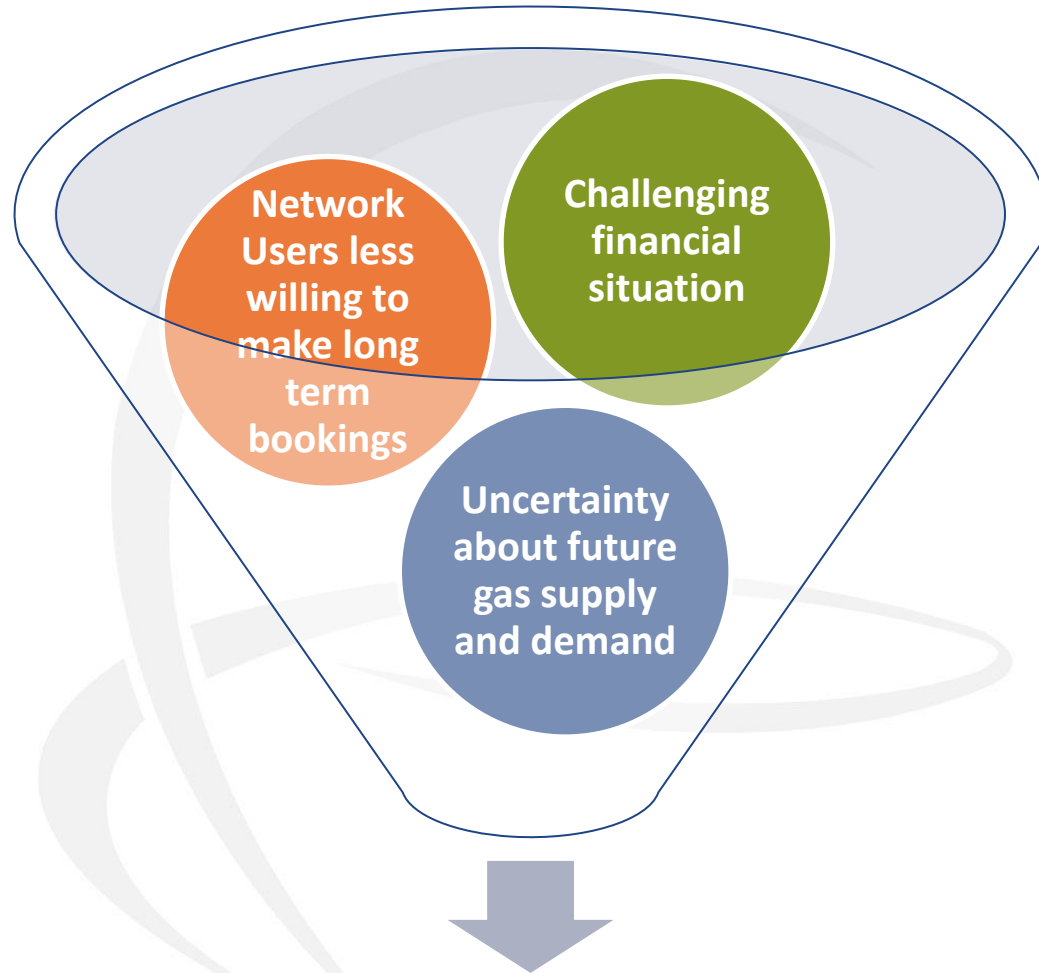
18 April 2013

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Introduction

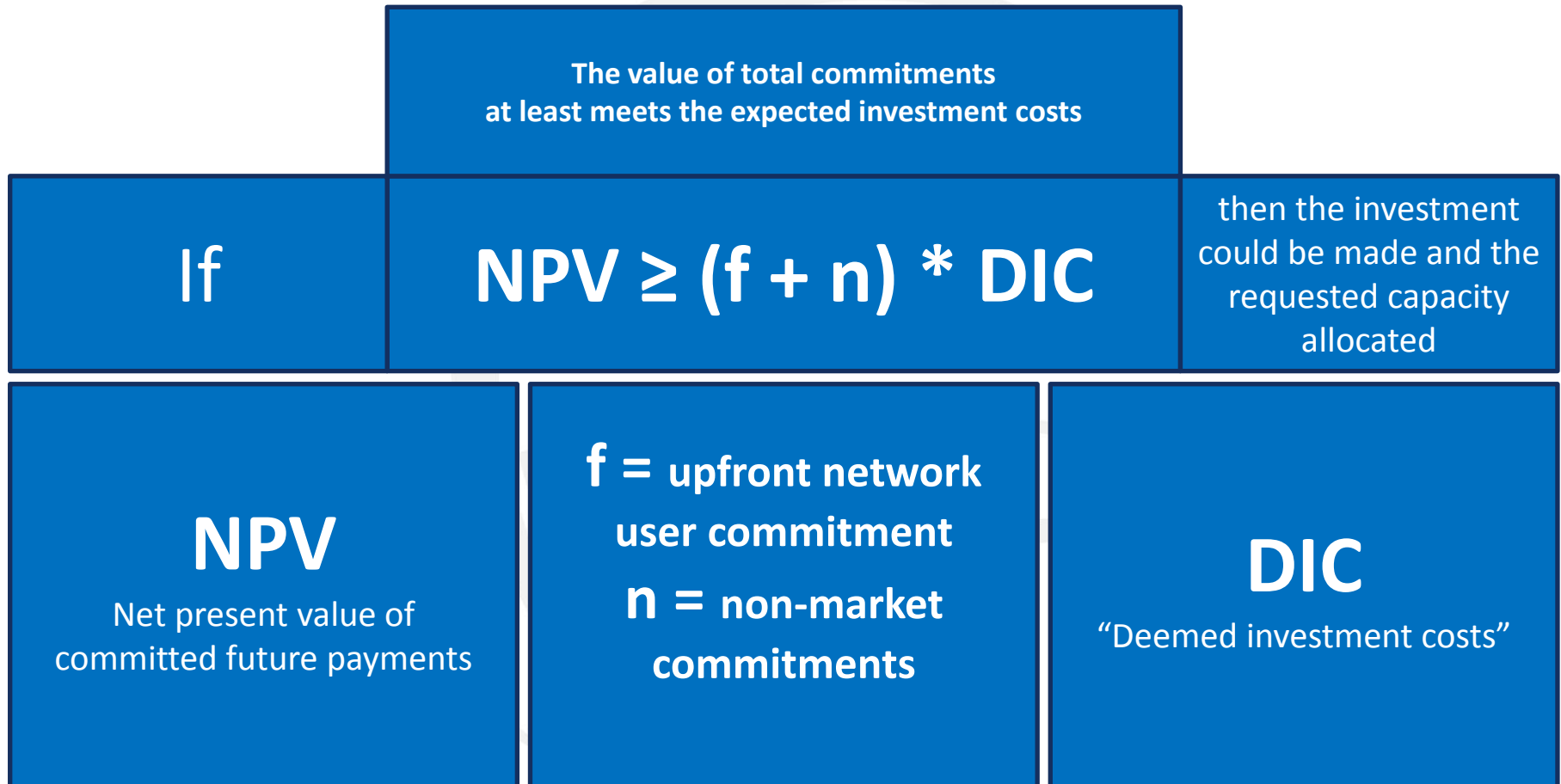
- ❖ ENTSOG is supportive of a more market-based approach for the provision of incremental capacity and believes that CEER's current work is a valuable contribution to the debate
- ❖ Incremental capacity: investments seeking up-front user commitments reflecting explicit market demand (out-of-scope SoS, market integration and flexibility projects)
- ❖ This presentation will concentrate on the following:
 - ❖ Investment climate
 - ❖ Concept of the market test within a regulatory environment
 - ❖ Market test parameters
 - ❖ Potential way forward for dealing with the current investment climate

Investment Climate



Defining rules on the allocation of new capacity alone is not enough to enhance investments. The regulatory framework also has to evolve, taking into account the changes in the gas industry.

Concept of the market test within a regulatory framework



New capacity should reflect sustained demand levels within a realistic timeframe.

Market Test Parameters

- ❑ The parameters for the market test should be set locally
 - ❑ e.g. such as the values for upfront network user commitments and supplementary guarantees, if any
- ❑ The deemed investment cost (DIC) should include the full cost of investment
 - ❑ i.e. return on and recovery of capital costs and opex over the economic lifetime of the asset
- ❑ The threshold value of the up-front shipper commitment factor (f) should ensure sufficiently strong backing from users but should not exceed what can reasonably be expected

Potential Way Forward

- A pre-selection phase could help to target the offer of capacity to where it is most needed
- The impact of the current investment climate could be eased by considering other options:
 - A shorter assumed depreciation period for new investment could mitigate against some of the uncertainty about future gas supply and demand;
 - Variable asset lives could also be considered (periodic extension of the assumed depreciation period under predefined circumstances reflecting for example a decreasing risk of stranded costs as time goes on);
 - A targeted premium on returns for new investment that is adequate to incentivise investors;
 - A discount to the payable price based on the user commitment profile, to reflect the additional risk taken by shippers making longer term commitments.

