Incremental Capacity

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Background

- ACER work on incremental and new capacity aims at developing **harmonized approaches to market-based procedures**

- Objective: finalising ACER Framework Guidelines on Tariffs and guidance on CAM amendment by **30 November 2013.**

Amendment Process for Incremental

History:

- During CAM NC development, calls for inclusion of incremental
- 2011: Gas Target Model – following stakeholder consultations - identified the need for market-based investment procedure
- 2011-2012 several stakeholder round tables on incremental
- 2012: consultation on market-based investment procedures
- 2013: Commission request that CAM amendment be developed during 2014
- 2013 ACER Tariff FG consultation to take on board tariff considerations for incremental

Future:

- For NC amendments, no FG process is foreseen; ENTSOG can develope a proposal
- ACER to provide guidance to ENTSOG
- 2014: ENTSOG to develop and consult
- 2014: ACER to consult, proposal to EC →2015 comitology

ACER Guidance to ENTSOG for CAM amendment (in preparation)

- …define in CAM NC **when an offer of incremental or new capacity shall be made** at least
- …clarify that close **cross-border co-ordination** between TSOs and NRAs is required and on which subjects at least
- …define **minimum information to be provided to the market** including economic test parameters
- …reiterate **principles**: non-discrimination, transparency, bundling, short term quota
- …test and consult **how best to integrate incremental capacity into CAM NC algorithm** and draft detailed provisions accordingly
- …clarify that **Open Season procedures are still possible** where integration into CAM NC allocation is impractical and to lift some GGPOS principles. Conditional bids / bid revisions possible.

The "economic test" (1/2)

- Investment decisions for physically needed, efficient projects are made according to an "economic test"
  - **Principle**: determine a financial threshold to trigger investment decisions
  - **Objective**: showing that the investment project is financially viable considering network users' binding commitments

- Formula

$$\mathbf{PV_{SC} \geq f \bullet PV_{AR}}$$

Where $\mathbf{PV_{SC}}$ is the present value of expected shippers' payments, $\mathbf{PV_{AR}}$ is the present value of the estimated potential increase in allowed revenue and **f** is the minimum fraction of costs to be underwritten by commitments.

The "economic test" (2/2)

- The min. level of cost coverage (f) shall take into account:
  - Duration of shippers' commitments compared to the economic life of the asset
  - Capacity set aside for short term bookings
  - Reliability of investment cost forecasts
  - Externalitites, when monetised and committed: competition, security of supply, etc.

- Cost sharing agreements and external financial support should be included in the economic test (modification of expected cash flows, reduction of PV_{AR}).

Interaction between the economic test and tariffs

- By default, the reference (annual) price resulting from the application of the **cost allocation methodology** applies to incremental capacity
- If necessary to pass the economic test, the reference price can be **increased in specific cases**
- **Single bidding ladder**: no adjustment possible if incremental and existing capacity are allocated together
- **Parallel bidding ladders**: a reference price can be determined for each step
- **Open seasons**: adjustment of tariffs to ensure the investment is decided if all the offered capacity is sold

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Thank you for your attention!

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