

24th Meeting of the European Gas Regulatory Forum
Madrid, 16th October 2013



European Federation of Energy Traders

**Comments on
Incremental Capacity**



Incremental capacity

Pipeline Investment in response to market needs



- Market based investment mechanisms are superior to planned approaches as they reflect what the market is willing to book and pay
- Open seasons and integrated auctions are two complementary market based approaches
- Open seasons better suited to new interconnection points and large projects (e.g. crossing more than one market zone; where capex is large compared to existing TSO asset base)
 - Enable proper coordination between several TSOs and NRAs
 - Allow project to be optimally sized and routed
- Integrated auctions better suited for single Interconnection points
 - Easier to standardise and combine with long term CAM auction process
 - Can be held regularly (every year as part of CAM process) so that new entrants have regular opportunities to buy capacity

We welcome ACER's work on this issue

Incremental capacity Consultation Issues



- Economic Test
 - Support financial economic test
 - Importance of transparency of investment costs
 - Principles can be harmonised but unlikely one size fits all will work (e.g. different f factor due to different externalities in markets)
- Externalities
 - Makes sense to take these into account
 - More work required e.g. interaction between capacity and flows or quality
- Tariff adjustment
 - Further work required – interaction with incremental capacity mechanism (see following slides presented at 3rd June workshop)
 - Floating tariffs create uncertainty and will impact shippers willingness to make sufficient long term bookings to trigger economic test

FURTHER DEVELOPMENT BY STAKEHOLDERS REQUIRED
ACER GUIDANCE SHOULD NOT BE TOO PRESCRIPTIVE

Incremental capacity Allocation Issues – Integrated Auctions



- Technical Design 1
 - Price steps do not reflect costs of providing capacity but are only means to determine allocation of capacity – economic test is decoupled from capacity allocation
 - Shippers need to have model of economic test so they can modify bids if required to ensure test is passed.
- Technical Design 2.
 - Setting P0 at equivalent of regulated cost of new capacity could solve the issue of decoupling of economic test and allocation
 - More complex but superior
- Shippers should be allowed to book more capacity to pass economic test rather than pay more than the regulated price for capacity

Incremental capacity Allocation Issues – Open Seasons (1)



- By definition Open Seasons are likely to be more bespoke depending on the nature of the project. Key requirements:
 - Specific procedures and rules to be defined ad hoc based on project requirements
 - Transparency of rules and timetable to enable all who wish to participate
 - Ability of project sponsors to adapt to market requests and bidders to adapt bids in light of market demand – an iterative approach that allows optimal project design
 - Ability to enable coordinated booking of capacity across a number of Interconnection Points
 - Shippers or project developers able to trigger process not dependent on TYNDP or premia in CAM auctions
- Technical Design 1
 - Shippers who trigger Open Season process not assured of booking capacity in CAM auction
 - Potential for shippers to pay more than the regulated cost of capacity

Incremental capacity Allocation Issues – Open Seasons (2)



- Technical Design 2.
 - Possible to allocate capacity based on size of financial commitment (i.e. NPV value) rather than duration of booking.
 - Benefit of flexibility for complex projects involving multiple Interconnection Points
 - BUT concerns about way economic test applied and use of pro rata
- Technical Design 3.
 - Mirrors current GB approach which has delivered significant incremental capacity (e.g. Milford Haven)
 - Shippers know the cost of incremental capacity and pay the regulated cost
 - Shippers can see if the economic test will be met at the end of each bid window
 - BUT requires defined project for price steps – may not be appropriate for all open seasons

ALL DESIGN PROPOSALS REQUIRE FURTHER DEVELOPMENT WORK TO BE PRACTICAL

Incremental capacity Conclusions



- Welcome ACER continuing work of CEER on this and recognition of its importance to prevent unnecessary physical congestion and resulting high capacity costs.
- Urge CEER, ACER and ENTSOG to develop procedures with stakeholders
 - ACER should avoid making the guidance to ENTSOG for amending CAM too prescriptive on exact mechanism (Note precedent that CAM FG did not specify the mechanisms for the auctions)
 - Further workshops required to develop workable approach – can start this before start of NC development approach
 - Clarity on way forward - how does amendment process for CAM / NC's work?
- Needs to be in place when long term CAM auctions start in 2016 or as soon as possible after that date

Thanks for your attention



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