

Meeting notes

Stakeholder Joint Working Session 5

for the Incremental Proposal

Tuesday 8 April 2014

ENTSOG offices, Brussels Belgium

Participants

First name	Surname	Company
Aleksandar	Savic	Gas Connect Austria GmbH
Alexander	Kronimus	German Chemical Industry Association (VCI)
Andrew	Pearce	BP Gas Marketing
Andrey	Konoplyanik	Gazprom export
Andrzej	Robaszewski	Gas Transmission Operator GAZ-SYSTEM S.A.
Annick	Cable	Ofgem
Borek	Kubatzky	NET4GAS, s.r.o.
Colin	Hamilton	National Grid Gas plc
Davide	Rubini	STATOIL
Dennis	Hesseling	ACER
Dirk Jan	Meuzelaar	USG Utility Support Group
Elena	Bezrodnaya	Open Grid Europe
Elisa	Kahl	ACM
Francois	Leveille	CRE
Henrik	Schultz-Brunn	Thyssengas
Hugues	De Peufeilhoux	GRTgaz

Jan Willem	Van Dijk	GTS
Jaques	Van de Worp	IFIEC Europe
Kees	Bouwens	ExxonMobil Gas & Power Marketing
Laurent	Percebois	GDF Suez
Lewis	Hoogart	ACER
Niels	Krap	ONTRAS Gastransport GmbH
Nigel	Sisman	Sisman Energy Consultancy
Paloma Izquierdo	Fernandez	Enagas S.A.
Philipp	Palada	GIE
Stefan	Ratschko	Gasunie Deutschland Transport Services GmbH
Valentin	Hoehn	IFIEC Europe

1. Opening and Introduction

The chair of the meeting, Mark Wiekens, welcomed all participants to the meeting. The chair opened the 5th Stakeholder Joint Working Session by highlighting the objective of the meeting: to present and discuss the topics in the Incremental Proposal that were not fully covered in the earlier sessions.

2. Prime mover presentation GIE

GIE presented their views on the Incremental Proposal and thanked for the ENTSO-led process but recognised that there is still work to do. GIE thinks that incremental capacity should be based on market demand and not political decisions which are covered elsewhere. GIE believes that new capacity will be built, if there is sufficient demand and a predictable regulatory environment. This market demand must be tested by an Economic Test and the rules for this should bring clarity. GIE believes that in some cases, shippers must have fixed tariffs to get sufficient predictability and for TSOs the necessary commitments to make projects happen.

GIE appreciates the instrument presented by ENTSO on the accelerated depreciation rate. Market integration happens if it is done now and if new infrastructure is built in order to manage spreads between different markets. Once the spread disappears then there is no longer the same need for capacity and accelerated depreciation is a viable tool to ensure that. It allows to satisfy needs from both sides, for both the network users for arbitrage and for the TSOs to get their costs recovered in due time. This means that the f-factor should be set sufficiently high in order to avoid stranded assets and 1-f should be transparent for

everyone including shippers who are not taking part in new or incremental capacity. But 1-f can't continue forever so sufficient demand and sufficient market based procedures are pivotal and should deliver either a 'yes' or 'no' to the project.

One stakeholder asked GIE about the f-factor threshold. GIE thinks that this should be done on a case-by-case basis but a clear figure cannot be submitted. When asked about the GIE vision of open seasons, GIE saw it as positive dialogue between the market, the TSOs and the NRAs.

GIE was also asked about when the choice between auctions and open seasons. GIE was of the opinion that when the project is complex, then probably Open Season Procedures should be chosen. If the project is not too complex then auction procedures should be chosen.

The NRAs role in the process was also highlighted. The regulators confirmed that it is the appropriate for stakeholders to contribute to the decision. NRAs are in the driving seat, and the NRA will review the details and will hold the consultation and ultimately approve or seek alternatives to what is on the table. NRA is the final decision taking body which ENTSG has stated throughout the consultation.

3. CBC and Information provision

ENTSG presented the draft business rules on cross-border co-ordination and emphasised the importance of the role of the NRA in the process. The differences between the Auctions process and the Open Season process were also highlighted as well as the proposals for multi-IP projects.

One stakeholder asked about whether incremental and new capacity will always be offered as bundled capacity. ENTSG clarified that the intention is to offer bundled capacity at interconnection points, including incremental and new capacity fully in line with the existing NC CAM.

Based on the processes defined in the business rules, another stakeholder raised the question whether the involvement of NRAs is more frequent in the auctions process than in Open Seasons. ENTSG highlighted that Open processes necessitated full involvement of the NRA throughout the whole process while the role of NRAs in auctions is limited to the process before the actual auction.

4. WTO and Auction

ENTSG presented the When to Offer section that highlighted the process for when to offer incremental capacity and new capacity. A stakeholder asked if all three conditions should be fulfilled, or if just one criteria could be enough in order to trigger the offer of incremental and new capacity. ENTSG confirmed that one of the three conditions is enough to trigger the When to Offer Process.

ENTSG presented two approaches for the submission of non-binding indications by network users. The first approach would be a specified time window, most likely after the

annual yearly auctions, during which network users are able to submit non-binding indication. The second approach would be a due date that marks the end date at which indications need to be submitted in order to be taken into account for an aggregated demand assessment.

Stakeholders were generally in favour of a due date approach, except for one stakeholder who suggested that there should be no limitations at all. The stakeholder urged that it should be possible to submit indications at any time and that this could trigger an offer process immediately. ENTSOG answered that a due date approach allows the flexibility for network users to submit non-binding indications at any time and that these could also directly lead to an offer process if the demand indicated is sufficient to justify this. The due date will only give a chance to network users requiring smaller amounts of capacity to trigger an offer process by grouping the indications. ENTSOG stated that the business rules are still not finished regarding this issue and that feedback is welcome.

5. Auctions

The topic of auction procedures was presented by ENTSOG. It was stated that bid revision is still a discussion issue for the business rules development process. The auction game showed that it could be useful to keep the bid revision in the business rules. For instance the auction could have sub-optimal results which could be improved when bid revision is applied.

ENTSOG explained the principles and conditions for the timing of application of bid revisions. The condition in cases where the highest offer scenario in a positive economic test results in an auction premium. ENTSOG provided an example where the auctions for all offer scenarios have cleared followed by an assessment on whether the conditions for bid revision are met.

Responding to an ACER question regarding bids revision, ENTSOG confirmed that the volume could be increased.

ACER also asked who could be the bidders in such a bid revision, and mentioned the possibility of restrictions. ENTSOG reminded that the aim of this exercise is to increase the level of capacity. A restriction of the number of participants who could participate in such an auction might not promote that goal.

ACER asked how bid revision would affect tariff adjustment. ENTSOG replied that there is no direct relationship between tariff adjustments and bid revisions. The economic test should be set such that at the reserve price, in the first round, it should be possible to get a positive economic test. If this isn't the case than tariff adjustments can be applied as part of setting the economic test parameters.

6. Prime mover presentation IFIEC/CEFIC

IFIEC/CEFIC presented a view on the Incremental Proposal. IFIEC/CEFIC recalled that the objective of the third energy package is to create a liquid and competitive internal energy market. But there is a concern that the current proposal only enhances dependence and serves the interest of the producers. IFIEC/CEFIC is also concerned that the allowed revenues are not part of the Network Code and that the Economic Test is too cumbersome.

Regarding security of supply, the current proposal according to IFIEC/CEFIC does not help new entrants, because the current Economic Test is detrimental for new entrants. The capacity is primarily to consolidate the position of incumbent suppliers. IFIEC/CEFIC was concerned that this proposal will lead to more dependency on incumbent producers and will not lead to more competitive prices.

The current formulation of the Economic Test according to IFIEC/CEFIC is not in the interest in the end consumers. The test should not be a barrier to enter into the market. Security of supply should be the main drivers of the economic test and more short term bookings is a natural development of mature commodity markets. Shorter depreciation periods could trigger new investments and stimulate domestic supply such as shale gas. Safeguards should be in place to prevent that end consumers pay twice for the same steel.

Open season procedures are flexible, but not transparent. Level playing is not fair and Open Season conditions are easily set by dominant market parties. Risk of exemptions and the existence of a new TSO will lead to higher dependence and lower competition.

IFIEC/CEFIC listed a number of options that should appear in the Incremental Proposal including no exemptions from TPA and enhance short term capacity reservation. IFIEC/CEFIC finished by saying that the current proposal should contribute to the goals of the third package.

A stakeholder stated that the f-factor should be set at the appropriate level. IFIEC stated that a too high f-factor would also not be in the interest of the end-consumer.

On a question regarding dependency, IFIEC/CEFIC said that a booking transport capacity of 80-90 % is more in the interest of the long term shipper, and will not lead to more efficient prices.

A stakeholder asserted that those who take the long term investment risks should also be compensated. To this IFIEC/CEFIC stated that where there is ample supply, there will always be enough capacity and if there is a market for gas, then the capacity will come. According to IFIEC/CEFIC, a creation of a cross-border TSO is not favourable and will lead to complex regulation and increasing dependency.

Another stakeholder responded that the only way to get more gas to Europe, is to have big projects, and if these projects don't materialise, then this means less competition on wholesale markets and for end consumers. Infrastructure providers are also providers of more competitiveness.

7. Economic Test

ENTSOG presented the thoughts behind the business rules of the economic test provisions.

An important issue is that the 1-f part should be covered by future bookings, tariffs paid via socialisation, other financing mechanisms established NRAs or member States or through European support schemes. If none of these mechanism can be guaranteed, the level of 1-f needs to be reduced.

ENTSOG also presented the concept of adjustable depreciation rates which are proposed in

the business rules. In the graph it was presented as an outlook adjustment curve meaning that depreciation rate is done according to the economic outlook at that moment, f.i. 20 years. If one year later the outlook is still 20 years then 19/20 of initial value can be depreciated over 20 years. This way regulatory and economic lifetime can be aligned. It also makes sure that there is residual value in the asset which is need to operated in on an economical basis. so Reevaluation is avoided and endconsumers don't pay twice for the same investment. ENTSOG emphasised that it is an option and not an object for harmonisation.

8. Prime mover presentation OGP

OGP focused on the fixed versus floated prices issue. It was suggested that different projects need different rules. OGP illustrated this with some examples where floating and fixed projects respectively were presented.

OGP recommends that the network code should be sufficiently flexible to deal with all potential projects for incremental and new capacity. OGP also recommends that an offer can be triggered by user indications as well as the TYNDP/NDP or the latest auction results. This would facilitate both auctions process and open season procedures.

9. Tariff-related issues

ENTSOG presented the draft provisions on tariff-related issues and believes that each economic test scenario should be designed in a way so the test can be passed if all incremental/new capacity on offer is allocated. Three approaches to potential cost sharing agreement discussions were presented as well as the merit order of tariff adjustments. The issue of fixed versus floating tariffs is still under discussion in the tariff work stream.

10. Prime mover presentation WS2 GAC/Gazprom Export

The Gazprom presentation focused on the investments conditions in respectively unbundled markets and bundled markets.

The default mechanism as presented in the current business rules is not as efficient as it could be according to Gazprom. The implementation of the CAM NC for new capacity is in principle economically incorrect.

Gazprom presented the Strawman Paper project-based approach which included a number of conditions, including F-factor = 100% (90% shippers – 10% NRA guarantees), NPV as criteria. The problems regarding floating tariffs were also highlighted. From Gazproms point of view, an NPV-based market based approach fully lives up to the third directive.

Gazprom proposes to make a game/case study of both OSP procedures including the current draft of the business rules and the Gazprom strawman proposal. The aim of such an exercise would be to develop a new strategy and to assess which of the two would be more appropriate to be included in the amendment proposal for CAM NC. ENTSOG invited other stakeholders to provide their views on this proposal.

11. Open Season Procedures

ENTSOG presented the draft business rules for Open Season thereby focusing on the applicability, and the allocation mechanism. ENTSOG particularly referred to a changed principle for an alternative allocation mechanism in case the default of 'willingness to pay' does not lead to a positive economic test outcome while sufficient commitments have been expressed. Regulators and ENTSOG propose that in such a case the involved TSOs and NRAs should agree upfront on an alternative mechanism that takes into account the higher contribution of long term commitments to the economic viability of a project.

ACER stressed that this does not necessarily mean that an NPV approach will be chosen in any case but also other alternatives like a 'smart' pro-rating might be possible.

12. Closure of meeting

The chair closed the meeting and thanked for participating at the meeting. The next event is the consultation workshop which will be held on 24th June in Brussels.