



FIRST INCREMENTAL CAPACITY PROCESS REPORT

2017



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1 INTRODUCTION

The incremental capacity process has been introduced by the Commission Regulation (EU) 2017/459¹ for a streamlined and harmonised Union-wide process to react to possible market-based capacity requests with an increase in technical capacity.

The requested incremental capacity may be offered based on market demand. Building the capacity is based on binding market commitments and subject to the positive outcome of an economic test, in the following cases:

- (a) At existing interconnection points (IPs);
- (b) When establishing a new IP;
- (c) With physical reverse flow capacity at an IP, which has not been offered before.

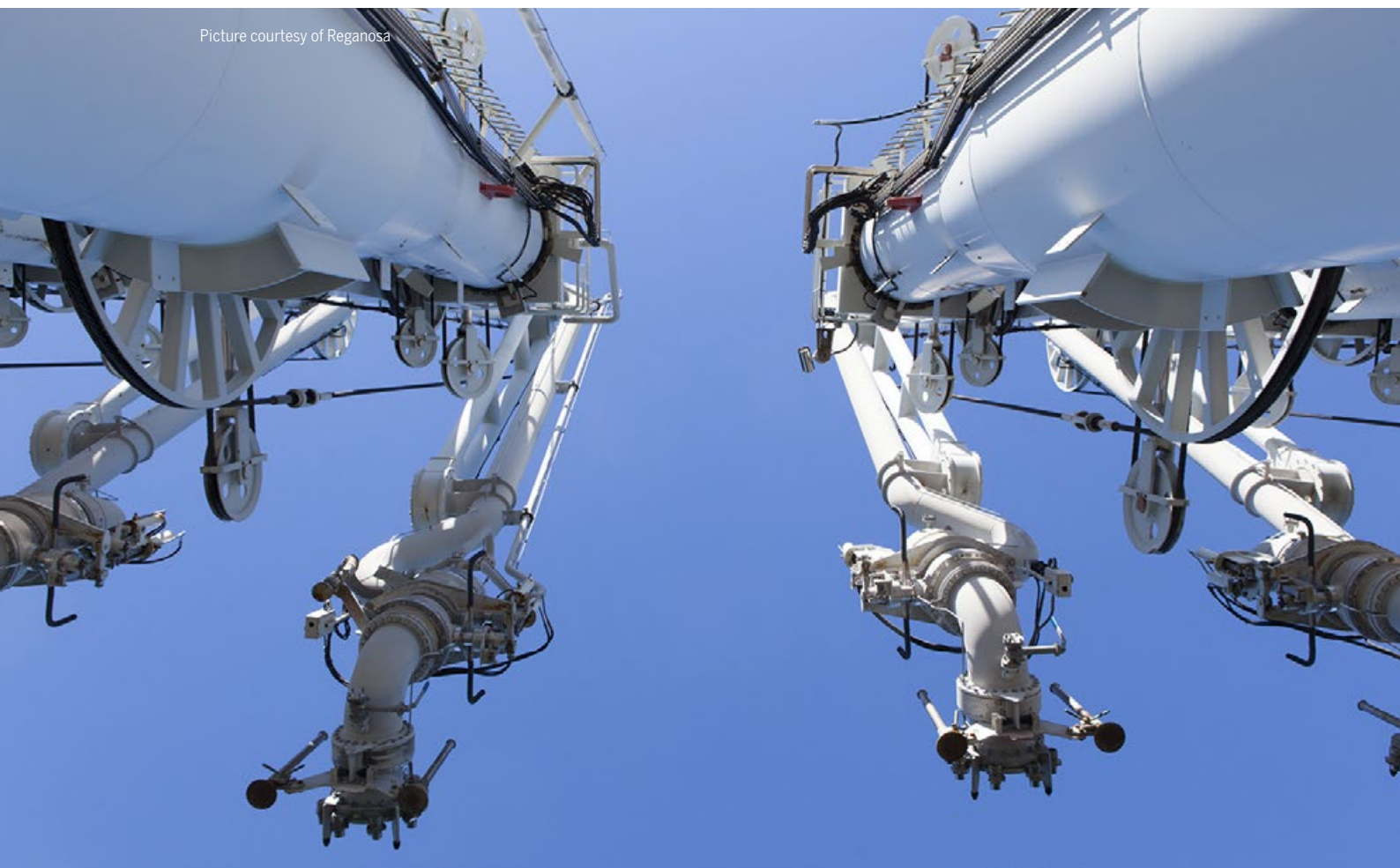
The aim of setting rules for incremental capacity is to identify the market-based need for new/incremental capacity and to allocate both existing and incremental capacity in an integrated way.

The incremental capacity process is not foreseen for other relevant projects for which users' commitments cannot be gathered ex-ante via a market assessment (e.g. Projects of Common Interest concerning security of supply, market integration or flexibility needs).

The first incremental capacity process was initiated in April 2017 following Chapter 5 (Articles 22 to 31) of the Capacity Allocation Mechanisms Network Code (CAM NC). This report covers the outcome of that process.

1 COMMISSION REGULATION (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013

Picture courtesy of Reganosa



2 DESCRIPTION OF THE INCREMENTAL CAPACITY PROCESS

The provisions on incremental capacity specify how and when European Union (EU) Transmission System Operators (TSOs) assess market demand, how to develop a potential offer of new market-based capacity or how to increase existing technical capacity, how to offer and allocate it, as well as how to determine the economic and regulatory conditions justifying the feasibility of such a capacity project. The incremental capacity process is now harmonised on a European-wide level by defining specific steps for the involved TSOs and National Regulatory Authorities (NRAs) that have to be followed when going through the incremental capacity process.

The incremental capacity process consists of 2 phases: a non-binding phase and a binding phase. The non-binding phase starts with the assessment of demand indications for incremental capacity. The network users provide TSOs with their non-binding capacity demand (with regards to volume, direction, duration, location of their interest), including possible conditionalities and other relevant documentation. No later than 8 weeks after the start of the annual yearly auction, at least in each odd-numbered year, TSOs shall produce market demand assessment reports (DARs) with a conclusion whether an incremental capacity project shall be initiated or not. Within 16 weeks, DARs must be published. If the DAR identifies demand for incremental capacity projects, the concerned TSOs will follow the incremental capacity process further.

In the next phase, the design phase, capacity offer levels, technical studies and, generally, a project proposal, are prepared. No later than 12 weeks after the start of the design phase, a public consultation on the key parts of the project proposal is conducted where stakeholders have an opportunity to provide feedback to the TSOs' proposals on the identified key parameters of the incremental project. A key milestone after the design phase and public consultation is to submit a comprehensive incremental project proposal to the relevant NRAs. The NRAs will then have 6 months to issue coordinated decisions about the project proposal.

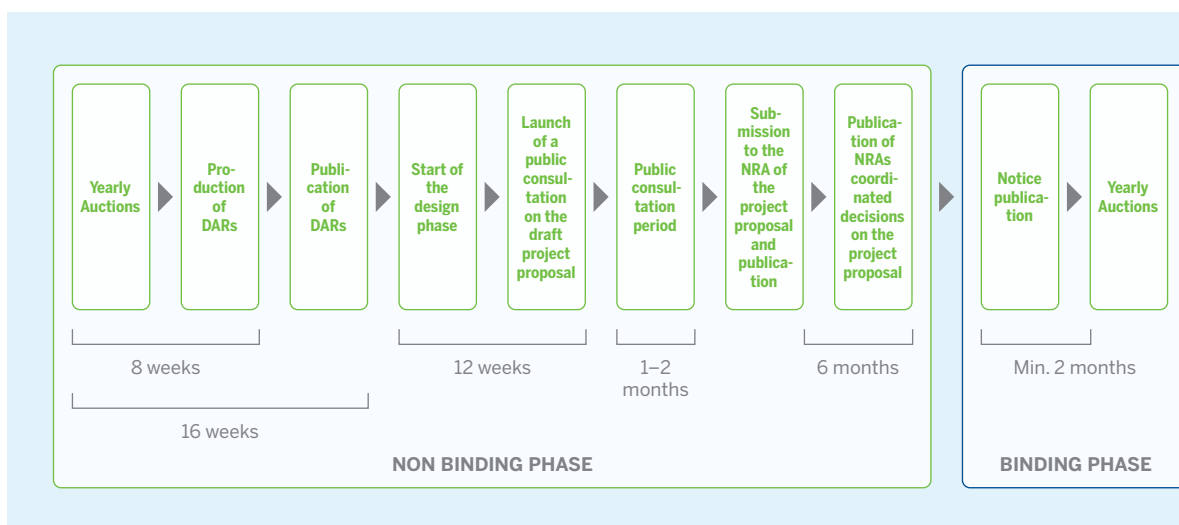


Figure 1: Overview of the 1st initiated incremental capacity project in April 2017

After the NRAs' decisions, the binding allocation phase will start and binding commitments for incremental capacity from network users will be collected during the yearly auction.

After receiving binding commitments for the incremental capacity offered in the yearly auction, the economic viability of the incremental capacity project will be assessed through the economic test. If the outcome of the economic test is positive, an incremental capacity project will be initiated.

As a default, auctions are used. However, an alternative capacity allocation mechanism can be employed, subject to NRA's approval, where the market demand assessment shows that the ascending clock auction is not suitable and if the incremental capacity project fulfils both of the following conditions: (a) the incremental project involves more than two entry-exit systems and bids are requested along several interconnection points during the allocation procedure; and (b) bids with a duration of more than 1 year are requested.

Picture courtesy of National Grid



3 ANALYSIS OF THE SURVEY ON INCREMENTAL CAPACITY

The incremental capacity process is a streamlined and harmonised Union-wide process for assessing possible market demand. Therefore, the aim of this report is to provide an overview of the results of the first incremental capacity process which was initiated in April 2017.

In order to perform the following analysis, data provided by 38 out of 44 ENTSOG (European Network of Transmission System Operators for Gas)² members was used (see annex 1).

The questionnaire and the data used for the following analysis can be found in Annex 2. Furthermore,

Annex 3 provides an overview of the elements that the consultation carried out during the design phase had to cover. The information received was useful for analysing the different steps described in the CAM NC of the incremental capacity process for the different borders across Europe.

3.1 MARKET DEMAND ASSESSMENT

Art. 26 of the CAM NC stipulates that, immediately after the start of the annual yearly capacity auction, TSOs shall initiate a demand assessment phase in at least each odd-numbered year. According to Art. 26(12) of the CAM NC, the DAR shall take into account the following issues: (a) whether the TYNDP identifies a physical capacity gap, or a national network development plan identifies a concrete and sustained physical transport requirement; (b) whether no yearly standard capacity product linking two adjacent entry-exit systems is available in the annual yearly capacity auction for the year in which incremental capacity could be offered for the first time, and in the 3 subsequent years, because all the capacity has been contracted; and (c) whether network users submitted non-binding demand indications requesting incremental capacity for a sustained number of years and all other economically efficient means for maximising the availability of existing capacity are exhausted.

Consequently, common DARs have been performed by the concerned TSOs at each entry-exit border in order to identify whether an incremental capacity project should be initiated or not.

These reports were conducted for the first time in 2017, after the entry into force of the CAM NC, and were published on the websites of the corresponding TSOs and on ENTSOG's webpage in July 2017³. In the summary of DARs, also published by ENTSOG in 2017, it can be observed for which entry-exit borders non-binding commitments were received and which TSOs continued with the incremental capacity process following the steps of the CAM NC.

According to the information received through the questionnaire used to collect data for this report, all TSOs have performed the corresponding DARs for all the entry-exit borders. However, in the case of the entry-exit border BG-RO, no common DAR was agreed by the TSOs involved (Transgaz, Bulgartransgaz) and, as a consequence, it was not published. Nevertheless, Transgaz reported that the conclusion of the analysed non-binding demands, in relation to the available technical capacity at the interconnection points between the adjacent entry-exit systems of Romania and Bulgaria, was that an incremental capacity project will not be initiated.

² Remaining 6 TSOs were not considered throughout the report because they either do not have an Interconnection Point in accordance with the CAM NC or because they have been granted derogation under Art. 39 of the Gas Directive.

³ During 2018, FGSZ and Plinovodi initiated the Incremental process on a voluntary basis. The DARs for the IPs between Hungary and Slovenia are available on ENTSOG's webpage: <https://entsog.eu/capacity-allocation-mechanisms-nc#incremental-capacity-demand-assessment-2018>

3.2 DESIGN PHASE

Following the publication of DARs, those TSOs which identified a demand for incremental capacity entered into the design phase. In this part of the process, Art. 27 of the CAM NC requests TSOs to:

- ▲ conduct technical studies for incremental capacity
- ▲ design the incremental capacity project
- ▲ design coordinated offer levels for bundled capacity products at the IP
- ▲ conduct a joint public consultation on the draft project proposal

According to the questionnaire carried out, 16 TSOs conducted technical studies for one or more entry-exit borders, being a total of 17 entry-exit borders. Furthermore, all these TSOs conducted joint public consultations for 16 entry-exit borders (Gas Connect Austria conducted a joint public consultation for the AT-SK entry-exit border, although technical studies were not needed because on the Aus-

trian side there was enough technical capacity available).

Plinovodi reported that no joint consultation was conducted for the border between Italy and Slovenia as only Plinovodi received non-binding indications and the relevant joint DAR concluded that no incremental capacity process would be started in 2017.

Also, no consultation has been carried out for the border between Austria and Czech Republic, as reported by Gas Connect Austria (GCA) and NET-4GAS (N4G). For this border it was concluded that the current BACI project will cover all the demand indicated by the network users.

Annex 3 provides an overview of those entry-exit borders for which the DAR identified demand for incremental capacity projects and therefore a joint consultation took place. The information enclosed in the annex covers the provisions of Art. 27(3, a-c, e-i) of the CAM NC.

3.3 APPROVAL AND PUBLICATION OF INCREMENTAL CAPACITY PROJECT PROPOSALS

According to Art. 28(1) of the CAM NC, after the consultation, and once the design phase has finalised, the involved TSOs shall publish and submit their incremental capacity project proposals to the corresponding NRAs in order to receive coordinated approvals. From the 16 TSOs who conducted a joint consultation, 12 TSOs have reported that the project proposals for 12 entry-exit borders were submitted to the relevant NRAs and published, while 2 TSOs are in progress and the remaining 2 TSOs did not proceed further with the incremental capacity process.

Moreover, NRAs published coordinated decisions for 7 entry-exit borders where 10 TSOs were involved. For the remaining 5 entry-exit borders, no coordinated decisions were published.

In the case of GASPOOL – Russian Federation, the rejection by the German NRA was justified mainly by three arguments: a) the substantive requirements for approval were not met, b) the offer levels did not sufficiently meet the requirement of reflecting the range of expected demand or incremental capacity as a result of the process provided in Art. 26 and 27(3) of the CAM NC, and c) some obstacles

were identified by the NRA, such as the project proposal does not ensure an efficient expansion of the network, which can affect the internal gas market.

In the absence of an agreement between the involved NRAs in regard to cross-border infrastructures, ACER (Agency for the Cooperation of Energy Regulators) becomes the competent authority for deciding on this matter according to the process set out in Article 6(10) of Regulation (EC) No 2019/942⁴. According to this, 2 cases where no agreement was reached between the involved NRAs have required ACER's assistance.

In the case of the interconnection point Mosonmagyaróvár between Hungary and Austria, ACER had to decide on the HUAT project proposal due to the fact that the Hungarian NRA denied the project proposal submitted by FGSZ, while the Austrian NRA approved the project proposal submitted by GCA. The final decision adopted by ACER defined the parameters of the economic test and concluded that the TSOs should continue with the next phase of the incremental capacity process – the binding phase – by marketing the incremental capacity at two offer levels (level I and level II).'

4 REGULATION (EU) 2019/942 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators



Picture courtesy of Fluxys

Furthermore, ACER also became the competent authority to decide on the project proposal relating to the border between Poland and GASPOOL since coordinated decisions were not reached within the period stipulated by the CAM MC. The German regulatory authority approved the project proposal under the condition that Ontras and GAZ-SYSTEM will agree on which capacity booking platform should be used on the PL-DE border, whereas the Presi-

dent of the Polish regulatory authority considered that the project proposal fulfilled all the CAM NC requirements but did not have power to issue a conditional decision. As a consequence, no coordinated decisions between relevant NRAs were reached before the expiration of six-month period, which resulted in ACER becoming the competent authority to decide on this project. However, ACER is still proceeding and a decision has not been published yet.

3.4 AUCTIONING OF INCREMENTAL CAPACITY

As specified in Art. 29 of the CAM NC, incremental capacity shall be offered together with the respective available capacity by the involved TSOs in the annual yearly capacity auction as standard bundled products and through an ascending clock auction algorithm. According to the data obtained from the TSOs who participated on the incremental questionnaire for this report, 4 already offered incremental capacity during the yearly auction 2018 while 5 others offered incremental capacity in the yearly auction on 1st of July 2019.

Incremental capacity was offered for 15 years per offer level for the following entry-exit borders:

- ▲ Germany (GASPOOL) – The Netherlands (TTF)
- ▲ Germany (GASPOOL) – Russian Federation
- ▲ Germany (NCG) – Austria
- ▲ Austria – Slovakia
- ▲ Austria – Hungary

In the case of the entry-exit border Germany (NCG) – Austria, on the German side there is sufficient existing restricted allocable firm capacity to serve the capacity requested in the initial non-binding demand.

3.5 ALTERNATIVE ALLOCATION MECHANISMS

Art. 30 of the CAM NC states that, under certain conditions, an alternative allocation mechanism can be used if it is approved by the concerned NRAs.

According to the data received, only two TSOs, GCA and Eustream, have confirmed that an alternative allocation mechanism was proposed during the pe-

riod 27/07/2018 – 03/05/2019. This joint binding alternative allocation procedure for firm transmission services - performed by these two TSOs in conjunction with Magyar Gáz Tranzit – was conducted at Baumgarten in the direction from Slovakia to Austria and also at the IP Velké Zlievec/Balassagyarmat in the direction from Hungary to Slovakia.

3.6 ECONOMIC TEST

The next step in the incremental capacity process is to carry out an economic test if the involved TSOs have received binding commitments of network users for contracting capacity, according to Art. 22 of the CAM NC. When performing the economic test, the TSO(s) or NRA (s) (up to NRAs' decision) shall consider the present value of the received binding commitments, the present value of the estimated increase in the TSOs' allowed or target revenue associated with the incremental capacity and the f-factor.

The outcome of the economic test will be considered positive if the present value of binding commitments is at least equal to the present value of the estimated increase in the allowed or target revenue of the TSO as defined by the f factor. Conversely, if the value of binding commitments is lower, then the outcome will be negative.

9 TSOs have provided information regarding the parameters for each offer level of the economic test. For some of these borders⁵, the forecasted values shown in table 1 were provided.

In the case of the IP Baumgarten between Austria and Slovakia, GCA stated that the information on the economic test for parameters for each offer lev-

el was published. Nevertheless, Eustream did not report that an economic test was performed on the Slovakian side because the incremental capacity process was cancelled due to the fact that the network user who initially submitted non-binding commitments stepped back from the process. GCA also reported for the AT-SK entry-exit border that contracts concluded were equipped with steps back rights. These were exercised and, as a consequence, the contracts became null and void.

Regarding the entry-exit border between Germany and Austria, German TSOs reported that no economic test was carried out because – on the German side - Bayernets could offer enough existing restricted allocable firm capacity to cover the capacity requested in the non-binding demand. Therefore, existing capacity was bundled with incremental capacity and there was no offer level.

According to the data obtained, none of the TSOs received binding commitments from network users. Consequently, none of the TSOs carried out a single economic test and therefore none of them have reported a positive outcome of the economic test. There were also no proposals of redistribution of revenues for any of the TSOs participating in the questionnaire.

5 For the border Germany – Poland, the economic test parameters were published under the project proposal submitted to NRAs but not approved due to lack of NRAs coordinated decisions.

Picture courtesy of DESFA

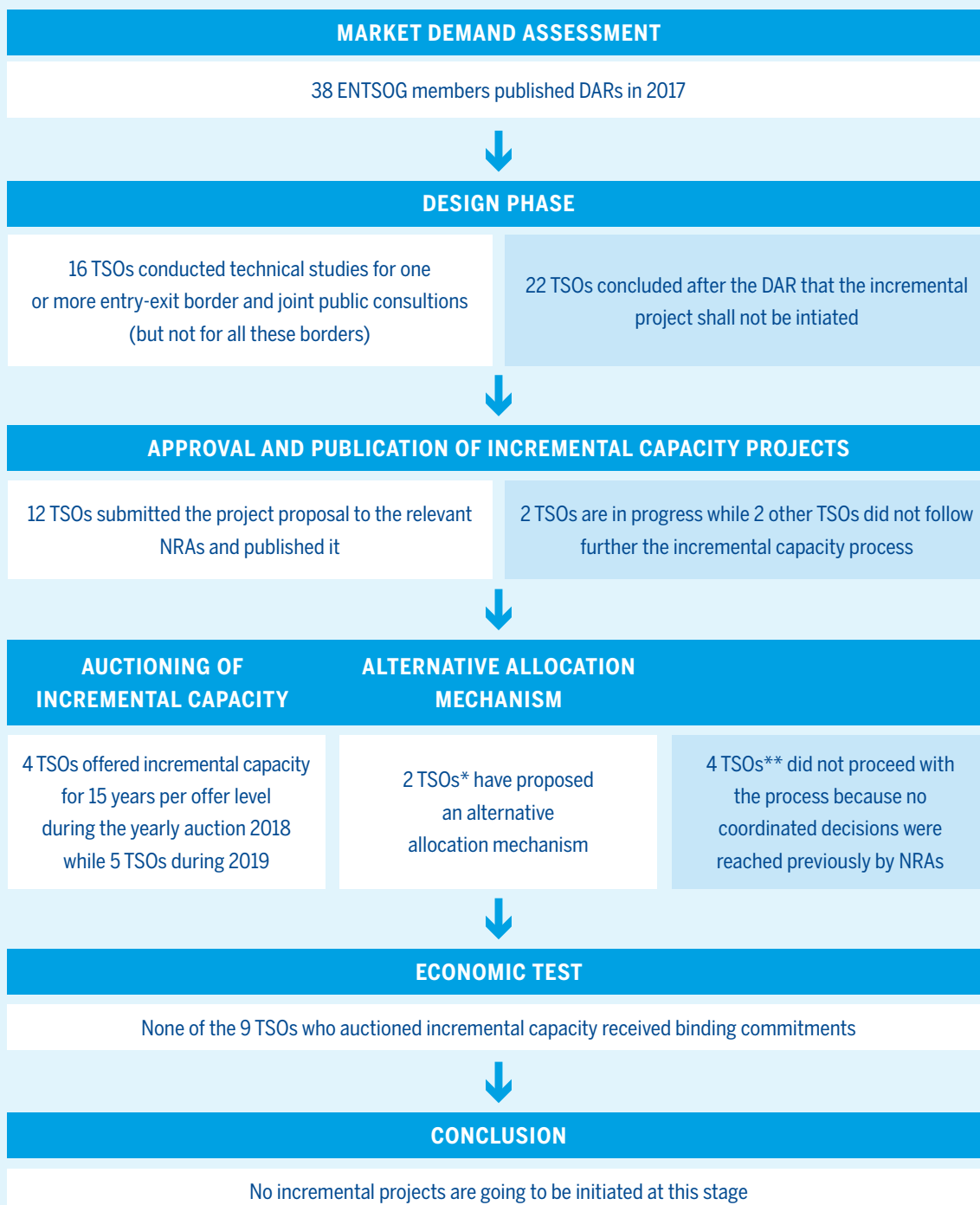


| | Entry – exit border | Germany – Russian Federation | Germany – The Netherlands | | Austria – Hungary | Austria – Germany | Germany – Poland | |
|----------------------|---------------------------------------|--|---------------------------|----------------------------|---------------------|---------------------|------------------|------------|
| | Information provided by: | Gasunie, Gascade, Nel, Opal, Fluxys DE, LBTG, Ontras | Gasunie, Gascade | Gasunie Transport Services | Gas Connect Austria | Gas Connect Austria | Ontras | GAZ-SYSTEM |
| OFFER LEVEL 1 | Refrence price (€/kWh/h/a) | 3.6524 | 3.7715 | 1.64 | 0.77 | 1.3 | 3.97 | 0.44 |
| | Mandatory minimum premium (€/kWh/h/a) | 1.07 | / | / | 1.4 | 4.46 | / | No |
| | PV binding commitments (€) | 373,895,183 | 159,176,078 | 130,000,000 | 34,761,852.61 | / | 56,293,369 | / |
| | PV estimated increase AR (€) | 459,579,471 | 14,977,323 | 600,000 | 9,386,161.36 | 166,243.8 | 2,831,011 | 1 |
| | F-factor | 0.75 | 0.67 | 0.9 | 0.5 | 0.5 | 0.78 | |
| OFFER LEVEL 2 | Refrence price (€/kWh/h/a) | 3.6524 | 3.7715 | 1.64 | 0.77 | / | / | / |
| | Mandatory minimum premium (€/kWh/h/a) | / | / | / | 1.27 | / | / | / |
| | PV binding commitments (€) | 215,846,924 | 159,176,078 | 210,000,000 | 114,664,369.50 | / | / | / |
| | PV estimated increase AR (€) | 495,579,471 | 2,173,439 | 600,000 | 152,787,435.41 | / | / | / |
| | F-factor | 0.43 | 0.63 | 0.9 | 0.75 | / | / | / |

Table 1: Values of the parameters of the individual economic test

3.7 SUMMARY OF THE RESULTS

The following table represents a summary of section 3 showing the number of TSOs involved during the different steps of the incremental capacity process described in this report and the outcome of each phase.



* 1 of the TSOs who proposed an alternative allocation mechanism for one of their entry-exit borders, offered incremental capacity for other entry-exit border.
 ** 2 of the TSOs who did not follow further the incremental capacity process for one of their entry-exit borders, auctioned incremental capacity for other entry-exit border.

4 CONCLUSIONS

The aim of this report is to monitor the first incremental capacity process and present on its outcomes. For the preparation of this report, 38 responses from ENTSOG members were considered. The information provided by these TSOs was crucial for analysing the market and TSOs' performance along the incremental capacity process.

As mentioned in section 3.1, the first step of the process comprises the preparation of DARs which are performed at least in each odd-numbered year and which allow TSOs to determine whether it is necessary to initiate an incremental capacity project or not. The results from the questionnaire for this report show that all the TSOs have performed and published common DARs⁶ for their entry-exit borders. After the DARs were published, 16 TSOs proceeded with the next steps of the process.

However, final results show that during the annual yearly capacity auctions in July 2018 and 2019 none of the TSOs received binding commitments from network users for incremental capacity. Due to this fact, the performance of economic tests to determine the economic viability for these projects was not necessary.

As a consequence of non-expression of binding commitments by the market, the result of the analysis for the first incremental capacity process shows that no incremental capacity projects are going to be started at this stage.

Although this outcome is showing that for the first cycle of the incremental capacity process there is no request for incremental capacity, since the existing available capacity seems adequate to cover current demand, it is beneficial to analyze the market situation and be prepared for a future demand testing.

For the moment, it can be appreciated that Chapter V of the CAM NC establishes a well designed and harmonised process for testing market demand. Furthermore, the cooperation and coordination of TSOs throughout the process and their compliance with CAM NC, shows a positive outcome of the process.

6 Except for the entry-exit border Bulgaria – Romania where no common DAR was agreed by the involved TSOs.

Picture courtesy of Open Grid Europe



ANNEX OF THE SURVEY

SURVEY PARTICIPANTS

The following European TSOs participated in the survey:

Austria

Trans Austria Gasleitung GmbH
Gas Connect Austria GmbH

Belgium

Fluxys Belgium S.A.

Croatia

Plinacro d.o.o.

Czech Republic

NET4GAS s.r.o.

Denmark

Energinet.dk

France

GRTgaz S.A.
Teréga S.A.

Germany

bayernets GmbH
Fluxys TENP GmbH
GASCADE Gastransport GmbH
Gasunie Deutschland Transport Services GmbH
GRTgaz Deutschland GmbH
Gastransport Nord GmbH
NEL Gastransport GmbH
Nowega GmbH
ONTRAS Gastransport GmbH
Open Grid Europe GmbH
terranets bw GmbH
Thyssengas GmbH

Greece

DESFA S.A.

Hungary

FGSZ Zrt.

Ireland

Gas Networks Ireland Ltd.

Italy

Snam Rete Gas S.p.A.

Lithuania

AB Amber Grid

Netherlands

BBL Company V.O.F.
Gasunie Transport Services B.V.

Poland

GAZ-SYSTEM S.A./ GAZ-SYSTEM ISO

Portugal

REN - Gasodutos S.A.

Romania

Transgaz S.A.

Slovakia

eustream a.s.

Slovenia

Plinovodi d.o.o.

Spain

Enagás Transporte S.A.U

United Kingdom

Interconnector (UK) Ltd.
National Grid Gas plc
Premier Transmission Ltd.
GNI (UK) Ltd.

TECHNICAL ANNEX

Annex 2: Incremental monitoring responses from TSOs

Annex 3: Design phase (consultation)

ABBREVIATIONS

| | |
|---------------|---|
| ACER | Agency for the Cooperation of Energy Regulators |
| CAM | Capacity Allocation Mechanisms |
| DAR | Demand Assessment Report |
| ENTSOG | European Network of Transmission System Operators for Gas |
| EU | European Union |
| IP | Interconnection Point |
| NC | Network Code |
| NRA | National Regulatory Authority |
| TSO | Transmission System Operator |

LEGAL DISCLAIMER

This report was prepared by ENTSOG on the basis of information collected and compiled by ENTSOG from its members immediately after the annual yearly auction in July 2019. All content is provided “as is” without any warranty of any kind as to the completeness, accuracy, fitness for any particular purpose or any use of results based on this information and ENTSOG hereby expressly disclaims all warranties and representations, whether express or implied, including without limitation, warranties or representations of merchantability or fitness for a particular purpose. Any change after the approval

of this report on the incremental capacity process of an individual Transmission System Operator has not been included in the present report.

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