ENTSOG – Kick Off Meeting for the Incremental Proposal
14 January 2014

Kick Off Meeting for the Incremental Proposal
Welcome

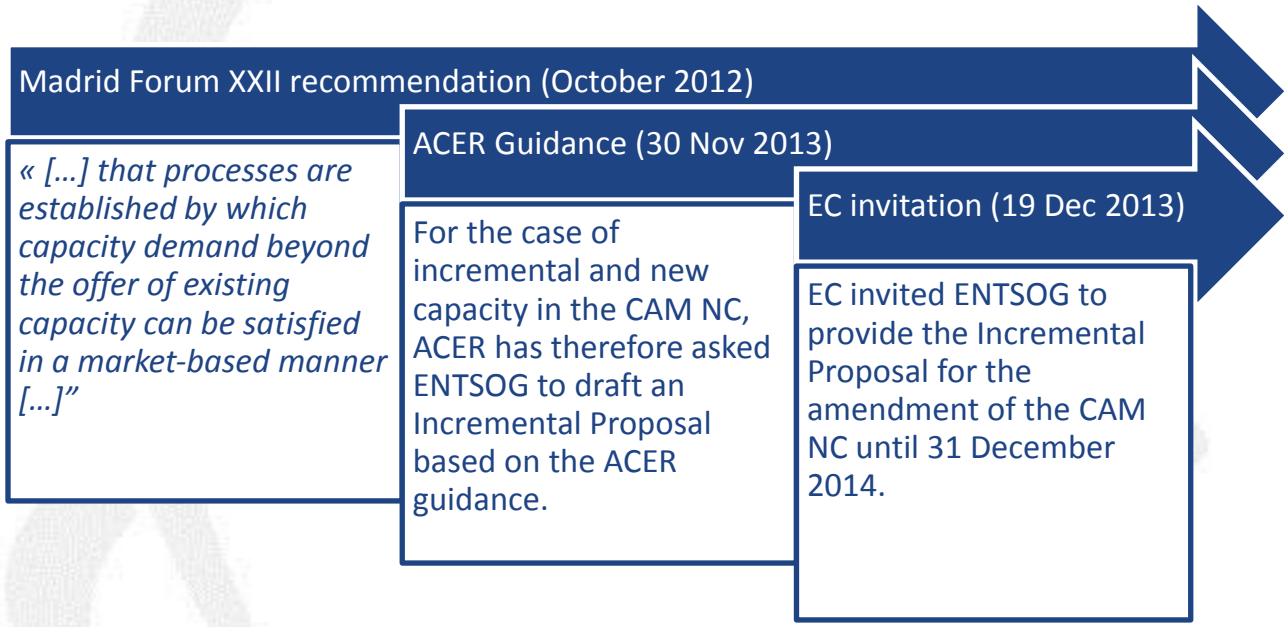
Jan Ingwersen

Business Area Manager

Market Area

14 January 2014

Madrid Forum recommendation



ENTSOG mission and commitment

To deliver on ‘Third Package’ requirements, including:

- Network codes
- 10-Year Network Development Plans (TYNDPs)
- Building on past experience
- Same procedures as network codes

Stakeholder engagement

- Regulation 715/2009 obliges ENTSOG to

« Conduct an extensive consultation process, at an early stage and in an open manner, involving all relevant market participants»

- ENTSOG therefore strides to listen and to be responsive in order to identify and promote a properly functioning Internal Energy Market

entsog

fair partner to all

Best wishes for a constructive dialogue and productive outcome of the SJWS

Jan Ingwersen

Business Area Manager, Market Area

jan.ingwersen@entsog.eu

14 January 2014

Kick Off Meeting for the Incremental Proposal Objectives

Mark Wiekens

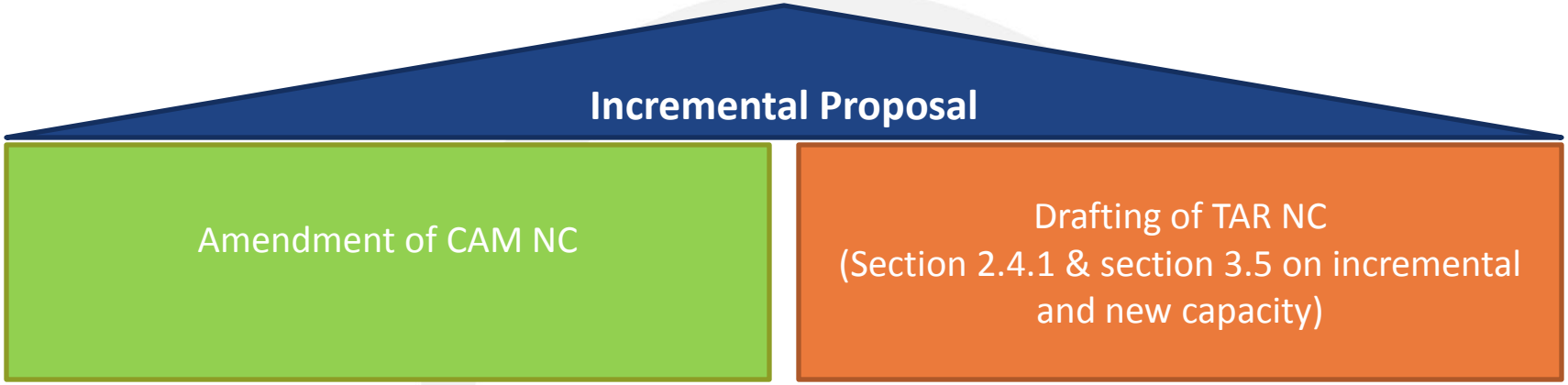
Adviser, Market

14 January 2014

Introduction

1. Incremental Proposal, scope and defintions
2. Objectives of the Kick Off Meeting
3. Agenda
4. Housekeeping matters

The «Incremental Proposal»



- Conditions for when to offer incremental/new capacity
- Integration of auctions for existing and incremental capacity
- Conditions for the use of open seasons and choice of allocation procedure
- Cross-border coordination process and rules on information provision

- Definition of parameters for the economic test
- Process for agreeing on a single economic test
- Setting and adjustment of tariffs for incremental/new capacity

Definitions

Term	Definition
Existing capacity	*« […] means the technical capacity at an existing interconnection point which is already in place before the time of the capacity allocation. »*
Incremental capacity	*« […] capacity that could be made available at existing interconnection points beyond the level of existing capacity based on an investment or a long-term capacity optimisation. »*
New capacity	*« […] technical capacity that could be created at a new interconnection point where no capacity existed before, as well as physical reverse capacity at an existing interconnection point, which has not been before.»*
Open Season Procedure	*« […] a procedure where a transparent and non-discriminatory call for binding commitments of any party for capacity is made by a group of TSOs together spanning two or more markets areas, which may be preceded by non-binding expressions of interest of any party, in order to base an investment decision for a capacity expansion on the obtained commitments. »*

Objectives for the Kick Off Meeting

- Presentation of the process, stakeholder involvement, consultation process
- Institutional view on the Guidance
  - ACER explaining the Guidance – followed by Q&A
  - EC setting the context
- Topic identification: ENTSOGs preliminary view
- Stakeholders view

Agenda for the day – morning

No.	Description	Time
	Welcome Coffee & Registration	**10.00-10.30**
1.	Opening ➢ Welcome / Introduction ➢ Objectives	**10.30-10.50**
2.	Project Plan Presentation ➢ Presentation of the process ➢ Stakeholder Involvement ➢ Consultation process	**10.50-11.10**
	Coffee break	**11.10-11.30**
3.	ACER view on the ACER Guidance and context ➢ ACER presentation on Guidance ➢ Q&A	**11.30-13.00**
	Lunch Break	**13.00-14.00**

Agenda for the day - afternoon

	Lunch Break	**13.00-14.00**
4.	EC presentation on context for the Incremental Proposal	**14.00-14.15**
5.	Topic Identification: ENTSOG's view on the Incremental Proposal	**14.15-15.15**
6.	Stakeholders' views on the ACER Guidance	**15.15-16.15**
	Coffee Break	**16.15-16.30**
7.	**Conclusions** ➢ Stakeholder discussion ➢ Final summing up ➢ Information about the Incremental Proposal SJWS1 – which topics will be discussed	**16.30-17.00**
Next event: Monday 10th February 2014 → 1st Incremental Proposal SJWS		

Housekeeping – general information

- **Fire escape**
- **Webcast**
- **Attention to the wires**
- **Media is welcome at the Kick Off Meeting**

Any Questions or comments?

Project Plan Presentation for the Incremental Proposal

Frederik Thure

Market Area

14 January 2014

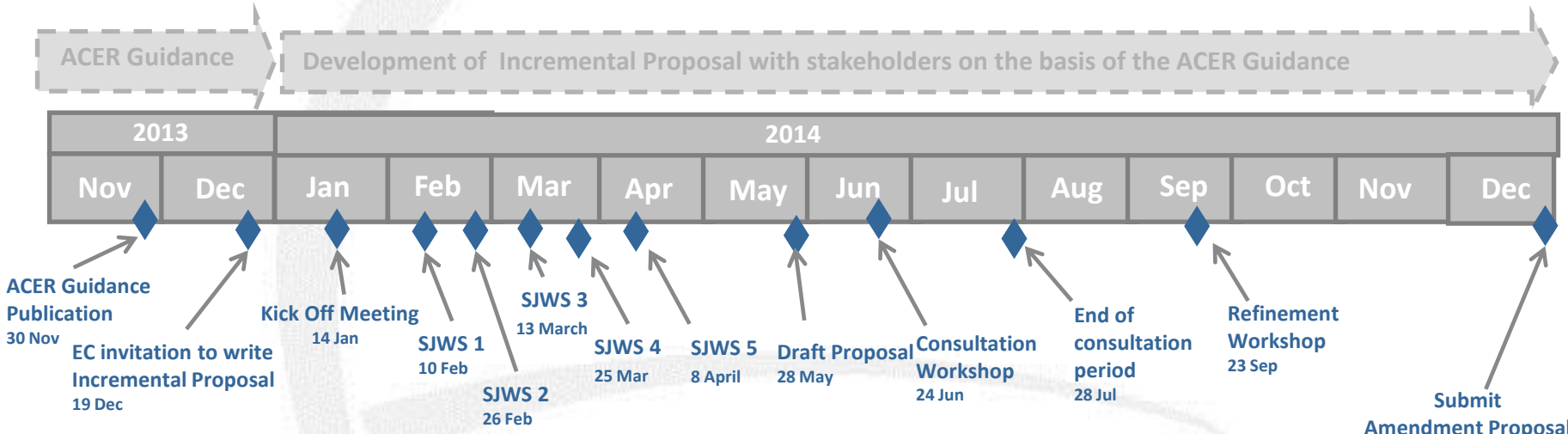
Phases in ENTSOG's Incremental Proposal Development

STAKEHOLDER INVOLVEMENT

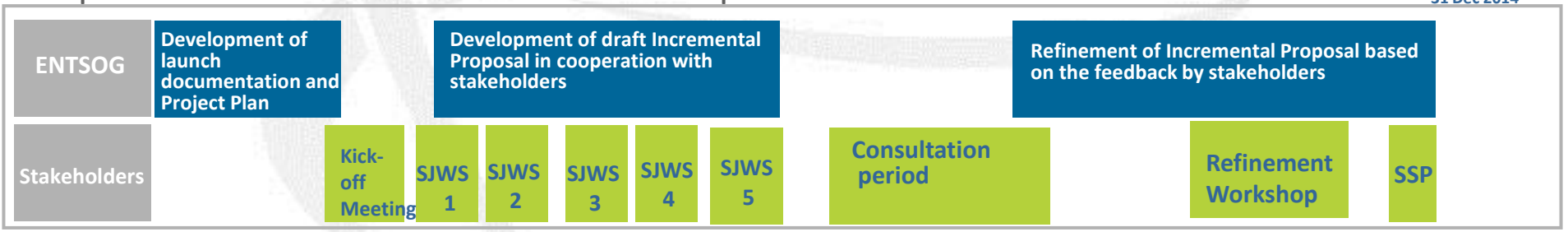
- KICK OFF MEETING
- PROJECT PLAN CONSULTATION
- LAUNCH DOCUMENTATION
- STAKEHOLDER JOINT WORKING SESSIONS
- FORMAL CONSULTATION
- CONSULTATION WORKSHOP
- REFINEMENT WORKSHOP
- STAKEHOLDER SUPPORT PROCESS

INFORMAL, BI-LATERAL and ADHOC INTERACTIONS AS REQUIRED THROUGHOUT THE PROCESS

Timeline for incremental proposal Development and consultation overview



Main phases of activities of ENTSOG and stakeholders in BAL NC process



SJWS 1
- Definitions
- Coordination Requirements
- Information Provision
- Economic Test
- Tariff-relaed issues

SJWS 2
- When to Offer
- Auctions
- Open Seasons

Procedures

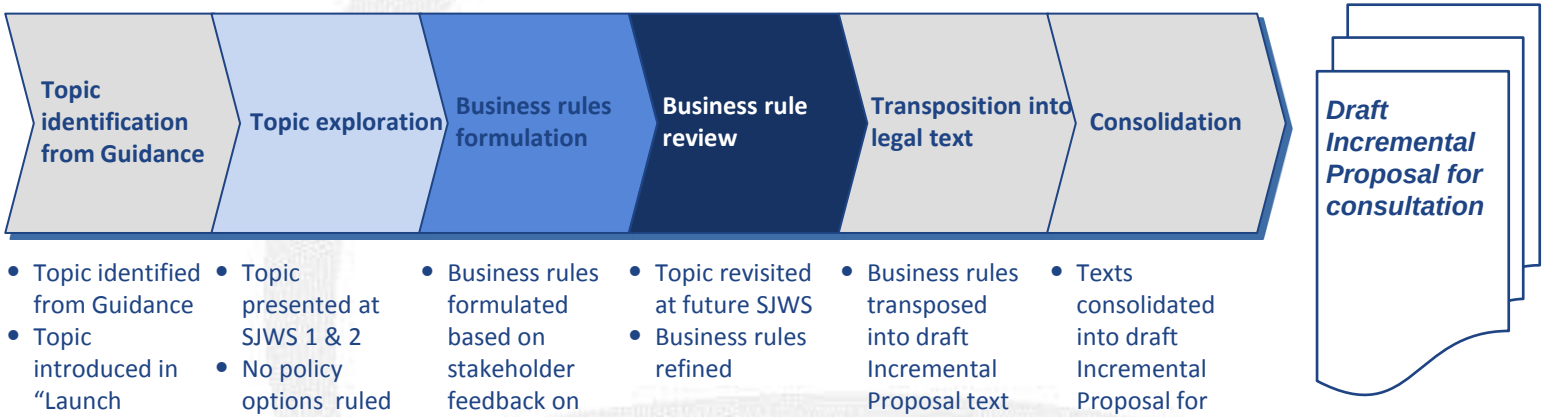
SJWS 3
- Definitions
- Coordination Requirements
- Information Provision
- Economic Test
- Tariff-relaed issues

SJWS 4
- When to Offer
- Auctions
- Open Seasons

Procedures

SJWS 5
- Content to be confirmed

Incremental proposal development – from identification to draft text



- Topic identified from Guidance
- Topic introduced in "Launch Documentation" and at Kick Off Meeting

- Topic presented at SJWS 1 & 2
- No policy options ruled out at this step
- Stakeholder input received

- Business rules formulated based on stakeholder feedback on SJWS 3 & 4
- No policy options ruled out at this step
- Stakeholder input received

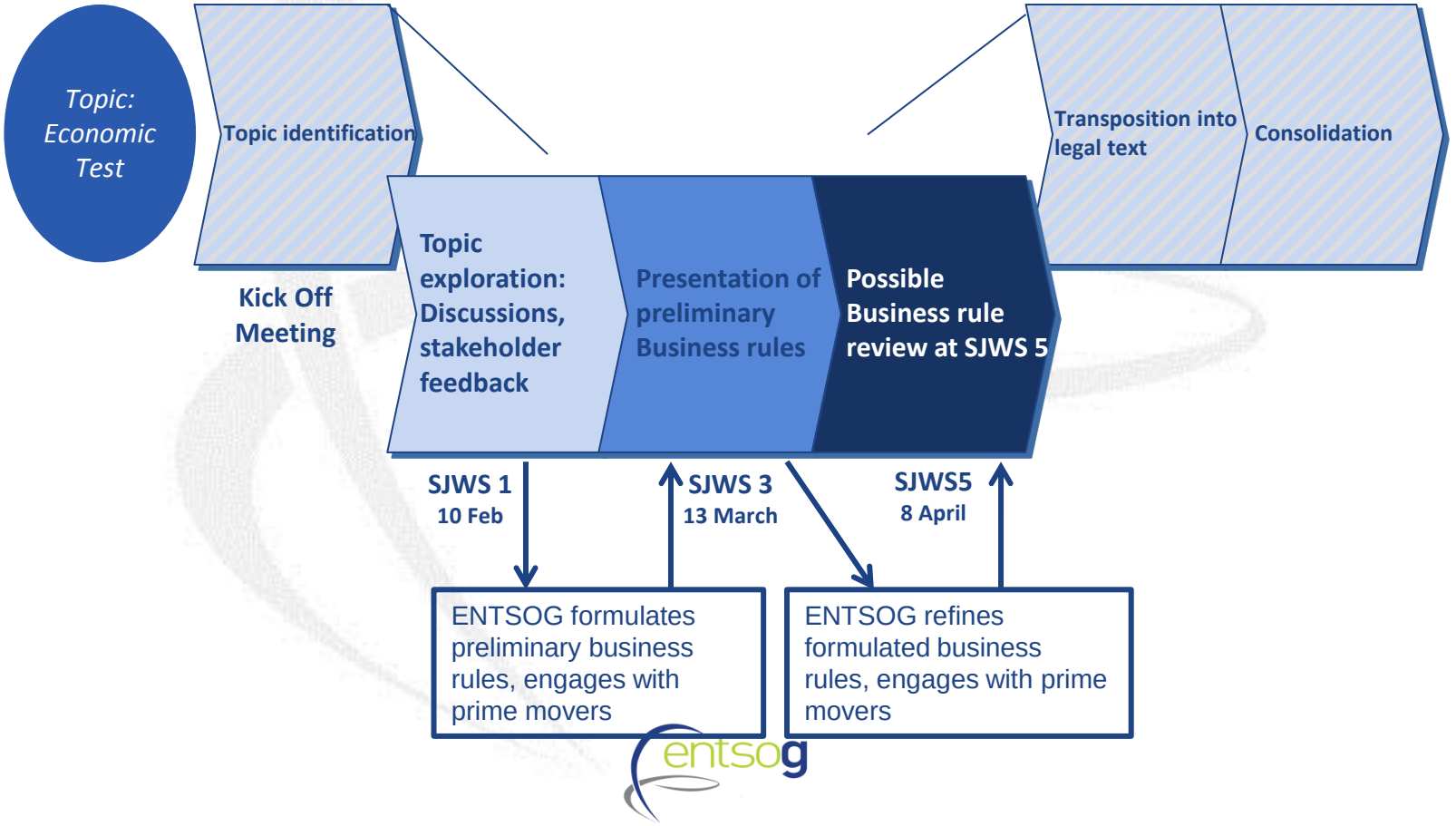
- Topic revisited at future SJWS
- Business rules refined

- Business rules transposed into draft Incremental Proposal text

- Texts consolidated into draft Incremental Proposal for consultation

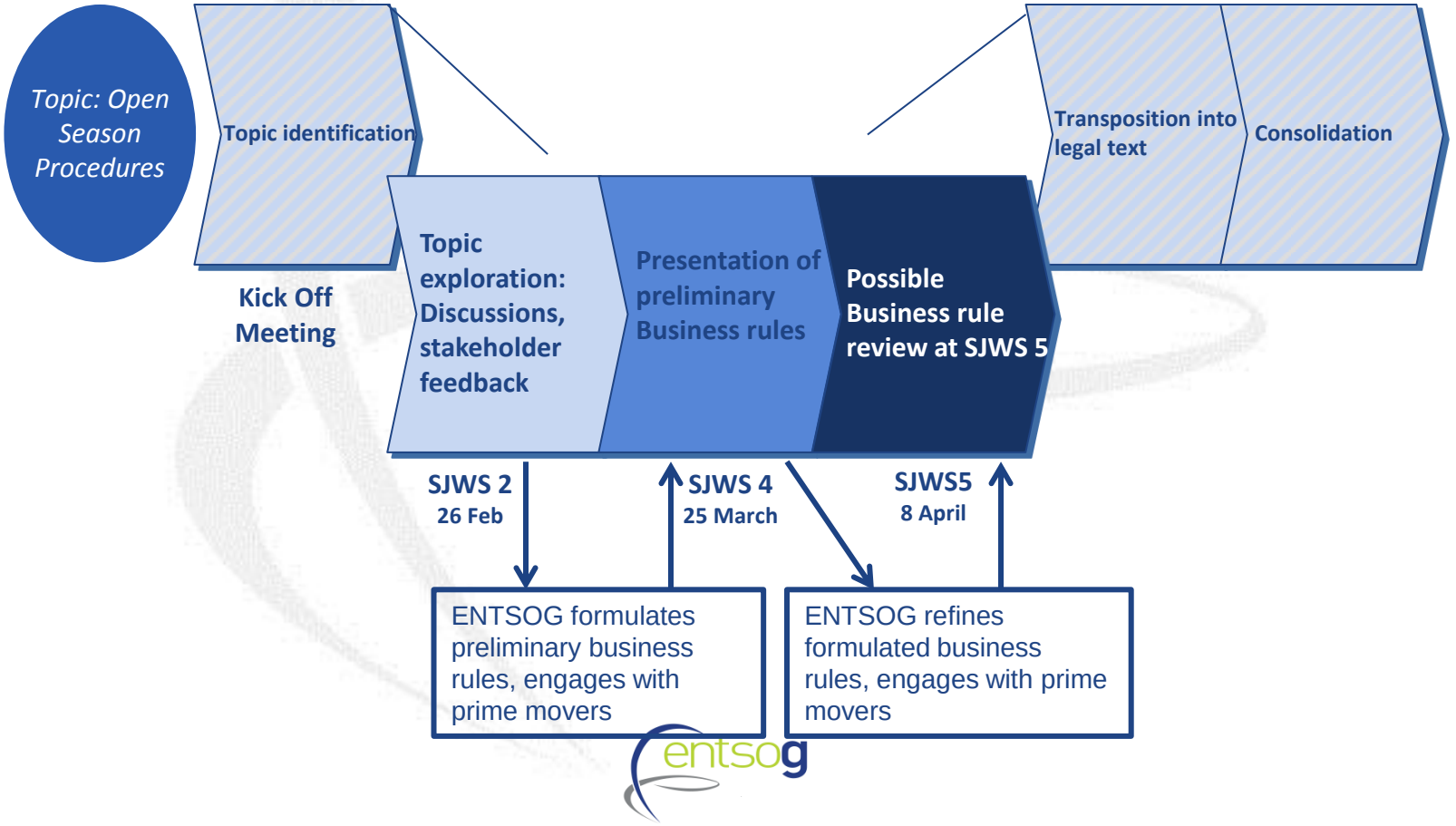
Economic Test – from topic identification to legal text

EXAMPLE



Open Season Procedures– from topic identification to legal text

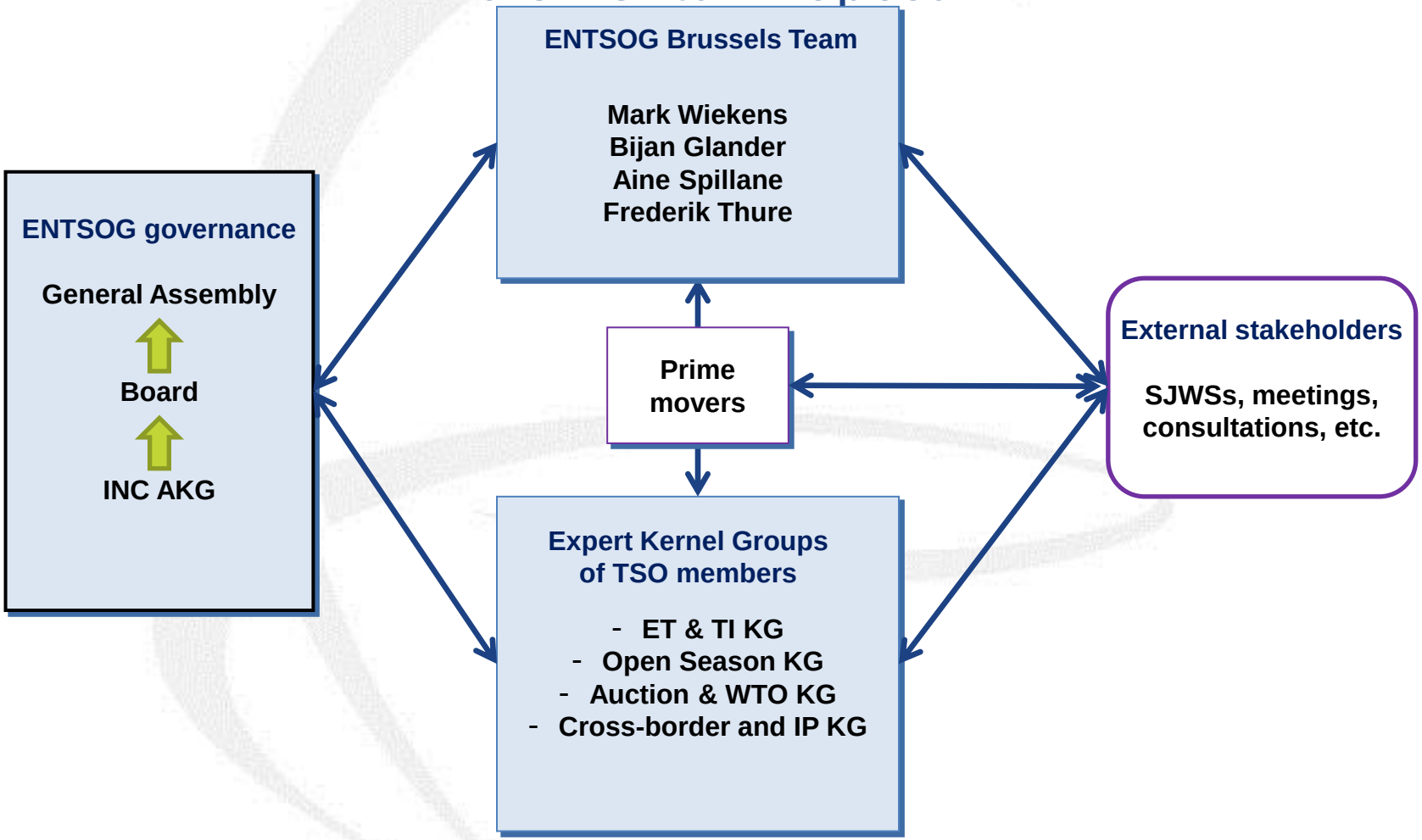
EXAMPLE



Stakeholder involvement: Level of participation

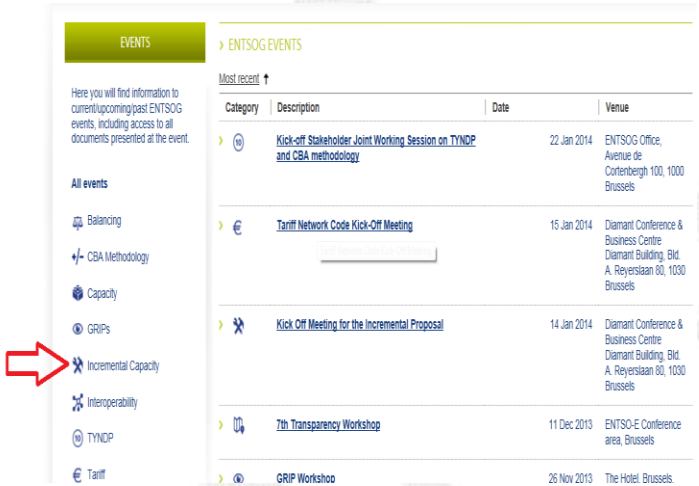
Level	Description	Comments
1	Prime Mover	Committed to work on a bilateral basis and dedicate a lot of resources to assist formulate and evaluate/refine ideas/proposals for SJWS consideration – commitment to be intensive and involving many days during intensive phases of the network code development
2	Active SJWS Participant	Expected to attend all SJWS and to read and review all material prior to meetings and to be prepared to explore detail within the SJWS – commitment of around 3 days per month during intensive period of activity
3	Consultation Respondent	Will respond to consultations
4	Observer	Expected not to actively contribute to the development effort or to participate in the formal consultations

ENTSOG-internal organisation for delivering the Incremental Proposal



Website www.entsog.eu

Events page: Access to information about upcoming events



Incremental site: Access to downloads, project plan, background documents.

Next update process update on SJWS 1 10 February

- Update on the outcome of the project plan consultation
  - Type of respondents: Organisations, companies etc.
  - Potential improvements to the timeline, frequency of meetings etc.
  - Level of stakeholder commitment (Prime movers, active SJWS participants etc.)
  - Content: Do we have the right topics covered? Is the schedule for covering the projects adequate given the strict timeline?
  - Use of webcast
- Incremental Proposal
  - Initial discussion on structure of the Incremental Proposal

Any Questions or comments?

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ACER
Agency for the Cooperation of Energy Regulators

ACER Guidance on Incremental

Johannes Heidelberger
Co-Chair of the incremental ACER WS
François Léveillé
Co-chair of tariff & incremental ACER WS

ENTSOG kick-off workshop
14 January 2014

ACER Guidance – rationale

- ACER guidance on incremental and new capacity aims at developing harmonized approaches to market-based procedures
- Objective: spelling out general obligations from Reg 715/2009 and Dir 2009/73 for market testing and investment; addressing cross-border co-ordination issues
- Thereby striking the balance between network user requirements and economic feasibility, while minimising stranded asset risk

Incremental capacity, background and issues

- During the CAM process, many stakeholders requested that incremental capacity would be part of the scope
  - To facilitate the negotiations, it was decided to work on existing capacity only
  - Focus on the hub to hub model with bundled products
  - The development of auctions was particularly complex, with a focus on congested situations
- The treatment of incremental capacity was postponed to later processes

Incremental capacity, what are the issues?

- Key content issues:
  - Consistency with CAM: how to "make fit" the auction algorithm?
  - Co-ordination x-border (e.g. bundled capacity offer)
  - Tariffs have to allow covering the costs while enabling long term commitment
  - Transparency and non-discrimination
- Procedural way forward:
  - Amendment of the CAM network code on allocation and co-ordination aspects, request ENTSOG to develop text proposal in parallel to NC Tariff
  - Include supplementary parts to the Network Code on Tariff Structures

ACER Guidance, content

a) ***Definitions***: ENTSOG invited to improve and supplement, minimum necessary, taking into account existing definitions

b) ***When to offer incremental and new capacity:*** 3 criteria that spell out the general obligation from Reg 715/2009 to regularly test demand for investment, striking the balance between market interest and resource intensive processes. Planning criterion is in TSO hands, booking criterion is an objective criterion, and network user criterion fills any gap still remaining from first two criteria.

ACER Guidance, content 2

c) ***Co-ordination requirements:*** Aim is enabling testing of bundled capacity. TSOs are experts in project timelines, ENTSOG therefore requested to devise sensible co-ordination and decision steps to reach this aim.

d) ***Information provision:*** Only informed TSOs, NRAs and market participants can make informed decisions. Guidance identifies minimum catalogue of information to be provided.

ACER Guidance, content 3

e) ***Integration of incremental and new capacity into the NC CAM long-term allocation procedure:*** "Heart" of the amendment proposal. Making allocation algorithm "fit for" market testing – relaxing constraint on supply volume. ENTSOG might want to built on work done by Frontier economics and continue the work on impact assessment

f) ***Open Season Procedures:*** NC CAM long-term allocation procedures might not yield satisfactory result due to size and complexity of projects, therefore, more flexible open seasons are admissible, with respect to process timeline, allocation procedure and duration

However, no deviation from principles: bundling, short term quota, market based, non-discriminatory, transparent

Tariff issues, general principles

- In market based capacity development, investment is validated when user commitments (i.e. long term bookings) allow to cover the costs
  - **Principle**: determine a financial threshold to trigger investment decisions
  - **Objective**: showing that the investment project is financially viable considering network users' binding commitments
- Principle of an "economic test":
  - Bookings*tariffs are compared to the costs
  - Main variables: offered capacity (volume and duration) and tariff level

Economic Test for Investment decision

- A **harmonised test based on a financial evaluation** comparing:
  - **PV_{UC}** which is the present value of expected users' commitments and
  - **PV_{AR}** which is the present value of the estimated potential increase in allowed revenue;
  - **f:** single cost coverage level.
- PV_{UC} shall reach a certain fraction f of the PV_{AR} ;
- The formula:

$$\boldsymbol{PV_{UC} \geq f \bullet PV_{AR}}, \; f \leq 1$$

The level of cost coverage ('f')

- The minimum level of cost coverage (f) shall take into account:
  - Duration of users' commitments compared to the economic life of the asset;
  - Capacity set aside for short term bookings;
  - Externalities (improvement of 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 (1/2)

- By default, the reference (annual) price resulting from the application of the **cost allocation methodology** applies to incremental capacity.

- In the specific case **where selling all the incremental capacity at this price would not generate sufficient revenues** to pass the economic test, NRAs may adjust the reserve price.

- This tariff adjustment shall :
  - preserve the **integrity of the economic test**
  - **avoid cross-subsidy** between network users
  - be **compatible with the cost allocation** methodology
  - **avoid fragmentation** of reserve prices at the same point

Interaction between the economic test and tariffs (2/2)

- Considering those principles, **the default adjustment mechanism should be to apply a minimum mandatory premium** in the first auction in which incremental capacity is offered (i.e. only to the bookings triggering the investment).

- Consistently with the same principles, **ENTSOG shall consider alternatives approaches** where users who did not commit in the first place but benefit from the investment would also bear a part of the costs.

ACER
Agency for the Cooperation of Energy Regulators

Thank you for your attention!

www.acer.europa.eu

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The context of the incremental and new capacity project

ENTSOG Kick-off Workshop on Incremental and New Capacity
Brussels, 14 January 2014

Kristóf Kovács – European Commission, DG Energy

Overview of NC development process

Incremental and new capacity

Interoperability & data exchange

Prep. for comitology

Balancing

Last stages

Capacity allocation

Transmission tariff structures

Rules for trading related to network access

Scoping

Congestion management procedures

CAM NC in force and early implementation well underway

- Commission Regulation (EU) No 984/2013 of 14 October 2013 (CAM NC) adopted

- Early implementation work well underway
  - Prisma platform and other platform initiatives
  - Bundled product pilots

All set to achieve full implementation by 1 November 2015!

European Commission

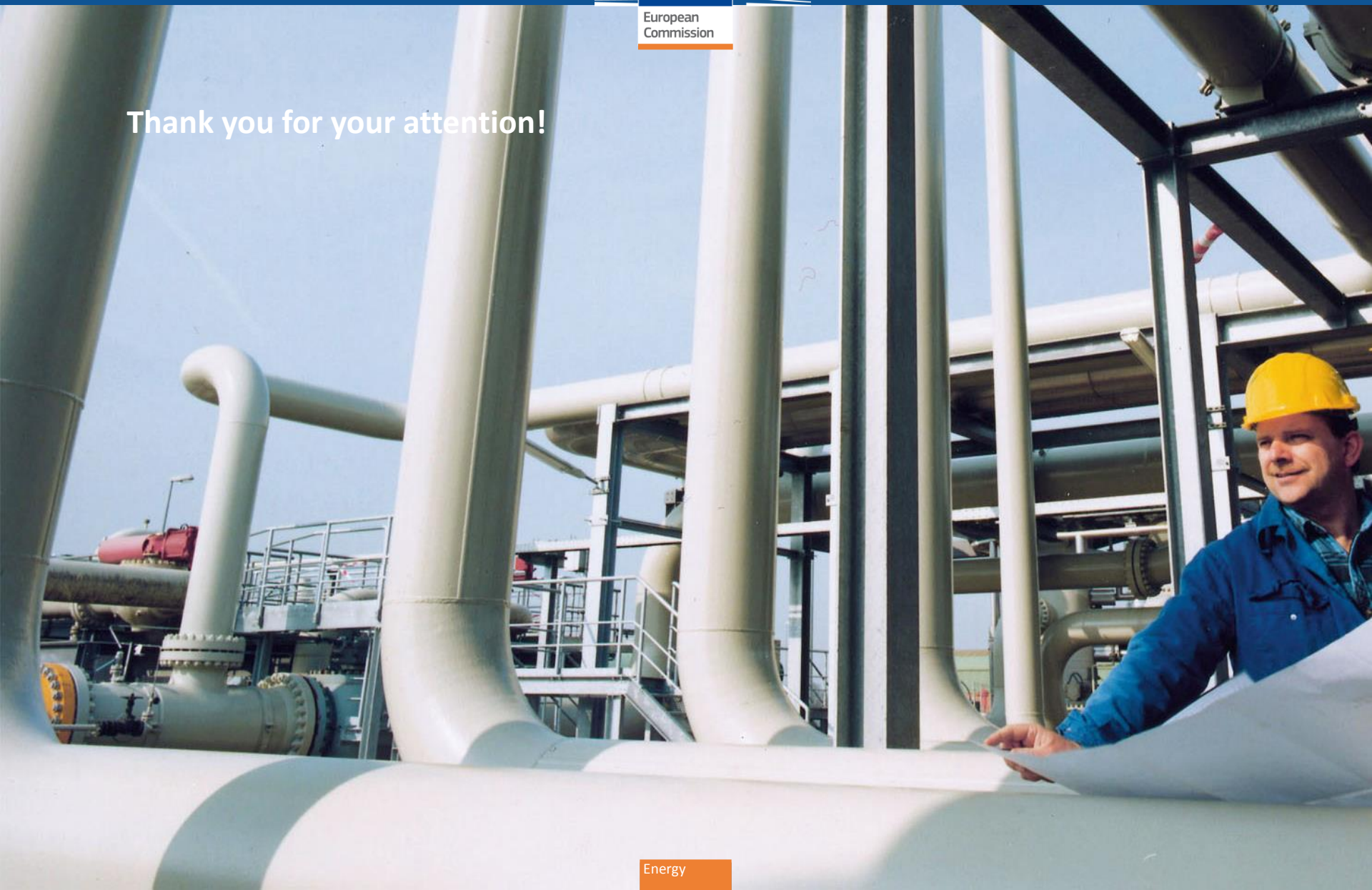
Incremental and New capacity as a CAM NC "module"

- Discussion for the need for including "incremental" launched in Madrid Forum discussions but topic deemed too complex for inclusion in CAM NC
- Incremental capacity also important recurring theme of EU-Russia discussions in the Gas Advisory Council
- CAM NC amendment (basis Article 7(1) of GasReg) not meant to reopen/renegotiate CAM NC but to integrate text for incremental/new capacity
- Obviously any amendment of technical nature deemed necessary at time of comitology will also be put forward by EC

European Commission

EC looking forward to incremental/ new capacity work lead by ENTSOG

- ACER has delivered a good Guidance paper that can serve as the basis for the ENTSOG work
- EC looking forward to usual robust ENTSOG process of developing NCs
- Assessment of impacts, including analysis of base case and options should feature prominently in SJWSs work (serving as the foundation of conceptual work)
- Need for alignment with Tariff NC work clear
- EC ready (as usual) to be/remain involved throughout the process
- After delivery of NC amendment end 2014 , ACER amendment proposal and comitology in 2015/early 2016 – implementation target remains yearly auctions in 2017


European
Commission
Thank you for your attention!
Energy

Topic Identification: ENTSOG's preliminary view on the Incremental Proposal

Incremental Capacity Proposal

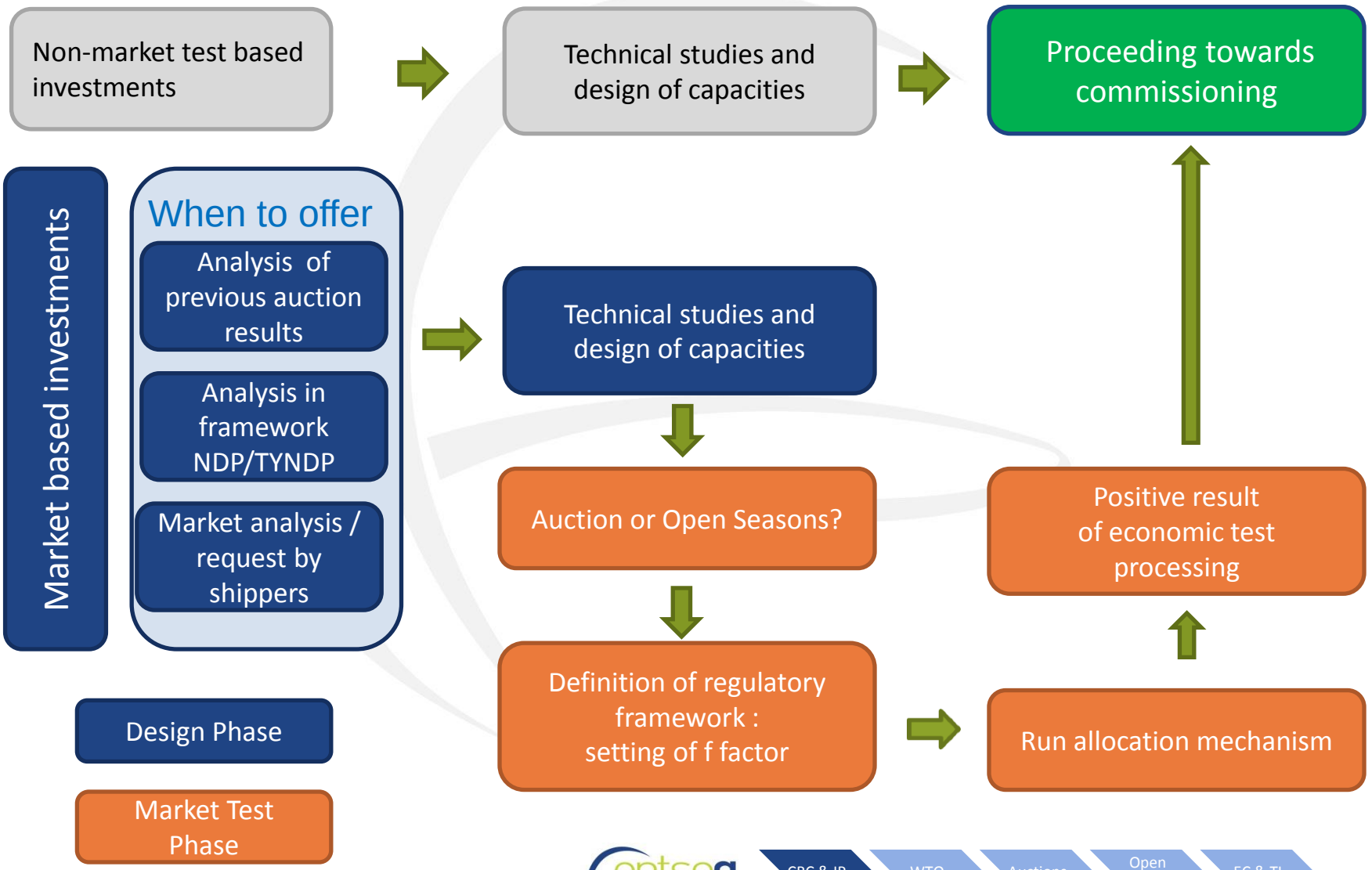
Kick-Off Meeting

14 January 2014

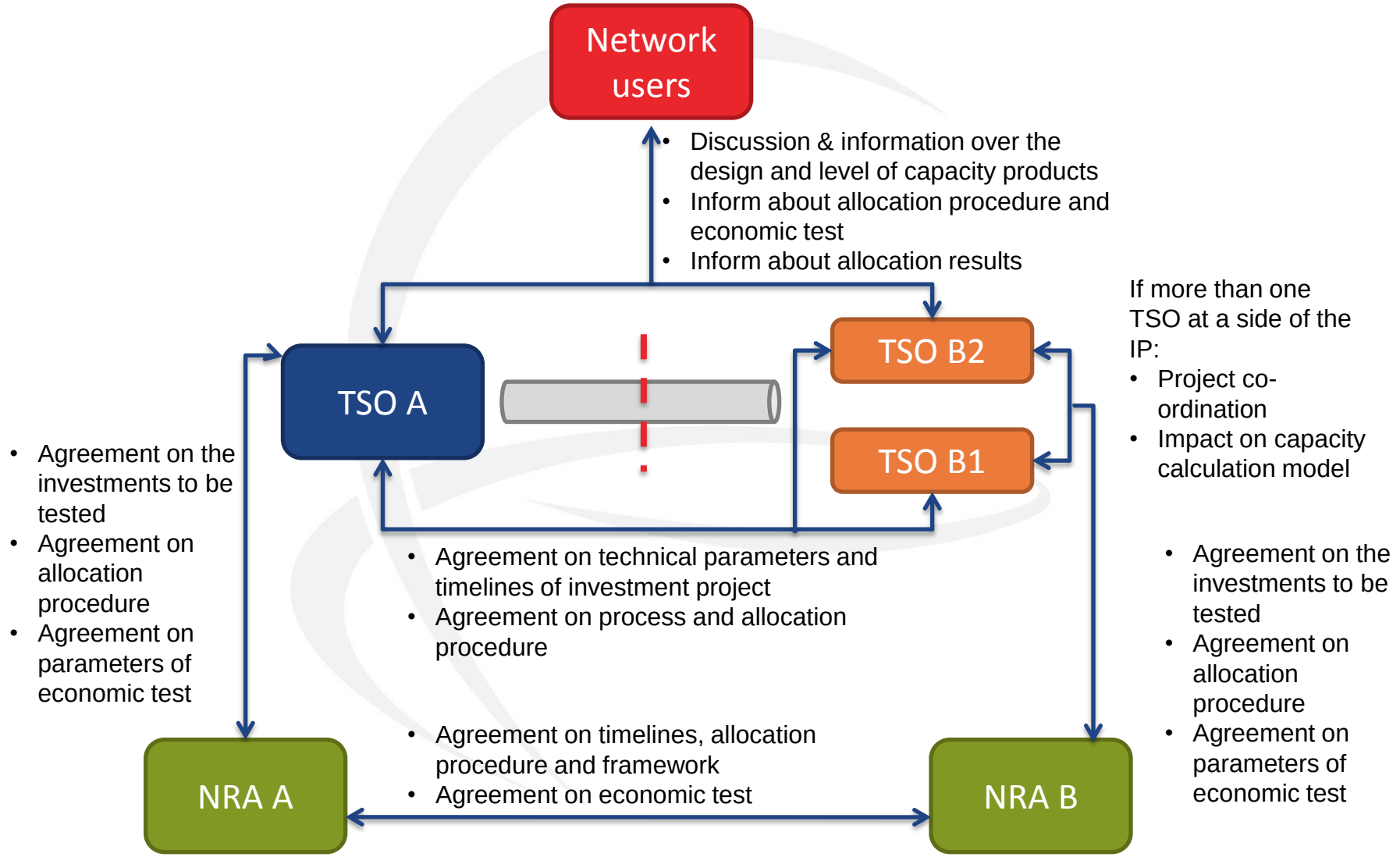
ENTSOGs preliminary view: Agenda

1. Cross Border Co-ordination and Information Provision
2. When to Offer Incremental & New Capacity
3. Auction Procedure
4. Open Season Procedure
5. Economic Test and Tariff Issues

Incremental Capacity Process

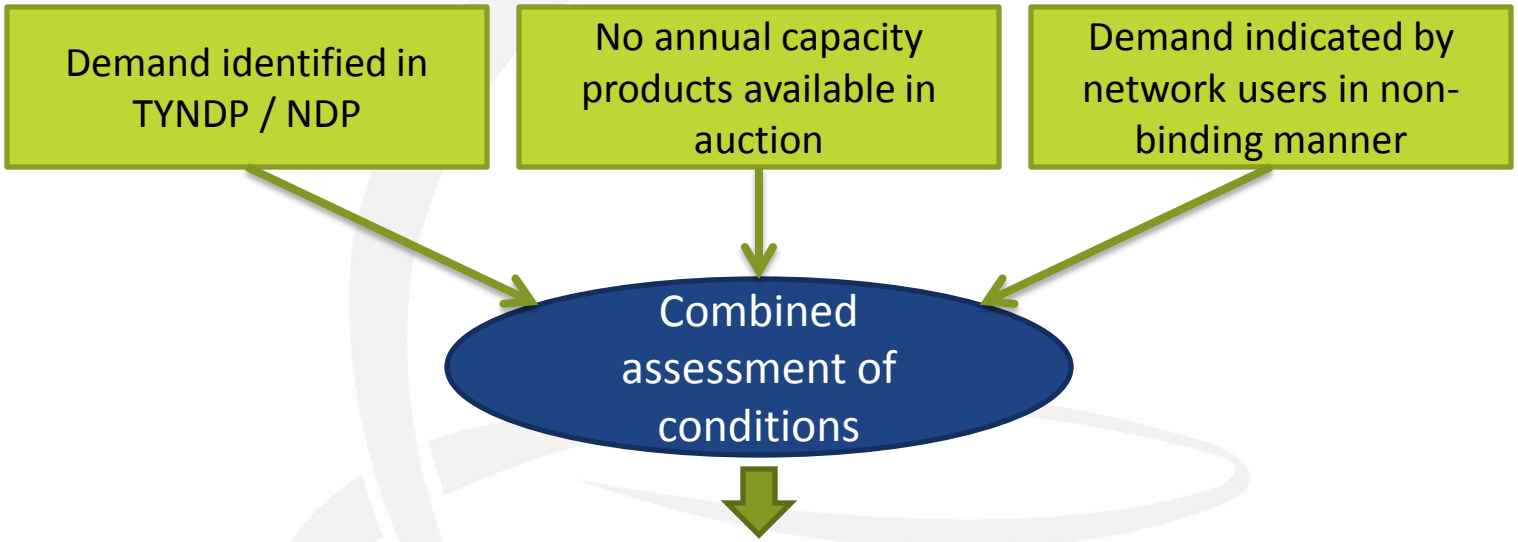


Co-ordination and Information Provision



When to offer incremental capacity

ACER Guidance provides three conditions potentially leading to the offer of incremental/new capacity:



Alternative approach: individual assessment of conditions linked with the necessity to place conditions for the acceptance of non-binding indications and incentives for network users not to indicate a demand larger than they are actually willing to underwrite a capacity contract for.

Non-binding capacity demand indications

- Network users shall have the possibility to express their demand for additional capacity at an IP or along a transportation route to the respective TSOs

- ENTSOG is asked to define:

  - The process for expressing such demand
  - A time window for when demand can be expressed
  - The required content of non-binding indications
  - Factors to judge on the sufficiency for non-binding indications leading to the offer of incremental/new capacity

Possibility to revise bids if economic test fails

ENTSOG is requested to consider:

- *the possibility for network users to revise their bids if the economic test fails for incremental and new capacity;*

ACER Guidance, P. 6

ENTSOG preliminary view:

1. Questionable whether bidders which were willing to book a certain amount of capacity at a specific price would increase their bids at such price in order to bring about a positive economic test although the request would need to be higher than the capacity which is actually needed at that price.
2. All long-term auctions run in parallel as they are interdependent and thus allowing a revision of bids in one auction would potentially require to **allow the revision of bids in all auctions**;
3. Allowing the revision of bids could incentivise NUs **not to disclose their actual demand** for capacity in the first round, speculating on others to commit to make the investment happen.

Revision of bids risks to be not in line with the request to maintain the integrity of the ascending clock algorithm.

Auction procedure for incremental capacity

ACER Guidance states that the auction procedure shall allow for:

- A cost-efficient, non-discriminatory and transparent allocation of capacity that takes into account willingness to pay;
- The possibility of allocating existing capacity regardless of economic test outcome;
- The possibility to accommodate different starting prices;
- The possibility to express different demand curves for different increment scenarios.

Achieved in parallel bidding ladders:

Bidding Ladder Base Case (only existing):

Price	Cap on offer	Year 1	Year 2
X	100	100	100

Bidding Ladder Level 1 (Existing plus 25 INC):

Price	Cap on offer	Year 1	Year 2
Y	125	125	125

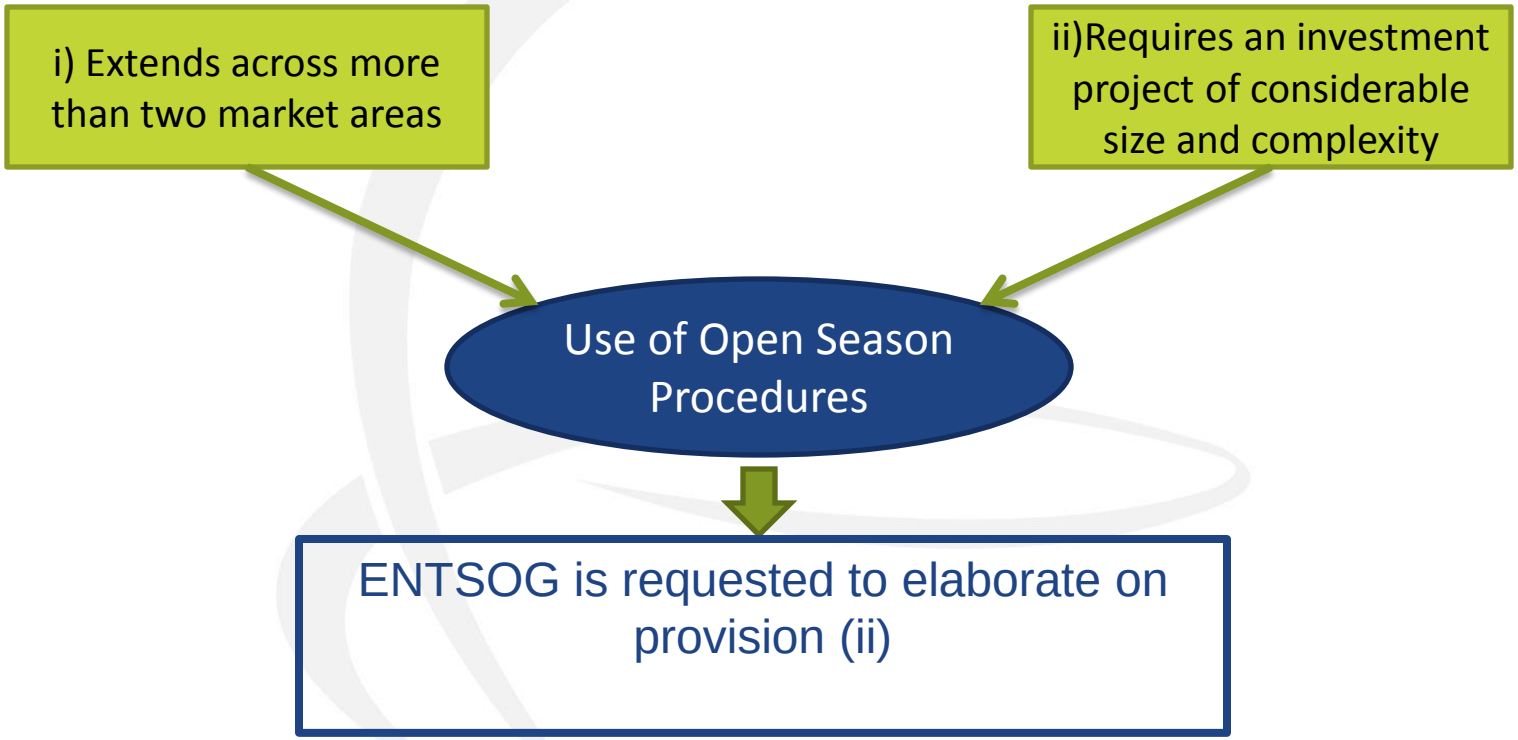
Bidding Ladder Level 2 (Existing plus 50 INC):

Price	Cap on offer	Year 1	Year 2
Z	150	150	150

Shipper bidding for bundled capacity at one IP with incremental capacity on offer

Acer Guidance on Open Season Procedures

ACER Guidance states two conditions where Open Seasons Procedures (OSP) could be used instead of auctions:



When to choose OSP instead of auctions

- ENTSOG should analyse and specify circumstances or situations where OSP are more suitable than auctions

- Examples of situations where OSP could be more suitable than auctions:
  - Setting up a gas route with many interconnections points (IP)
  - Highly interconnected networks where the incremental projects involve more than one IP
  - The range of potential projects is too wide to come to an efficient outcome in an auction
  - When the horizon of user commitments that is necessary to pass the economic test is expected to be higher than the 15 years ahead provided in the auctions
  - When the number of prospective customers is expected to be very low and non-standard flexibility is strongly improving the likelihood of securing requested level of commitment

Terms and conditions for an OSP

- Decision to test via auction or Open season is subject to NRA approval and the terms of OSP should be approved by all the NRAs
- According to the Guidance, an OSP should comply with the following principles:

  - It should "*offer non-discriminatory opportunities to make commitments for capacity products.*"
  - The capacity expansion should aim at *"satisfying all commitments as far as this is overall efficient and economically feasible."*
  - *"Prorating should be the only other fall-back allocation rule that should be allowed to arrive at an efficient investment size that maximises the degree to which user requests are fulfilled "*

Open Season Phases

I. Non-binding assessment phase

- TSO assess level of capacity that the market needs and terms and conditions of these
- Main elements are maturity of demand and size of the market commitments.
- Some customers can have special requirements related to the project subject to NRA approval
- Assessment could integrate studies of additional capacity

II. Binding capacity allocation phase

- The TSO offer capacity to OS participants
- If satisfactory, OS participants sign binding agreement with sponsor
- Allocation capacity method must be transparent and non-discriminatory
- All information requirements will be agreed before process starts

Flexibility in the allocation mechanisms of OSP

- In an OSP, flexibility can be given to network users who most contribute to PVUC.
- In a few cases, it could therefore be beneficial or even necessary to allow for certain priorities in an OSP.
- Examples:
  - Linking of routes: The bid for IP1 will only be binding if the same amount is obtained for IP2.
  - Flat capacity: A network user bid will only be binding if he gets the same amount of capacity during the whole period requested
  - Network could be allowed to define a minimum amount of capacity to accept the request.

Economic Test Formula

PVUC ≥ f * PVAR

Parameter	Definition
PVUC	Present Value of User Commitments Calculated as the value of user commitments (quantity * tariff), discounted by the cost of capital for the time that capacity is offered.
PVAR	Present Value of Allowed Revenues* Reflects the value of allowed revenues that are linked to a specific investment discounted by the cost of capital. * term "Allowed Revenues" covers also "Regulated Revenues" in price-cap regimes
f-factor	Reflects the share of PVAR, that needs to be covered by the present value of upfront commitments by network users (PVUC) in order to pass the economic test.

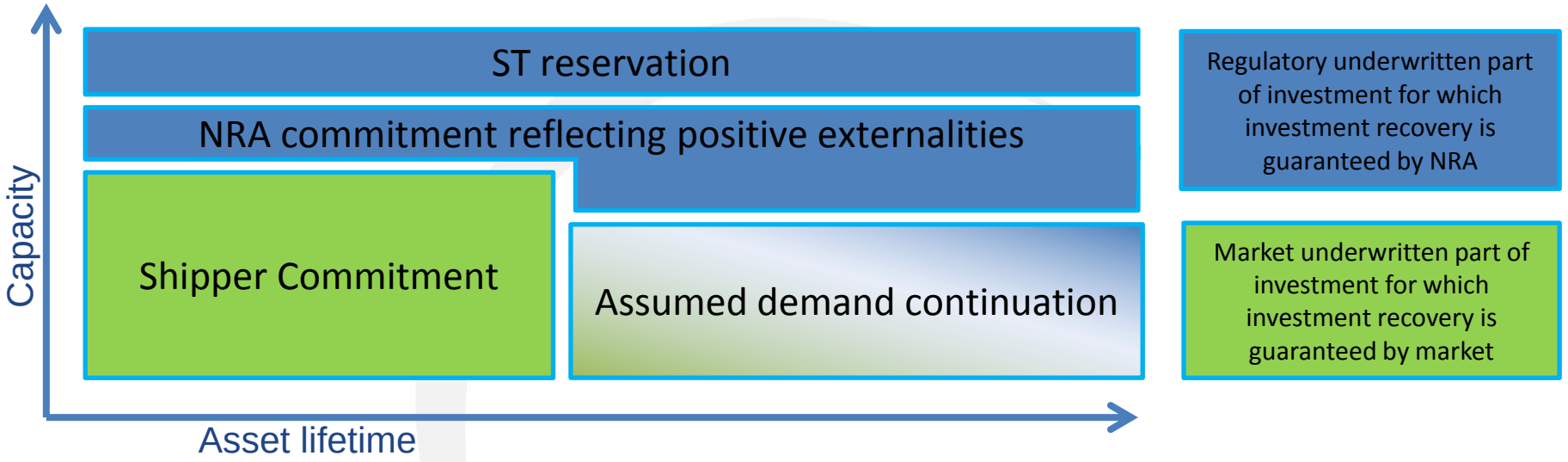
Present Value of Non-Market Commitments

By setting the share of required network user commitment to underpin an investment, the share of non-market commitment (PVNC) is implicitly defined.

- In **systems where the revenues of the TSOs are guaranteed**, the deemed investment costs are to be included in the regulated asset value, thus the PVNC is guaranteed by future network user payments;

- In **price cap regimes**, the revenue recovery system is insufficient to guarantee full recovery of the investment costs, therefore PVNC must be guaranteed by other non-market mechanisms or in exchange for a higher risk premium.

Setting the f-factor



Positive externalities: Shall compare current costs of network users to benefits for them from the investment.

Higher externalities ==> Lower f-factor

Assumed demand continuation: Based on LT assessment on security of continuance of demand after booking horizon.

Longer commitment period ==> Higher f-factor

ST reservation quota: The recovery of costs related to the part of incremental/new capacity set aside for short term bookings shall always be guaranteed by the NRA or Member state. In transit countries and price cap regimes, applying the ST reservation quota to incremental/new capacity can be an obstacle for passing the economic test.

Higher quotas ==> Lower f-factor

Tariff related issues

- Minimum price for incremental capacity is the reference price as determined by the cost allocation methodology
- Floating price (actual regulated tariff + auction premium) also applies for incremental capacity
  - ➡ Tariff evolvement forecast needed to calculate PVUC

- Where even demand of all offered incremental capacity would not generate sufficient revenues to pass the economic test, NRAs may decide to adjust the minimum price
  - ➡ Applying a premium to the tariff should be the default option, but ENTSOG should consider alternative approaches

Further considerations needed

Stakeholders' views on the ACER Guidance

1. OGP: Kees Bouwens
2. EFET: Alex Barnes
3. Eurogas: Margot Loudon
4. GIE: Phillip Palada
5. Gazprom export LLC: Dr. A.Konoplyanik

Project Plan on Incremental Proposal

Disclaimer: For discussion, this not a final OGP position

ENTSOG kick-off workshop on Incremental Proposal
Brussels, 14 January 2014

Kees Bouwens, ExxonMobil

Since 1974...

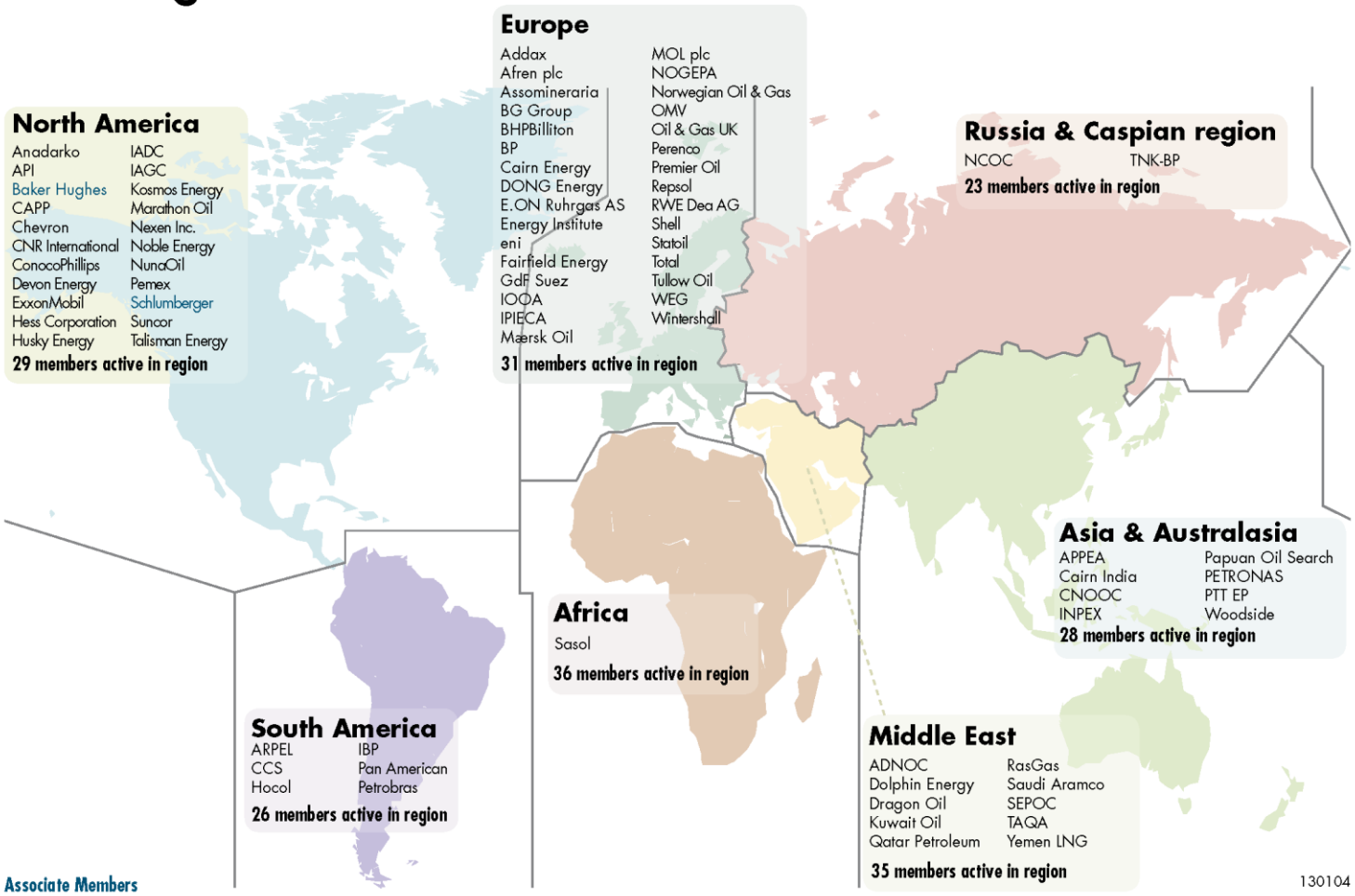
OGP

- OGP represents publicly traded, private and state oil & gas companies, field service companies & industry associations
- Members produce more than half of the world's oil and over one third of its gas
- Offices in London and Brussels
- Sharing experience, debating emerging issues & promoting cooperation, consistency and effectiveness
- Facilitating continual improvement in HSE, CSR, engineering and operations

Some 80 members around the world

OGP

Base region of Members



ENTSOG's Project Plan

- **OGP supports ENTSOG's proposed Project Plan**
  - Builds on the experience with previous NCs
  - Time schedule is tight, as set by 12-month term, but doable
  - Process relies on active stakeholder involvement

- **Scope of the Incremental Proposal includes:**
  - Changes to the CAM NC and
  - Chapter of the Tariff NC (in co-operation with Tariff Project)

- **Objective of the Project is well defined**
  - Establish market-based processes to satisfy all economically reasonable and technically feasible demand for capacity

ACER Guidance

- **OGP welcomes ACER's work to progress market-driven investment procedures**

- **ACER Guidance Paper provides high level guidance on when and how to offer incremental capacity**
  - Offers flexibility to NC development process
  - Triggers on <u>when</u> to offer incremental or new capacity help to avoid that potential demand is not addressed

- **Paper provides 2 options on <u>how</u> to offer capacity:**
  - Integrated CAM auction for 'simple' hub-to-hub settings
  - Open-season procedure for more complex projects

ACER Guidance

- **Topics where Guidance Paper may need clarification:**
  - Relation with non market-based investments
  - Definitions of ‘Incremental capacity’ (long-term capacity optimisation) and ‘New capacity’ (physical reverse capacity)
  - Co-ordination requirements across borders and role of ACER
  - Information provision and NRA approval – prior to offer for binding commitments
  - Pro-rating of capacity under open-season procedure
  - Timing of economic test versus the annual yearly capacity auction
  - Bid revision in case of test failure

ACER Guidance

- **Views on sections 2.4.1 and 3.5 of ACER's Tariff FG:**
  - Disappointed that (option of) fixed tariff is not included
  - Economic test formula is uncertain, as based on estimates for tariff projection and TSOs' allowed revenue
  - Single economic test is essential. May require harmonisation of test parameters and cost-sharing arrangements
  - Adjustment of minimum price raises questions on timing versus annual yearly capacity auction and duration
  - Need to consider possibility that investment could reduce reference price (economies of scale; cost allocation method)

→ **Welcome close co-operation with Tariff Project**

Thank you for your attention !

ENTSOG Incremental Capacity Stakeholder Workshop

European Federation of Energy Traders

Comments on ACER Guidance

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

Comments on the ACER Guidance (1)

- Overall ACER Guidance provides helpful framework for developing CAM Network Code Amendment
  - Welcome the “less prescriptive approach” of the Guidance compared to previous work by regulators
  - Key task of ENTSOG stakeholder workshops will be to develop practical and fully understood mechanisms
- When to offer incremental capacity
  - Not clear why the 3 years threshold is included
  - Guidance seems to assume that IPs between the same entry exits systems will always be part of a VIP
  - Further discussion required on reducing capacity at one IP to enable incremental capacity at another IP
- Economic Test
  - NRA verification / approval of cost estimates

Comments on the ACER Guidance (2)

- Coordination requirements – good coordination across TSOs and NRAs is essential
  - Further discussion required on a combined single economic test given different price controls etc. for different TSOs
  - Role of ACER
- Information provision - guiding principle should be that shippers are provided with **all** the information **shippers believe** is required to make informed bids
- Integration of incremental and new capacity into NC CAM annual yearly capacity auctions
  - Not clear what is meant by accommodating different reserve prices
  - Floating capacity tariff creates uncertainty for shippers as to what they will be paying for capacity and therefore pollutes economic signals – need consider fixed tariff option
  - How to reconcile holding back capacity for short term auctions with efficient investment

Comments on the ACER Guidance (3)

- Open Season Procedures
  - Clarify what is meant by willingness to pay e.g. unit price or total value of a bid?
  - Floating capacity tariff creates uncertainty for shippers as to what they will be paying for capacity and therefore pollutes economic signals – need consider fixed tariff option
  - How to reconcile holding back capacity for short term auctions with efficient investment

Thanks for your attention

European Federation of Energy Traders
Amstelveenseweg 998
1081 JS Amsterdam

For more information, please contact:

Maria Popova, *Policy and Communication Associate*, EFET
Email: M.Popova@efet.org

www.efet.org

Incremental Proposal:

Eurogas' initial views

Brussels, 14 January 2014

Margot Loudon

Deputy Secretary General

On the process

- **Eurogas welcomes the possibility to be an active player in Entsog's drafting process. Good consultations on guidance note, including CEER's early work.**
- The EC's invitation letter requires Entsog to present an IA on the INC Proposal by 31 December 2014: Eurogas would find it **useful to have impacts** (at least some of them) **assessed and discussed already during the SJWSs phase.**
- In order to allow a better understanding of Entsog's proposals and of their potential outcomes, **Eurogas would support the presentation, during the SJWSs, of practical and numerical simulations** on the following issues:
  - Auctions
  - Open Season Procedures
  - Application of the Economic Test

General points

Eurogas agrees

- Changes to the CAM Code should be kept to a minimum.
- The importance of the economic test in underpinning both open season and auctions. Therefore its appropriate design in the tarification Code will be essential to the success of the new provisions.
- The provisions to ensure co-operation and co-ordination among TSOs. NRAs have to co-operate too.

On the content: TSOs and NRAs coordination

- Eurogas welcomes the introduction in ACER Guidance Document of a section dedicated to “Co-ordination Requirements”.

- This section of the INC Proposal should clearly state that **network users committing to buy incremental and new cross-border capacity shall not face completion risks.**

On the content : tariff implications

- Eurogas supports ACER Guidance on the design of the Economic Test, but some refinements are needed:
  - the NC should clarify that the *f* parameter should be high enough to limit the amount of stranded capacity and to minimize cross-subsidization of incremental capacity by the existing network.
- Eurogas agrees with general principle that, if acquired at the same time, **the same capacity service for the same period of time has the same value**. Nevertheless:
  - where the tariff for existing capacity does not suffice to validate the economic test, cross-subsidies between holders of existing capacity and buyers of incremental capacity should be minimized (e.g. by increasing the reference price except for users who booked capacity before the investment decision).

Thank you for your attention!

Contact details

Av. de Cortenbergh 172
1000 Brussels
BELGIUM

Phone:
+32 2 894 48 48

eurogas@eurogas.org
www.eurogas.org

Incremental Proposal

-initial GIE remarks-

ENTSOG kick off WS, 14 January 2014

Initial GIE views

- GIE supports market based identification of capacity and GIE is in favour of an economic test as such
  - Infrastructure operators will build new capacity if there is sufficient demand and a predictable regulation
  - network users need clarity on future capacity and future prices
- Some remarks on economic test:
  - long regulatory depreciation periods vs. increasingly short term orientation of shippers
  - Who shall bear the part of investments not covered by users' commitments (1-f)? Non viable projects with positive externalities should be tackled in the Infrastructure Package
  - The "f" factor should be high enough to avoid economically non-viable investments

Initial GIE views

- Allocation of capacity should be a transparent process and not a complex process
  - How to ensure that process will deliver what envolved parties (TSO and shipper) expect to receive
  - How to avoid unintended gambling
  - How to deal with price differences for „old“ and „new“ capacity
- Open Season procedures needed for big and complex projects
- Final remark: substantial interactions between Incremental Capacity and Tariff NC

Thank you for your attention.

GIE - Gas Infrastructure Europe
www.gie.eu

Comments on ACER Guidance & ENTSOG Project Plan (Remarks for ENTSOG Incremental Proposal Kick-of Meeting)

Dr.A.Konoplyanik,
Adviser to Director General, Gazprom export LLC,
Professor, Russian State Gubkin Oil & Gas University,
Co-Chair, Workstream 2 "Internal Market", Russia-EU Gas Advisory Council (WS2 GAC) &
Russia-EU Informal Consultations on 3rd EU Energy Package

(Based on joint presentation to 8th GAC Meeting (Moscow, 19.11. 2013) of Walter Boltz & Andrey A. Konoplyanik, Co-Chairs WS2 GAC)

Brussels, ENTSOG, 14 January 2014

Russia-EU informal debate on COS (Background)

- **(Since Jan'2010)** *Russia-EU informal expert Consultations on 3rd EU Energy Package,* joined **(since Nov'2011)** with *Russia-EU Gas Advisory Council (GAC) Workstream 2 "Internal Market"* => **Coordinated Open Season** (COS) proposal, initially as universal procedure (based on market test) both for allocation of existing & dev't of Incremental & New Capacity
- Resulted in discussion on CEER/ACER work on Incremental Capacity since beginning 2013: ***Incremental*** vs ***New*** & ***COS for New Capacity***
- Key question raised in this respect: what regulatory procedures are needed to develop ***New*** capacity (especially if originated from non-EU) ***without*** exemption from the 3rd EU Package if the market requires it:
  - **3rd Gas Directive, Art 13.2**: "Each transmission system operator ***shall*** build sufficient cross-border capacity to integrate European transmission infrastructure accommodating *all economically reasonable and technically feasible demands for capacity* and taking into account security of gas supply".
- 7th GAC Meeting (June'2013): Decision to examine this question through a case study by small WG

Rationale & background for GAC Case Study on COS

- June'2012 (4th WS2 GAC meeting, Moscow): joint paper "Draft proposal on the procedure to meet market demand for gas transportation capacity based on EU-wide coordinated 'Open Seasons'" (for GAC July meeting)
- Joint agreement: rules in Network Code CAM insufficient to accommodate large new pipeline projects =>
- GAC Established Case Study Task Force(EC, ENTSOG, CEER/ACER, RF/Gazprom Group repr's) to run test on what is needed for COS & in which way (based on earlier Consultations/WS2 joint results) => GOAL:
  - To develop jointly option/procedure best effective for **New** capacity (incl. of cross-border EU/non-EU character) => GAC as best effective format for this
  - Timely provision of Case Study results to ACER => to contribute to ongoing CAM NC amendment process

What done so far by Case Study Task Force (CSTF)

- 5 Telcos & 3 Workshops dedicated to Case Study (June-Oct'2013)
- Production of '**New Capacity Case Study – Open Season Procedure Strawman**' Paper (early Sept.);
- GAC WS2 meeting, SPB 10.09.13: Full-day discussion of key COS issues; preparation of RF/Gazprom input to ACER public consultation on Incremental (*and New*) Capacity/amendment CAM NC (*CEER Blueprint* amendment proposals)
- Updated Strawman Paper "**CEER Blueprint on Incremental and New Capacity: Proposal for Open Season Procedure**" sent to ACER 17.09 (also to be available from ENTSOG) => Discussion of first EU feedback (ACER Telco 07.11)
- ACER Guidance to ENTSOG (29.11) => not all proposals from Task Force are yet taken into consideration => to continue joint work with ENTSOG on New Capacity

Overview ‘COS-Strawman‘ Paper

- Outlines proposal for COS procedure to enable ***new*** capacity demanded by the shipper across a chain of several E/E zones
- Describes 5 phases until final investment decision
  - Phase 1: identification of need for new capacity *(market test)*
  - Phase 2: preliminary open season phase *(market test)*
  - Phase 3: initial project scoping phase *(economic test)*
  - Phase 4: final open season phase *(economic test)*
  - Phase 5: final investment decision

How CAM NC and COS procedure can finally come together (based on joint presentation at 18th WS2, 10.09.13 / 8th GAC, 19.11.13)

NRA

TSO

Ship per

Central planning

Market evaluation (upside down) => TSO to offer

Market test (bottom up) => shippers to book, TSO to invest

10YNDP

Capacity: **"Incremental"**
Allocation: **Auction**
Doc: **Blueprint on Incremental & New Capacity => ACER Guidance => CAM NC amendment**

Either/or

Capacity: **"New"**
Allocation: **Coordinated Open Season**
Doc: **Blueprint on Incremental & New Capacity => ACER Guidance => CAM NC amendment**

Econ test

No

Long-term capacity deficit still keeps on

Yes

FID

IC & NC

No

Econ test

Long-term capacity deficit does not appear

Yes

FID

Some key issues resulted from CSTF work (based on ist summary at WS2, 10.09.13 / 8th GAC, 19.11.13)

1	CAM NC auction for incremental vs. open season for new capacity
2	Shipper's NPV and/or other criteria in economic test
3	Up/down-sizing of project design – producer limitations
4	Capacity mismatch of two types (at individual IPs & between IPs through the route) & TSO's cross-border coordination
5	F-factor (cost coverage, socialization of costs, who decide, financeability)
6	10% quota regarding new capacity for future short-term trade (acc. to CAM NC approach) & its influence of financeability
7	Project promoter participation in financing & project management support (implementation of ownership unbundling principle); possibility for newly established (incl. cross-border) ITSO & its relations with companies affiliated with shippers prior to start of operation of new built capacity
8	Cross-border issues (coordination between corresponding TSOs at IPs through the route from zone to zone)/Coordinated Open Seasons
9	Tariff issues for new capacity & financeability (floating tariffs vs their predictability, possibility for tariff ring-fencing through pay-back period)

CAM NC amendment & draft NC HTTS: possible approach re New Capacity - correlation between two NCs (*)

	Existing Capacity	Incremental Capacity	New Capacity
Capacity allocation mechanism *(CAM NC + amendment)*	Auction	Auction	Coordinated Open Season
Tariff methodology *(draft NC HTTS)*	System-based	System-based	Project-based (project ring-fencing through pay-back period ?)

(*) CAM NC = Capacity Allocation Mechanism Network Code; NC HTTS = Draft Network Code on Harmonised Transmission Tariff Structures

ACER Guidelines for ENTSOG: key points raised by RF side in Telco 07.11 & are they clarified in final ACER paper? (1)

1) Distinction: market test vs economic test (p.2) => **NOT YET**
2) "Predefined level of binding network user commitments necessary to justify investment from financial perspective" (p.2, also 6) below): who to decide on financeability: market players or regulators? => **NOT YET**
3) Economic viability vs efficiency of execution of investment within regulatory regime (p.2) => **NOT YET**
4) Identification by ENTSOG of "physical capacity gap in… a reasonable peak demand scenario" in TYNDP (p.3) => **NOT YET**
5) "A failure to test market demand for incremental or new *capacity* (BCM = volume) …is deemed to be in breach of TSO's obligation to assess market demand for *investment* (CAPEX = value)" (p.4) => **NOT YET**
6) Approval by the NRA - *before an offer of IC or NC for binding commitment* - of the level of network users commitment that should be necessary to enable investment from economic perspective (p.5) *(F-factor: decision by NRA or by market participants: TSOs, shippers & financiers?)* => **NOT YET**

ACER Guidelines for ENTSOG: key points raised by RF side in Telco 07.11 & are they clarified in final ACER paper? (2)

7) Reference to applicable tariffs & methodology published by TSO (p.5,6) *(but financeability at risk if economic difference is not considered: system-based vs project-based tariffs, see above)* => **NOT YET**

8) "ENTSOG is requested to develop… amendment to CAM NC …keeping the integrity of the ascending clock algorithm" both for incremental & new capacity (p.5) *(but: non-financeable for new capacity, contradicts to COS)* => **NOT YET**

9) Willingness-to-pay (p.5 + twice on p.6) *(vs readiness-to-pay: RTP = WTP X regulatory-created risk)* => **NOT YET**

10) Decision to use OS is subject to NRA approval (p.6 – twice: on criteria & on terms & design) *(means: market participants takes investment risk vs NRA takes decision?)* => **NOT YET**

11) "Capacity set aside for short term allocation" (p.7) *(short-term quota discriminates project promoters & destipulates financeability)* => **NOT YET**

12) (To add section (g) on financeability requirements ?) => **NOT YET**

Proposal for Further Joint Actions

- WS2 Co-Chairs working proposal for further actions: to concentrate on Case Study/CAM NC amendement (COS/New Capacity still open issues) => Case Study Task Force to be continued:
  - Workshop on **financeability** (NPV-test, WTP vs RTP, F-factor, system-based vs project-based tariffs, non-discriminatory booking of existing vs new capacity, etc.)
  - Workshop on **TSO cross-border coordination** (ITSO, ring-fencing of cross-border ITSO, ITSO vs project promoters/shippers, prevention of 2 types contractual mismatches, etc.)
- To organise joint workshops WS2-ENTSOG on above-mentioned open issues of NEW capacity to listen to voice of producers-suppliers to EU (incl. from non-EU)

Thank you for your attention

Andrey A. Konoplyanik

+ 7 499 503 6006

andrey@konoplyanik.ru

a.konoplyanik@gazpromexport.com

Gazprom letter on Open Seasons to ACER

GAZPROM
MARKETING & TRADING

Alberto Pototschnig
Director
Agency for the Cooperation of Energy Regulators
Trg republike 3
1000 Ljubljana
SLOVENIA

17th September 2013

Dear Alberto

Proposal for Open Seasons for Incremental and New Capacity.

As part of our response to the current ACER Consultation on Tariff Framework Guidelines and Incremental Capacity, please find attached a proposal for procedures to enable the triggering of new and incremental capacity in response to shippers' needs based on Art.13.2 of the Third EU Gas Directive.

This proposal has been the subject of discussion by the Internal Market Workstream of the EU Russia Gas Advisory Council over the last couple of months within a joint EU-Russia / Gazprom case study work group. This follows from the results of discussions on coordinated Open Season procedures within the Internal Market Workstream and informal Russia/Gazprom Group-EU expert Consultations on the Third EU Energy Package issues during 2010-2012. A joint vision paper was prepared in August 2012. The case study workgroup included representatives of Gazprom, ACER, CEER, the EU Commission and ENTSOG. It held a number of workshops and conference calls to examine issues related to the development of large new pipeline projects which cross a number of market zones within the EU. This stemmed from Gazprom's view that the proposals contained in the CEER Blueprint on Incremental Capacity, whilst helpful, did not go far enough in creating a framework that could enable such projects to go ahead within the parameters of the Third Energy Package. To aid discussion Gazprom drafted a "straw man" on which the attached proposal is based. This straw man formed the basis of discussions with the other members of the case study work group.

Discussions are ongoing, and a status update on the discussions was given by Nigel Sisman of ENTSOG, Kristof Kovacs of the EU Commission, and Andrey Konoplyanik (Gazprom export) and Alex Barnes (Gazprom Marketing & Trading) representing Gazprom Group on 10th September 2013 in Saint Petersburg at a full meeting of the Internal Market Workstream of the Gas Advisory Council. (The presentation is available on request). As well as members of the case study group, attendees at the Internal Market Workstream included its EU Co-Chair Walter Boltz of ACER and Klaus Dieter Borchardt of the EU Commission as well as Alexander Medvedev of Gazprom/Gazprom export. The attached proposal does not represent an agreement between the different members of the work stream or of the Gas Advisory Council since a number of important issues related to development of new transportation capacity within the EU are still under discussion (see below). However Gazprom believes it will be helpful to submit it as part of its response to the ACER consultation mentioned above. It can then be used to help inform further industry discussions on incremental capacity mechanisms as an additional technical design option (Technical Design 4) in the open season section (Chapter 4.2) of the CEER Blueprint.

There was much useful discussion at the Workstream meeting, and we believe it is worth highlighting some of the key issues that were discussed, both in the case study group and the 10th September workstream discussions. In our view, nine major issues that were identified as key ones for large new cross-border pipelines during case study work group meetings can be grouped into two major categories that can be identified by the terms "project financeability" and "TSOs coordination". The case study work group anticipates further discussions on these issues, with the expectation that further input to the development of EU rules will be provided in the future.

Financing of large additional capacity projects.

The type of projects which the case study covered consisted of very large additions of capacity, either expanding existing Interconnection Points (IPs), or creating new IPs. Such projects could be much bigger in terms of capacity (bcm/y) compared to the existing networks and asset bases of local TSOs. This raises the question of the ability of such TSOs to finance the project in the first place, and the ability to socialize costs across other network users in the event that there is revenue under recovery associated with the additional capacity. Both issues require that there is sufficient financial commitment on the part of shippers to make the investment viable. In the case of the first issue (financing the project to enable construction), banks and shareholders will not enable a Financial Investment Decision unless they have clarity on this point. On the second issue, there may be problems if, for example, the size of any under recovery creates a large increase in tariffs for network users. If there is a 10% under recovery in a project with capacity of 60 bcm/y in an existing system that has a total capacity prior to the additional capacity of only 10 bcm/y, it is clear that users of the existing system could face tariff increases that would be unsustainable.

Both issues have implications for the level of the F factor in the economic test, and the use of any capacity quotas for short term bookings. The higher the F factor and the smaller any capacity quotas, and the clearer it is who will finance (1-F) of project investments, the less likely it will be that project financing will not be possible, or that under recovery of revenues will occur.

Cross border coordination.

By their nature such large projects cross a number of market zones. This is especially true for projects where Gazprom may be looking for new transport routes to bring its gas to market. Gas coming from the East, whether it is Russian gas or gas from other regions such as the Caspian, will have to cross a number of small markets in South and Eastern Europe before it reaches the main sources of demand in Europe (e.g. Germany, France, Italy, UK etc.). It is therefore essential that there are strong coordination mechanisms in place between ACER, National Regulatory Authorities (NRAs), TSOs and other relevant authorities to enable such cross border projects to go ahead. The EU Third Energy Package has anticipated the need for cross border coordination to some extent, but we believe coordination needs to be improved in the case of large capacity projects. Without the necessary clarity it will be difficult to ensure that participants can make the relevant decisions to enable such projects to go ahead.

We hope the above comments, and the attached proposal for Open Seasons, are useful for your deliberations. We would welcome any comments you may have.

Yours sincerely

Dr. Andrey Konoplyanik, Gazprom export
Alex Barnes, Gazprom Marketing & Trading

CEER Blueprint on Incremental and New Capacity: Proposal for Open Season Procedure.

Terminology:

Incremental capacity: "capacity above technically available capacity at cross-border or cross-market area interconnection points (IPs)"

New capacity: "new capacity … relates to the creation of an IP between two market areas or to the creation of physical reverse capacity at an existing IP where gas could previously flow in one direction only"

Additional Capacity: "new and / or incremental capacity."

Aim:

To enable additional (and/or simultaneously both new and incremental, where appropriate) capacity to be created across the chain of three or more entry-exit zones (market areas) in such a way that the demand for capacity initiated by the shipper is met in full both in terms of volume of capacity and duration.

In cases where capacity is required across several IPs, and / or where new IPs are required, it is essential to have a procedure that enables shippers to book the entire chain of capacity without the risk that one element of the chain might not be successful (e.g. a shipper fails to secure capacity at one of the IPs, or the investment decision for that IP is not made). Also certain types of shippers, for example producers developing new sources of supply which need access to the EU market via new or incremental pipeline capacity, require certainty that they can secure sufficient capacity to connect their upstream projects. This is to ensure the pipeline capacity matches the proposed deliverability of the gas production projects. Shippers who are producers developing large upstream projects also require certainty as to the costs they will face in transporting their gas to market, as this (predictability of transportation tariffs) will form part of their investment decision for the upstream project (netback calculations.) This requires an approach which involves close coordination of the various TSOs and National Regulatory Authorities (NRAs) along the proposed route to market (the route if being understood as a chain of entry-exit zones).

In addition the aim of this proposal is to create a framework which can enable large additions of capacity (for example new supply routes to Europe) to be built. Such large projects require a more flexible approach to enable the optimum investment decisions to be made, both in terms of sizing of the projects, and the specific capacity investments required. This is not possible using an auction type methodology. Large projects also create challenges in terms of the ability to finance the project e.g. the need to ensure that TSOs are able to fund such projects, or the size of the project relative to the existing asset base of TSOs limits the ability to socialize costs.

Therefore the proposal below focuses on developing further the concepts contained in Section 4.2 of the CEER Blueprint on Incremental Capacity. It proposes an Open Season procedure to be considered in addition to the existing Technical Designs contained in Section 4.2, e.g. an additional Technical Design 4 option. It borrows methodology and concepts from the United States and the Federal Energy Regulatory Commission, which have had long experience of constructing large new pipelines connecting gas supplies to markets. It is also based on the results of the discussions being held within the informal Russia/Gazprom Group – EU expert group under the auspices of the EU Russia Gas Advisory Council. These discussions on the need for an Open Season process resulted in a joint vision paper on Open Seasons in August 2012, with further work taking place during 2013.

Proposed structure of an Open Season

Phase 1: Identification of need for new capacity

It is recognized that there are a number of ways in which the need for additional (both incremental and new) capacity can be identified. We would expect that, as part of regular industry dialogue, such as TSOs obligations to consult shippers as part of the Ten Year Network Development Plan (10YNDP) process, the potential need for new capacity (NC) will be clearly highlighted. Therefore the steps below are to be seen as the way that the industry (TSOs, shippers, project developers, etc.) can move from the identification of such a need, to a concrete way of enabling investment in additional capacity to go ahead.

The following are alternative ways in which a project for additional capacity may be triggered. In all cases there needs to be coordination between TSOs and NRAs in the various member states along the proposed route (chain of zones) for the additional capacity. So, for example, where there is request for capacity which involves a number of Member States, the relevant TSOs and NRAs will be required to set up joint working groups to progress the request.

1. Shippers request capacity for new supply routes either within the EU or from outside the EU to market zones within the EU. Shippers should have regular opportunities to make such requests, for example as part of the Ten Year Network Development Process. However TSOs should also be required to enter good faith discussions with shippers at other times, for example where the project is large and connected to upstream developments (for example the development of new supply sources for delivery to the EU via either pipeline or LNG terminals and pipelines connecting to market zones). This will prevent unnecessary delays in the transport of gas to the EU as indigenous supplies decline.

2. Project developer announces intention to develop project, subject to confirmation of shipper demand, for capacity following discussion with potential shippers (e.g. large non EU producers) and to act as a new independent TSO different from an existing one within any given market area. The project developer could be a consortium of existing TSOs (not necessarily TSOs in the market zones covered by the project) and other companies. Ownership unbundling rules will be respected; financial investment and participation in construction by shippers and their affiliated companies may be permitted in accordance with Third Energy Package Rules.

3. National TSOs announce intention to develop project, subject to confirmation of shipper demand, for capacity following publication of analysis in Ten Year Network Development Plan.

In all cases it will be helpful if a close dialogue is held with NRAs, ACER and the EU Commission to help their decision making in later phases.

Phase 2 Preliminary Open Season Phase.

For the avoidance of doubt, no matter how an open season is initiated following Phase 1, all open seasons must consider bids from any type of shipper so long as they meet the bidding criteria of the open season.

1. Project developer / TSOs publish Open Season process procedures and timetable and request non binding Letters of Intent (LoI) from shippers stating their capacity requirements.

2. Shippers submit LoI's detailing quantity of entry and exit capacities they require in each entry exit zone. In addition shippers will be required to distinguish within each zone between (i) exit capacity to another zone/area and (ii) exit capacity into the domestic market of the given zone/area. (For example Entry Capacity 10 bcm/y and exit capacity 9 bcma in Entry Exit Zone 1, 9 bcm/y entry capacity and exit capacity of 6 bcm/y in Entry Exit Zone 2. Domestic exit capacity of 1 bcm/y is required in Entry Exit Zone 1 and 3 bcm/y domestic exit capacity in Entry Exit Zone 2). Shippers may also identify at which IPs they would like capacity along the route.

The aim of this preliminary phase is to gain a reasonable estimate of likely demand for additional capacity in order to enable initial estimates of the likely costs and quantities of capacity that may be offered (see Phase 3 below). However Phase 2 does not represent binding commitments on either the part of shippers, or the project developer or TSOs, or regulators.

Phase 3 Initial Project Scoping Phase.

1. Based on shippers' Letters of Intent TSOs / project developers performs initial design studies to plan best route for infrastructure, forecast costs and level of investment in new infrastructure required versus use of existing un-booked capacity.

2. Opportunity for further discussion with interested shippers (those who signed Letters of Intent) to refine project design prior to finalization of project design. This iterative process will ensure the best match between shippers' requests and what TSOs or the project developer can provide at a given cost, and thereby minimize any mismatches and risks that shippers will not receive the capacity they are prepared to pay for.

3. Based on final project design NRAs confirm regulatory treatment of project for the whole pay-back period (e.g. how tariffs will be set, tariffs control review periods, how to deal with under or over recovery issues, linkage with TSOs existing Regulated Asset Bases etc.) so that shippers have regulatory certainty prior to making binding commitments in final open season phase.

Phase 3 is aimed at ensuring that all parties have a clear view of what is required to enable them to make binding decisions in the final phase (Phase 4 below).

Phase 4 Final Open Season Phase

1. NRAs, ACER and EUC confirm regulatory treatment of the project. These regulatory terms and conditions (see (3) of Phase 3 above) form a part of the binding open season commitments that shippers are required to sign to be allocated capacity.
2. TSOs / Project developer start final phase which has defined timetable. Final terms and conditions are provided to participating shippers including tariffs, terms and conditions for capacity once booked, minimum bid requirements, capacity allocation methodology and the economic test, based on which the project sponsors will make the final investment decision and which the regulators will use to test if the project is justified.
3. Shippers are required to submit binding offers for capacity subject to the terms and conditions of the open season.
4. Following close of process for submission of binding offers, TSOs / project developer allocates capacity as follows:
    a. If economic test for creation of new capacity is not met (i.e. there are insufficient binding offers to pass the economic test) no capacity is allocated to shippers. Consideration to be given whether to offer second opportunity for shippers to make binding offers for new capacity following announcement that economic test has not been met.
    b. If economic test is met, capacity is allocated first to those shippers whose binding offer has greatest Net Present Value. This is defined for each shipper as the quantity of capacity booked multiplied by the time-period of the booking further multiplied by the tariff and then discounted to take account of the time value of money. This

ensures that those shippers who provide the greatest financial contribution to the projects (and therefore the greatest contribution to the economic test) are allocated capacity first. (Alternative methods can be considered so long as they recognize the relative contributions that bidders make toward the meeting of the economic test and project financeability.) Process continues until all capacity is allocated. Where the shippers offers exceed capacity to be built, offers with greatest NPV are allocated fully first, then where is insufficient capacity to match other offers, capacity is part allocated to those with highest NPV offer until all capacity is allocated. Those whose offers have insufficient NPV to be allocated capacity are unsuccessful. In case of the binding offers from shippers with equal NPV values, capacity is allocated first to the shipper with the higher duration of firmly booked capacity.

For the avoidance of doubt capacity will not be allocated by CAM type procedures unless there is capacity which will be created but which has not been booked as part of the Open Season process described above. In this case such capacity will be sold via the normal CAM auction process.

Phase 5 Final Investment Decision

1. NRAs confirm TSO certification of project developer.
2. Final Investment Decision is taken.
3. Construction starts.

A. Barnes

A. Konoplyanik

17th September 2013.

ENTSOG – Kick Off Meeting for the Incremental Proposal
14 January 2014

Kick Off Meeting for the Incremental Proposal

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Concluding remarks

Mark Wiekens

Adviser, Market Area

14 January 2014 – Diamant Centre Brussels

See you at the next event:

SJWS 1 for the Incremental Proposal
Monday 10 February 2014

Avenue Cortenbergh 100

14 January 2014 – Diamant
Centre Brussels