Meeting notes

Stakeholder Joint Working Session 3

for the Incremental Proposal

Thursday 13 March 2014

ENTSOG offices, Brussels Belgium

Participants:

First name	**Surname**	**Company**
Mark	Wiekens	ENTSOG (Chair)
Jan	Ingwersen	ENTSOG
Frederik	Thure	ENTSOG
Bijan	Glander	ENTSOG
Alessandro	Gusetti	Snam Rete Gas
Alex	Barnes	Gazprom Marketing & Trading Ltd.
Alexander	Kronimus	VCI/Cefic
Alvaro	Andaluz	EDF
Andrey	Konoplyanik	Gazprom export; Co-chair GAC WS2 EU-Russia dialogue
Andrew	Pearce	BP Gas Marketing
Amroze	Adjuward	EDF
Ana	Barrera	CNMC
Colin	Hamilton	National Grid
Davide	Rubini	Statoil
Dirk Jan	Meuzelaar	CEFIC & IFIEC
Elena	Bezrodnaya	Open Grid Europe
Elisa	Kahl	ACM

Emmanuel	Bouquillon	TIGF
Fabrice	Desjardin	GRT Gaz
Francois	Leveille	CRE
Hugues	De Peulfeilhoux	GRTgaz
Jan Willem	Van Dijk	GTS
Jaques	Van De Worp	IFIEC
Johannes	Heidelberger	BNetzA
Kees	Bouwens	ExxonMobil / OGP
Laurent	De Wolf	Fluxys
Lewis	Hodgart	ACER
Paloma	Izquirdo Fernandez	Enagas
Philipp	Palada	GIE
Robert	Feher	FGSZ
Sylvie	Denoble-Mayer	GDF SUEZ Infrastructure
Thomas	Querrioux	ACER
Valtentin	Hoehn	VIK

1. Opening and Introduction

The chair of the meeting, Mark Wiekens, welcomed all participants to the meeting. The chair opened the 3rd Stakeholder Joint Working Session by highlighting the objective of the meeting: to present the draft business rules for the first group of topics for the Incremental Proposal. The topics are: When to offer, Auctions and Open Season ProceduresEconomic Test, Tariff-related Issues and Cross Border Co-ordination and Information Provision. Some of these themes can potentially be revisited at SJWS 5.

2. Economic test

ENTSOG presented the draft business rules for the Economic Test, including the test formula and principles, parameters for setting of the f-factor, and it is combinedthe combination into the a single economic test and the publication requirements. The presentation concluded that the economic test is a mechanism that tests whether the market is willing to commit for an investment and TSO shall have mechanisms in place to recover the costs of investments that are not covered by upfront or later commitments. The single economic test shall allow network users to bid for bundled capacity, knowing the required level of commitment to pass the economic test and shall take into account the requirements of all involved TSOs. In this process, transparency is crucial for network users to be able to make informed bids.

ENTSOG stressed that the economic test also includes tariff projections and assumptions, estimations, so and that therefore broad cooperation is needed between all players. If the f-factor is too low, then some investments will not take placebe financially feasable. It This should be a principle that should be taken into account. ACER recognised the importance of the f-factor for the market, but also mentioned that the recovery of allowed revenues is guaranteed through the regulatory framework anyhow and that therefore the level of the f-factor is should be something that an investor would always take into considerationof secondary importance for investors. So it’s just a formalised publication. ACER also acknowledged the Business Rules approach from ENTSOGs side, but also stressed that a significant change towards the legal rules should be foreseen. The important question is on how to set the right value for the f-factor. As a basis, all investments should be made based on the market demand.

Stakeholders engaged in an extensive debate about the setting of the factor.

One stakeholder emphasised that user commitment is crucial and that it the process should primarily be driven by demand and less by supply. Another stakeholder stressed that the Business Rules for the economic test should be changed in order to justify the parameters of the economic tests. If the f-factor is 1, then TSO have no risk. Price control and ROR should also be taken into account and if the risk is high, a higher ROR should be allowed. Some stakeholders critizised that tThe economic test tellstests about the willingness to commit at the time the test is conducted and that the difference between the numbers of the tariffs used in the economic test and the numbers tariffs that shippers actually pay when the gas is flowing is not covered appropriately. WACC represents the costs of equity and cost of debt. Cost of equity takes account of the riskiness of the investment.

A stakeholder mentioned that the market-based test should not be seen as a simple supply/demand question at any price. It would be a mistake to disunite those who take the risk and those who take the decision and thisat should be reflected in the business rules. The problem with floating tariffs is theat unpredictability and uncertainty about the tariff development. If there is a very high f-factor and that capacity would be fully underwritten, then there would be a rather low risk of large price fluctuations. On the other hand, the lower the f-factor the higher the risk of the market. A high f-factor would enhance the cost of financing and create a higher risk of non-payment of debt as well as higher steel prices.

3. IFIEC presentation on the Incremental Proposal

IFIEC presented their response on the incremental proposal stating that it always would is the end-consumer who pays the bill at the end of the day. The serious challenges of the European industry were highlighted and the need for as a competitive energy market in order to compete with markets outside Europe. At the moment, there is ample supply of gas and since there is a negative spark spread, the use of gas power is mothballed. According to IFIEC, the incremental proposal does not currentlyshould encourage a level playing field which necessitates a sufficient transport infrastructure. At the moment, end consumers are not a part of the economic test and the allowed revenues are not even part of the Framework guideline and the network code. But the end users risk standing with the bill at the end and are hardly involved but fully committed to pay total bill. IFIEC therefore believes that the end user commitment demand should be the main factor and that it should not be necessary to have long term bookings and that price risks could be managed by financial derivatives.

IFIEC also mentioned the risks of Open Season Procedures and mentioned a number of challenges of running a transparent process, stating the conditions could be set by current dominant market parties. This would be detrimental because capacity is allocated to shippers with the deepest pockets. Further, Third Party Access exemptions and the establishment of a new cross-border TSO would create some lack of clarity with regards to financing and tariff certainty.

IFIEC also stressed that shorter depreciation times could be applied to incremental and new capacity because this could enable new sources of gas to enter the market and increase competitive gas markets. However, once incremental and new capacity is part of the regulated asset of the TSO of a European member State, the assets may not be revalidated, and end consumers would never accept paying twice for the same steel.. Finally, IFIEC reiterated that they are involved but not yet fully convinced that the current proposals would support the aims of the internal energy market.

Some stakeholders countered the arguments of IFIEC, saying that Open Season Procedures will indeed be transparent and all market players can take part in the process. The goal should be to create a level-playing field, but that this should be addressed by the network codes. It was also mentioned that exemptions do exist, but that the purpose is to bring new gas sources into Europe. IFIEC refuted these arguments by stating that the market at the moment is not a competitive enough.

Another stakeholder opposed IFIECs argument of excluding Open Season Procedures because these still bring new capacity to the market and are by definition not fully controlled by the supplier.

4. Tariff Issues

After revisiting the tariff-related issues explored at SJWS 1 and highlighting the advantages and disadvantages of each of the proposed options, ENTSOG presented the draft business rules for the tariff-related issues in the Incremental Proposal. ENTSOG concluded that a tariffn adjustment should only be necessary if the estimated tariff projections for an offer scenario are not sufficient to pass the economic test without a premium, even if all capacity on offer is allocated. It was also stated that the estimation of tariff projections for the entire initial booking horizon could be very complex and is dependent on specific circumstances (e.g. remaining network of the TSO, regulatory regime, etc.). Finally, it was highlighted that NRA and TSOs would have to agree on a mechanism that is the most appropriate for a specific investment.

A stakeholder suggested striking the business rule 5.2.1 about the adjustment of the reference price for all capacity users at the interconnection point and proposed ENTSOG to find a best practise approach that should lead to a harmonised network code, instead of national rules. ACER had a preference for the a merit order in 5.2. with the default solution for a tariff adjustment being the application of a premium.

5. Cross-border coordination and Information Provision

ENTSOG presented the draft business rules for cross-border coordination and Information Provision. It was stressed that close coordination between TSOs and NRAs is necessary in order to ensure an efficient process and to ensure appropriate addressing of market needs. The bundling of capacity products anyhow implies coordinated levels of capacity incremental and project timelines. as well as Furthermore, information provision is crucial for the network users when making bidsin order to be able to make informed bids. TSOs shall also be obliged to publicize publish all relevant information with an sufficient lead time, subject to receiving all necessary approvals from NRAs and other authorities in due time.

A stakeholder suggested that ACER should participate in the cross-border projects instead of NRAs. This proposition proposal was countered by ACER, who which already has a clearly defined role in the process. Another stakeholder urged parties that consider exemptions to stick to the current procedure instead of going down the exemptions route. ACER also urged stakeholders not to praise the exemptions option on matters where the players are already agreeing. This statement was supported by ENTSOG asserting that exemptions are not foreseen inpart of this process.