ENTSOG: Refinement Workshop on the Incremental Proposal
23 September 2014

43 Members and 3 Associated Partners in 26 EU countries

4 Observers from EU affiliate countries
- Gassco AS (Norway)
- Swissgas AS (Switzerland)
- GA-MA AD (FYROM)
- Ukrtransgaz (Ukraine)
Draft Incremental Proposal

Refinement Workshop

Brussels – 23 September 2014
# Agenda for today

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Welcome coffee</strong></td>
<td>09:30-10:00</td>
</tr>
<tr>
<td>1.</td>
<td>ENTSOG welcome and opening</td>
<td>10:00-10:05</td>
</tr>
<tr>
<td>2.</td>
<td>Main results of the public consultation of the Draft Incremental Proposal</td>
<td>10:05-10:30</td>
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<tr>
<td>3.</td>
<td>Preliminary refinements&lt;br&gt;☑ CAM NC Amendment</td>
<td>10:30-11:30</td>
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<td></td>
<td><strong>Coffee break</strong></td>
<td>11:30-11:45</td>
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<tr>
<td>4.</td>
<td>Preliminary refinements&lt;br&gt;☑ TAR NC Drafting (INC part)</td>
<td>11:45-12:45</td>
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<td>5.</td>
<td>Conclusions and next steps</td>
<td>12:45-13:00</td>
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<td></td>
<td><strong>Lunch</strong></td>
<td>13:00</td>
</tr>
</tbody>
</table>

Next publication: 6th November 2014 → Refined Incremental Proposal
# Timeline for incremental proposal

## Development and consultation overview

### Main phases of activities of ENTSOG and stakeholders in INC process

<table>
<thead>
<tr>
<th>ENTSOG</th>
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<td></td>
<td>Kick-off Meeting</td>
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<td></td>
<td></td>
<td>SJWS 26 13 March SJWS 4 25 Mar SJWS 5 8 April</td>
<td>SJWS 5 Consultation period 30 May – 30 July</td>
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<td>SJWS 5 Consultation period 30 May – 30 July</td>
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### ACER Guidance

- **Publication 30 Nov**
- **Development of Incremental Proposal with stakeholders on the basis of the ACER Guidance**

### Development and Consultation Overview

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Phase</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>Nov</td>
<td>Kick Off Meeting</td>
<td>14 Jan</td>
</tr>
<tr>
<td></td>
<td>Dec</td>
<td>SJWS 1</td>
<td>10 Feb</td>
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<tr>
<td></td>
<td>Jan</td>
<td>SJWS 2</td>
<td>26 Feb</td>
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<td></td>
<td>Feb</td>
<td>SJWS 3</td>
<td>13 March</td>
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<tr>
<td></td>
<td>Mar</td>
<td>SJWS 4</td>
<td>25 Mar</td>
</tr>
<tr>
<td></td>
<td>Apr</td>
<td>SJWS 5</td>
<td>8 April</td>
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<tr>
<td>2014</td>
<td>May</td>
<td>Draft Proposal</td>
<td>30 May</td>
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<tr>
<td></td>
<td>Jun</td>
<td>Consultation Workshop</td>
<td>24 Jun</td>
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<td></td>
<td>Jul</td>
<td>Refinement Workshop</td>
<td>23 Sep</td>
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<td></td>
<td>Aug</td>
<td>End of consultation period</td>
<td>30 July</td>
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<td></td>
<td>Sep</td>
<td>Publication of answers</td>
<td>22 Aug</td>
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<td></td>
<td>Oct</td>
<td>Publication of refined INC proposal</td>
<td>6 Nov</td>
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<tr>
<td></td>
<td>Nov</td>
<td>Submit Amendment Proposal</td>
<td>31 Dec 2014</td>
</tr>
</tbody>
</table>
Emergency Evacuation

> Emergency Evacuation Plans - Plans located on two main corridors of ENTSOG office indicating the way of evacuation from offices located on the Second Floor of Cortenbergh 100 Building.

> The meeting point is in front of the Mosque – Parc du Cinquantenaire,
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Results of Public Consultation

- ENTSOG published Draft Incremental Proposal on 28 May 14
- Consultation was held for two months until 30 July 14
- Consultation contained 35 questions on content and process

- Available on the ENTSOG website:
  - All responses to public consultation
  - Report on consultation responses
# List of respondents

<table>
<thead>
<tr>
<th>Overall responses received</th>
<th>21</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>European associations</strong></td>
<td>7</td>
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<tr>
<td>- Association of European Energy Exchanges (europex)</td>
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<tr>
<td>- European Federation of Energy Traders (EFET)</td>
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<td>- EURELECTRIC AISBL</td>
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<td>- EUROGAS</td>
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<td>- Gas Infrastructure Europe (GIE)</td>
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<td>- IFIEC Europe</td>
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<tr>
<td>- The International Association of Oil &amp; Gas Producers (OGP)</td>
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<tr>
<td><strong>National associations</strong></td>
<td>3</td>
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<tr>
<td>- Dutch sector association for energy companies (Energie-Nederland)</td>
<td></td>
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<tr>
<td>- Spanish National Association of Manufacturers of Capital Goods (SERCObE)</td>
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<tr>
<td>- SEDIGAS (Spain)</td>
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<tr>
<td><strong>Network users</strong></td>
<td>10</td>
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<tr>
<td>- EDF SA</td>
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<tr>
<td>- Edison</td>
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<td>- EDP</td>
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<td>- Enel Spa</td>
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<td>- ESB</td>
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<td>- ESSO Nederland BV</td>
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<td>- Gas Natural</td>
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<td>- Gazprom</td>
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<tr>
<td>- GDF Suez Energy</td>
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<tr>
<td>- Statoil</td>
<td></td>
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<tr>
<td><strong>Infrastructure operators</strong></td>
<td>1</td>
</tr>
<tr>
<td>- GDF SUEZ Infrastructures</td>
<td></td>
</tr>
</tbody>
</table>

➢ No respondent indicated response to be confidential or anonymous!
Summary of responses

- ENTSOGs impression of the responses is in general quite positive.
- Most respondents support the Draft Incremental Proposal in principle and appreciate the ENTSOG process so far.
- Main issues of concern were primarily on the following:
  - The clarity and preciseness of the incremental offer process.
  - The conditions and parameters of open season procedures.
  - Parameters of the economic test.
  - How the tariff framework impacts the incremental process.
Stakeholder soundbites: Clarity & preciseness of incremental process

- Network users should be more involved in the process of defining offer levels and choosing allocation procedure...
- Incremental proposal should provide clear list of deliverables for TSOs and NRAs...
- Level and content of TSO/NRA cooperation should be further specified...
- Sequence of process steps should be more clear...
- Demand assessment should be conducted at least every 12 months...
- Incremental proposal should include rules that are more mechanistic and provide less flexibility for NRAs to deviate from defaults...
- Extended lead time for publication of economic test parameters required...
- Demand assessment should be conducted at least every 12 months...

Demand assessment should be conducted at least every 12 months...
Stakeholder soundbites: Conditions & parameters of OSP

- OSP and auctions should be defined on an equal level...
- Code requires a clear list of criteria for choosing OSP and less NRA discretion to decide...
- Conditionality of commitments should not be limited to the booking phase but should persist until completion of project...
- There should be no default allocation rule in OSP but case by case decision based on requirements...
- Separate notices for non-binding and binding phase...
- OSP notice should provide more information relevant for tariffs...
Stakeholder soundbites: Parameters of the economic test

- F-Factor should be subject to public consultation...
- There should be some degree of consistency between f-factors at both sides of an IP...
- Externalities influencing the f-factor should be justified and backed by a cost recovery guarantee for this share of the investment cost...
- There should be no short term reservation for incremental and new capacity...
- Possible discrimination between users of different countries should be avoided...
Stakeholder soundbites: Tariff framework for incremental/new capacity

- Fixed tariff option for incremental and new capacity is preferred...
- There should be a fair risk-sharing between TSO and network users...
- Tariff parameters (and possible adjustments) should be set ex ante ...
- Discounts for incremental and new capacity would discriminate against users with existing capacity...
- Certainty, visibility and predictability of future tariffs is key for long term commitments...
- Fluctuations of floating tariffs for incremental and new capacity should be limited to increase stability...
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Refinement Workshop

Amendment of CAM NC

Drafting of TAR NC (INC part)
Major refinements of CAM NC amendment

Major issues raised in the public consultation were:

- Streamlining of the process
- Frequency of the demand assessment
- More network user involvement
- Clarified OSP cases
## Definitions: Additional terminology refinements

<table>
<thead>
<tr>
<th>Term</th>
<th>Refinement</th>
</tr>
</thead>
</table>
| **New Capacity**      | ➢ Draft Incremental Proposal differentiated between incremental and new capacity  
➢ However, there was no different treatment of the two foreseen at any place of the Proposal  
➢ Term ‘new capacity’ will therefore not appear in the refined Incremental Proposal and concept is integrated into the definition of ‘incremental capacity’                                                                                   |
| **Bidding ladders**   | ➢ Consultation has proved that different understandings of the concept of a ‘bidding ladder’ exist among stakeholders and ENTSOG  
➢ Term ‘bidding ladder’ was used as combination of all yearly standard capacity products of a respective offer level, however had no technical relevance  
➢ Definition of ‘bidding ladder’ only contained a combination of terms that are already defined in CAM NC  
➢ In order to avoid confusion, ENTSOG will not use the terms ‘bidding ladder’ or ‘parallel bidding ladders’ in the refined Incremental Proposal  
➢ **Concept of parallel bidding ladders will remain!**                                                                                                                                                                                                 |
Streamlining of incremental process

- ENTSOG refines the CAM NC amendment in order to make the sequence of process steps more clear.

- Refined CAM NC amendment will provide clear lists of deliverables and clear deadlines for their provision.

- Commonalities of OSP and auction process will be defined more clear in the CAM NC.

- Incremental process should be more automated and should not allow unjustified deviations from defaults.
Proposed streamlining of INC process

1. Demand assessment based on TYNDP, NDPs, auctions and non-binding indications
2. Submission of demand assessment report (incl. proposed offer procedure)
3. Due date for non-binding indications
4. Announcement of open season notice
5. Technical design of offer levels and setting of economic test parameters & tariff or depreciation rate adjustment
6. Submission of planned offer levels, economic test parameters, etc. to NRA for public consultation
7. CAM Auctions: Parallel offer levels
8. Potential bid revision
9. Publication of offer levels and economic test parameters, alternative allocation mechanism if OSP, etc.
10. Application of conditionalities
11. Run of economic test
12. Alternative allocation mechanism*

* An alternative allocation mechanism can only be applied in Open Season Procedures and if the default allocation mechanism prevents a positive economic test

Ongoing co-ordination among TSOs and NRAs involved along the process
Three phases of process

**Demand assessment phase**
- Starting with the due date for the submission of non-binding indications
- Ending with the NRA approval of demand assessment report (including proposal for OSP or auctions)
- Duration ≈ 6 – 8 months*

**Design phase**
- Starting with the NRA approval of demand assessment report either as auction process or OSP process
- Ending with the publication of the final offer levels and economic test parameters by the relevant NRAs
- Duration ≈ 10 – 18 months depending on complexity of project*

**Market test phase**
- Starting with the publication of final offer levels and economic test parameters by NRA
- Ending with publication of allocation and economic test results
- Duration ≈ 1 - 3 months*

* Timeframes are indicative and depend on the unique characteristics of each project; possible delays especially due to outstanding approval processes were not taken into account
Network user involvement

Network users shall be able to contribute to the offer process at all crucial steps of the process:

- To the demand assessment by providing non-binding indications
- To the technical studies in case of open seasons by participating in the non-binding phase
- To the design of offer levels and economic test parameters by responding to the public consultation
- To the economic test outcome by participating in the auction or the binding phase
Co-ordinated demand assessment

- ENTSOG sees clear benefits in a co-ordinated demand assessment across EU in order to get full picture of demand for incremental capacity between markets.

- Co-ordinated demand assessment also ensures that TSOs are able to work jointly in an efficient manner in the design phase.

- The time for a co-ordinated demand assessment should be linked to the annual yearly auctions.

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Co-ordinated demand assessment:

- **Annual yearly auction:** 6 Mar 2017
- **Due date for submission of non-binding indications:** 28 Apr 2017
- **Submission of demand assessment report to NRA:** 28 Jul 2017
- **NRA approval of demand assessment report:** 28 Oct 2017
Frequency of process 1/3

Process in initial Draft Incremental Proposal:

- Initial Draft Incremental Proposal provided a demand assessment for incremental capacity with a frequency of **no more than 24 months** (in line with process duration)

Consultation feedback:

- Consultation respondents requested a more frequent process with a demand assessment **no more than every 12 months**
ENTSOG sees it as **impossible to have a credible full incremental process within 12 months**, meaning that incremental process would potentially overlap while interactions may prevent a stable set of data and parameters from being established.

In contrast, a demand assessment every two years would enable in most cases that the previous incremental cycle closes before a new one opens.

<table>
<thead>
<tr>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand assessment phase</td>
<td>Design phase</td>
<td>Market test phase</td>
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</table>

(Potential impact)
ENTSOG would like to accommodate stakeholders indicated need for a yearly demand assessment, but needs to balance this against the credibility of the incremental process.

Stakeholder feedback and ideas are highly appreciated!
Allocation of incremental capacity via auctions

Parallel bidding ladders
- General support to the auction process
- The setting of parallel bidding ladders should be done without too much complexity for network users

Bid revision
- Some concern that users that gained capacity in the first place could end up without capacity after bid revision
- Two approaches: A **continuous approach** for bid revision vs. a **one-time approach**
- A larger group of respondents including three associations voted in favour of option 1 – a continuous approach for bid revision.
- The majority of respondents seem to support, in general, a bid revision principle that includes repeating an auction if the economic test fails for an offer level and the lower offer level with a positive economic test cleared at a premium.
Application of Open Seasons 1/3

Open Season Procedures shall be applied in cases where:

- The project involves more than two entry-exit-systems or is linked to or impacted by the realisation of an exempted infrastructure

- Conditional commitments are envisaged

- The required offer levels cannot be efficiently derived from the demand assessment

- The 10 year booking horizon (15-5 years lead time) of a auctions is foreseen not to be sufficient to pass the economic test at the reserve price

- TSOs and NRAs chose an iterative process for a possible redistribution of revenues
Application of Open Seasons 2/3

Application of OSP criteria in mechanistic way:

- TSOs assesses whether criteria for OSP are met for a project in the Demand Assessment Report

- Relevant NRA decides on this assessment of the TSO when approving the Demand Assessment Report

- If the criteria are met **for at least one of the involved TSO**, an OSP shall be conducted for the allocation of the bundled product

This ensures that all capacity for a single project is offered and allocated jointly and avoids delays due to inconsistent decisions of individual NRAs
Proposal:

- Example provides project that includes a production facility in market A and linking it with end users in market B.
- Due to the need for conditional commitments in market A, OSP should be applied for the project.
- Bundled capacity for IP AB should be offered in the OSP.
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Refinement Workshop

- Amendment of CAM NC
- Drafting of TAR NC (INC part)
Major refinements of TAR NC (INC part)

Major issues raised in the public consultation were:

- Network user involvement in determination of economic test parameters
- Predictability and certainty on tariffs
- Tariff and depreciation rate adjustment considerations
Network user involvement

- Increased network user involvement laid down in CAM NC amendment is also including the determination of economic test parameters
- Refined Incremental Proposal foresee publication of parameters
- NRA can take into account network user responses and decides on the parameters
Fixed vs. floating tariffs

- Issue of fixed tariffs is currently under discussion in the TAR workstream
- Incremental Proposal will reflect the principles defined for the TAR NC on fixed vs. floating tariffs
- ENTSOG keeps Art 26(2) of CAM NC also in the refined Incremental Proposal:

Art 26.2 of NC CAM

The payable price determined in a capacity auction can be either a fixed price or a variable price or be subject to other arrangements provided for in the applicable regulatory regime. The fixed price shall consist of the applicable tariff at the time of the auction plus the auction premium. The variable price shall consist of the applicable tariff at the time when the capacity can be used plus the auction premium. The arrangements can be different for the capacities in a bundled product on either side of an interconnection point.
Tariff adjustment process 1/2

- Some consultation respondents stressed that the principle of tariff adjustment should be more clear.

- E.g. it was highlighted by many stakeholders that tariffs should be clear ex-ante and mandatory minimum premium should not be introduced after commitments were made.

- ENTSOG further clarifies the conditions for application of a mandatory minimum premium in the refined Incremental Proposal.
Tariff adjustment process 2/2

Tariffs for incremental capacity are projected based on project costs, depreciation schema, etc.

$X \text{ €}$

Is this projected tariff sufficient to pass the economic test at the reserve price if all capacity is allocated?

Yes

What is the minimum premium required to pass the economic test if all capacity is allocated?

$X + Y \text{ €}$

No

Publication of all economic test parameters by NRA for consultation

Public Consultation*

Publication of final economic test parameters (incl. projected tariff and possible minimum premium)

Submission to NRA together with all other planned economic test parameters

Auction or OSP

* This is the same consultation as indicated on slide 19
Elements of refined tariff adjustment article

- Tariff adjustment only in case projected tariff is insufficient to pass the economic test at the reserve price if all capacity is allocated

- By means of mandatory minimum premium in the auction

- The height of the mandatory minimum premium should enable a positive economic test outcome and is one of the economic test parameters for consultation

- The revenues arising from the mandatory minimum premium are to be split between the involved TSOs such a way that all get what they need (and not more). Therefore the mandatory minimum premium has to be treated differently then reserve price and regular auction premium in terms of default splits

- In case network users terminate their capacity bookings for any reasons, the mandatory minimum premiums stay chargeable
How to handle revenues from tariff adjustment?

- In case of doubt on future bookings of the incremental capacity, the mandatory minimum premium for incremental capacity leads to over-recovery of the investment in the first years.

- The additional revenue shall be used to mitigate against this risk by:
  - Including the associated revenue in the revenue recovery mechanism.
  - Including the associated revenue in a dedicated regulatory account.
  - Using the associated revenue to pay off the investment by adjusting the depreciation rate.
  - Any other measure to be agreed between the TSOs and NRAs.

- In case the under-recovery in future doesn’t materialise, tariffs shall be reduced i.e. the mandatory minimum premium becomes negative.
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Refinement Workshop 23 Sep
Submit Amendment Proposal 31 Dec 2014
The refinement phase: Fitting the last segments of the puzzle together

Thank you for your attention