

EUROGAS VIEWS ON THE DRAFT "CEER BLUEPRINT ON INCREMENTAL CAPACITY"

Eurogas welcomes the opportunity to provide its views on the draft "CEER Blueprint on Incremental capacity", recognising the importance of having guidance at European level on tools and procedures to identify the demand for and to allocate incremental and new capacity.

This should not be considered as a formal Eurogas view at this stage, as further analysis on the main proposals are required to enable the elaboration of more detailed comments. Eurogas would be pleased to provide further elements in a formal manner on the occasion of a future public consultation on the draft Blueprint: a consultation that we consider important to collect inputs on pros and cons of the different options, based on the practical experience of network users.

Our comments are organized following the structure of the draft Blueprint document.

INTRODUCTION

Eurogas supports the decision to limit the application of CEER's proposals to IPs within the scope of the Network Code on CAM, which seems reasonable and consistent with the idea to offer a certain kind of incremental capacity through integrated CAM NC long term auctions.

Nevertheless, the Introduction also states that some sections of the Blueprint can be relevant for other points (e.g. to storage, LNG terminals). This idea is not further developed within the document and it is therefore unclear which sections could also apply to other points.

As a general principle, Eurogas believes that the scope should be limited to IPs, to ensure consistency with the CAM NC and provided that cross-border co-ordination is not an issue for storages and LNG.

Finally, examples to clarify the distinction between new and incremental capacity would prove helpful. For instance, it is unclear why a new connection between two market areas would only be considered as new capacity if the two market areas were not connected before.

RATIONALE FOR THE BLUEPRINT

Eurogas endorses CEER's idea that, although different design options may be needed to cope with different local situations, it is paramount to identify key common principles to be respected by all future market-driven investments processes at IPs.

Eurogas agrees with the proposed list of principles, but would like to suggest further points to be added:

- *EFFICIENCY OF COSTS*: there should be evidence that the costs underlying the investment on incremental and new capacity, which are paramount to set the market test, are efficient. A process for benchmarking these costs could provide a useful support.
- *TSOs' COORDINATION ON INVESTMENT LEAD TIMES AND TERMS OF PAYMENT*: cross-border coordination between TSOs is needed not only with reference to the project design or terms of sale, but also on lead times for capacity to enter into operation and for payments. If this is not granted, in particular for complex projects

involving more than one IP, it might be the case that users have to start paying for the capacity coming into operation on one IP, whereas they cannot use it due to the fact that capacity is not available yet on the other IPs on the route. This completion risk should not remain for the network users who committed to purchase capacity.

- **CONSISTENCY OF THE FINAL CAPACITY PRODUCT:** although bundling of incremental capacity at an IP would solve the problem of consistency when capacity is allocated through integrated auctions, it is still possible that in more complex projects (i.e. involving more IPs along a route), where an Open Season is applied, network users end up with different levels of capacity at the different IPs. Eurogas believes that this risk of inconsistency between capacity at different IPs of a route should be avoided as a general principle, allowing participants to an Open Season to make their bids conditional on having the same level of capacity allocated on the remaining offered IPs.

WHEN TO OFFER INCREMENTAL CAPACITY

As a general principle, Eurogas agrees with the identification of some clear conditions that, if met, will lead to the offer of incremental capacity by TSOs: this approach would be less costly for the system than a regular yearly testing. The third condition is probably the most important, allowing network users interested in incremental capacity on the basis of their market experience to express their need in a non-binding manner and thus to trigger the process to offer the capacity they need.

However, we have some doubts on the effectiveness of the second condition, which could be too prescriptive in its current formulation: indeed, there might be cases where long-term capacity is not sold-out, but shorter term capacity (quarterly or monthly) is sold out in peak periods, thus signaling the need for incremental capacity to cover peak demand.

Whichever the conditions identified, Eurogas thinks that it is paramount that any uncertainty is prevented, with respect to *when* incremental capacity should be offered. Therefore, the Blueprint should specify that in case that one of the identified conditions is met, the offer of incremental capacity will be automatic and not subject to any further assessment.

HOW TO OFFER INCREMENTAL CAPACITY

As a general remark, Eurogas would like to require a further specification of the conditions that would drive the choice of applying either integrated auctions or Open Season. Besides the distinction between projects involving more than two hubs, to which Open Season would be more suitable, and projects involving only one IP, for which capacity could be offered through integrated auctions, we believe that more details could be helpful (e.g. n° of involved IPs, size of the project, etc.).

These more detailed provisions should not be intended as a prescriptive framework overtaking the core distinction so far made by CEER (less or more than two hubs interconnected), but as a further guidance for NRAs and TSOs to decide according to case-by-case circumstances which is the most suitable solution to apply.

1. OFFER OF INCREMENTS WITH EXISTING CAPACITY IN CAM NC LONG TERM ALLOCATION

At the present moment, Eurogas has no additional elements to provide on the two options presented by CEER for designing integrated auctions of existing and incremental capacity, besides the main advantages and drawbacks already identified by CEER in the

Blueprint. Therefore, we think that for the time being both options should be kept on the table for discussion, allowing stakeholders more time to understand possible implications of the different mechanisms, that have not been tested yet in systems other than the UK.

2. OPEN SEASON PROCEDURES

Eurogas believes that all the three different options presented by CEER may have merit and drawbacks, as also identified in the Blueprint.

As concerns Option 1, for example, it has the main advantage of not requiring any amendment to the NC CAM to be applied and thus to be the easiest to be implemented. Nevertheless, the introduction of a second phase to allocate capacity by means of the CAM algorithm, with the risk for users who committed to purchase capacity during the first phase losing all or part of the capacity, would discourage shippers to commit. As a consequence, it will increase the possibility of the market test not being passed. If this option is introduced, a mechanism to create a stimulus for shippers to commit in the first phase should be defined, but avoid causing undue complexities for them to build their demand curve.

As a general remark, Eurogas would like to underline that the key need for network users participating to an Open Season is being assured that they can get the capacity they committed for.

DESIGN PRINCIPLES OF THE ECONOMIC TEST

Eurogas welcomes CEER's decision to move towards a market test based on cash flows and endorses the approach aiming to ensure a high degree of transparency of the parameters to be used for the economic test. Although it may not be possible achieving a complete harmonisation of parameters at European level, parameters defined on a case-by-case basis by NRAs and TSOs should be published before the start of the allocation, as they could provide useful information for network users to adapt their bids. Among the parameters, a role should be left for positive externalities related to each specific project and that could be internalized to decrease the fraction of deemed investment costs to be underwritten by user commitments to have the test passed. NRAs are in the best place to define and quantify these externalities, but again this process should be run in a transparent manner.

IMPLICATIONS FOR RULES ON TRANSMISSION TARIFF STRUCTURES

Eurogas acknowledges the complexity of the issue of setting appropriate tariffs for incremental capacity, which should succeed in achieving the right balance between incentivizing users to commit, thus stimulating new investments, and minimizing cross-subsidies.

In general, Eurogas agrees with the principle that the same type of capacity at an IP should have the same cost if used at the same time, allowing for the increase of the reference price at the concerned IP for all users.

Nevertheless, exceptions should be allowed for NRAs to decide on a case-by-case basis if part of the costs to realize the incremental capacity should not be socialized on the users of the IP, if the investment is not considered introducing huge benefits for the system.

On the other hand, in case economies of scale are generated by the investment and lead to a lower price for incremental capacity than existing capacity, benefits should be widespread on all users present on the IP, as they contributed through their previous commitments to lower the cost to add capacity.