

## GAS NATURAL FENOSA COMMENTS TO CEER BLUEPRINT ON INCREMENTAL CAPACITY

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Gas Natural Fenosa is one of the leading multinational companies in the gas and electricity sector. The company operates in more than 24 countries.

Within the European Union, Gas Natural Fenosa activity is developed mainly in Spain. It is an active player in France, Italy and to a lesser extent in Portugal and Belgium.

We would like to take this opportunity to provide some initial bullet point feedback to CEER Blueprint on Incremental Capacity. However, there are some topics in which we require more time to understand the implications of the different alternatives proposed before we can position.

- **Definitions**

There should be more clarity on definitions.

We do not understand why a distinction is made between incremental capacity and new capacity as it is the same concept.

*“Incremental capacity is distinct from new capacity, which relates to the creation of an IP between two market areas that were not connected, or to the creation of physical reverse capacity at an existing IP where gas could previously flow in one direction only.”*

More clarity should be provided on the definition and on whether the same or different rules apply.

- **When to offer incremental capacity**

We share the view that there is a trade-off and it is difficult to determine a balance approach.

One of the conditions to be met included in the CEER Blueprint is that *“long term capacity is sold out in the year when incremental capacity could be offered and in the three subsequent years”*.

We consider that to require 100% of the long term capacity to be sold out might be too strict and a more flexible approach should be considered (lowering the threshold).

We do not see the TYNDP as the most relevant tool to assess whether incremental capacity will be required by the market. We welcome ENTSO-G approach to perform regular assessments (*“Assessment around every two years may be appropriate”*) to foster the development of cross-border capacity when there is market interest.

- **How to offer incremental capacity**

We consider that integrated auctions are more suitable when capacity is offered just at an IP while open season processes can work better for large new infrastructure projects which cross multiple borders and that are often linked to a source of supply.

Regarding the two technical designs propose in the CEER Blueprint, we need further understanding of how they work and their implications. Therefore, at this stage we cannot position on this issue.



Regarding open seasons, we share CEER view that the most suitable technical design is number 3: open seasons with demand curves.

We consider that the technical design number 1 is not appropriate as it places significant risks on shippers: they have to assume commitments to trigger the investment but the capacity is not guaranteed. The risks are not balanced in this approach even if a compensation mechanism is included.

- **Design principles of the economic test**

We would like to ask CEER to further improve this section mainly regarding transparency provisions.

We have already commented on this issue in previous consultations and cannot stress enough that TSOs should be required to publish details of their investment costs and the assumptions on which these are based.

Investment costs have a high impact on the outcome of the economic test, as the formula  $NPV \geq f * DIC$  included in the CEER Blueprint shows. If investment costs are not efficient or are artificially high the success of open season will be threaten. Investment costs which are not efficient or which are artificially high constitute a barrier and are detrimental for competition.

It should also be noted that the number of assets associated to an incremental capacity project is limited and it can be ring-fenced, therefore it is easy to monitor. Moreover, it should be acknowledged that network users who acquired bidding commitments for the long term have the right to check whether the investment costs are efficiently incurred.

Therefore, we would like to keep insisting that having complete transparency and justification for predicted investment costs is a prerequisite. There must be clear evidence from the TSOs that their costs are efficiently incurred. Therefore TSOs should publish at least:

- details of each of the investments linked to the incremental capacity (km, diameter of pipelines, power of compressor station, etc.) and their costs.

- **Implications for rules on Transmission Tariff Structures**

We need more time to further consider the implications of the way the reference price is set for incremental capacity and therefore we cannot position on this issue at this stage.

Regarding the payable price, we prefer to have fixed tariffs (instead of floating tariffs), or at least linked to a pre-defined variable such as inflation or to the same parameters used to adjust the TSO revenues or costs. Fixed tariffs will allow network users the option of hedging their exposure to access tariff risk and provide more certainty to both network users and TSOs.

It should be noted that network users face significant risks when committing long term and they should be the ones to decide the price risk they are ready to assume. If the premium is fixed but not the reserve price, shippers will face regulatory risk. Changes in the reserve price can affect their commercial position.