

KEY PRINCIPLES FOR MARKET-DRIVEN INVESTMENT PROCEDURES

Eurogas has given further consideration to the incremental capacity issue after the 3 June workshop. We reaffirm our earlier points made in the process (13NO182 attached for ease of reference), and offer some further thoughts on a few points. Particularly, however, we need more time to sort out preferences on Open Season.

AVOIDANCE OF MISMATCHED ALLOCATIONS

Eurogas welcomes the introduction, among the key principles that should drive procedures to invest in incremental capacity, of coordination between TSOs to assure that the allocation process of new and incremental capacity results in real bundled hub-to-hub products. Indeed, the objective and final result of the process should be the allocation to interested users of capacity on a complete route: any risk for users to obtain different amount of capacities on the various interconnection points along this route should be avoided.

In order to meet these concerns, we suggest that the Blueprint should include clear principles to ensure that quantities offered by TSOs (minimum quantities, lots etc.) are co-ordinated and harmonized, and expressed in the same units, and no completion risks should be faced by users. In order not to disincentivize longer-term bookings for incremental capacity, completion risks and costs have to be shared in the fairest way among all stakeholders.

Eurogas is giving further thought to possible mechanics that could be explored to achieve this. Two initial thoughts are

- a) applying the "conditionality of bids" principle, according to which the users' capacity request at an interconnection point is conditional on his obtaining capacity at another interconnection along the route.
- b) assuring coordinated "way-out procedures" for network users in case the development of incremental capacity at an interconnection point is delayed or, in worst scenarios, not completed. Indeed, it has to be underlined that coordination should not only be ensured during the initial planning and allocation phase, but should be granted until the end of the process: users shall only be bound to pay for a capacity product that they can fully use to transport gas along a route.

But Eurogas will continue to think through this issue.

WHEN TO OFFER INCREMENTAL CAPACITY

There is little at this stage for Eurogas to add to its earlier expressed views, and it is as Eurogas has stated paramount to remove any uncertainty around when to offer incremental capacity. Generally speaking, if one of the identified conditions is met, the offer of incremental capacity should be automatic, and not be subject to any further assessment. But this approach cannot be over prescriptive, and there may be situations in which automatic offers would have damaging consequences on tariffs charged for other capacities. Eurogas will think through this issue further, and try to define a more precise approach.

INTEGRATED CAPACITY AUCTIONS

Eurogas shares CEER's recommendation on the adoption of Technical Design 2, involving parallel bidding ladders. Differently from the Technical Design 1, it seems that the implementation of parallel bidding ladders would allow network users to have a clearer idea of the amount of incremental capacity they are bidding for and that could eventually be allocated, based on the result of the economic test. Design 2 would give more accurate signals in the bidding process.

We recall, however, the need for proper technical/economic assessment of costly incremental capacity projects (e.g. where the unit cost is likely to be above the tariff for existing capacity). Network Users should be in a position to reach the best possible understanding on the conditions necessary to satisfy the economic test, which should trigger firm offers.

OPEN SEASON PROCEDURES

Eurogas still thinks all Technical Designs may have advantages and disadvantages and we require longer to analyze the related questions.