

Gas Target Model follow-up

- Work on incremental capacity

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Context

- The GTM document concluded on the need to investigate **auctions for incremental capacity**
- **Request from stakeholders**
 - Ensure consistent approaches for existing and incremental capacity
 - Preference for a regular offer of additional capacity through a joint allocation procedure
- **CEER approach**
 - Cross-border investment is a **complex issue**: different situations may require different solutions
 - **Efficiency**: developing enough transmission capacity while avoiding inefficient investments

- Consultation from 28/06/2012 to 14/09/2012
- Focus on “**demand driven investment**”
 - Capacity development according to the needs of market players
 - The market helps evaluating the needs
 - Shippers commitments secure investment financing
- **3 key questions**
 - When and how to decide to offer some new capacity to the market?
 - When and how to decide to invest?
 - Who pays for the investments and takes on the risks and/or the benefits?

Critical issues

- **Coordination**
 - Dialogue between the involved parties (TSOs and NRAs)
 - Project design and products offered to the market, including development steps
- **Transparency and regulation**
 - Tariffs and investment decision process
- **Allocation procedure: 3 options**
 - **Regular integrated auctions** for incremental and existing capacity
 - Incremental capacity auction if **demand is identified in a regular process**
 - **One time** integrated auction
- **Investment decision/economic test**
 - Subscription requirements and/or cost coverage thresholds?
 - Integration of wider criteria?

Interaction with CAM

- The **CAM network code** has determined
 - Standard capacity products: yearly, quarterly, monthly, daily and within day
 - Bundled cross-border products
 - Yearly products allocated 15 years ahead
 - Regulated tariff as reserve price for auctions
 - 10% quota of capacity dedicated to short term
 - Ascending clock auction algorithm for annual products
- Question on the potential application of the CAM auction algorithm to incremental capacity

Questions to stakeholders

- 14 questions including the following
 - Views on the past and current methodologies applied in Europe
 - Need for harmonisation on a European level?
 - Views on the allocation of incremental capacity via auctions
 - Key considerations for the economic test
 - Frequency of market testing
 - Should the economic test be binding in terms of investment decision?

Preliminary analysis of answers (1/2)

- **30 responses received** with the majority of stakeholders welcoming CEER's work and considering that the right questions are addressed in the discussion paper
- In general, positive experience with Open Seasons although the process can be improved (coordination, transparency on costs, on tariffs and eco test in particular)
- Scope of the paper should be either limited to cross-border IPs or include cross-market areas IPs for consistency with CAM/CMP
- No dichotomy between Open Seasons and “integrated auctions”; they share a similar objective and have their own merits, if well-designed

Preliminary analysis of answers (2/2)

- Some stakeholders consider both processes are useful but in different circumstances
 - “Integrated auctions” seem more appropriate for regular opportunities to book small amounts of incremental capacity
 - Open Seasons seem to allow for a tailored approach for more complex projects (major investments/several TSOs and NRAs involved)
- Some stakeholders advocate for one option against the other
- Market-testing to be organised on a regular basis (different views on exact frequency), which is known upfront by market players
- A majority of respondents consider that a full standardisation of economic tests is not necessary but suggest to harmonise general principles (structure, transparency, link with regulatory approval)

Way forward

- Evaluation of responses and next steps paper to be released in December 2012
- Roundtable with stakeholders' associations end of October 2012
- Paper on new rules on incremental capacity in 2013, including the potential revision of GGPOS
- ACER is launching a study on incremental capacity in relation with tariff FG. Results expected in Feb/March 2013

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Thank you for your attention!

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