CEER Blueprint on Incremental Capacity

EDF preliminary comments

17 June 2013

General remarks

Incremental capacity (IC) is a very complex subject at least as complex as CAM NC, which required numerous workshops to enable stakeholders, TSOs and NRAs to exchange their views to identify the many issues at stake and to find a common ground technically viable. This was of key importance to understand the different mechanisms and, in turn, define the most appropriate regulatory framework. Furthermore, EDF believes that the development of IC rules, especially the provisions on the economic test, need to be coordinated with ENTSOG's CBA methodology which is still under development and which will not be ready by November 30th. **For these reasons, EDF Group believes that it is too early to narrow down options at the moment.**

Therefore EDF Group would advocate for the organization of **some workshops** (at least two) - based on case studies - to be organised in the near future with all relevant stakeholders. In this respect, we believe that the work undertaken to date by CEER on the annex 3 is of great value and should be repeated on the different topics of the Blueprint.

As a general principle, EDF Group believes that IC rules should follow a « hub-to-hub » logic and that interested users should always be able to buy capacity along a complete and defined route, with no risk of ending up with capacity mismatches at different interconnection points (IP).

EDF Group also agrees that open season may be an appropriate and simpler mechanism to deal with IC allocations when multiple interconnection points are involved. However we support further coordination on technical aspects for open seasons as we stated in previous public consultations.

The comments provided below are preliminary comments and, as stated above, illustrate the need for further discussions between stakeholders on the basis of numerical simulations.

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When to offer?

The different options seem interesting, appropriate and complementary. However, some clarification is needed:

- TYNDP : the definition of a "reasonable peak scenario" remains vague;
- The fact that LT capacity could be sold out should be considered as an indicator and not as a strict criteria/threshold;
- The manner network users will be able to indicate their interest should be specified.

How to offer?

Stakeholders need more time to understand the implications and interactions of the different options. This understanding would be easier through participation in workshops to review and comment upon detailed numerical examples.

In case of integrated auctions, further clarification is required as to what happens if the building of the infrastructure is delayed? Moreover, in the case of parallel bidding ladders, we are not sure to understand whether this is considered, by CEER, as the binding market test that triggers the investment or if it is just an indicative test.

We understand why it could be useful to use the results of the auction on existing capacity to signal scarcity and therefore the need for incremental capacity. However, we wonder if auctions are well suited for allocating incremental capacity. Indeed, auctions are implemented in order to manage scarcity of existing capacity. Yet, by definition, incremental capacity could be unlimited and we do not understand why any shipper would be willing to pay any premium for this capacity that should be allocated at the regulated tariff. In that respect, we would also like to know if CEER or ACER foresees to cap IC offer. This is actually the case in GB where IC is limited to 150% of the technical capacity although this cap can be negotiated by users and the TSOs in advance of the auction.

Market test

First, EDF Group would like to point out the lack of clarity on when the market test is supposed to be run in case of auctions. Our understanding of the Blueprint is that this test is decoupled from the auctions. However, we wonder about the relevance of running an *ad hoc* test. Indeed, EDF Group believes that auction mechanism provides by itself an implicit economic test.

EDF agrees with the chosen parameters. We understand that they cannot be harmonised at a European-wide scale. However, we think that for a given project, they should be harmonised at both sides of the IPs. If not, TSOs and NRAs should communicate *ex ante* on the reason why they have not been able

to harmonise them since this will have a direct impact on the tariffs of both TSOs and thus on users. Moreover, full transparency on these parameters is needed in order to allow network users to participate accordingly to the market test.

In order to coordinate and harmonize market tests on both sides of the IP, we are of the opinion to define range of values that could be used for the *f* factor.

In case the market test is not met, we would be in favour of a possible "way out" for users especially if the capacity is not allocated on one side of the IP.

Tariffs

We understand from Annex 3 that the Economic test has a direct impact on reference price. Furthermore, the example states that the global $NPV_{total} < f*DIC$ with however $NPV_A < f_A*DIC_A$ and $NPV_B > f_B*DIC_B$. This situation could lead to a potential increase (depending on the chosen solution) of the reference price in system A, in order to pass the economic test. We believe that increasing artificially tariffs in the parameters in order to meet a market test is not justified.

These type of situations needs to be carefully assessed to avoid any risk of undue increase on (i) the system where the economic test failed or on (ii) users that subscribed capacity before the release of incremental.

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