GasTerra

CEER
Submitted online

GasTerra B.V.
Stationsweg 1
P.O. Box 477
9700 AL Groningen
The Netherlands
T +31 (0)50 364 86 48
E communication@gasterra.nl
VAT NL814409325B01
Trade Register Groningen 02089290
www.gasterra.com

Date
June 13, 2013

Direct number
+31 (0)50 364 8389

Our reference
J 13.037

Your reference

Subject
CEER Blueprint on Incremental Capacity

OPENBAAR

Dear Sir/Madam,

GasTerra B.V. (hereinafter "GasTerra") appreciates the opportunity to share some thoughts with CEER on its Blueprint on Incremental Capacity (hereinafter "Blueprint"). Our remarks below are not exhaustive and we refer to our response to CEER's previous public consultation on market-based investment procedures for gas infrastructure of 14 September 2012.

The mechanisms of auctioning and open season

We are pleased to read in the Blueprint that open seasons are generally considered a well-suited mechanism and we remain convinced that an open season should continue to be the standard market-based methodology to evoke investment decisions for new/incremental cross-border capacity, rather than integrated auctions for existing and new/incremental capacity.

The quintessence of the auctioning of products is that there should be a certain scarcity, in reality or at least presumed, where those offering the highest price will get the scarce product allocated to them. However, new or incremental transmission capacity, putting typical exceptions aside, is not a scarce product. Usually the transmission company has the option to build a new pipeline connection for any capacity level for which demand has been demonstrated. Similarly, existing connections can be expanded with no restriction on the maximum capacity level.

CEER's main concern with respect to separate allocation procedures for existing and new/incremental capacity seems to be that discrimination in terms of pricing could occur between users having acquired existing capacity at a congestion premium and users committing to buy incremental capacity for the same period via a subsequent regular long-term open season.

However, this is a common economic risk/opportunity occurring for every economic good with variable supply and demand conditions. Commercial entities are used to focus their risk policies and purchase strategy on the management of these risks. Therefore, it is GasTerra's view that this should not be a concern for CEER.

The issue here is that the use of floating tariffs is currently a common practice in transmission service pricing. This might indeed cause some users to pay double in relation to new investments: first paying a congestion premium and then being charged afterwards with an increased reserve price in order to enable the investment. GasTerra's preferred solution to this problem is the introduction of optional fixed transmission tariffs, as is common for other (non-regulated) economic goods. We would like to refer to our response to ACER's 2012 questionnaire for the draft framework guidelines on harmonised transmission tariff structures, where we stated the following:

> [...] GasTerra feels that there should be an option for network users to book longer term capacity against a fixed tariff (i.e. a tariff that will not change after the contract has been concluded because of dealing with under/over recovery or changes in the allowed TSO revenue). It would be fair if such fixed price would include a moderate risk premium and therefore be (a little) higher than the regular floating tariffs resulting from auctions (i.e. fixed reserve price + auction premium + risk premium instead of floating reserve price + auction premium). The costs and profits from under/over recovery or changes in the allowed TSO revenue will then have to be redistributed to the network users who did not pay the risk premium. An alternative can be to let the TSO bear the risk for under/over recovery or changes in the allowed TSO revenue for the part of the TSO's capacity which is booked against a fixed price, because the TSO receives a risk premium for this capacity.

One of the benefits of the open season is its simplicity. CEER has indicated itself that auctioning might not be an appropriate mechanism for complex situations such as multiple IPs.

Auctions bear the risk of being distorted by perverse bidding. In the case of integrated auctions this might result in delay of investments, where an open season would have revealed a business case for such investments. Any technical design of an integrated auction, if it nevertheless would be applied, should therefore be carefully checked against such opportunities for perverse bidding.

In summary, we prefer separate allocation of existing capacity on the one hand, and incremental and new capacity on the other hand as a general rule. We agree with CEER that a technical design for open seasons according to the options 2 or 3 is preferable.

<u>Key principles for market-driven investment processes</u>

GasTerra agrees with CEER's approach to identify the applicable general principles and supports most of the indicated principles, except for the last principle (page 11 of the Blueprint) referring to avoiding price differences between existing and new/incremental capacity.

<u>When to offer incremental capacity</u>

GasTerra finds the conditions which CEER has formulated appropriate.

<u>Scope</u>

GasTerra agrees with CEER that the proposals should apply to cross-border points only.

Economic test

GasTerra agrees with CEER that it is preferable to base an investment decision on a financial measure, rather than a booking level.

With kind regards,

Herbert van Zijll de Jong

Manager Legal and Regulatory Affairs