Gas Target Model Follow up - CEER Work on Incremental Capacity

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Background

- GTM took on task how to identify and integrate new capacity
- CAM does not deal with allocation of incremental capacity
- GGPOS monitoring called for further guidance on coordination of cross-border market-based investments

ERGEG

Gas Working Group
Task Force Gas Market Monitoring

Monitoring Report 2010
on the compliance with the Guidelines of Good Practice of Open Season procedures (GGPOS)

Ref: E10-GMM-11-02
Version 2.0
27-July 2010

ACER
Agency for the Cooperation of Energy Regulators

Framework Guidelines
on Capacity Allocation Mechanisms for the European Gas Transmission Network

FG-2011-G-001
3 August 2011

Council of European Energy Regulators

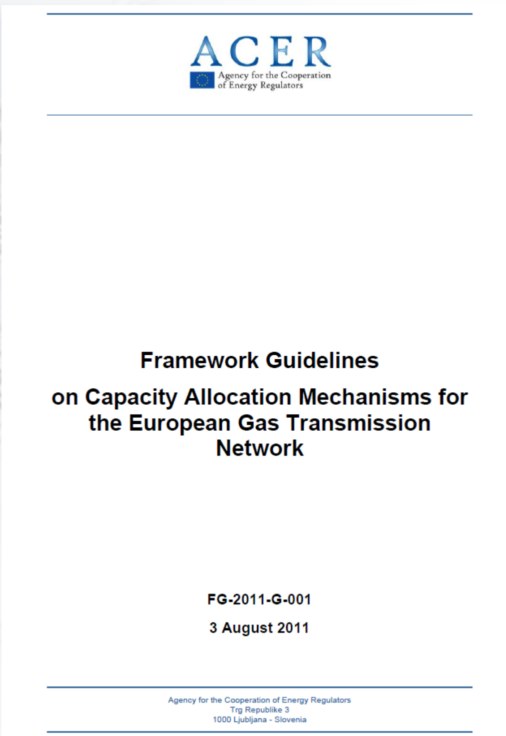
CEER Vision for a European Gas Target Model
Conclusions Paper

Ref: C11-GWG-82-03
1 December 2011

Recommendation 3:

CEER, in consultation with stakeholders, will develop proposals how to identify and integrate new capacity, based on market demand established through coordinated market-based procedures. CEER includes this topic in its work plan 2012.

Relation to FG/NC CAM



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Agency for the Cooperation of Energy Regulators
Trg Republike 3
1000 Ljubljana - Slovenia

- CAM sets some criteria for new capacity:
  - Bundling
  - Standard products
  - Reservation for short term products
- CAM does not deal with:
  - Allocation of new capacity
  - Tariffication for new capacity
  - Identification of need for new capacity
- CAM provides for auctions on existing capacity
  - Scarcity of capacity should result in premiums over reserve prices → congestion signal

⇒ **Need of ensuring sufficient cross-border coordination as regards the allocation of incremental capacity**

Interface between CAM and NDP/Investments

Investment Decision & Network Planning

Capacity Allocation

3rd Package:

•Network Development Plan (EU and national; binding ITO-Plan)

•Experience with Open Seasons

• UK experience with Integrated Auctions

FG CAM for existing capacity

?

Allocation of incremental capacity?

Initial stakeholder comments and areas of work

- **Stakeholders' demand (CAM & GTM)**
  - regular market testing
  - more transparency on network development
  - coherent investment decision on both sides of the border
  - common process for allocation of capacity

- **Key questions to be investigated**
  - How to ensure sufficient cross-border coordination on the identification and design of investment projects?
  - When and how to test market demand and allocate incremental capacity?
  - How to decide on the investment?

Questions to be addressed

- **What questions/problems do we need to address?**
  - How to ensure consistency between existing and new capacity?
  - Cross-border investment (IP or multiple IPs?)
- **Where? Scope and need to harmonise**
  - What should be agreed at EU level, what can be done locally?
- **How? Approach needs to be flexible enough to take into account future changes**
  - Shall we generally move towards auctions as allocation procedure for existing (CAM) and new capacity? How should such auction mechanism be designed?
  - Shall and can the identification of new capacity only be based on the market test?
  - Do we need an "economic test" pre-agreed by NRAs?
    - Pros: allows shippers' bids in the auction to be legally binding and as such more reliable;
    - Cons: more challenging to agree at cross-border points economic test (different tariff regimes and regulatory approaches).
  - Shall the economic test be indicative or binding?
    - if binding, it creates certainty for TSOs and shippers;
    - If indicative, it allows NRAs to take into account additional criteria before approving the investment

Problem identification and discussion on scope needed!

Past experiences with OS

- **CEER gained experience with the "Open Season" approach:**
  - Ad-hoc market survey on the need for new capacity
  - Economic test to decide whether shippers' commitments are sufficient to trigger the investment

- **OS a "parallel" process to allocation of existing capacity and NDPs**

- **Monitoring on GGPOS showed that more guidance was needed on the following topics:**
  - Exchange of information between involved parties
  - Compatibility of capacity products sold on the two sides of borders
  - Transparency regarding tariffs and the investment decision-making process
  - Reliability of "non-binding phase" (often led to overestimating the capacity needs)
  - Spare capacity available for short term (sometimes 100% of capacity contracted for long period)

- **One essential requirement:**
  - Ensure sufficient cross-border coordination to achieve sound investment decisions and coherent capacity developments

Specificity of cross-border investment projects

- **The complexity of cross-border projects**
  - 2 countries
  - 2 TSOs (or more)
  - 2 NRAs and different legislations
  - Regulatory approaches to investment often different
- **Specific need for coordination on:**
  - The technical design of the project, which may require investments deeply into two adjacent networks
  - Evaluation of development steps
  - Evaluation of costs and translation into tariffs
  - Investment decision

→ These constraints have an impact on the potential design of the market-based procedure to be used

Relevant steps

Step 1

Launch of Investment Process (Identification)

Step 2

Design of Project

Step 3

Offering/Allocation of incremental capacity to market

Step 4

Decision on Investment

Investment steps and possible options

OPTIONS

Step 1– Launch of the investment process	Step 2 – Design of the investment project	Step 3 – Offering capacity to the market	Step 4 – Decision on investment
Automatic launch Investment process integrated in yearly auction for LT capacity	**TSOs and NRAs cooperation** - Identification of the project's costs - Capacity calculation and design of commercial capacity offer - Translation of costs into (indicative) prices	**LT integrated auction** (existing & new capacity) organised annually or on an ad-hoc basis	**Investment triggered if economic test fulfilled** - Expected percentage of capacity subscribed - Expected level of cost coverage through subscriptions
« OR ?»		« OR ?»	« OR ?»
Investment process launched based on signals for a capacity need - Auction results for LT existing capacity - TYNPD exercise (forecasts and market consultation)		**Separate auction for incremental capacity only** organised annually or on an ad-hoc basis	TSO takes over results; **NRA approval based on wider criteria**

Pros and cons to be analysed and options to be refined

Way forward

- CEER options paper is being worked on
- Joint CEER-ENTSOG Roundtable with stakeholders (mid-April)
- Public consultation to be started (date tbc)
- Final paper at the end of the year

Thank you for your attention!

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