

# Implementing economic investment

Martin Crouch

4<sup>th</sup> Gas Target Model workshop

Brussels, 28 June 2011

# Introduction

## The target model for European gas markets so far

Auction-based  
allocation of  
existing capacity

Bundling

Mechanisms to  
bring about more  
efficient use of IPs

Proposals to  
create functioning  
wholesale gas  
markets

Market-based  
balancing

**So what about additional cross-border gas transmission infrastructure?**

# The need for investment

Is more investment in cross-border gas transmission infrastructure needed?

Security of supply considerations

New demand patterns (e.g. to accommodate electricity generation)

Unconventional sources of gas

Increasing import dependency

## ENTSOG's 10 Year Network Development Plan:

- "Difficult to draw clear conclusions"
- "Many investments are still needed to address security, sustainability and competition in a satisfactory manner"

*(February 2011)*

**The need for investment is uncertain.**

# Recent gas infrastructure investment

- Predictable framework for investment is needed
- Examples of recent Open Seasons:
  - France - Luxembourg
  - France - Spain
- Examples of recent exemptions:
  - Nabucco
  - BBL
  - Opal

**Scope to develop target model for delivering cross-border investment.**

# Conceptual options

## Option 1: Merchant approach

- Exempt (“unregulated”) investments

## Option 2: Regulated model

- TSO makes business case, NRA adjusts revenue allowance

## Option 3: Tendering model

- NRA to identify investment and to trigger competitive tender

## Option 4: Market-led model

- Market to signal demand for capacity in integrated Open Season (aligned with long term auction)

# Suggested model: a market-led approach (I)

- Regular auctions at each IP (according to CAM FG), based on:
  - Information on available capacity
  - Information on reserve price
  - Incremental price steps for additional capacity
  - Estimated project cost for additional capacity
- This allows each network user to signal how much capacity they would like at what price
- I.e. shippers can signal how willing they are to contribute and commit to investment (beyond what is already there)

# Suggested model: a market-led approach (II)

- **Coordination between NRAs:**
  - What level of user commitment is required to trigger investment (risk of asset stranding versus risk of underinvestment)?
  - How to take into account externalities, such as Security of Supply benefits?
  - How to allocate the cost between markets (where some socialisation occurs)?
- **Coordination between auctions:**
  - Coordinate timing across Europe
  - Several rounds of auctions (for additional capacity) to allow network users to correct their positions depending on auction outcome
- **Frequency:**
  - quarterly, annual, or bi-annual?

**Like a transparent, regular Open Season where investment decisions are made by TSOs/ NRAs (setting incremental price steps) and network users (through bids).**

# Suggested model: a market-led approach (III)

- **Protects consumers** as asset stranding is avoided through user commitment
- **Avoids underinvestment** as network users can signal how much they value an investment
- Enables **SoS considerations** to feed into decision making (when setting economic test)
- Proposed by some **network users** (i.e. has some buy-in from stakeholders)
- **Successfully in use** for GB entry capacity, but untested for cross-border investment
- Requires **NRA cooperation**
- Does not require harmonisation of price controls



The background of the slide is a light blue gradient with a faint, semi-transparent image of a high-voltage electricity pylon on the left and a gas burner with blue flames on the right.

Thank you for your attention!

[www.energy-regulators.eu](http://www.energy-regulators.eu)