

ENTSO-G: Refinement Workshop on the Incremental Proposal

23 September 2014



Draft Incremental Proposal

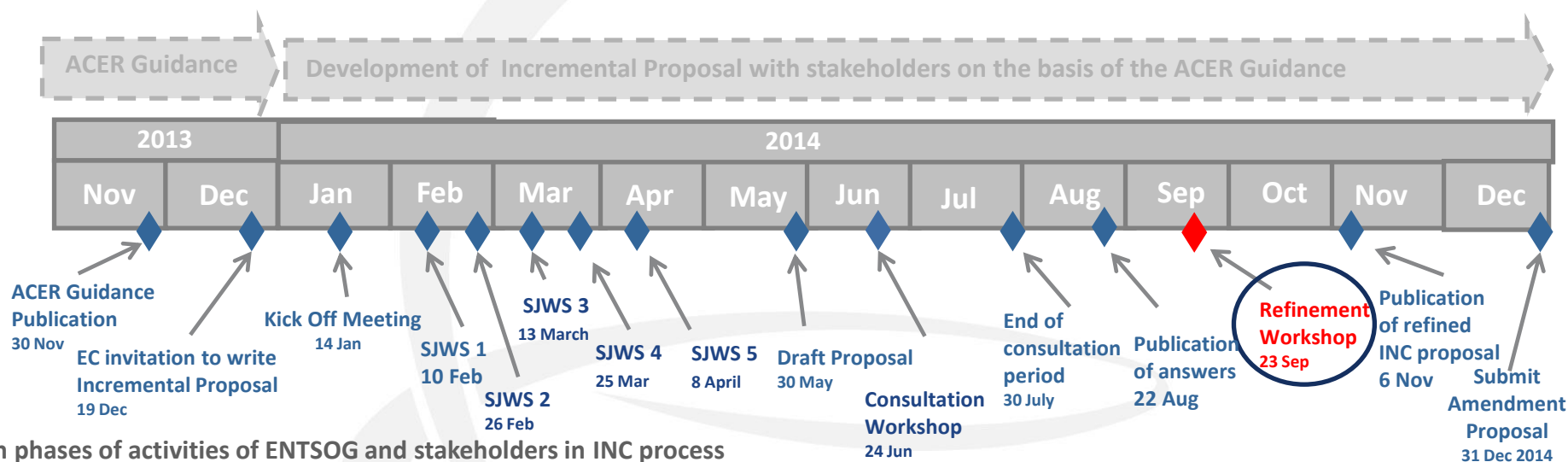
Refinement Workshop

Brussels – 23 September 2014

Agenda for today

No.	Description	Time
	Welcome coffee	09:30-10:00
1.	ENTSOG welcome and opening	10:00-10:05
2.	Main results of the public consultation of the Draft Incremental Proposal	10:05-10:30
3.	Preliminary refinements ➤ CAM NC Amendment	10:30-11:30
	Coffee break	11:30-11:45
4.	Preliminary refinements ➤ TAR NC Drafting (INC part)	11:45-12:45
5.	Conclusions and next steps	12:45-13:00
	Lunch	13:00
Next publication: 6 th November 2014 → Refined Incremental Proposal		

Timeline for incremental proposal Development and consultation overview



Emergency Evacuation

- > Emergency Evacuation Plans - Plans located on two main corridors of ENTSGO office indicating the way of evacuation from offices located on the Second Floor of Cortenbergh 100 Building.
- > The meeting point is in front of the Mosque –Parc du Cinquantaire,

Plan d'évacuation | Evacuatie plan | Evacuation map

ENTSGO aisbl - GIE aisbl



CONSIGNES EN CAS D'INCENDIE

Ne paniquez pas
N'emportez rien
Ne revenez pas sur vos pas
Dirigez-vous vers une issue de secours
N'utilisez pas les ascenseurs
Rendez-vous au lieu de rassemblement

VEILIGHEIDSRICHTLIJNEN IN GEVAL VAN BRAND

Blijf kalm
Neem niets mee
Keer niet terug
Begaaf u naar een nooduitgang
Gebruik geen liften
Afspraak op verzamelpunt

WHAT TO DO IN CASE OF FIRE

Keep calm
Don't take anything
Don't come back in your room
Leave building via emergency exit
Do not use the elevator
Go to the meeting point



VOUS ÊTES ICI
U BENT HIER
YOU ARE HERE



CHEMIN D'ÉVACUATION
VLUCHTWEG
EVACUATION WAY



POINT DE RASSEMBLEMENT
VERZAMEL PUNT
MEETING POINT



EXTINCTEUR
BRANDBLUSAPPARAAT
FIRE EXTINGUISHER



DEVIDOIR
HASPEL
FIRE HOSE REEL



BOUTON D'ALARME
ALARM DRUKKNOP
ALARM BUTTON



LOCAL ÉLECTRICITÉ
ELEKTRICITEITSLOKAAL
ELECTRICAL ROOM



SORTIE DE SECOURS
NOODUITGANG
EMERGENCY EXIT



SORTIE NORMALE ET DE SECOURS
UITGANG EN NOODUITGANG
USUAL AND EMERGENCY EXIT

+2

23 September 2014



43 Members and 3 Associated Partners
in **26 EU countries**

4 Observers from EU affiliate countries

- Gassco AS (Norway)
- Swissgas AS (Switzerland)
- GA-MA AD (FYROM)
- Ukrtransgaz (Ukraine)



Results of Public Consultation

- ENTSOG published Draft Incremental Proposal on 28 May 14
- Consultation was held for two months until 30 July 14
- Consultation contained 35 questions on content and process
- Available on the ENTSOG website:
 - ✓ All responses to public consultation
 - ✓ Report on consultation responses

List of respondents

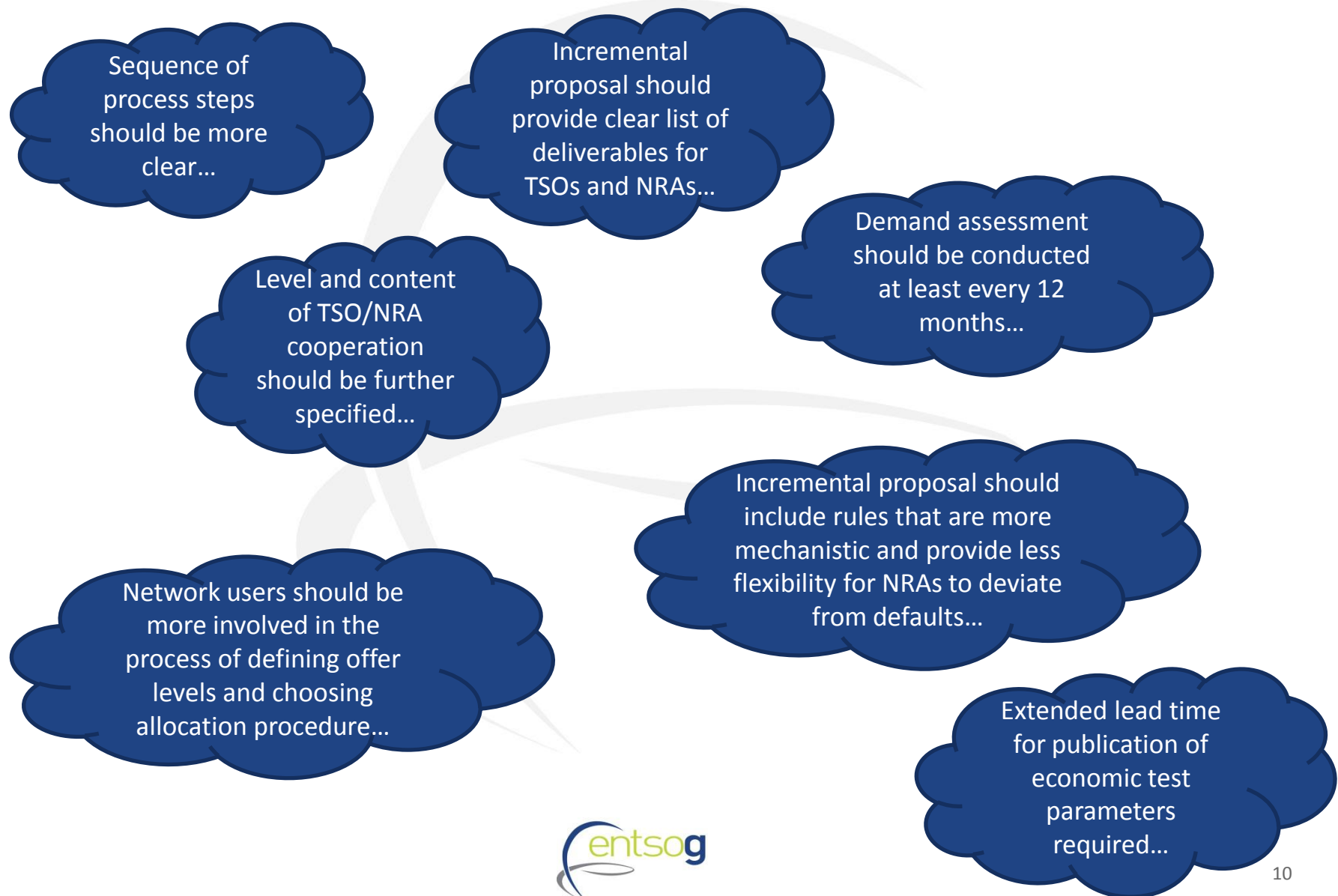
Overall responses received		21
European associations	7	- Association of European Energy Exchanges (europex) - European Federation of Energy Traders (EFET) - EURELECTRIC AISBL - EUROGAS - Gas Infrastructure Europe (GIE) - IFIEC Europe - The International Association of Oil & Gas Producers (OGP)
National associations	3	- Dutch sector association for energy companies (Energie-Nederland) - Spanish National Association of Manufacturers of Capital Goods (SERCUBE) - SEDIGAS (Spain)
Network users	10	- EDF SA - Edison - EDP - Enel Spa - ESB - ESSO Nederland BV - Gas Natural - Gazprom - GDF Suez Energy - Statoil
Infrastructure operators	1	GDF SUEZ Infrastructures

➤ No respondent indicated response to be confidential or anonymous!

Summary of responses

- ENTSOGs impression of the responses is in general quite positive
- Most respondents support the Draft Incremental Proposal in principle and appreciate the ENTSOG process so far
- Main issues of concern were primarily on the following:
 - The clarity and preciseness of the incremental offer process
 - The conditions and parameters of open season procedures
 - Parameters of the economic test
 - How the tariff framework impacts the incremental process

Stakeholder soundbites : Clarity & preciseness of incremental process



Stakeholder soundbites: Conditions & parameters of OSP



Stakeholder soundbites: Parameters of the economic test

F-Factor should be subject to public consultation...

There should be some degree of consistency between f-factors at both sides of an IP...

Externalities influencing the f-factor should be justified and backed by a cost recovery guarantee for this share of the investment cost...

Possible discrimination between users of different countries should be avoided...

There should be no short term reservation for incremental and new capacity...

Stakeholder soundbites: Tariff framework for incremental/new capacity

Fixed tariff option for incremental and new capacity is preferred...

Discounts for incremental and new capacity would discriminate against users with existing capacity...

There should be a fair risk-sharing between TSO and network users...

Certainty, visibility and predictability of future tariffs is key for long term commitments...

Fluctuations of floating tariffs for incremental and new capacity should be limited to increase stability...

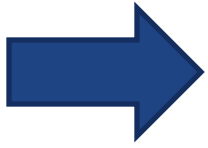
Tariff parameters (and possible adjustments) should be set ex ante ...

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Refinement Workshop



Amendment of CAM NC

Drafting of TAR NC (INC part)

Major refinements of CAM NC amendment

Major issues raised in the public consultation were:

- Streamlining of the process
- Frequency of the demand assessment
- More network user involvement
- Clarified OSP cases

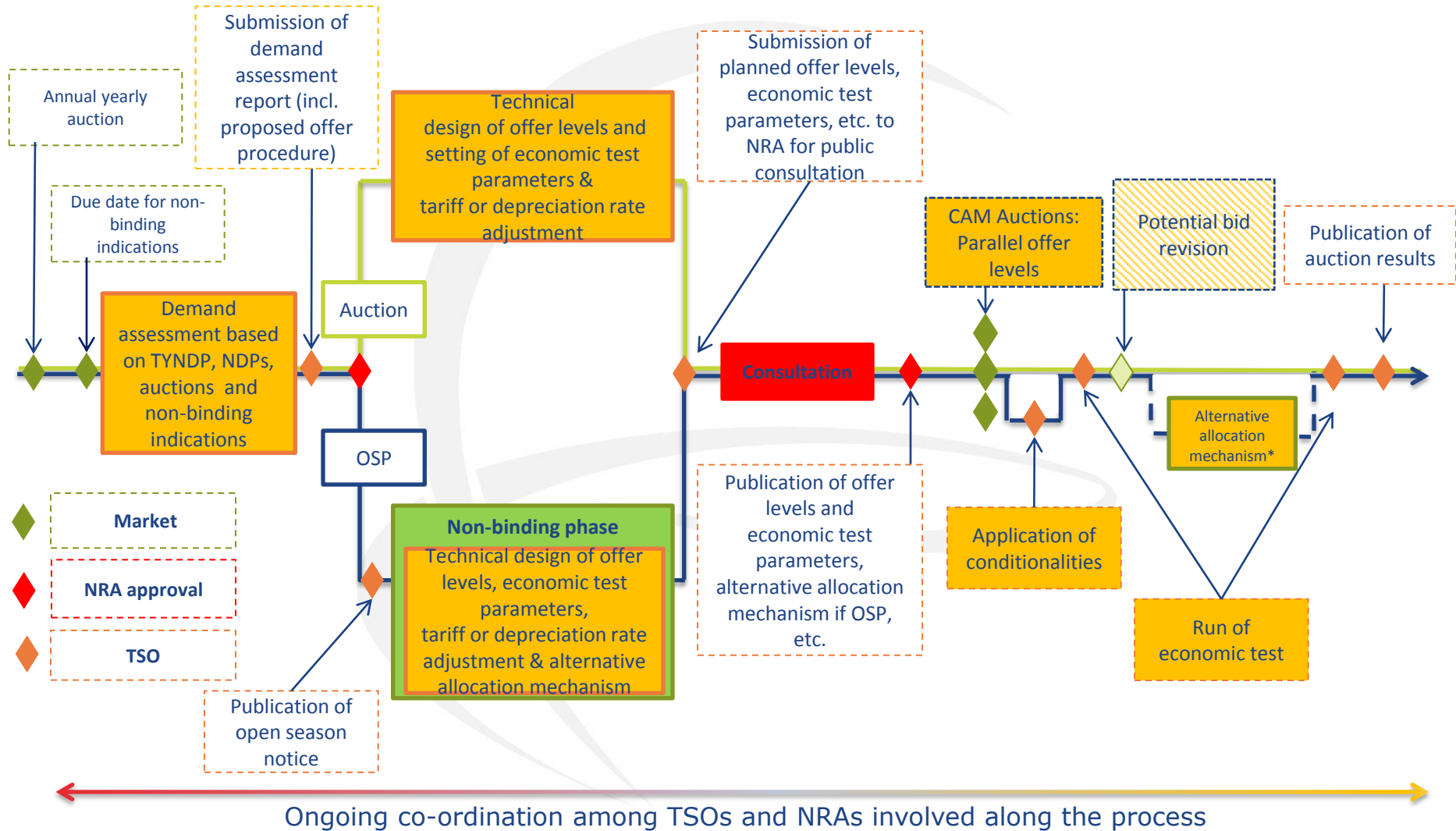
Definitions: Additional terminology refinements

Term	Refinement
New Capacity	➤ Draft Incremental Proposal differentiated between incremental and new capacity ➤ However, there was no different treatment of the two foreseen at any place of the Proposal ➤ Term 'new capacity' will therefore not appear in the refined Incremental Proposal and concept is integrated into the definition of 'incremental capacity'
Bidding ladders	➤ Consultation has proved that different understandings of the concept of a 'bidding ladder' exist among stakeholders and ENTSG ➤ Term 'bidding ladder' was used as combination of all yearly standard capacity products of a respective offer level, however had no technical relevance ➤ Definition of 'bidding ladder' only contained a combination of terms that are already defined in CAM NC ➤ In order to avoid confusion, ENTSG will not use the terms 'bidding ladder' or 'parallel bidding ladders' in the refined Incremental Proposal ➤ Concept of parallel bidding ladders will remain!

Streamlining of incremental process

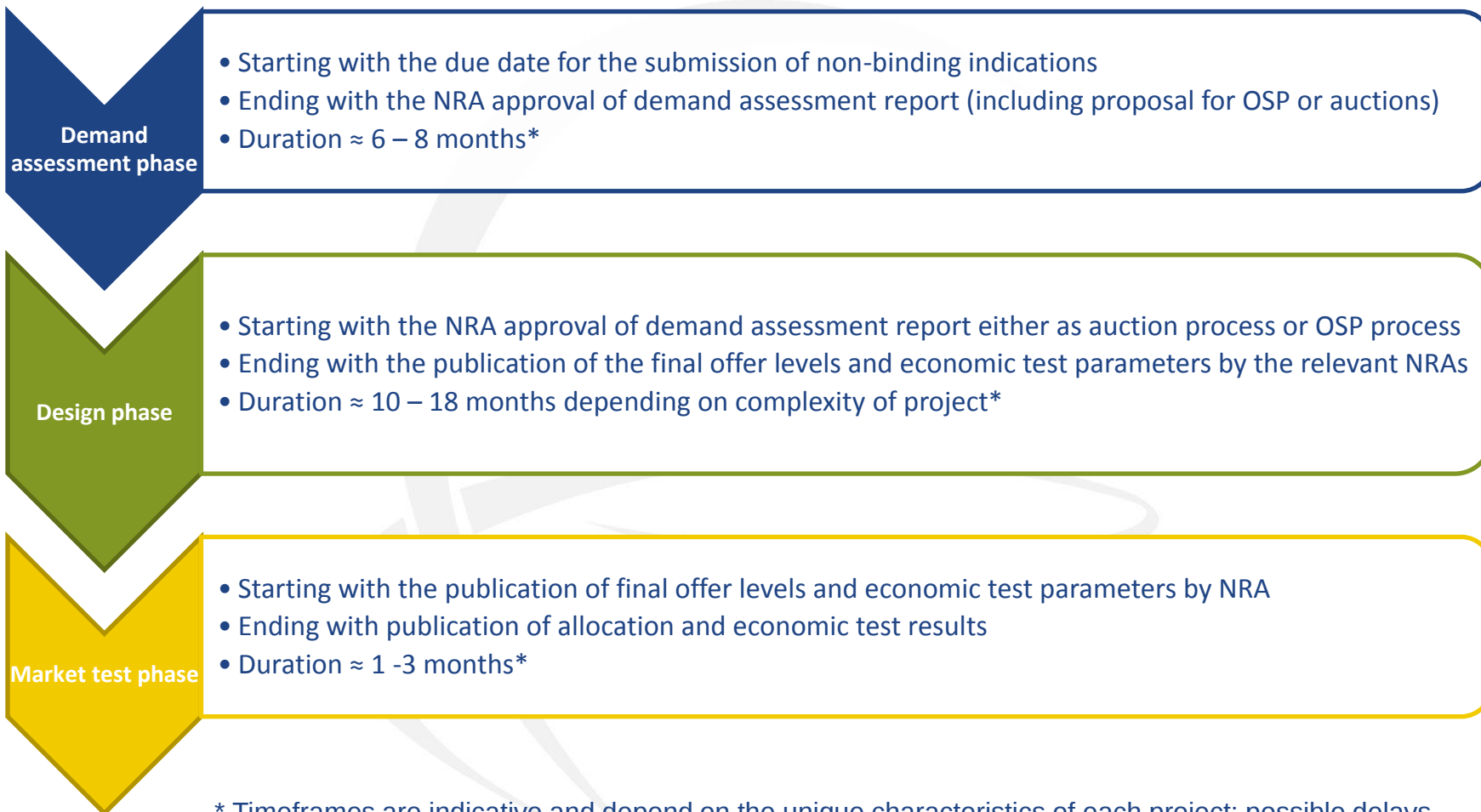
- ENTSOG refines the CAM NC amendment in order to make the sequence of process steps more clear
- Refined CAM NC amendment will provide clear lists of deliverables and clear deadlines for their provision
- Commonalities of OSP and auction process will be defined more clear in the CAM NC
- Incremental process should be more automated and should not allow unjustified deviations from defaults

Proposed streamlining of INC process



* An alternative allocation mechanism can only be applied in Open Season Procedures and if the default allocation mechanism prevents a positive economic test

Three phases of process



* Timeframes are indicative and depend on the unique characteristics of each project; possible delays e.g. due to outstanding approval processes were not taken into account

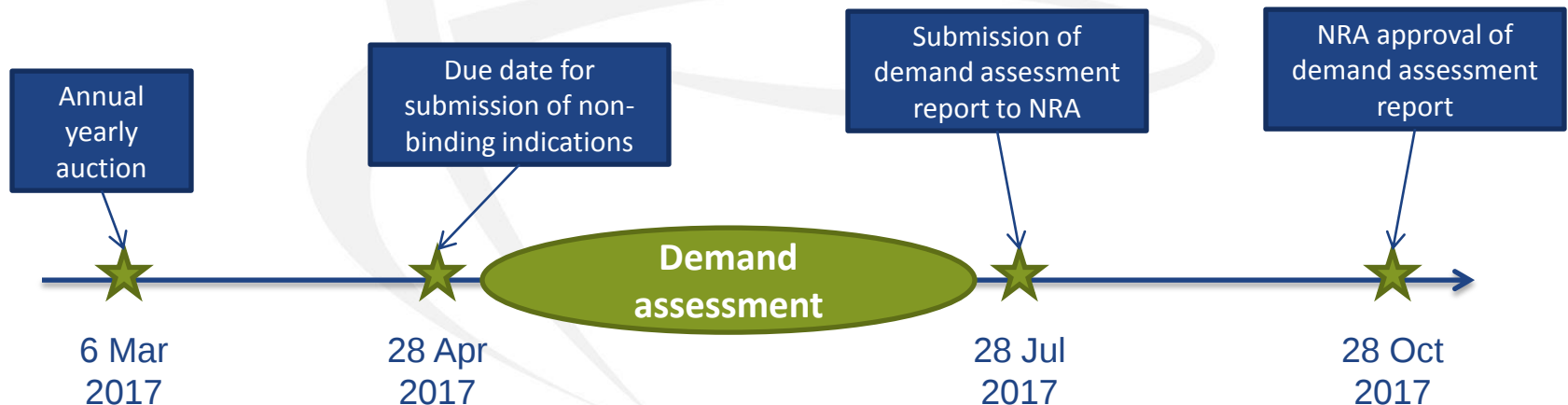
Network user involvement

Network users shall be able to contribute to the offer process at all crucial steps of the process:

- To the **demand assessment** by providing non-binding indications
- To the **technical studies** in case of open seasons by participating in the non-binding phase
- To the **design of offer levels and economic test parameters** by responding to the public consultation
- To the **economic test outcome** by participating in the auction or the binding phase

Co-ordinated demand assessment

- ENTSOG sees clear benefits in a co-ordinated demand assessment across EU in order to get full picture of demand for incremental capacity between markets
- Co-ordinated demand assessment also ensures that TSOs to are able to work jointly in an efficient manner in the design phase
- The time for a co-ordinated demand assessment should be linked to the annual yearly auctions



Frequency of process 1/3

Process in initial Draft Incremental Proposal:

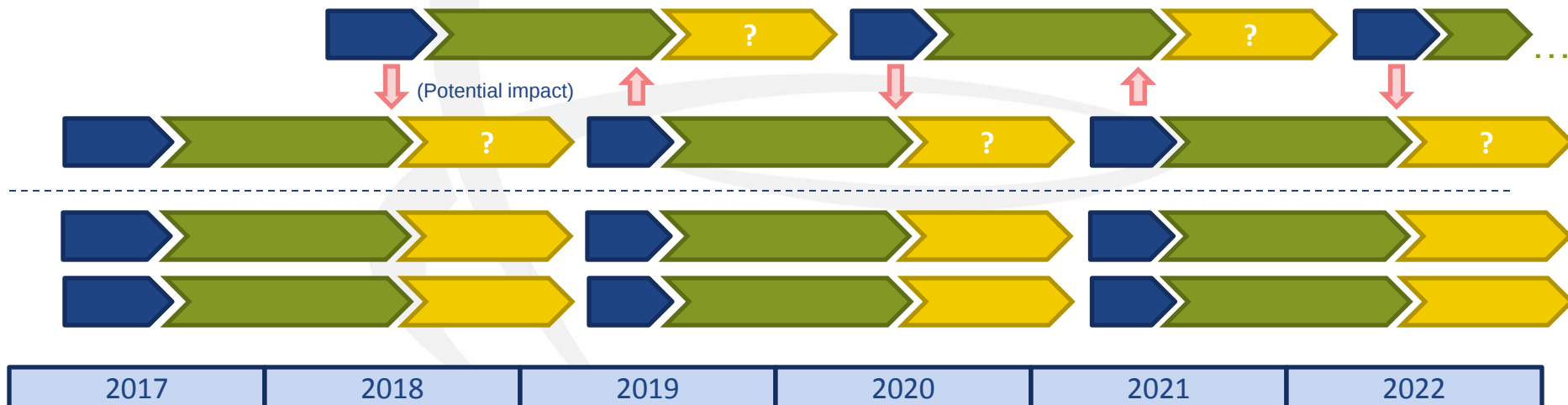
- Initial Draft Incremental Proposal provided a demand assessment for incremental capacity with a frequency of **no more than 24 months** (in line with process duration)

Consultation feedback:

- Consultation respondents requested a more frequent process with a demand assessment **no more than every 12 months**

Frequency of process 2/3

- ENTSOG sees it as **impossible to have a credible full incremental process within 12 months**, meaning that incremental process would potentially overlap while interactions may prevent a stable set of data and parameters from being established
- In contrast, a demand assessment every two years would enable in most cases that the previous incremental cycle closes before a new one opens



■ Demand assessment phase

■ Design phase

■ Market test phase

Frequency of process 3/3

ENTSOG would like to accommodate stakeholders indicated need for a yearly demand assessment, but needs to balance this against the credibility of the incremental process

Stakeholder feedback and ideas are highly appreciated!

Allocation of incremental capacity via auctions

Parallel bidding ladders

- General support to the auction process
- The setting of parallel bidding ladders should be done without too much complexity for network users

Bid revision

- Some concern that users that gained capacity in the first place could end up without capacity after bid revision
- Two approaches: A **continuous approach** for bid revision vs. a **one-time approach**
- A larger group of respondents including three associations voted in favour of option 1 – a continuous approach for bid revision.
- The majority of respondents seem to support, in general, a bid revision principle that includes repeating an auction if the economic test fails for an offer level and the lower offer level with a positive economic test cleared at a premium.

Application of Open Seasons 1/3

Open Season Procedures shall be applied in cases where:

- The project involves more than two entry-exit-systems or is linked to or impacted by the realisation of an exempted infrastructure
- Conditional commitments are envisaged
- The required offer levels cannot be efficiently derived from the demand assessment
- The 10 year booking horizon (15-5 years lead time) of a auctions is foreseen not to be sufficient to pass the economic test at the reserve price
- TSOs and NRAs chose an iterative process for a possible redistribution of revenues

Application of Open Seasons 2/3

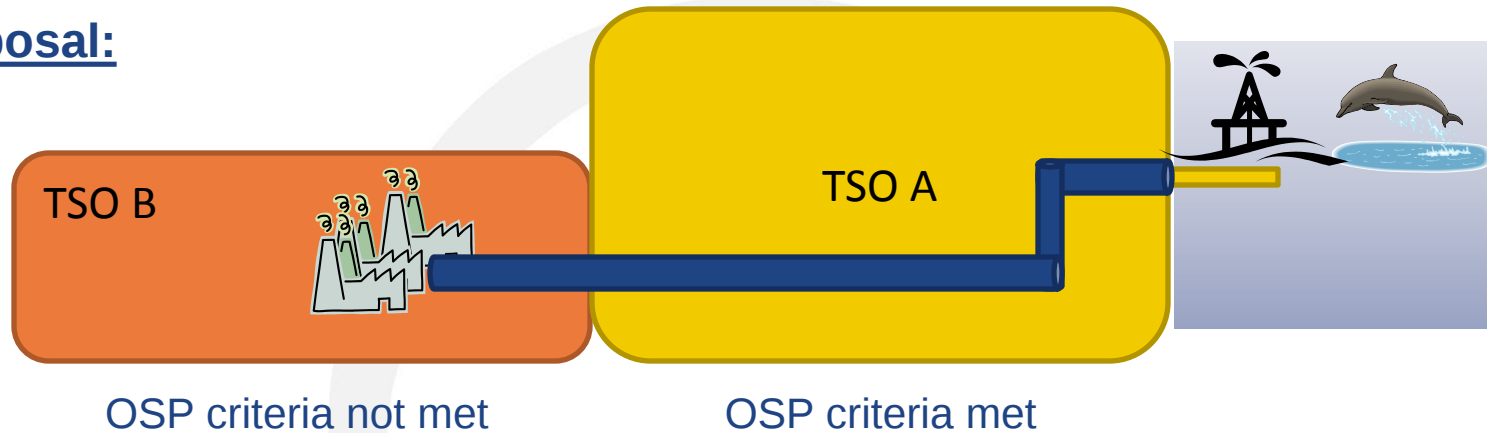
Application of OSP criteria in mechanistic way:

- TSOs assesses whether criteria for OSP are met for a project in the Demand Assessment Report
- Relevant NRA decides on this assessment of the TSO when approving the Demand Assessment Report
- If the criteria are met **for at least one of the involved TSO**, an OSP shall be conducted for the allocation of the bundled product

This ensures that all capacity for a single project is offered and allocated jointly and avoids delays due to inconsistent decisions of individual NRAs

Application of Open Seasons 3/3

Proposal:



- Example provides project that includes a production facility in market A and linking it with end users in market B
- Due to the need for conditional commitments in market A, OSP should be applied for the project
- Bundled capacity for IP AB should be offered in the OSP

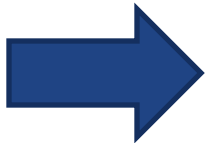
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Refinement Workshop

Amendment of CAM NC



Drafting of TAR NC (INC part)

Major refinements of TAR NC (INC part)

Major issues raised in the public consultation were:

- Network user involvement in determination of economic test parameters
- Predictability and certainty on tariffs
- Tariff and depreciation rate adjustment considerations

Network user involvement

- Increased network user involvement laid down in CAM NC amendment is also including the determination of economic test parameters
- Refined Incremental Proposal foresee publication of parameters
- NRA can take into account network user responses and decides on the parameters

Fixed vs. floating tariffs

- Issue of fixed tariffs is currently under discussion in the TAR workstream
- Incremental Proposal will reflect the principles defined for the TAR NC on fixed vs. floating tariffs
- ENTSOG keeps Art 26(2) of CAM NC also in the refined Incremental Proposal:

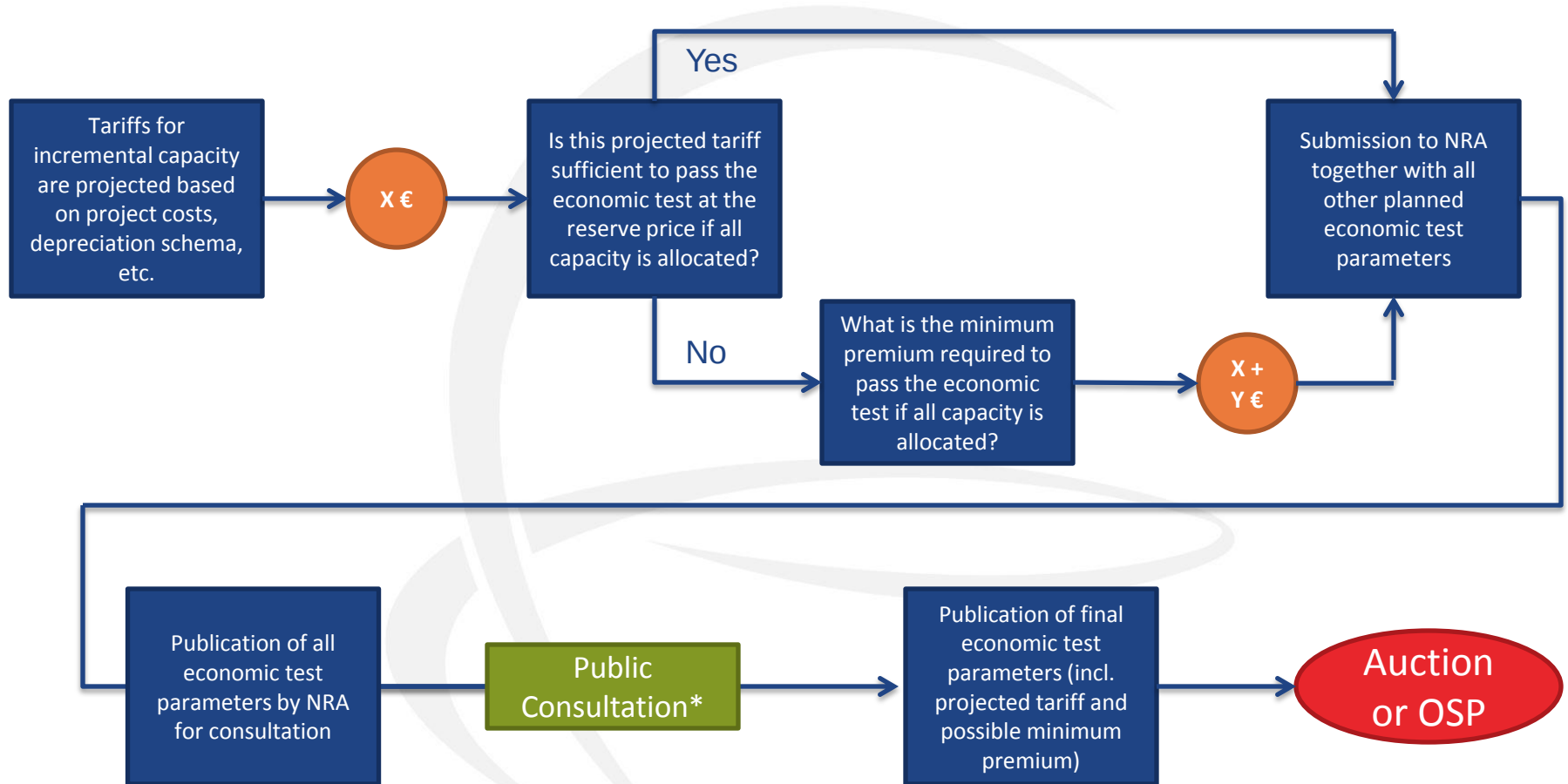
Art 26.2 of NC CAM

The payable price determined in a capacity auction can be either a fixed price or a variable price or be subject to other arrangements provided for in the applicable regulatory regime. The fixed price shall consist of the applicable tariff at the time of the auction plus the auction premium. The variable price shall consist of the applicable tariff at the time when the capacity can be used plus the auction premium. The arrangements can be different for the capacities in a bundled product on either side of an interconnection point.

Tariff adjustment process 1/2

- Some consultation respondents stressed that the principle of tariff adjustment should be more clear
- E.g. it was highlighted by many stakeholders that tariffs should be clear ex-ante and mandatory minimum premium should not be introduced after commitments were made
- ENTSOG further clarifies the conditions for application of a mandatory minimum premium in the refined Incremental Proposal

Tariff adjustment process 2/2



* This is the same consultation as indicated on slide 19

Elements of refined tariff adjustment article

- Tariff adjustment only in case projected tariff is insufficient to pass the economic test at the reserve price if all capacity is allocated
- By means of mandatory minimum premium in the auction
- The height of the mandatory minimum premium should enable a positive economic test outcome and is one of the economic test parameters for consultation
- The revenues arising from the mandatory minimum premium are to be split between the involved TSOs such a way that all get what they need (and not more). Therefore the mandatory minimum premium has to be treated differently then reserve price and regular auction premium in terms of default splits
- In case network users terminate their capacity bookings for any reasons, the mandatory minimum premiums stay chargeable

How to handle revenues from tariff adjustment?

- In case of doubt on future bookings of the incremental capacity, the mandatory minimum premium for incremental capacity leads to over-recovery of the investment in the first years
- The additional revenue shall be used to mitigate against this risk by:
 - Including the associated revenue in the revenue recovery mechanism
 - Including the associated revenue in a dedicated regulatory account
 - Using the associated revenue to pay off the investment by adjusting the depreciation rate
 - Any other measure to be agreed between the TSOs and NRAs
- In case the under-recovery in future doesn't materialise, tariffs shall be reduced i.e. the mandatory minimum premium becomes negative

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4 Observers from EU affiliate countries

- Gassco AS (Norway)
- Swissgas AS (Switzerland)
- GA-MA AD (FYROM)
- Ukrtransgaz (Ukraine)

The map displays the following logos and company names across Europe:

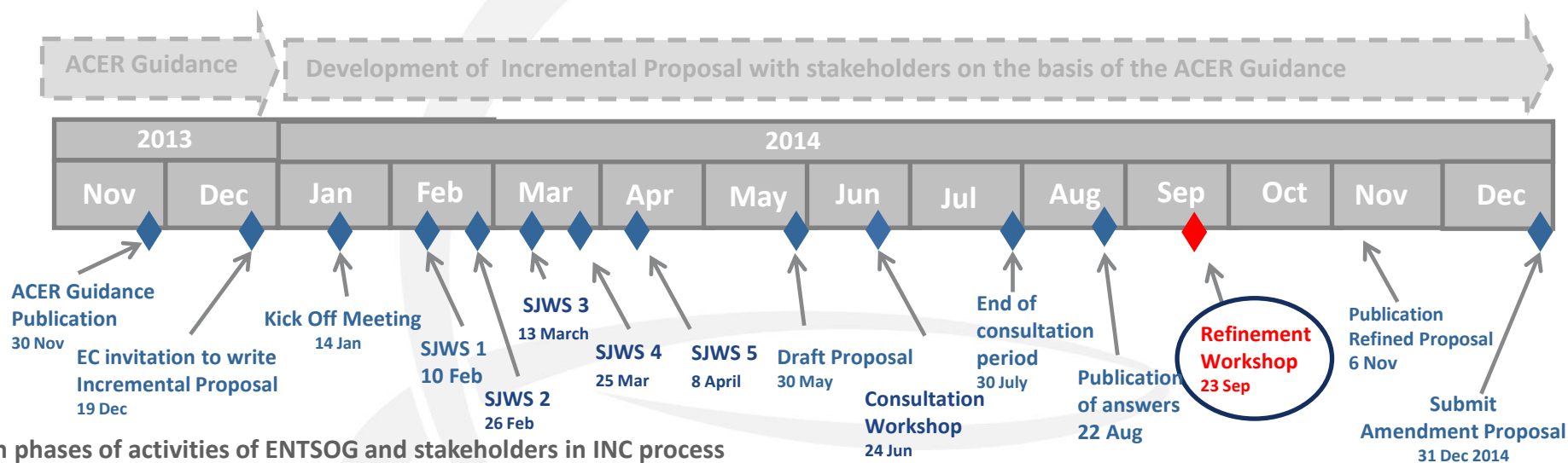
- Spain:** REN, Gasodutos
- Portugal:** enagas
- France:** TIGF
- Italy:** SNAM RETE GAS, Infrastrutture Trasporto Gas, punacro
- Greece:** DESFA
- Bulgaria:** BULGARTRANGAZ
- Romania:** Transgaz
- Hungary:** GAZ system
- Czech Republic:** Energinet, OTEG
- Slovakia:** eustream
- Poland:** GAZ system
- Ukraine:** UKRTRANSGAZ
- Norway:** GASSCO
- Sweden:** swede gas
- Finland:** EG, Völguteenus maagas
- Latvia:** LATVIJAS GAZE
- Estonia:** Amber Grid
- Lithuania:** GAZ system
- Belarus:** GAZ system
- Belgium:** gaslink, Interconnector
- Netherlands:** national grid
- Germany:** BGE (UK) Ltd., gaslink, Interconnector, GRTgaz, SWISSGAS, TAG, Pligovodi, Infrastrutture Trasporto Gas, punacro, SNAM RETE GAS
- Austria:** GRTgaz, SWISSGAS, TAG, Pligovodi, Infrastrutture Trasporto Gas, punacro, SNAM RETE GAS
- Switzerland:** Swissgas
- Denmark:** Energinet
- Sweden:** swede gas
- Norway:** GASSCO
- Finland:** EG, Völguteenus maagas
- Latvia:** LATVIJAS GAZE
- Estonia:** Amber Grid
- Lithuania:** GAZ system
- Poland:** GAZ system
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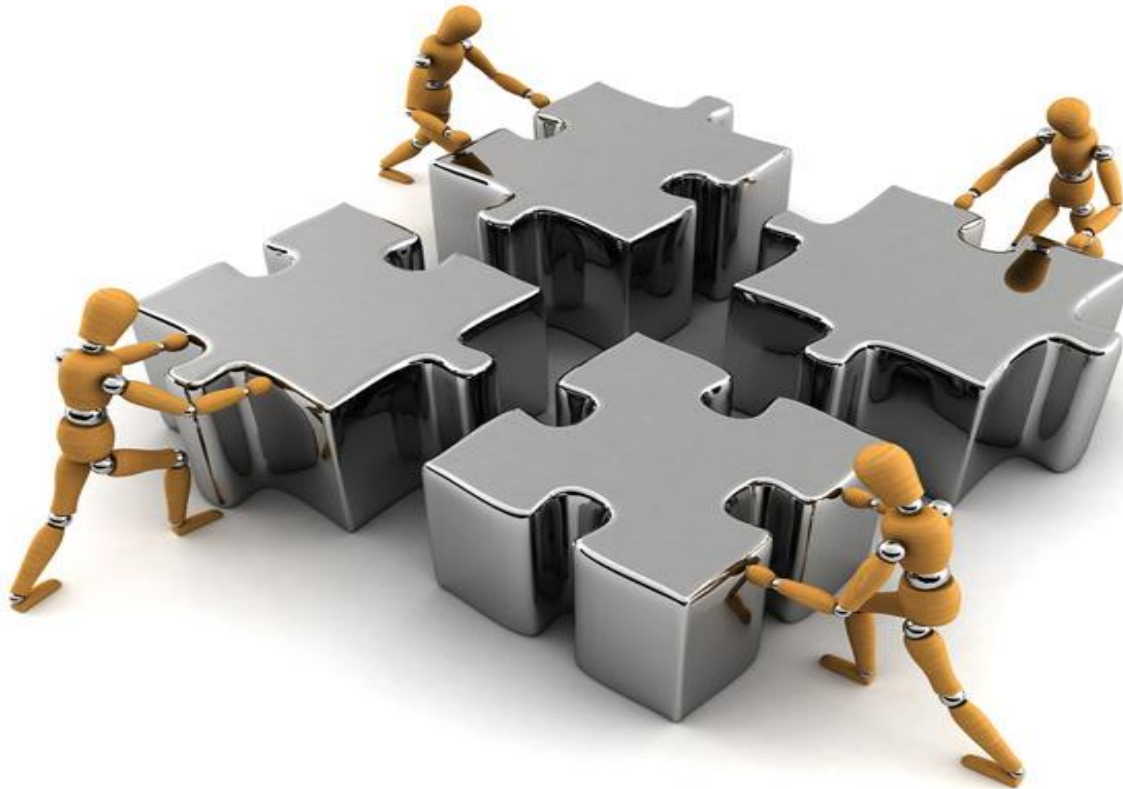
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Timeline for incremental proposal

Development and consultation overview



The refinement phase: Fitting the last segments of the puzzle together



Thank you for your attention