

Meeting notes

Kick Off Meeting for the Incremental Proposal

Tuesday 14 January 2014

Diamant Conference Center, Brussels Belgium

Participants

Surname	First name	Company
Ingwersen	Jan	ENTSOG
Wiekens	Mark	ENTSOG (Chair)
Thure	Frederik	ENTSOG
Spillane	Aine	ENTSOG
Glander	Bijan	ENTSOG
Colbert	Ann-Marie	ENTSOG
Kiss	Alexandra	ENTSOG
Amroze	Adjuward	EDF
Bonzanni	Andrea	EDF trading Markets Limited
Bolanča	Antonijo	HROTE
Bouwens	Kees	ExxonMobil Gas & Power Marketing
Cable	Annick	Ofgem
Cristiano	Francesse	Trans Adriatic Pipeline AG
de Peufeilhoux	Hugues	GRT Gaz
Denoble-Mayer	Sylvie	GDF Suez
Feher	Robert	FGSZ
Gazzola	Marco	SNAM
Steck	Gunnar	EET - Eon Energy Trading

Gussetti	Alessandro	SNAM
Hamilton	Colin J	National Grid
Heidelberger	Johannes	BNetzA
Hodgart	Lewis	ACER
Hofman	Arco	Gasterra
Konoplyanik	A.	Gazprom export LLC
Krap	Niels	Ontras
Kobbe	Albert	GRTgaz Deutschland GmbH
Kronimus	Alexander	Verband der Chemischen Industrie e.V.
Laneelle	Mathieu	TOTAL S.A.
L'Eglise	Thomas	FLUXYS BELGIUM SA
Leveille	Francois	CRE
Loudon	Margot	Eurogas
Maaskant	Robert Jan	TAQA Global
Mantoukas	Theodoros	DEPA
Meuzelaar	Dirk-Jan	IFIEC
Mezlef	Nabil	EDF
Pearce	Andrew R	BP Gas Marketing Limited
Popova	Maria	EFET
Robaszewski	Andrzej	Gaz System
Rondella	Elisa	Edison SPA
Rose	Stephen	RWE Supply & Trading GmbH
Rossi	Anaïs	ENI
Rossi	Simone	ENI
Rubini	Davide	Statoil
Schultz-Brunn	Henrik Ludwig	Thyssengas

Van Isterdael	Ivo	CREG
Zástěra	Pavel	MPO
Zegnal	Judit	Bruxinfo - Hungarian news agency

1. Welcome and objectives

Jan Ingwersen, Business Area Manager for the ENTSG Market Area, welcomed all participants at the Kick Off Meeting. Mr. Ingwersen reminded the audience about the Madrid Forum XXII recommendations from October 2012 requesting ENTSG to establish [...] *“processes by which capacity demand beyond the offer of existing capacity can be satisfied in a market-based manner [...]”*. All stakeholders were encouraged to engage actively in the upcoming stakeholder joint work sessions and ensured that ENTSG would build on past positive experiences with stakeholder involvement in order to deliver a firm and robust Incremental Proposal.

Mark Wiekens, the chair of the Kick Off Meeting, presented the agenda of the meeting and elaborated the definition of the Incremental Proposal that produces an amendment to the Network Code for Capacity Allocations Methodologies (CAM NC) and delivers input to parts of the Network Code on Harmonised Transmission Tariff Structures for Gas (TAR NC).

2) Project Plan

The project plan processes were presented and stakeholders were asked to comment on the draft project plan for the Incremental Proposal before 20 January 2014. It was suggested that ENTSG should reconsider the themes of the SJWS when assigning timeslots, since some topics are expected to be more demanding than others. ENTSG was also asked about the number of meetings in the project plan taking into consideration that it is not a network code in itself. After explaining the scope of the incremental proposal, both the amendment to the CAM NC and the relevant part of the TAR NC, all agreed that the number of meetings seems appropriate.

3) Presentation of the ACER Guidance to the Incremental Proposal

ACER presented the rationale behind the various topics in the Guidance and in the Tariff FG stressing the objective to harmonise market-based investment procedures:

-> When to offer: The rationale behind the three ‘When to Offer’ criteria was elaborated with ACER emphasizing the balance between market interest and resource intensive processes.

-> Coordination requirements: ENTSG was requested to devise a sensible co-ordination and decision taking steps to reach this aim.

-> Information provision: Only well-informed actors can make rational and informed decisions, so the Guidance identifies a minimum catalogue of information to be provided.

-> Incremental and new capacity into the CAM NC long-term allocation procedure: The algorithm should be made fit in order to integrate incremental capacity, so the approach should be flexible. ACER does not expect from ENTSOG a detailed, technical “cook book” for how to run these allocation procedures and the aim is not to hinder the flexibility in the CAM NC. There should be no deviation from bundling and the short term reservation quota in a market-based procedure.

-> Tariff issues: the objective is to promote market based capacity development, which means that investment should be financially viable. Therefore an economic test is needed which evaluates on one side the user commitments and on the other side the allowed revenue that would be generated by this investment. The reasoning behind the “f” factor was displayed.

Stakeholder reaction

From a stakeholder perspective there was a concern that the Economic Test was being too complicated, and adjusting reserve prices could complicate the issue more than necessary. The link between tariffs and the economic test was highlighted. This can prove challenging for a shipper who books capacity for a number of years without knowing the tariff and in addition have a complicated Economic Test.

The assumptions and conditions of the “f”-factor were equally discussed, and it was asserted that a high “f” could make it difficult to pass the economic test. However it was also noted that a low f-factor might result in underutilised assets which could lead to tariff increases or stranded asset risks. ACER responded by stating that 1-f should be guaranteed by NRAs. With regards to new capacity a stakeholder asserted that the ACER Guidance rules could have important consequences for project sponsors or TSOs who would raise new capital for investment projects. Further risks for system users were unsubscribed capacity and floating capacity tariffs which should be taken into account. Also short term bookings of capacity must be considered as an extra layer of capacity in addition to the “f” factor.

Further the need was mentioned by stakeholders for cross border cooperation, not only by TSOs, but also by NRAs when offering incremental and/or new capacity.

4) Presentation of the European Commission with regards to the context

-> The European Commission (EC) set the context for the development of the Incremental Proposal and explained why the topic could not be directly included in the CAM NC.

-> The objective is not to reopen the CAM NC discussion, but to integrate the new text for incremental and new capacity. EC suggested that any technical adjustments would be addressed by the EC at the time of comitology.

-> EC looks forward to a well-planned development process and invited ENTSOG to bring empirical and analytical work into the stakeholder sessions to give a broader perspective on the facts on the ground. EC stated the intention to stay involved in the process throughout the development of the incremental proposal.

5) ENTSOG preliminary view on the ACER Guidance

ENTSOG identified the main topics in the ACER Guidance and expressed its preliminary views on them: The topics were Cross-Border Co-ordination and Information Provision; When to Offer Incremental & New Capacity; Auctions Procedures; Open Season Procedures; Economic Test and Tariff related Issues.

6) Stakeholder views

OGP:

OGP supports the ENTSOG project plan and the ACER Guidance. It was acknowledged that there was significant flexibility in the ACER Guidance, but some parts of the Guidance could be further clarified such as the relation to non-market-based investments, cross border coordination requirements, the role of ACER and pro-rating of capacity under Open Season procedures.

EFET:

EFET reminded that market-based investments mechanisms should be considered superior to planned approaches, since these reveal the true market demand for capacity investment and thus diminishing the risk of having stranded assets. EFET also emphasised that long term commitment or demand could put in risk, by having a fixed quota for short term capacity and floating capacity tariffs which create uncertainty for bidders. The shipper should also always be provided with all the information necessary in order to make informed decisions when booking capacity.

Eurogas:

Eurogas is happy to be a part of ENTSGs drafting process. It would be useful to discuss the Impact Assessment during the SJWS and to include games or simulations that could help the understanding of the various issues in the Incremental Proposal, especially with regards to the auction algorithm. Changes to the CAM NC should be kept minimal.

GIE:

GIE supports the market based identification of capacity and favours the use of an economic test. Deciding the 'f' factor is important in order to avoid stranded assets and should be high enough to avoid economically non-viable investments. The allocation should always be transparent and not too complex, and Open Season should be used for big and complex processes.

Gazprom Export:

Gazprom supported the ENTSOG project plan and ACER Guidance and focused on a document originating from the EU-Russia dialogue regarding incremental and new capacity. Gazprom highlighted a number of the arguments made in this Strawman Paper. The paper was sent to ACER and deals with Coordinated Processes for Open Season and the relationship with the CAM NC. It will also be made available shortly via the ENTSOG website. Some key issues were emphasised, such as capacity mismatch at Interconnection points, the “f”-factor and the 10% Short Term Quota for booking capacity.

Project-based tariffs should be discussed as a possibility for new capacity. Gazprom enumerated a number of items that was not yet fully clarified in depth, including: a distinction between market test and economic test; economic viability vs. efficiency of execution of investment within regulatory regime; NRA approval of Open Season processes, the discrepancy between the risk-taker and the decision maker of the process. Conclusively, Gazprom suggested the set-up of a joint working group between ENTSOG and WS2 with the aim of discussing new capacity with the participation of suppliers from both EU and non-EU countries.

Stakeholder discussion

-> A number of stakeholders reiterated the urge to have simulation auction games, which would help how to see how the auction could be done.

-> It was clarified, that if a project needs more than 2 entry/exit zones, by definition, standard Open Season Procedures will be used. In some circumstances, depending on the size and complexity of the project, Open Season Procedures can also apply.

Conclusion

Stakeholders were reminded of the next SJWS 1 on Monday 10 February at Avenue Cortenbergh 100.