



# **Incremental Capacity Development**

## **Status of regulators' work and perspectives**

**EU-Russia Gas Advisory Council**  
**Workstream on Internal Market Issues**  
**Vienna, 16 March 2012**

# Introduction

- **Investment is a priority in the EU**
  - Ten year network development plan
  - Energy Infrastructure Package
- **Challenges related to infrastructure development**
  - Long term issue
  - Relation with supply contracts
  - NRAs objective: stimulate efficient investment
    - Securing shippers' access to capacity
    - Avoid stranded assets
- **Investment has been an important topic discussed in past meetings**
  - Presentations on the TYNDP
  - Gazprom proposals concerning regular open seasons

# Context: third package implementation

- **Network code on capacity allocation**
  - Focus on existing capacity
  - Creation of bundled capacity products at the borders
  - No distinction between transport and transit
  - Auctions
  - Capacity offered 15 years ahead
- **Community wide ten year network development plan**
  - Objectives: delivering a long term vision of capacity needs to help developing the system
  - Built on scenarios of supply and demand
  - Test of the system's resilience in case of crisis
  - Objective to help identifying priority projects within the EIP

# Initial stakeholder comments and areas of work

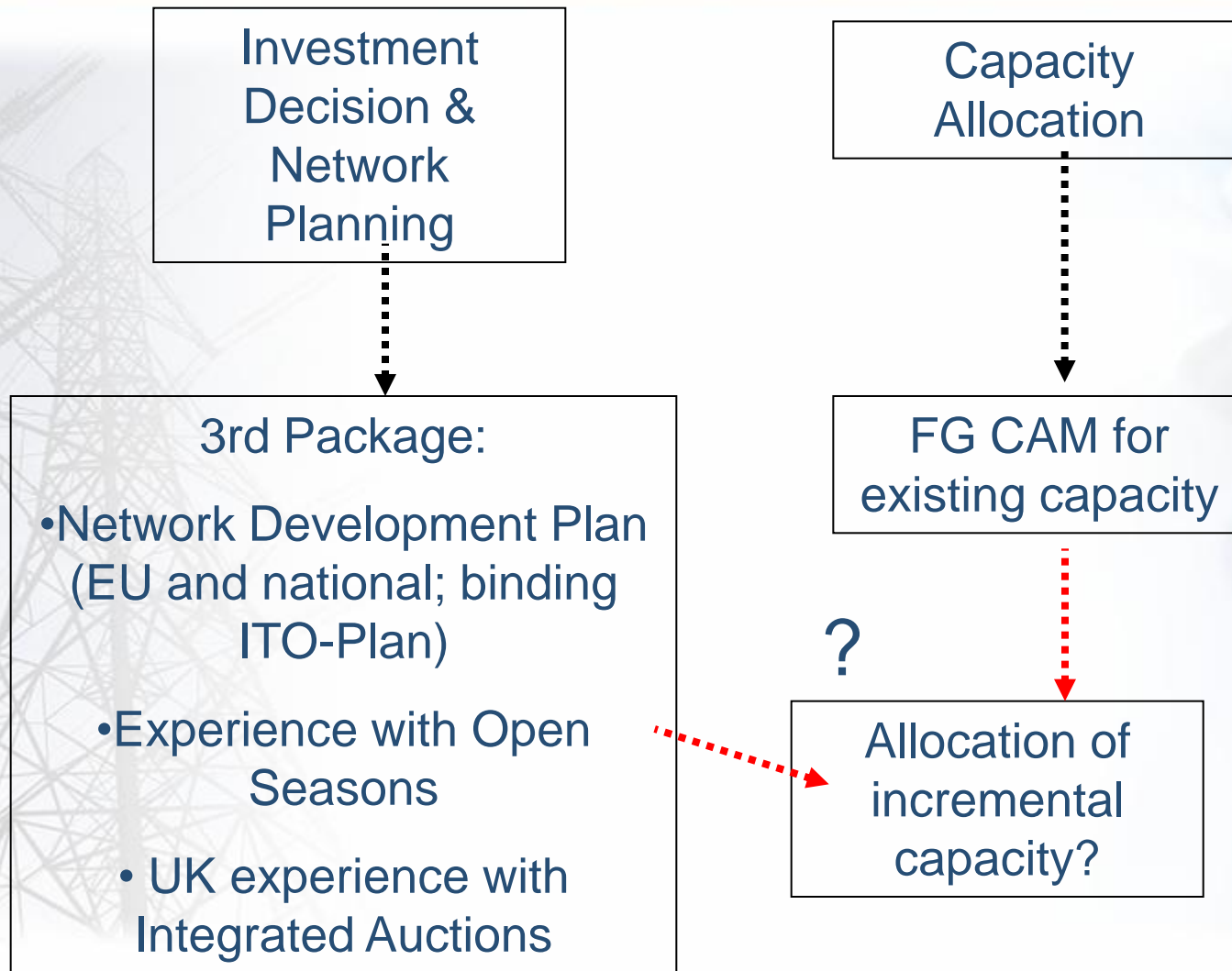
- **Stakeholders demand (CAM & GTM)**
  - regular market testing
  - more transparency on network development
  - coherent investment decision on both sides of the border
  - common process for allocation of capacity
- **Key questions to be investigated**
  - How to ensure sufficient cross-border coordination 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?

# CEER approach

- **The gas target model discussions concluded that market based procedures for investment should be developed**
- **Objective: ensure a consistent approach for both existing and incremental capacity**
  - Auctions will signal congestions
  - Question: should we allocate existing and incremental capacity at the same time and how?
  - Investment decisions are to be relate to shippers' commitments
- **Different experiences to build upon**
  - The GB system proposes a joint allocation of existing and incremental capacity
    - LRMC tariff system
    - Ex-ante identification of development steps and associated costs
  - Open seasons have dominated investment decision making on continental Europe



# What interface between CAM and NPD/Investments?



# Past experiences with open seasons

- **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
- **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**



# Main challenges ahead

- **When should incremental capacity be offered?**
  - Systematically or every two years?
  - When capacity needs are obvious (high auction premiums, TYNDP)?
- **How to design the allocation procedure?**
  - Evaluation of investment steps and costs & translation into tariffs
  - Coherence with the already allocated capacity to ensure non-discrimination
  - Coordination with other IPs?
- **How to decide to invest?**
  - Need for a test triggering investment when passed?
  - What level of cost coverage is relevant?
  - How to include other parameters such as security of supply?
  - Should we look for EU harmonisation?

# Investment steps and possible options

Step 1 – Launch of the investment process

## Automatic launch

Investment process integrated in yearly auction for LT capacity

« OR ? »

## Investment process launched based on signals for a capacity need

- Auctions results for LT existing capacity
- TYNPD exercise (forecasts and market consultation)

Step 2 – Design of the investment project

## TSOs and NRAs cooperation

- identification of the project's costs
- capacity calculation and design of commercial capacity offer
- Translation of costs into (indicative) prices

Step 3 – Offering capacity to the market

## LT integrated auction (existing & new capacity) organised annually or on an ad-hoc basis

« OR ? »

## Separate auction for incremental capacity only organised annually or on an ad-hoc basis

Step 4 – Decision on investment

## Investment triggered if economic test fulfilled

- Expected percentage of capacity subscribed
- Expected level of cost coverage through subscriptions

« OR ? »

## TSO takes over results; NRA approval based on wider criteria

OPTIONS

# Coordinated open seasons and associated issues (1/2)

- **Can a concept of “corridor” be developed under the Third Package?**
  - TYNDP helps having a coordinated vision of capacity developments
  - Coordinating capacity development procedures has to comply with
    - the principle of non discrimination between transport and transit
    - Entry/exit approach
- **Coordinated procedures might be very complex**
  - Experience with coordinated open seasons shows that economic tests and procedures are difficult to design
  - Increasing the number of countries at stake multiplies the regulatory constraints
  - If investment decisions depend on procedures at other points, risk and uncertainty might be very high
  - In open seasons, shippers are not required to explain why they book some capacity

# Coordinated open seasons and associated issues (2/2)

- **Securing access to capacity has to be a priority**
  - The principle of market based investment procedures involves that if shippers commit long term, investment is decided
  - Unless capacity demand is not sufficient, there should not be some “artificial” obstacles to investment
- **To what extent is coordination necessary?**
  - Transparency about the investment decision making must be ensured
  - A minimum consistency could be requested about the investment conditions in Europe
  - Explicitly coordinating the procedures does not seem necessary if the above conditions are satisfied





**Thank you for your attention!**