

INC Reality Check

Comments and discussions on the
current legal text of the CAM NC
and the TAR NC

INC Reality Check WG considerations
on the points to be raised at GAC WS2 Meeting on 22/4, Vienna

Working document



ENTSOG view on Gazprom group proposal in February 2015

> **Output**

- To develop a more detailed – but not binding - understanding of the INC process, focus on Article 20d CAM NC
- To test the INC process on the basis of realistic proposal/case of demand for new cross-border capacity
- If inconsistencies of the process will be identified, indication of proposed improvements of the INC process can be considered (based on the results of the “Reality Check”) within a CAM NC amendment comitology process in Q2/2016

> **Timing**

- February to May 2016
- Number of one day meetings/telcos (4-6 meetings seem to be sufficient)

> **Organization**

- Task to be an ENTSOG activity. Participants from TSOs – required experience with cross border Open Season procedures
- To involve ENTSOG’s INC Prime Movers group (EFET, IOGP, Gazprom and GIE)

Organization and Stakeholder Involvement

- The INC Reality Check WG is chaired by ENTSOG INC team
- WG members
 - ENTSOG INC team
 - TSOs - Enagas, Ontras, GRTgaz, Open Grid Europe, eustream, Gas Connect Austria, Gascade, NET4GAS, GTS, National Grid, Fluxys, Fluxys TENP, Gasunie Deutschland, SNAM, Gaz-system
 - INC Prime Movers – Gazprom, IFIEC, IOGP and GIE
 - European commission (not participating at meetings)

Timing of the project

Past events:

- Kick off Meeting/teleconference – February 18
- 2nd Meeting – 29 February – half day teleconference
- 3rd Meeting - 16 March – half day teleconference
- 4th meeting - 4 April – Face-to-Face - full day meeting (Paris)
- 5th meeting - 13 April – Face-to-Face - full day meeting (Vienna)
- 6th meeting - 18 April – Face-to-Face - half day meeting (Brussels)

Upcoming events:

- April 22 2016 - Reporting of the first findings at GAC WS2 meeting
 - Presentation of identified inconsistencies in the INC process
- WG might continue its work also in May and June 2016

Work done and next steps

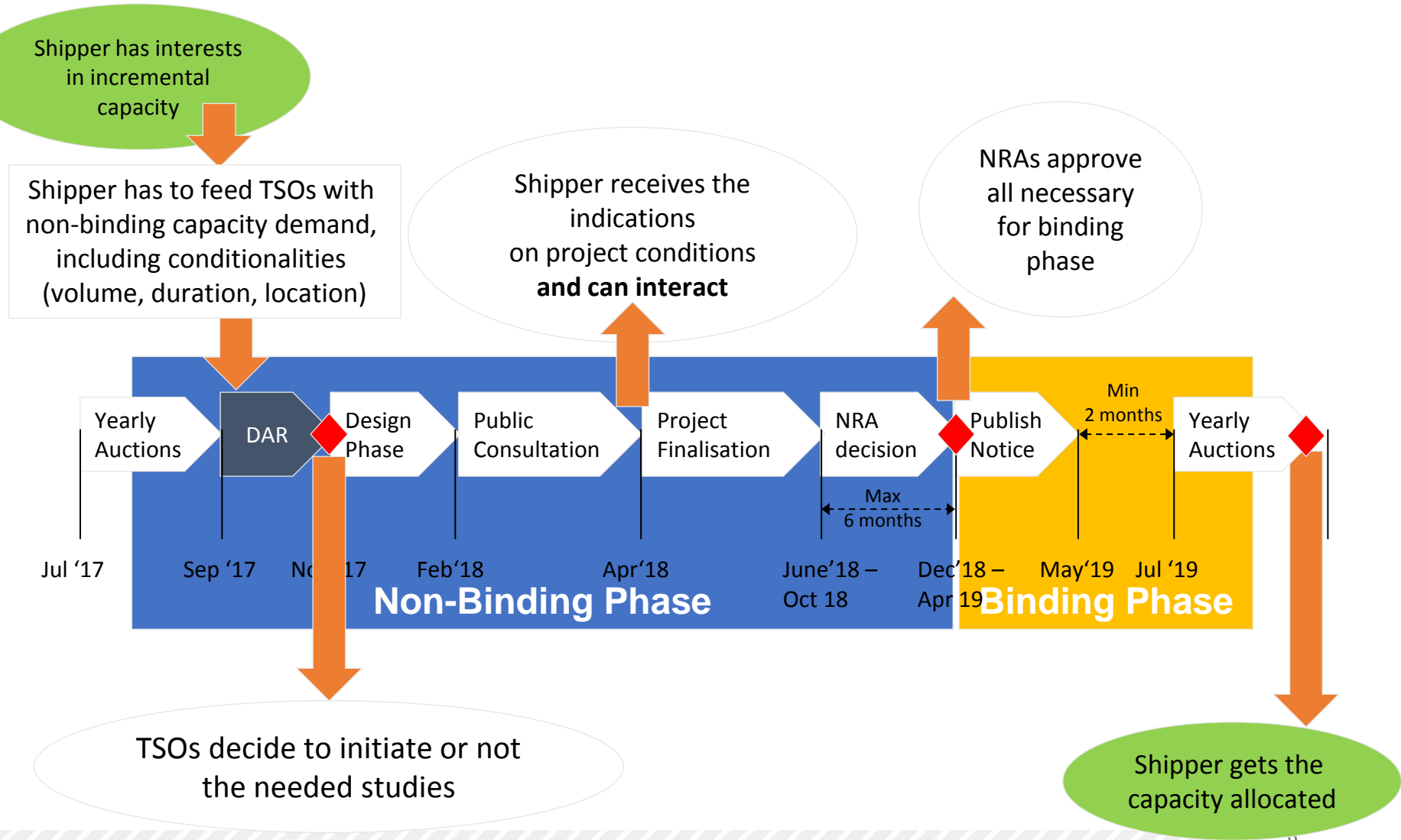
Work done in February, March and April 2016

- Discussion and analysis of the INC process steps as they are defined in the Articles 20a – 20d of CAM NC. Detailed description of the INC process was prepared by ENTSOG and reviewed by all WG members

Next steps in May and June

- To continue with application of “realistic” INC case to the INC process. WG agreed on NL-BE-FR virtual INC project
- Identification of inconsistencies in the INC process

INC process steps



Realistic scenario NL->BE->FR

What is to be discussed between TSO and NUs?

Gas sourcing in NL:

- Physical sourcing from German/Dutch border at Oude SZ (Realistic case due to confirmation of NU's)
- Physical sourcing from all potential interconnections: Emden and Oude SZ at German/Dutch border, LNG (In case no additional information is available) – gas available at TTF
- Transport to border interconnections with Fluxys, potential at Zelzate and/or 's Gravenvoeren and/or Bocholtz

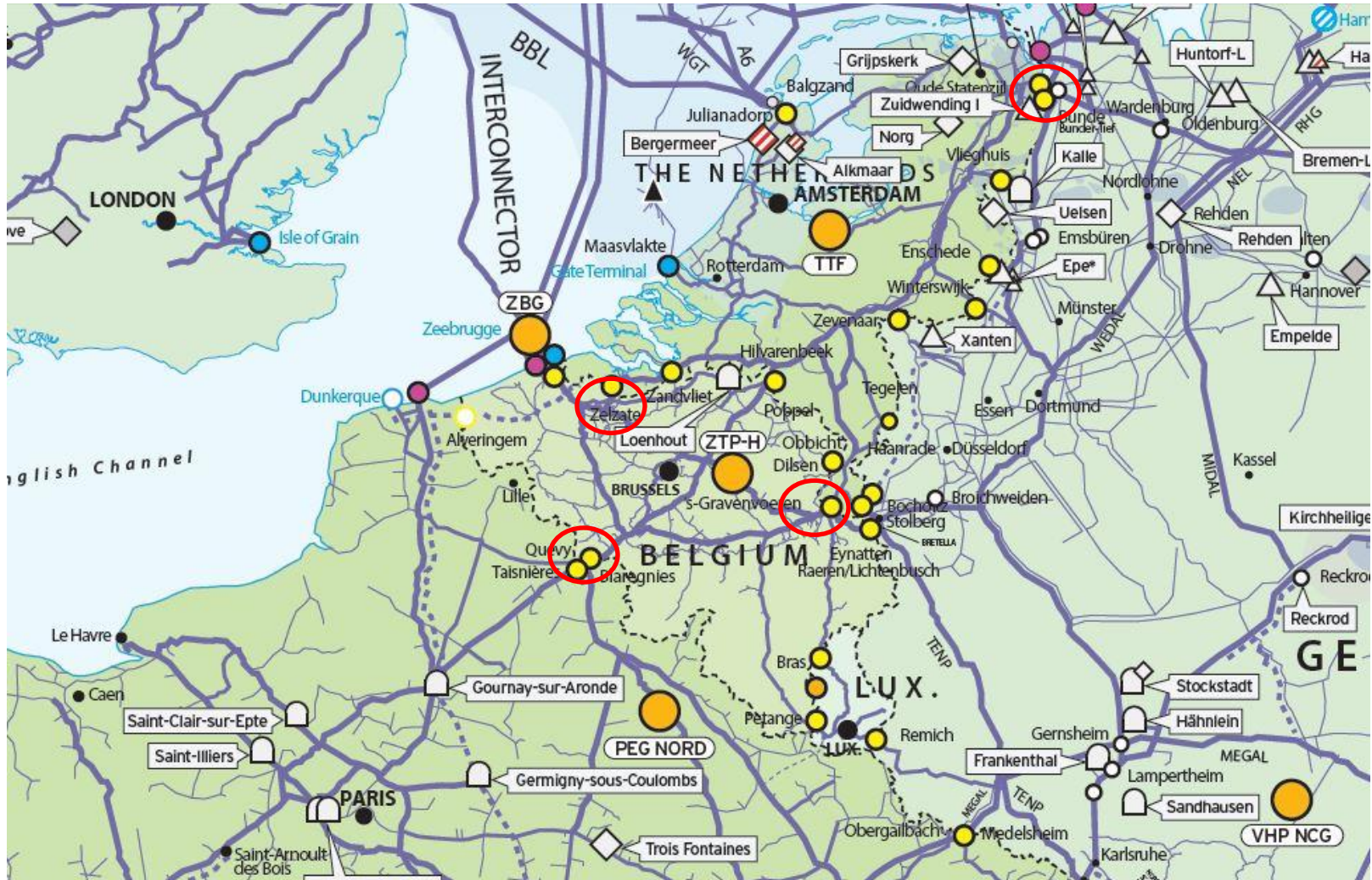
Transport in Belgium

- How much gas is entering BE, coming from NL (to be indicated by NUs)
- Option 1: How much gas shall be transited to FR
- Option 2: How much gas shall stay in BE for non specific usage (domestic or transit)
- Option 3: How much gas shall be transited specifically to UK or DE
- Options are to be indicated by NUs and can be considered cumulatively

Transport in France

- Option 1: transport to specific domestic gas consumer
- Option 2: gas sale at PEG north VTP
- Option 3: transport to specific IP (exit) - How much shall be transited to CH (to be indicated by NUs)

Map with interconnections concerned



“Realistic” case: INC project NL->BE->FR

Demand expectations from NUs

1. Key data delivered by NUs (WG participants)

- volume, destination and degree of flexibility in the capacity, conditional bids

2. Framework for NU’s demand:

- A big gas producer: gas transport of 10 bcm/y NL-> FR/CH
- Extra demand from Industry of 1 bcm/y - (one CCGT in France and/or Belgium) NL-> BE or FR
- Gas mid-stream shippers: +- 2 bcm/y, rather short/mid term bookings (in addition / or not to existing utilization) , NL-> BE or BE -> FR

Considerations and first status quo of discussions within the WG



Disclaimer

This presentation constitutes the preliminary outcome of the discussions within the INC Reality Check Working Group which took place from February to April 2016. It has been prepared for the purposes of informing the Gas Advisory Council WS 2 at the meeting of 22 April 2016.

The INC Reality Check Working Group consists of the representatives of ENTSOG, IFIEC, IOGP, GIE, Gazprom group. The proposals set out in this presentation do not constitute the official position of those entities. Such proposals are the preliminary findings by the INC Reality Check Working Group with regards to the current text of the CAM NC amendment on the matter of incremental capacity and the TAR NC which are both undergoing the comitology process. The final content of the CAM NC and the TAR NC shall be subject to the outcome of the procedure according to Article 5a(1) to (4) and Article 7 of Council Decision 1999/468/EC, as foreseen by Article 28(2) of Regulation (EC) No 715/2009.

Introduction

Aim

- > This set of slides represents a preliminary findings (results of discussion) of the INC Reality Check WG
- > It is a result of discussions of the current text of the CAM NC amendment related to the matter of incremental capacity and the TAR NC
- > To be presented at the Gas Advisory Council WS 2 Meeting of 22 April

Structure

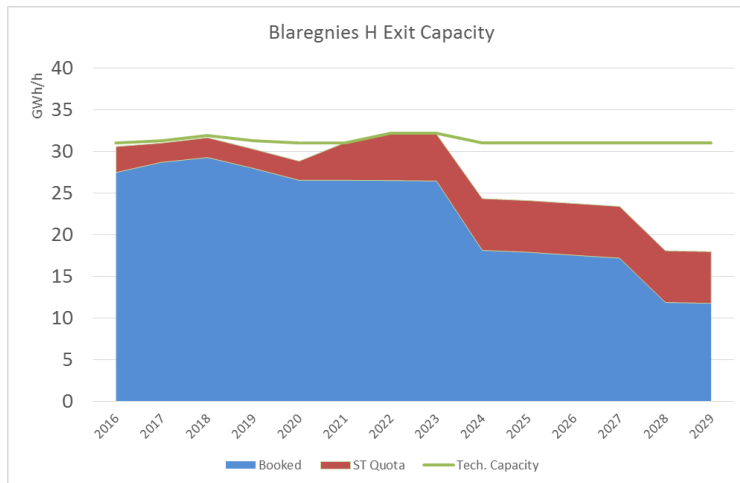
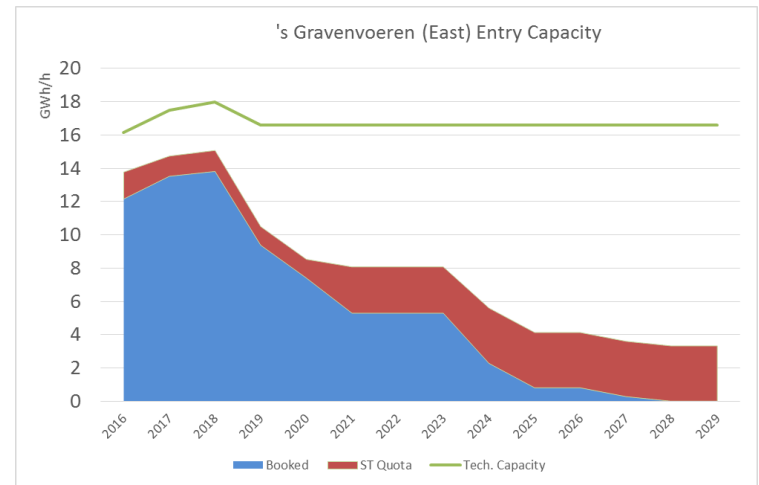
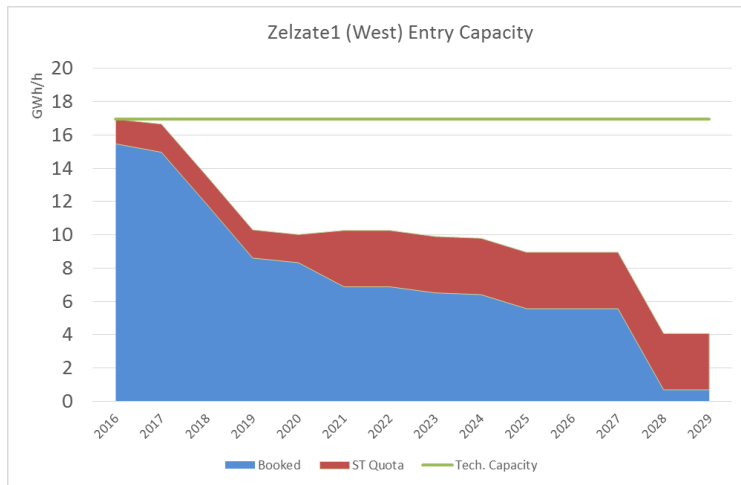
- > Current text of the draft CAM NC/TAR NC version of March 7th, 2016
- > Concern(s) identified with the current text
- > Drafting solution addressing concern(s) identified

Other

- > The last slide outlines minor drafting points of the legal text proposed for clarity

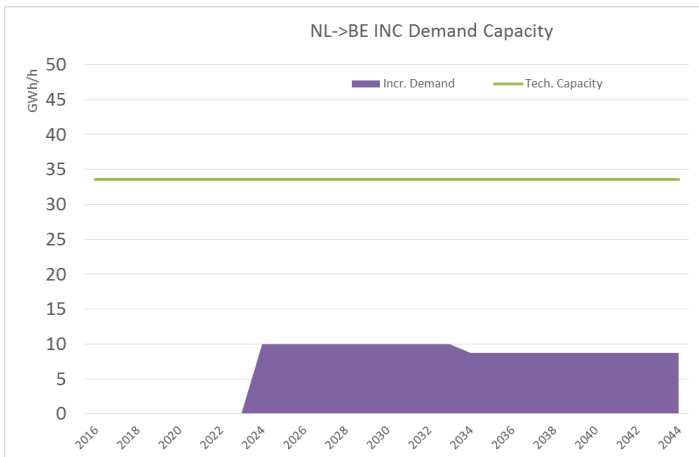
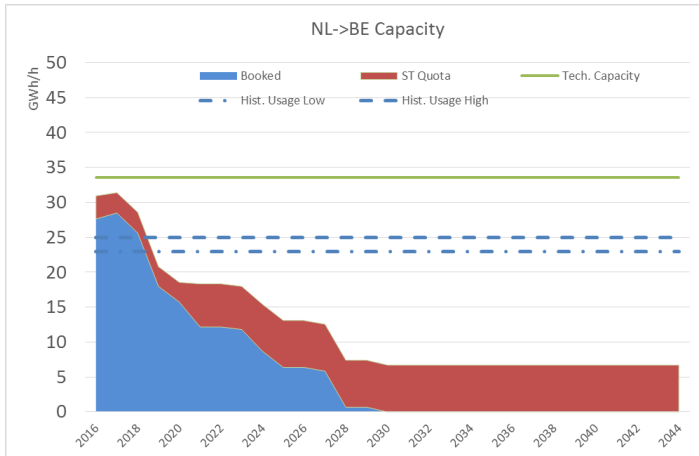


Preliminary findings - NL-BE, BE-FR IP situation technical and available capacities



Data based on Feb-16 situation as used for yearly auctions – subject to network optimization
 Alveringem IP (FR→BE) is today unidirectional – hence not yet considered

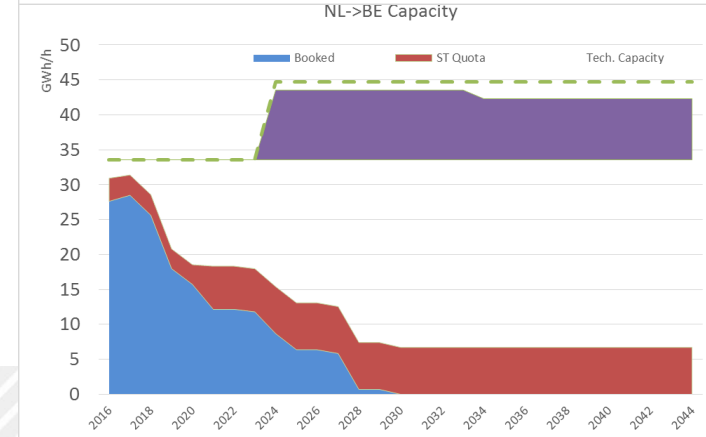
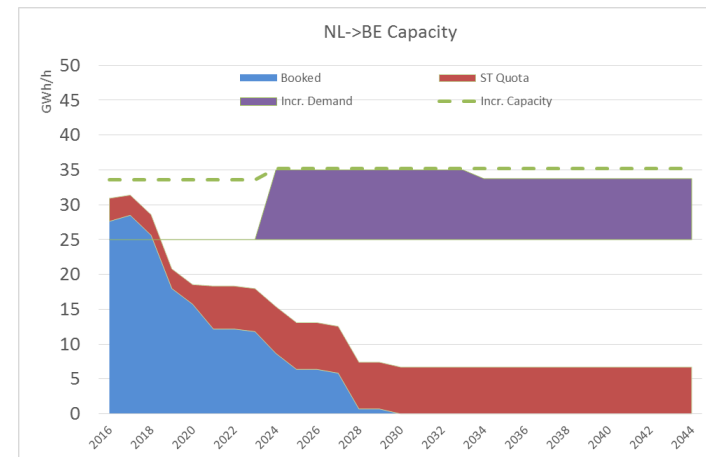
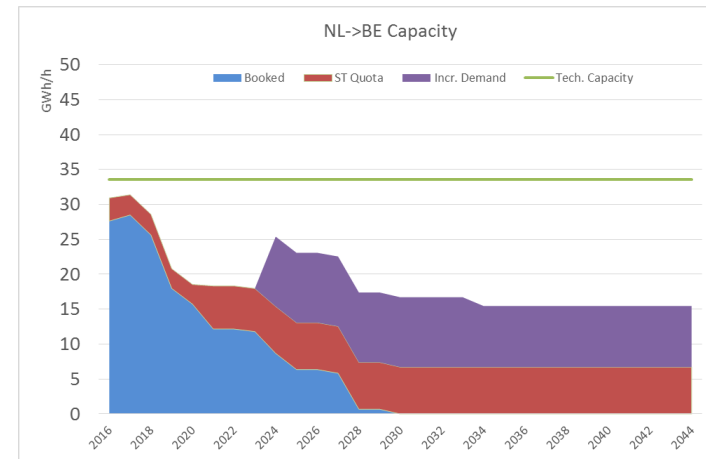
Incremental Demand vs. Existing Capacity



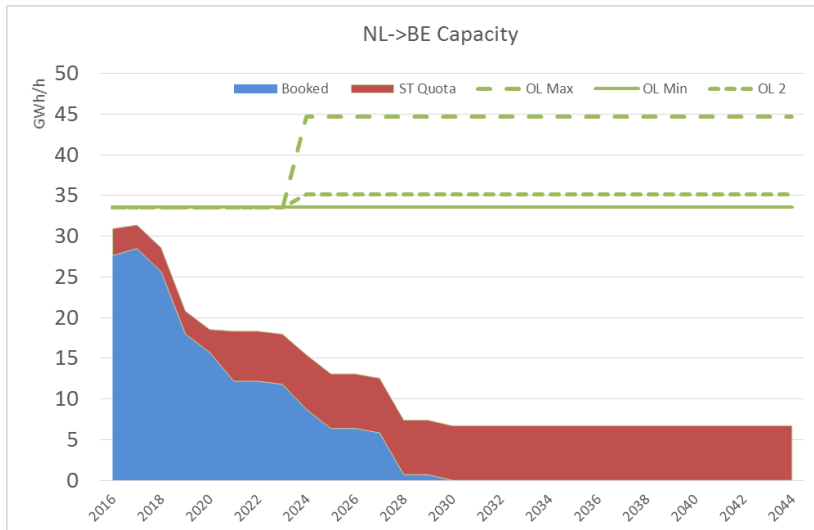
Option 1:
On top of Existing Contracts + Quotas
→ No Incr. capacity

Option 2:
On top of High Hist. Usage
→ +1,6 GW, incl. 10% Quotas

Option 3:
On top of Existing Tech. Capacity
→ +11,1 GW, incl. 10% Quotas



Offer Levels



- OL Min = Existing Tech Capacity
- OL Max = Incr. Demand + Quotas fully as incremental capacity
- OL 2..n = Incr. Demand partially met with existing and incremental capacity
 - Commingling issues, as rules are expected to be applied on the whole offer level
 - Fixed tariff
 - Time horizon
 - Alt. allocation mechanism
 - Terms & Conditions
 - Point for further investigation: How to manage that existing capacity assessed to partially meet the demand in the odd year (at DAR moment), could get booked out during the yearly auction of the next even year?

Booking horizon for existing capacity:

Art. 11(3)

Current text

‘The auction process shall offer capacity for no longer than the upcoming 15 gas years for existing capacity. Incremental capacity may be offered in yearly capacity auctions for a maximum of 15 years after the start of operational use.’

Concern

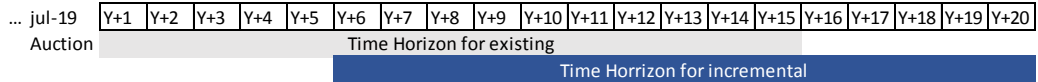
As the current CAM NC foresees that INC capacity can be offered for up to 15 (or 20) years after the start of the operational use, existing capacity at the concerned IP(s) has to be offered for the same time frame. Otherwise, only INC capacity will be offered for the last years of this 15-year period, although existing capacity is still available. This may lead to inefficient investment decisions.

Solution

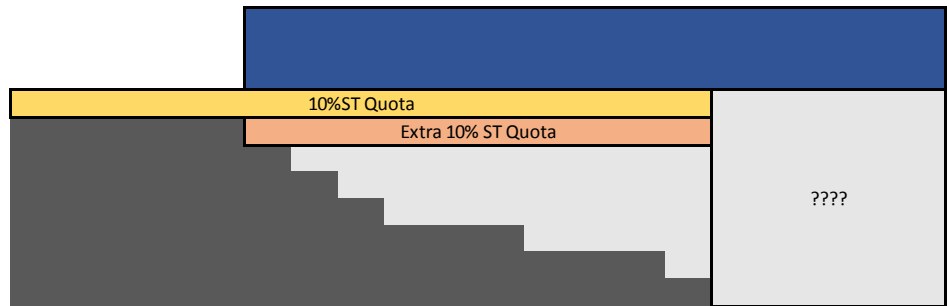
To redraft Art. 11(3) as follows: ‘The auction process shall offer capacity for no longer than the upcoming 15 gas years for existing capacity. In case of incremental capacity, the offer levels may be offered in yearly capacity auctions for a maximum of 15 years after the start of operational use.’

ENTSOG's view on Article 11(3):

... jul-17
DAR



Evolution of technical capacity over time



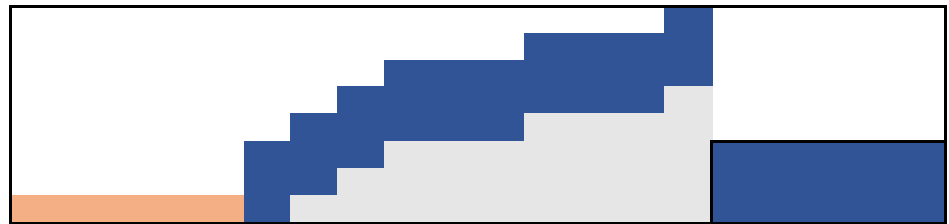
- Booked capacity
- Incremental capacity
- Available capacity

Evolution of available capacity in the different auctions

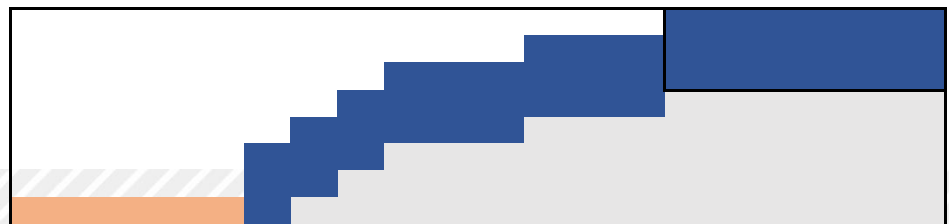
Offer Level 0



Offer Level 1



Our preference
--> allows to increased PVUC



Booking horizon for INC capacity:

Art. 20d(1)

Current text

‘An exceptionally extended time horizon on top of the 15 years and for up to 5 additional years may be allowed by national regulatory authorities if the economic test could not be passed based on the 15 years’ bookings.’

Concern

The extension of 5 extra years has to be anticipated already in the design phase because the auction calendar cannot accommodate a re-run after a failed economic test.

If the extension of 5y is deemed necessary by both TSOs and market participants during the design phase, the current text leaves it open for NRAs not to consider such extension. The text would benefit from less uncertainty (e.g. shall i.o. may).

Solution

To redraft Art. 20d(1) as follows: ‘An exceptionally extended time horizon on top of the 15 years and for up to 5 additional years shall be considered and may be allowed by national regulatory authorities if there is a significant probability that the economic test could not be passed based on the 15 years’ bookings.’

Absence of/late NRA decisions: Art.20b(5)-(6)

Current text

‘[...] the involved transmission system operators shall submit the project proposal [...] to the relevant national regulatory authorities for coordinated approvals.’ ‘The relevant national regulatory authorities shall concurrently publish coordinated decisions approving or rejecting the project proposal [...] within six months of receipt of the complete project proposal by the last of those regulatory authorities.’

Concern

The current text does not foresee what happens in case the NRAs did not come up with coordinated decisions or came up with them beyond the set deadline. It is necessary to remind in the legal text that in such situations, ACER is to take a decision as set out in Art. 8(1) of Regulation (EC) No 713/2009.

Solution

To add in Art. 20b(6) the new text as follows: ‘In absence of such coordinated decisions, the Agency shall take the respective decision following the process set out in Article 8(1) of Regulation (EC) No 713/2009.’

Auction as a ‘fall-back’ from AAM:

Art. 20b(6)

Current text

‘Where the relevant national regulatory authorities cannot reach an agreement on the proposed alternative allocation mechanism within the prescribed period, the transmission system operators shall allocate incremental capacity using the auction mechanism in accordance with Article 20c.’

Concern

The link between AAM and auctions is circular: (1) AAM is considered by NRAs in case – as foreseen in Art. 20d(2) – ‘the market feedback during the demand assessment phase or during the consultation’ evidences that ‘the ascending clock auction is not suitable’; but (2) the NRAs can deny the application of AAM and revert to ascending clock auction – although it was ‘not suitable’ at the start of the procedure.

Solution

To redraft Art. 20b(6) as follows: ‘Where the relevant national regulatory authorities cannot reach an agreement on the proposed alternative allocation mechanism within the prescribed period, the Agency shall decide on the alternative allocation mechanism to be implemented, following the process set out in Article 8(1) of Regulation (EC) No 713/2009.

20% of CAP to be set aside: Art. 20d(4)

Current text

'If either booking duration or bids for higher amounts of capacity are prioritised, national regulatory authorities shall set aside an amount equal to 20% of the technical capacity at each interconnection point when applying Article 8(8).'

Concern

Preference to set aside only a minor share of the INC capacity. The more technical capacity will be set aside, the less technical capacity could be booked by network users and contribute to the PVUC (present value of user commitments = tariff multiplied by booked capacity)

Solution

'If either booking duration or bids for higher amounts of capacity are prioritised, national regulatory authorities ~~shall~~ may set aside an amount ~~equal~~ up to 20% of the technical capacity at each interconnection point when applying Article 8(8).'

Application of fixed price [1]: Art. 3(28) [CAM]

Current text

‘alternative allocation mechanism’ means an allocation mechanism for incremental capacity designed on a case-by-case basis by transmission system operators and approved by national regulatory authorities to accommodate conditional demand requests.’

Concern

In conjunction with Art. 20d detailing the AAM principles, the definition of AAM does not work. The definition only mentions INC capacity whereas Art. 20d should apply for existing (i.e. available) capacity offered in the same auction as INC capacity.

Solution

‘alternative allocation mechanism’ means an allocation mechanism for offer level or incremental capacity designed on a case-by-case basis by transmission system operators and approved by national regulatory authorities to accommodate conditional demand requests.’

Application of fixed price [2]: Art. 25(1)(b) [TAR]

Current text

‘Where and to the extent that the transmission system operator functions under a non-price cap regime [...]: (b) for incremental capacity and existing capacity offered in the same auction: [...] (ii) the fixed payable price approach may be offered where [...].’

Concern

- > Art 25(1) a and b contradict.
- > The conditions for fixed price in the TAR NC may be interpreted as not allowing its application for existing capacity. This is due to the discrepancy between the TAR NC wording (mentioning ‘existing capacity’) and the definition of ‘offer level’ (mentioning ‘available capacity’).
- > Moreover, the TAR NC is not clear on the possibility to offer fixed price under AAM.

Solution

- > Replace (a) by ‘for cases where only existing capacity is auctioned’
- > To redraft the beginning of point (b) as follows: ‘for incremental capacity and existing capacity offered in the same auction or in the same alternative allocation mechanism’

Minor clarification points

> **Art. 20a(10):** criteria to be taken into account in the DAR

All such points needs to be taken into account and hence, the list should be regarded as cumulative. To redraft the opening clause as follows: ‘The market demand assessment report shall take into account all of the following criteria [...].’

> **Art. 20d(3):** conditions for binding conditional bids for contracting capacity criteria to be taken into account in the DAR:

Any combination of the outlined conditions is also possible, and not just one of such conditions. To redraft the text as follows: add ‘and/or’ at the end of points (a) and (b).

Topics for further investigation

next steps

Topics for further investigation:

- > How to manage that existing capacity assessed to partially meet the demand in the odd year (at DAR moment), could get booked out during the yearly auction of the next even year?
- > Impact assessment of alternative mechanism on market participants
- > Tariffs related issues (incl. financeability of INC projects)

Next steps for May and June 2016:

- > Continue with NL-BE-FR realistic case
 - Design phase
 - Allocation mechanism
 - Economic test
- > Update of list of findings