

GIE views on CEER's Incremental Capacity Blueprint

1. Who is GIE?

Gas Infrastructure Europe (GIE) is an association representing the sole interest of the infrastructure industry in the natural gas business such as Transmission System Operators, Storage System Operators and LNG Terminal Operators. GIE has currently 69 members in 25 European countries.

One of the objectives of GIE is to voice the views of its members vis-à-vis the European Commission, the regulators and other stakeholders. Its mission is to actively contribute to the construction of a single, sustainable and competitive gas market in Europe underpinned by a stable and predictable regulatory framework as well as by a sound investment climate.

2. GIE general view on infrastructure investments

GIE is of the opinion that the market is the best place to trigger infrastructure investments. Infrastructure operators are prepared to invest in additional capacity if they see sufficient demand and at the same time have sufficient long-term visibility and confidence in the regulatory environment. Where some investments – such as those for security of supply - can't be triggered solely by the market, these can benefit from specific tools, in particular those envisaged under the PCI process. Any additional “administrative” processes for new capacity build may likely have a negative impact on the market functioning.

3. GIE call for a transparent process with sufficient stakeholder involvement

GIE is strongly concerned about the process regarding the issue of incremental capacity. In our view, a number of questions require a clear answer before any further discussion takes place, in particular: what is the legal basis for the work on incremental capacity?; who is in charge of the topic?; how it will fit into the Third Package processes?; what will be the role of ENTSOG?; and – most importantly - how will stakeholders be involved in the debate?

We note that the blueprint document issued by CEER has not triggered any public consultation and we remain wary about the next steps envisaged by the regulators and the Commission. We deem this lack of clarity as worrying for stakeholders as it undermines the confidence and visibility over the future regulatory developments. We would like to stress that transparency and sufficient stakeholder involvement is indispensable in the elaboration of any new proposals.

4. GIE remarks on current CEER Blueprint on Incremental Capacity

Without prejudice to the above, GIE would like to offer some high-level reaction on the CEER Blueprint on Incremental Capacity. We would like to note, however, that the document is not clear enough to allow more detailed observations:

- First of all, the Blueprint lacks clarity concerning the overall process from the identification of the demand for incremental capacity to capacity allocation. The interaction between the different elements of demand identification, the economic test and the capacity allocation is ambiguous as well as the order in which these different steps would be envisaged.
- Secondly, GIE is strongly concerned about the f-factor proposed by the Blueprint as part of the incremental calculation process. This factor –if applied– would likely undermine the basic

economic principles for investment decision making as it would implicitly allow economically non-viable investment to be executed. Such an approach would then trigger cross-subsidies among network users thus having a detrimental result on the market. Moreover, it is not clear whether the f -factor is a predefined and accepted non-feasibility of an investment or a result of a subsequent analysis.

We note that the Blueprint speaks of the f -factor as possibly incorporating “positive externalities” that may be socialized by reducing the factor. However, in this context we would like to stress that it is the PCI process rather than the incremental capacity process that should provide for the implementation of non-viable projects with “positive externalities”.

- Thirdly, GIE asks for further clarity on each technical design described in the Blueprint. This could be possibly done by showing specific examples, and by detailing the process and calculations for each design.
- Finally, the allocation of capacity have to be structured in a transparent and easily understandable way, avoiding any kind of unintended gambling or wrong signals by bidders and/or TSOs. A fair and equal treatment of all shippers (for new as well as in existing capacity) is needed to avoid discrimination or volatile bookings by shippers. GIE sees the need for more emphasis on these aspects rather than on auction designs triggering (potentially wrong) investment decisions. Should the Incremental Capacity process result in an obligation for a TSO to build additional capacities/new pipelines, the overall regulatory concept has to ensure that such new infrastructure has no detrimental effects on the efficiency of the particular TSO.

5. Way forward

GIE is questioning the need for specific rules regarding Incremental Capacity. GIE believes that viable investments in additional capacity will take place given a sufficient demand and a stable regulatory environment. To implement specific rules on incremental capacity into existing or future network codes would require a by far more transparent process compared to the one we see so far.

If the market sees the need to specify some rules or procedures regarding incremental capacity it might be sufficient to do this via Guidelines of Good Practice. Such legally non-binding solution would be sufficiently flexible but at the same time it would deliver guidance to TSOs and market participants how to deal with additional demand at existing IPs.