



ACER Incremental capacity study

Presentation in Brussels

22 January 2013

Agenda

- Introduction
- Overview of proposals on incremental capacity
- Basis of market test and harmonised principles
- Options for how to offer incremental capacity
- Implications for FGs and NCs
- Roadmap

Overview of our proposals on incremental capacity

Enable: project identification and CBA

When: Biennial offers unless indication of limited interest

How: choice of integrated auctions or open seasons both with a market test

- New obligation on TSOs to cooperate
- Done in context of TYNDP process
- Common CBA to identify external benefits and economic life
- NRA approval of proposed projects
- Offers follow publication of EU TYNDP
- Proposed contra-indicators are:
 - 5% unsold existing capacity in Y5 – Y8
 - Physical congestion in no more than one TYNDP scenario
- Decision on method based on complexity and number of IPs/TSOs involved
 - One IP – normally integrated auction
 - Two or more IPs – OS process
- Market test common to both options
- Single market test used by both TSOs at an IP if at all possible

Basis of the market test

- Many open seasons in the past have used a quantity threshold
- We see important benefits in a financially based market test that compares discounted revenues to project costs (cost coverage):
 - Shippers see tariff or estimate of floating tariff used as basis for price payable
 - Revenues and costs can be compared as in a conventional cost-benefit analysis
 - Easier to compare different options in financial terms
 - Enable allocation based on price if there is excess demand for incremental capacity – providing a link to the NC CAM
 - Easily adapted to consider differential impact of additional levels of incremental capacity
- Cost of IC “projects”
 - Investment costs for specific actions more likely to be acceptable in continental Europe than LRMC approach used in GB

Proposed harmonised principles for market test

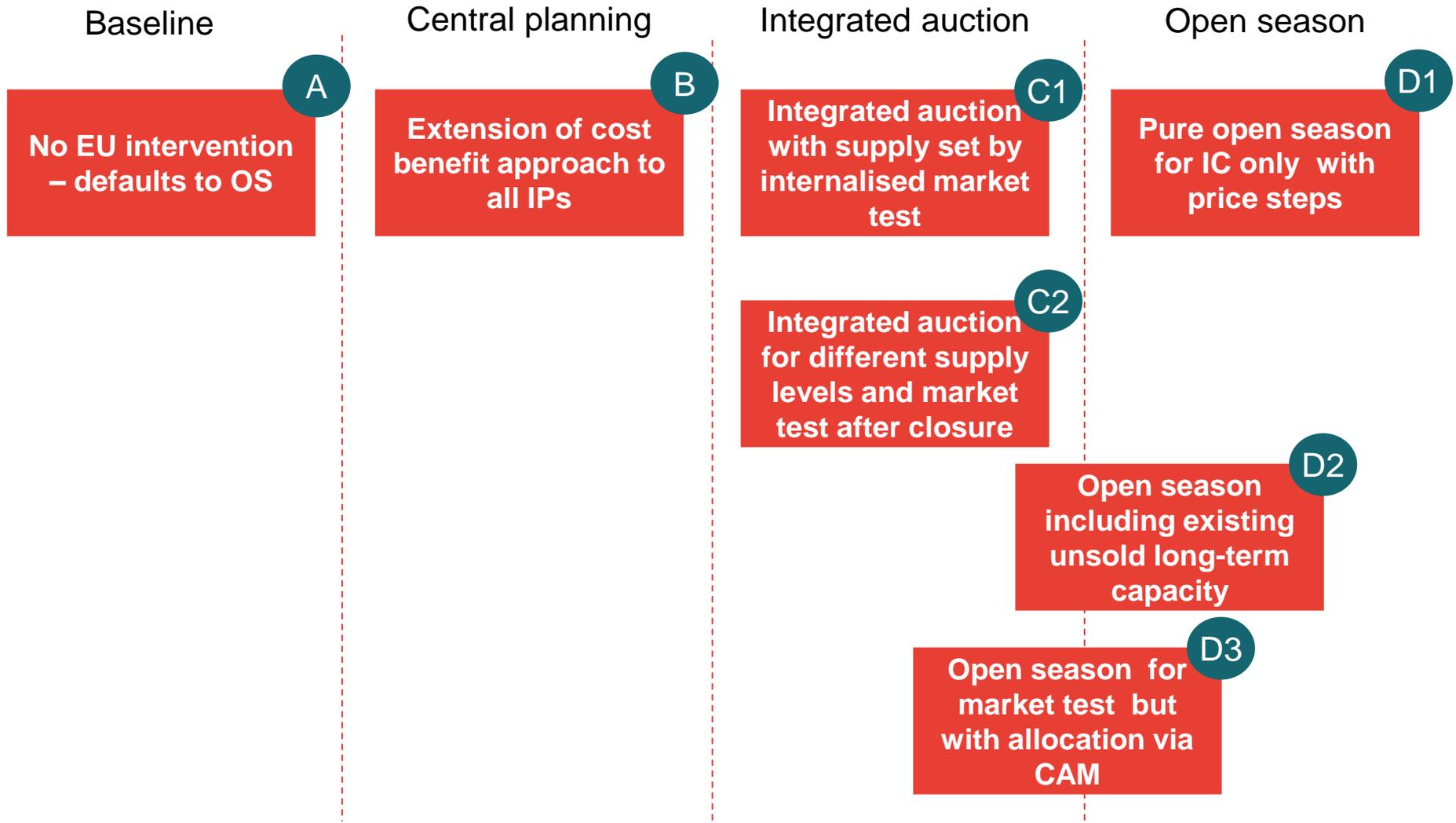
Scope for harmonisation:

- Principles ✓
- Parameters ✗
(too market/IP specific)

Proposed harmonised principles

- Transparent and capable of replication
- Based on discounted cash flows
- Applied sequentially to different levels of incremental capacity
- Frame test in real terms unless capacity to be allocated at fixed nominal prices
- Reflect expected economic asset life in pricing and in coverage ratio
- Take account of external benefits as notional additional revenue
- TSOs to aim for a single market test. If not possible, reasons for difference to be made explicit

Options for EU intervention about how to offer IC...



... beyond baseline

Example of proposed format for integrated auctions using different supplies of yearly capacity

Price step	Price	Y1		Y4		IC = 0		Y5		IC =50		IC = 0		Y6		IC =50		etc
		Supply	Demand															
21	2.0	150		150		150		200		150		200		200				
20	1.9	150		150		150		200		150		200		200				
19	1.8	150		150		150		200		150		200		200				
18	1.7	150		150		150		200		150		200		200				
17	1.6	150		150		150		200		150		200		200				
16	1.5	150		150		150		200		150		200		200				
15	1.4	150		150		150		200		150		200		200				
14	1.3	150		150		150		200		150		200		200				
13	1.2	150		150		150		200		150		200		200				
12	1.1	150		150		150		200		150		200		200				
11	1.0	150		150		150		200		150		200		200				
10	0.9	150	145	150	360	150	380	200		150	380	200		150	380	200		
9	0.8	150	190	150	365	150	395	200	198	150	387	200		150	387	200		
8	0.7	150	250	150	370	150	398	200	240	150	390	200	180	150	390	200	180	
7	0.6	150	280	150	380	150	405	200	350	150	395	200	205	150	395	200	205	
6	0.5	150	300	150	380	150	420	200	370	150	420	200	260	150	420	200	260	
5	0.4	150	310	150	385	150	440	200	395	150	439	200	350	150	439	200	350	
4	0.3	150	310	150	390	150	442	200	405	150	440	200	400	150	440	200	400	
3	0.2	150	315	150	395	150	445	200	440	150	445	200	435	150	445	200	435	
2	0.1	150	320	150	400	150	448	200	445	150	447	200	440	150	447	200	440	
1	0	150	320	150	400	150	450	200	450	150	450	200	450	150	450	200	450	

Clearing price

Existing unsold +
incremental

Same reserve price
shown here

Implications for tariff FG...

List of additions and modifications

- Widen scope to include IC
- New section containing principles of the market test
- New section on asset lives and depreciation to address stranding risk
- If NRAs wish, modification with respect to reserve prices to allow auctions with IC to start above the general reserve price for yearly capacity
- Modifications with respect to price payable:
 - Cap on price payable from previous auctions based on subsequent release of IC for same year
 - Clarify that premia can arise in auctions of IC
 - Allow auction premia to be indexed for general inflation (not fixed in nominal terms), if pre-announced

... based on September version

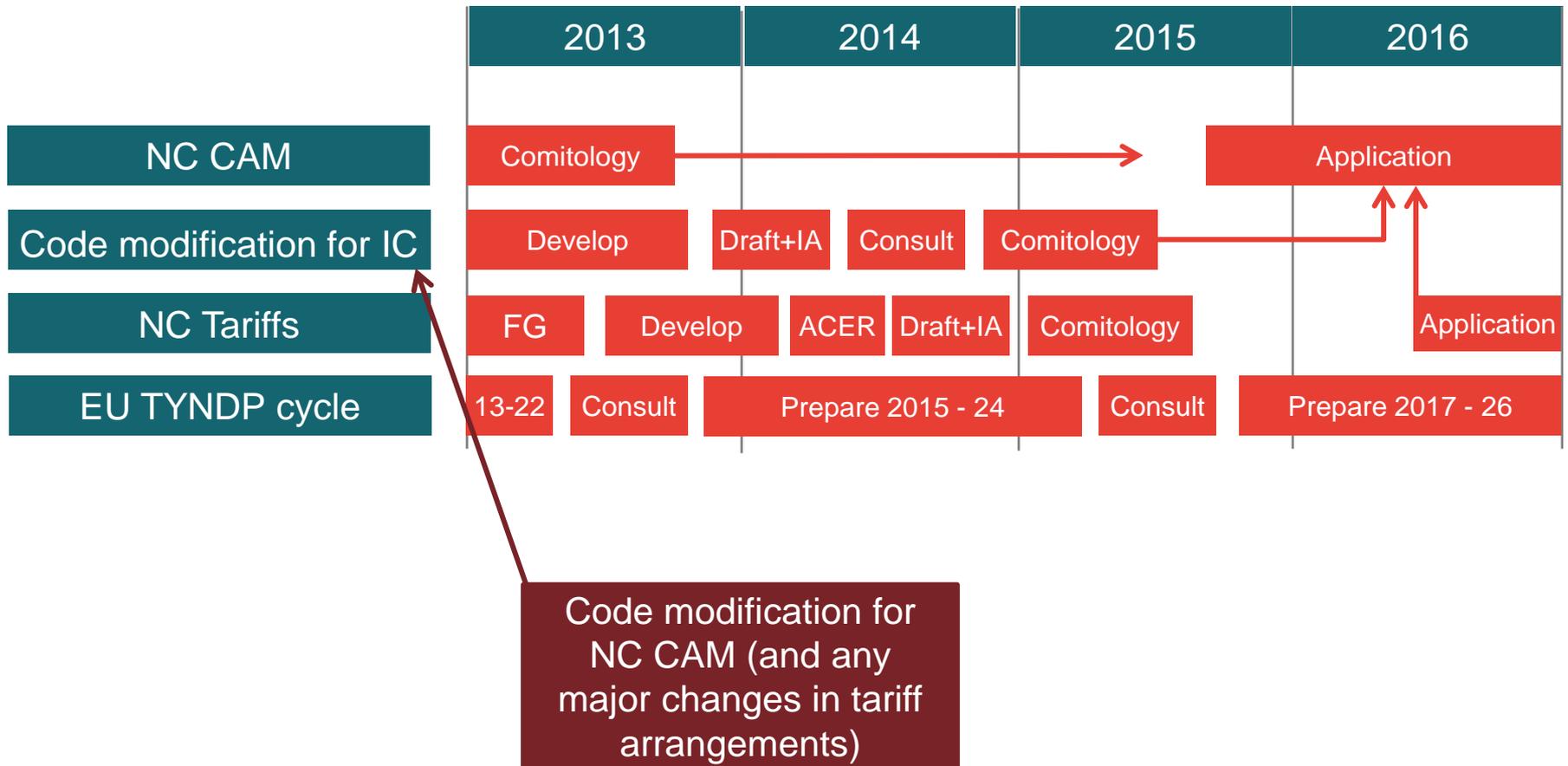
Implications for NC CAM...

List of additions and modifications

- Additional measures with respect to TSO cooperation:
 - Obligation to identify IC projects
 - Obligation to offer IC biennially unless two conditions are satisfied
- With respect to capacity allocation, new article on principles for the market test (to release incremental capacity) and any retention of IC for short term allocation
- Amendment to regulations concerning auctions of yearly capacity
 - Enable auctions combining existing capacity and different levels of IC
 - Permit results for such auctions to be contingent on a market test
- Amendment to ascending clock methodology to permit auctions to start at one or more price steps above the reserve price (if NRAs want this flexibility)
- Amendment to section on price payable to align with the modified FG

... based on December version

Tentative roadmap for implementation





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