

ACER



Agency for the Cooperation
of Energy Regulators

**“Open House” meeting
Stakeholder input for ACER’s recommendation on the
Network Code on rules regarding harmonised
Transmission tariff structures for gas**

Brussels/Ljubljana, 1 April 2015

Agenda

Opening

15 min

01 Definitions, transparency and implementation

- transmission and dedicated services definitions *45 min*
- provision of binding tariffs prior to the auctions *45 min*

02 Reference price and cost allocation methodologies

- payable price *45 min*
- multiplier cap *45 min*
- cost allocation methodology: counterfactual methodology *15 min*
- Inter-TSO compensation mechanism *45 min*

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30 min

Conclusion

15 min

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01 Definitions, transparency and implementation

- transmission and dedicated services definitions
- provision of binding tariffs prior to the auctions

02 Reference price and cost allocation methodologies

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Transmission and dedicated services definitions

The Network Code introduces the following definitions:

- “‘dedicated services’ means the regulated services other than transmission services provided by the transmission system operator to specific network users, or infrastructure operators, or at specific entry or exit points;”
- “‘transmission services’ means the regulated services provided by the transmission system operator to all network users within the entry-exit system for the purpose of transmission.”

According to the Reasoned Opinion,

- the NC clarifies broad principles behind transmission and dedicated services relative to the status quo;
- The NC contradicts section 1.2 of the FG explaining that “The Network Code on Tariffs shall propose and justify a consistent definition for transmission services in line with Section 1.3.”

The NC does not contain a criterion with a sufficiently distinctive character, nor a limited list of dedicated services, nor a cap on revenues to be recovered from dedicated services, i.e. outside of the cost allocation methodology

- According to the ENTSOG Stakeholders consultation process, Stakeholders considered the redrafting of the scope clearer than the initial version, but would have expected the definitions to be more specific to clearly identify the dedicated services and the corresponding revenues.
- Alternative solutions: (1) limited list of dedicated services; (2) principles defining dedicated services; (3) cap on revenues to be recovered from dedicated services; (4) mixed approach.

➤ **Any comments ?**

Provision of binding tariffs prior to the auctions

According to the Network Code:

- ENTSOG's IA recommends to "not to harmonise the tariff setting year";
- ENSTOG's IA identifies that 'a key request of the market is to have information relating to tariffs prior to the commencement of capacity auctions';
- ENTSOG's IA identified a strong relationship between the timing of the capacity auctions and the ability of TSOs to publish final tariffs ahead of the auctions.

According to the Reasoned Opinion,

- Value added of Article 27 of the NC:
'at least the indicative reference prices and the binding multipliers and seasonal factors applicable for the tariff period following such auction' should be published 30 days ahead of the capacity auctions.
- the NC could further specify the publication period of binding tariffs and related multiplier information ahead of the capacity auctions, and explore the possibility of optimised the timing of the CAM auctions to facilitate such tariff certainty.

According to the ENTSOG Stakeholders consultation process,

- "The obligation to publish binding multipliers and seasonal factors prior to the commencement of auctions was welcome; however stakeholders were of the strong opinion that binding reference prices should also be published prior to auctions and not just indicative ones. Sensitivity analysis was not seen as a suitable substitute to the provision of a full tariff model and a number of respondents also requested a longer notice period for the publication of binding tariffs."



Publication of binding tariffs

ENTSOG's Proposal

01 April 2015 - ACER's Open House on Tariffs

Stakeholders request

ENTSOG's asked stakeholders on the Initial draft TAR NC consultation:

"Is the issue of knowing the tariffs for the relevant gas year before the auctions start very important to you?"

A clear message came from the responses

Knowing the reserve prices for the first gas year before the annual auction is **ESSENTIAL** to enable shippers to develop commercial booking strategies

The price **NEEDS TO BE KNOWN** to determine bidding tactics

One of the purposes of the auctions is to reveal shippers willingness to pay. However, it is not possible to do this if the reserve prices are not known.

In the Refined Draft TAR NC, included the publication of indicative prices, multipliers and seasonal factors prior to the auctions.

Similar message came from the SSP responses

Binding reference prices are of paramount importance

Knowing tariffs before the purchase of capacity is **CRITICAL**.

ENTSOG's Proposal

- Independent of the tariff setting year, publication of:
 - ✓ Final reference prices
 - ✓ Reserve prices
 - ✓ Multipliers and seasonal factors
 - ✓ Discounts for interruptible products.
- This provision moves the tariff calculation for IPs earlier in the year, increasing tariff uncertainty:



To reduce uncertainty, two additional changes are proposed:

1st: Move the capacity auction default dates.

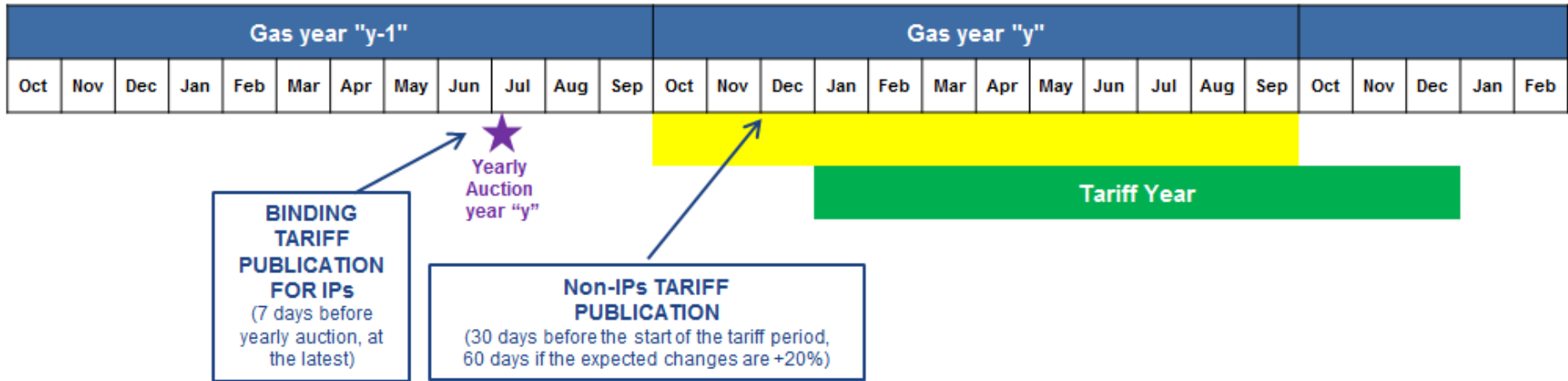
DEFAULT DATES	Current dates	Proposal
Yearly auctions	First Monday of March	First Monday of July
Quarterly auctions	First Monday of June	First Monday of August
Monthly auctions	Third Monday of each month	Second Monday of each month

CAM NC amendment proposal will be sent to ACER shortly

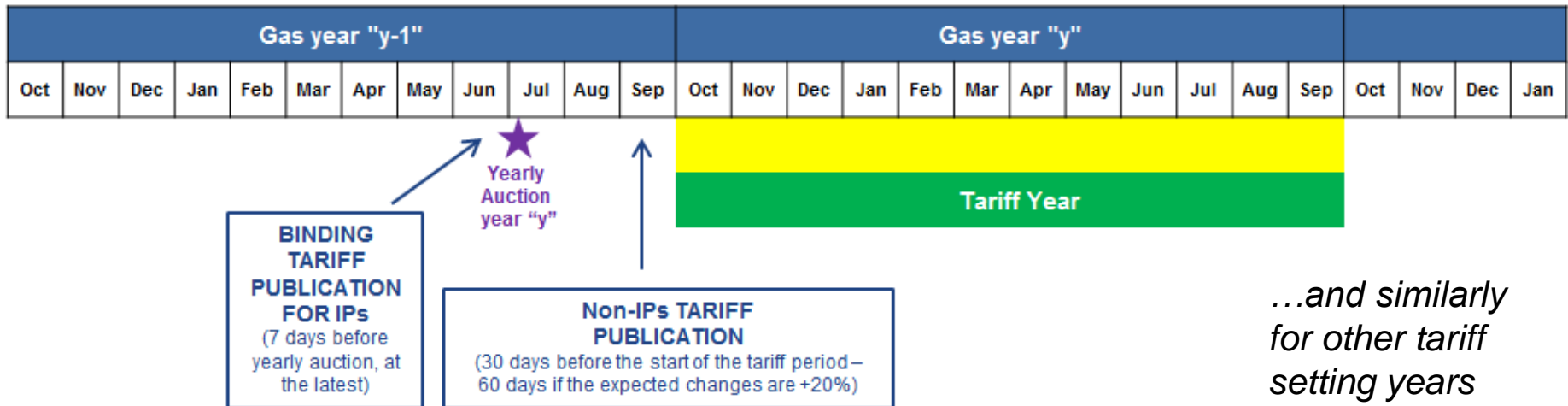
2nd: Move provisions included in the CAM NC Art. 26 to the TAR NC.

ENTSOG's Proposal

Case 1: for tariff setting year = Jan to Dec



Case 2: for tariff setting year = gas year



...and similarly for other tariff setting years



european network
of transmission system operators
for gas

Any comments ?

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Payable price

According to the Network Code,

- Article 42 provides the options of both a fixed payable price and a floating payable price;
- Article 4 also expands the rules set out in the FG concerning the recovery of allowed revenues via a commodity charge;

The NC introduces a formula for calculating a fixed price, which includes the calculation of an indexation factor and a risk premium, to be determined at MS level.

According to the Reasoned Opinion,

- Articles 4 & 42 of the NC directly contradicts the FG;
- The NC fixed payable price option does not provide adequate safeguards against the risks of cross-subsidy.

Universal floating payable price - using the cost allocation methodology as the unique way for revenue reconciliation - ensures that all users contribute to revenue reconciliation in an equal manner. In contrast, fixed payable price excludes some users from this process. It increases the risk of tariff instability for other network users

What the EC IA reveals:

- Most TSOs apply a floating payable price: 29 out of 38 respondents to the survey;
- Out of the 9 TSOs that apply a purely fixed approach, 2 are interconnectors (IUK, BBL), 2 are transit countries (SK and CZ), and 1 applies commodity charge (UK);
- The others are Bulgaria, Croatia, Denmark and Finland.

➤ **Any comments ?**

Multiplier caps and collars

According to the Network Code,

- Article 29(2) of the Network Code introduces the possibility to apply a multiplier higher than 1.5;
- To establish the higher cap, it assesses variations of short-term capacity bookings against the average short-term capacity bookings, over a period of three years.

According to the Reasoned Opinion,

- Article 29(2) contradicts the FG - the need for the higher cap has not been demonstrated;
- No evidence that local variability in capacity bookings would be such that an application of multipliers of 1.5 would create revenue shortfall

The formula used to determine the potentially higher multiplier excludes yearly capacity products. Such a solution could have the unintended consequences of permitting higher multipliers at all points on a network, potentially to the detriment of efficient short-term gas trades.

What the EC IA reveals:

- Average monthly multipliers in 2013, including seasonal factors: 1.29 (summer), 1.98 (winter);
- Average daily multipliers in 2013, including seasonal factors: 1.80 (summer), 2.92 (winter)

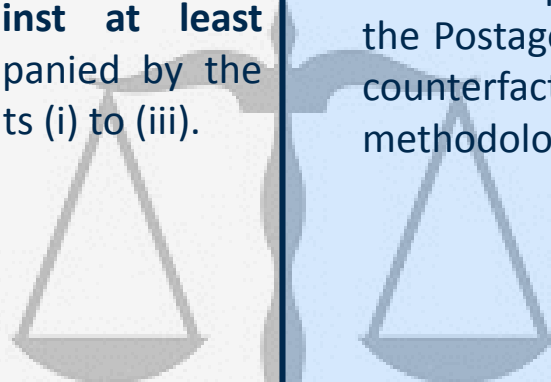
➤ **Any comments ?**

Cost allocation - counterfactual methodology

According to the Network Code (Art. III.21(1)),
A consultation shall be conducted by the transmission system operator(s) or the national regulatory authority(-ies), as relevant, on the following: **the comparison of the proposed primary cost allocation methodology against at least postage stamp methodology** accompanied by the relevant information as set out in points (i) to (iii).

According to the Reasoned Opinion,

- the need to align assumptions between the chosen methodology and the counterfactual is lost in the NC;
- the NC implies but does not state explicitly that the Postage Stamp methodology can be used for counterfactual purposes even when the methodology is not eligible.



According to the ENTSOG Stakeholders consultation process,

- «There was support for the use of the Postage Stamp methodology as the default counterfactual, however some respondents felt that those TSOs using this methodology as their primary one should not be exempt from providing a counterfactual.»

Alternative solutions: other counterfactual, possibility to choose the counterfactual.

➤ Any comments ?

Inter TSO compensation mechanism

According to the Network Code (Art. II, sect. 5.4)

“In an entry-exit system where more than one transmission system operator is active, the national regulatory authority(-ies) shall take either of the following decisions:

(a) all the transmission system operators within such entry-exit system shall apply the cost allocation methodology jointly;

(b) each of those transmission system operators shall apply the cost allocation methodology separately.”

According to the Reasoned Opinion,

- Deviation from the FG, also impacting Art. 9 (on the Entry-Exit split) and 40 (on the pricing of capacity at a Virtual Interconnection Point)
- Tariffs depend on ownership structures;
- application of revenue reconciliation to a subset of the network constituting the entry/exit zone, greater tariff instability in each subset, as compared to the stability over the whole entry/exit zone.



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Network Code on Harmonised Transmission Tariff Structures – Possible ITC designs

Frederic Düperthal, Assistant Head of Section, Energy Regulation

Anne Zeidler, Vice Chair, Ruling Chamber 9

Open house for Stakeholder input on TAR NC

Brussels, 1/4/2015



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- Reduction of number of E/E-zones from 2006 until 2011
 - 2006: 19 E/E-zones
 - 2011: 2 E/E-zones
- Today there are several differently sized TSOs in both E/E-zones, each TSO calculates tariffs individually
- Bookable IPs disappeared as a consequence of the decreasing number of E/E-zones
- Agreement between TSOs:
No transfer payment between TSOs for costs resulting from mutual gas exchange
 - Similar magnitude of mutual payments, small net totals
 - No justification for complex ITC
- Allocation of allowed revenue to remaining points

- TSOs are affected differently from this situation
- Consequence: Different tariff development

Need for adjustment of the current system:

- Characteristics of an E/E-zone:
 - Access to the whole E/E-zone with one capacity booking
 - Only the entry and the exit tariff have to be paid
- Use of network of TSOs who do not receive a payment
 - Costs of these TSOs are allocated to their network users
 - Costs are not allocated where they arise



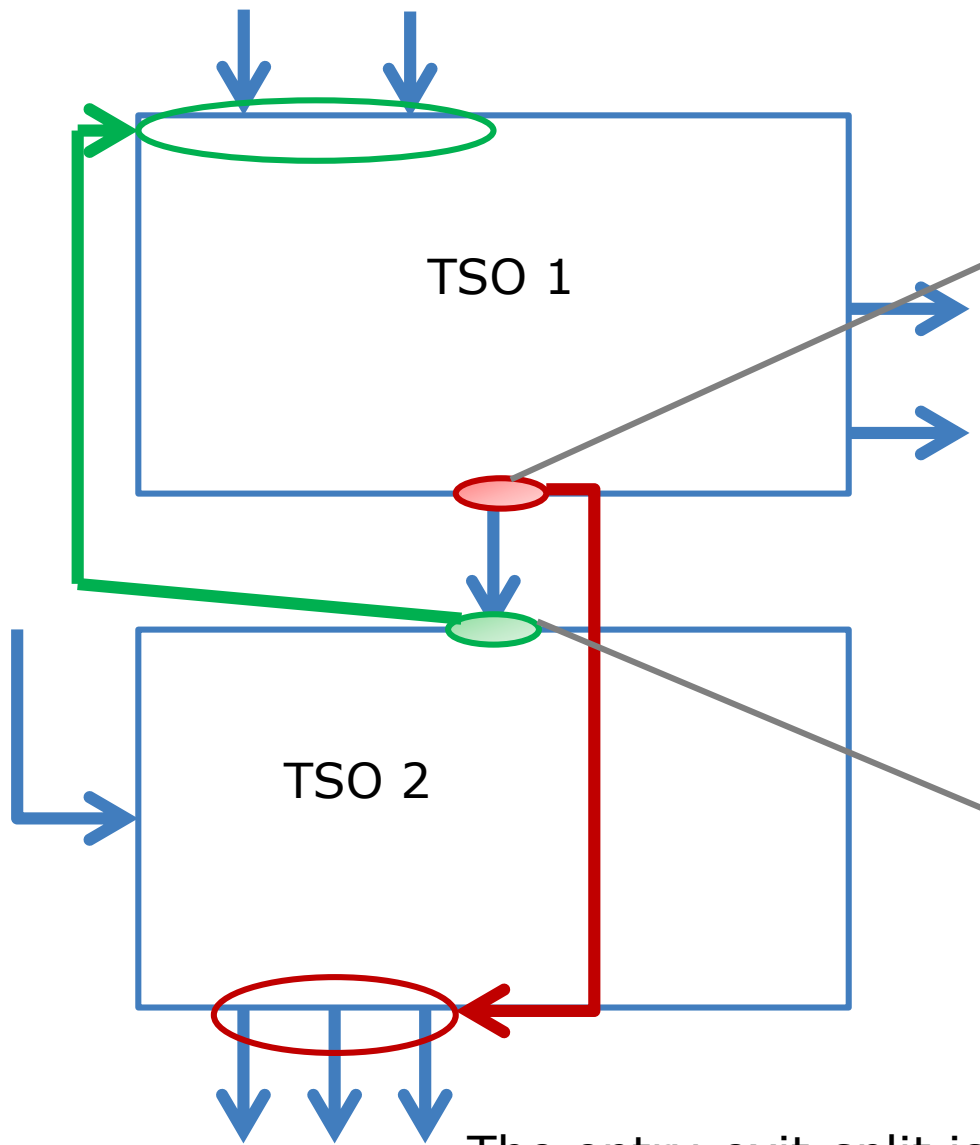
Costs of the use of the E/E-zone need to be allocated appropriately to the bookable points which means that the existing tariff spreads should be minimized or wiped out



- Identification of the dependence between TSOs in an E/E-zone according to the capacity that TSOs provide to each other

 - Allocation of costs to the connection points involved (i.e. non-bookable points between TSOs)
- Discussed methods:
- Method 1: Upstream and downstream cost allocation
 - Method 2: Downstream cost allocation
 - Method 3: equal distribution

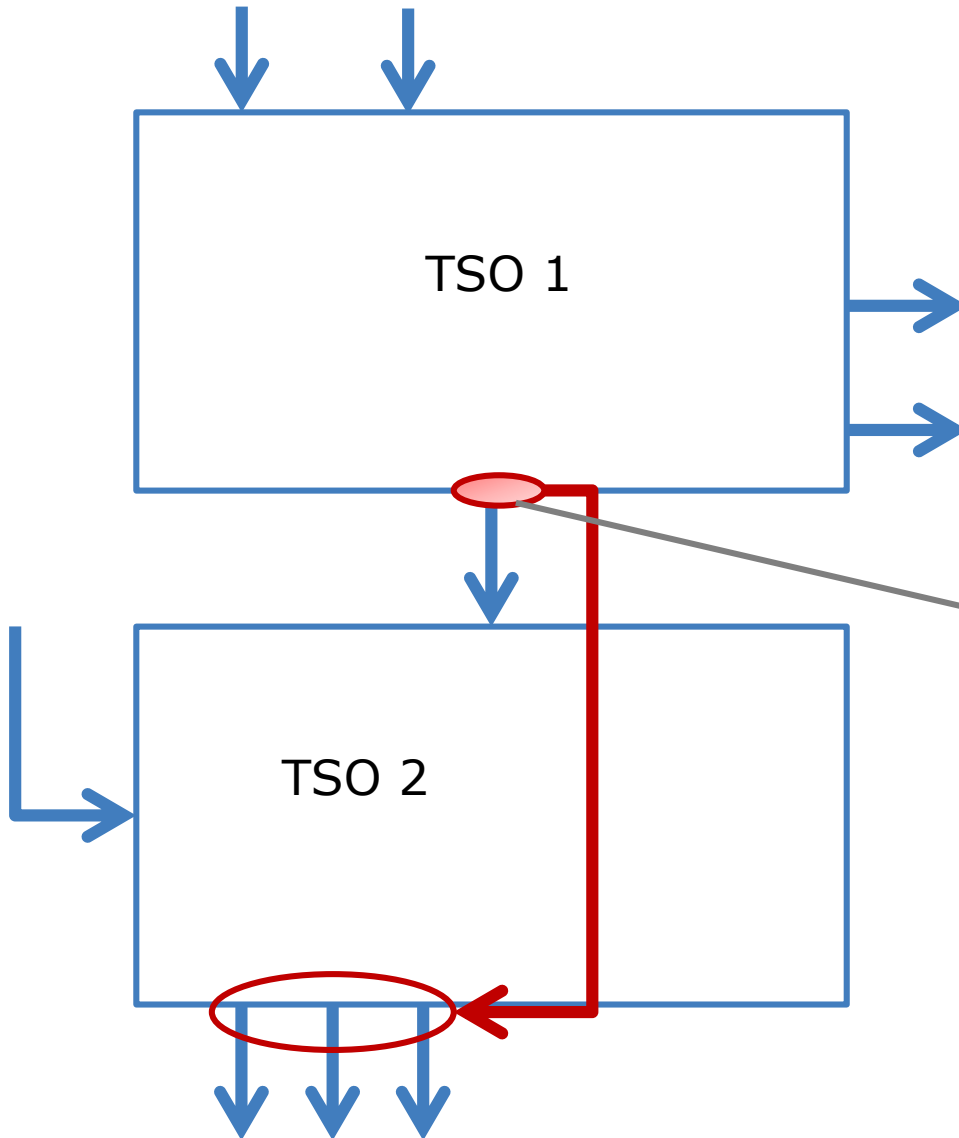
Method 1: Upstream and Downstream cost allocation



1. TSO 1 sets an „exit“-price for the capacity provided to TSO 2 according to the cost allocation methodology.
2. TSO 2 adds the costs for the capacity provided by TSO 1 to the part of his costs that has to be allocated to his exit-points.

1. TSO 2 sets an „entry“-price for the capacity provided by TSO 1 according to the cost allocation methodology.
2. TSO 1 adds the costs for the capacity provided to TSO 2 to the part of his costs that has to be allocated to his entry-points.

The entry-exit-split is predetermined by the NRA.



1. TSO 1 sets a price for the capacity provided to TSO 2 according to the cost allocation methodology.

2. This capacity provided to TSO 2 is reduced by the „downstream“ load flow TSO 2 guarantees to TSO 1.

3. TSO 2 adds the costs for the provided capacity (minus guaranteed load flow) to the part of his costs that has to be allocated to his exit-points.



- Costs that are allocated to the dependence between TSOs are cumulated and distributed across all bookable entry- and exit-points of an E/E-zone.
- Definition of distribution key is necessary.



THANK YOU.

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01 Reference price

02 Definitions, transparency and implementation

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The background of the image is the flag of the European Union, featuring a light blue field with twelve five-pointed gold stars arranged in a circle. The flag is depicted with soft, realistic folds and a slight gradient, giving it a three-dimensional appearance. The text "Thank you!" is centered in the middle of the flag.

Thank you!