

Public Consultation on day-ahead and within-day multipliers

Based on Article 13(3) of the Network Code on Harmonised Transmission Tariff Structures for Gas

PC_2020_G_19

1. Objective

Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas ('NC TAR') entered into force in 2017 and it has introduced a number of provisions on multipliers that are applicable for the calculation of short-term capacity products (quarterly, monthly, daily and within-day).

The NC TAR provides the possibility for the Agency to issue a recommendation to cap the multipliers used to calculate the reserve prices of day-ahead ('DA') and within-day ('WD') capacity products to 1.5.

The objective of this consultation is to gather views and information from stakeholders on the impact of DA and WD multipliers in order to assess the possibility of issuing a recommendation to limit the level of these multipliers

The provision foreseeing this possibility is laid out in Article 13(3) of the NC TAR:

"By 1 April 2023, the maximum level of multipliers for daily standard capacity products and for within-day standard capacity products shall be no more than 1,5, if by 1 April 2021 the Agency issues a recommendation in accordance with Regulation (EC) No 713/2009 that the maximum level of multipliers should be reduced to this level. This recommendation shall take into account the following aspects related to the use of multipliers and seasonal factors before and as from 31 May 2019:

- *changes in booking behaviour;*
- *impact on the transmission services revenue and its recovery;*
- *differences between the level of transmission tariffs applicable for two consecutive tariff periods;*
- *cross-subsidisation between network users having contracted yearly and non-yearly standard capacity products;*
- *impact on cross-border flows."*

The Agency invites stakeholders to express their views on the points referred to in Article 13(3) of the NC TAR.

2. Target group

This consultation is addressed to European associations, national associations, TSOs, shippers or energy trading entities, end-users and others.

3. Deadline

Please provide your response by **9 December 2020**, 23:59 hrs (CET).

4. Identification data and confidential information

Please indicate the following data:

Name:

Position held:

Phone number and contact e-mail:

Name and address of the company you represent:

Your country:

Other country, if not in the list above:

Please indicate, if your company/organisation is:

- European association

- National association
- TSO
- Shipper or energy trading entity
- End-user
- Other (e.g. Power Exchanges, Storage Operator etc.).

If other, please specify below:

N/A

Any confidential information should be marked clearly as such, including the word 'CONFIDENTIAL' in the subject of the e-mail, as ACER will not treat e-mails which contain only a general disclaimer (usually automatically added) as containing confidential information. If respondents want to claim confidentiality, they should provide an explanation of their confidentiality interests and a non-confidential version of their response for publication. For more details on this, please see the Rules of Procedure of the Agency (Article 9 of Decision No 19/2019 of the administrative board of the European Union Agency for the Cooperation of Energy Regulators of 11 December 2019)

Is your input into this consultation confidential?

- Yes
- No

5. Publication of responses and privacy

The Agency will publish all non-confidential responses, and it will process personal data of the respondents in accordance with Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, taking into account that this processing is necessary for performing the Agency's consultation task. For more details on how the contributions and the personal data of the respondents will be dealt with, please see the Agency's Guidance Note on Consultations and the specific privacy statement attached to this consultation.

6. Related documents

- [Regulation \(EU\) 2019/942](#) of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators.
- [Commission Regulation \(EU\) 2017/460](#) of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas.
- ACER [Guidance Note on Consultations](#)
- Commission [Regulation \(EU\) 2017/460](#) of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas

7. Background

Multipliers are used to set tariffs for short-term gas transmission capacity products in comparison with the reference prices applied to yearly capacity products. Article 13 of the NC TAR sets out that the level for DA and WD multipliers for standard capacity products shall be *no less than 1 and no more than 3. In duly justified cases, the level of the respective multipliers may be less than 1, but higher than 0, or higher than 3.*

Overall, shippers use different capacity booking strategies taking into account their supply and demand portfolios, market dynamics and gas transmission tariffs both on yearly and short-term capacity products. For example, shippers may secure a certain amount of capacity with yearly capacity products while they cover the seasonal and short-term variations with short-term capacity products.

Multipliers can impact the gas market in various ways, depending on the balance between the short-term and the long-term:

On the first hand, relatively high multipliers on short-term products can deter network users from booking short-term capacity for trading or balancing purposes. On the other hand, high multipliers incentivises yearly bookings which are deemed favourable to TSOs revenue recovery and which allow shippers to flow gas across hubs even when spot market spreads are below the capacity reference price.

From a competition perspective, multipliers can also lead to different outcomes. They have a distributional effect, through the share of revenue recovered from users holding short-term or long-term capacity products. Multipliers can be set with the primary objective of avoiding cross-subsidisation between network users and enhancing the cost-reflectivity of reserve prices. In contrast, low short-term multipliers can be considered as a way to foster competition and to incentivise more dynamic booking strategies.

When setting multipliers, NRAs should consider these different interactions, as required by Article 28 of the NC TAR, to avoid a potential welfare loss for EU consumers.

8. Consultation topics and questions

For all the questions, **please provide supporting evidence**, which can include the identification of IPs where a referred event is relevant and/or a time period for the phenomena observed (how, when and for how long it applies). Supportive evidence can include data, tables and it can be accompanied by examples.

Factual evidence on the effects of the current provisions is highly relevant to evaluate their effectiveness and to assess whether a recommendation could lead to an improvement.

Topic 1: Changes in booking behaviour

1. What role do short-term capacity products (DA and WD) play in your capacity booking strategy (balancing activities, market arbitrage, supply profiling...)?

Typically, natural gas producers would contract long-term capacity products to ensure that produced gas can be brought to market. DA and WD products play a limited role unless there is abundant capacity available and the price of short-term products would be favourable and nobody would book long term contracts any longer (as in the U.K. before the tariff reform).

2. Have you observed that DA and WD multipliers impact booking behaviour and booking strategies (could be your own booking strategy or those of other market players)? For instance, have you observed that low DA and WD multipliers can shift contracted capacity from yearly capacity products to shorter-term capacity products?

- Yes
- No
- Other

2.1 Please explain your reasoning:

The practice in the UK in the period before the tariff reform demonstrates that low DA and WD multipliers can shift contracted capacity to short-term capacity products.

In order to promote the use of all standard capacity products, there should be a balance between the pricing of yearly capacity and shorter-term capacity products. The TAR NC allows multipliers of up to 1.5 for quarterly and monthly capacity products to provide this balance. Given this range we consider it justified to allow multipliers of up to 3 for DA and WD products as it is currently allowed.

On the other hand, provided that short term multipliers are higher than 1 in order to correctly reflect the flexibility value associated to short-term capacity products, we deem possible that, in some cases - such as Greece where DA multipliers are nearly 3 – congestions may occur for capacity with longer durations (monthly capacity for instance), due to the much higher costs of DA capacity, even if shipper is not planning to use such (e.g. monthly) capacity for the whole period.

Topic 2: Impact on the transmission services revenue and its recovery

3. Have you observed that DA and WD multipliers impact transmission services revenue and its recovery? In particular, could low DA and WD multipliers induce under-recoveries of TSOs' revenues on a transitory basis (in most systems such under-recoveries are systematically rolled to next years by revenue reconciliation mechanisms)?

- Yes
- No
- Other

3.1 Please explain your reasoning:

The practice in the UK in the period before the tariff reform demonstrates that low DA and WD multipliers can induce under-recovery of TSO's revenue, which was corrected by a commodity charge.

From a revenue recovery perspective, as TSOs are subject to a revenue reconciliation mechanism, the market would benefit if TSOs would sell more monthly, quarterly and annual capacity versus DA and WD products. This is because for holders of monthly, quarterly and annual capacity the marginal costs of using such capacity on a DA or WD basis tends to reduce the price spreads between neighboring gas hubs.

Topic 3: Differences between the level of transmission tariffs applicable for two consecutive tariff periods

4. Have you observed significant changes in DA and WD multipliers in the 2016-20 period?

- Yes
- No
- Other

4.1 Please explain your reasoning:

Yes, because of the implementation of the TAR NC the range of DA and WD multipliers has been brought in-line with the network code provisions.

5. Have you observed that changes in multipliers have led to changes in the tariffs applicable for other capacity products (e.g. yearly capacity product)?

- Yes
- No
- Other

5.1 Please explain your reasoning:

The impact of changed multiplier on the tariffs for the yearly capacity products – if any – will be difficult to demonstrate because implementation of the TAR NC has generally had a significant impact on the tariffs for the yearly capacity products as result of changes to the tariff methodology.

Topic 4: Cross-subsidisation between network users having contracted yearly and non-yearly standard capacity products

6. Have you observed that DA and WD multipliers have placed or could place in the coming years excessive costs on short-term capacity compared to the costs recovered through yearly capacity products?

- Yes
- No
- Other

6.1 In the affirmative, how could it affect competition and market integration?

N/A

6.2 Please explain how you evaluate if costs for short-term bookings are excessive compared to yearly bookings and on what criteria you base your argument.

Discussions leading up to the TAR NC have resulted in maximum multipliers of 1.5 for quarterly and monthly capacity. Multipliers for quarterly/monthly capacity exceeding 1.5 are excessive based on the network code criteria. Applying the same criteria, since a multiplier of 1.5 is allowed for monthly capacity, multipliers >1.5 should be allowed for DA and WD capacity. The TAR NC does not have another option than to set the maximum DA & WD multipliers at 3, and we have not seen compelling evidence to change this. According to the ENTSOG monitoring report (Second ENTSOG report on implementation and effect monitoring of the TAR NC, figures 58-61 in https://www.entsog.eu/sites/default/files/2020-04/TAR_MR2020_03_Final.pdf), there are several TSOs which apply multipliers exceeding the TAR NC limits and this should be addressed. However, most TSOs comply with the TAR NC provisions on multipliers, and use the NC flexibility to apply DA & WD multipliers below 3 (but exceeding 1.5). This also indicates that the current range is effective.

Topic 5: Impact on cross-border flows

7. Have you observed that DA and WD multipliers have impacted or could impact in the coming years cross-border flows? Consider, in particular, situations where high DA and WD multipliers may prevent the use of available cross-border capacity or where high multipliers for DA and WD capacity product may negatively affect the correlation between gas prices in neighbouring hubs.

- Yes
- No
- Other

7.1 Please explain your reasoning:

The impact of DA and WD capacity products on cross-border flows is limited considering that network users predominantly book yearly, quarterly and monthly capacity products. To the extent that this is caused by multipliers for DA and WD capacity, it is likely to have a positive effect on the correlation between gas prices in neighboring hubs because the marginal costs for holders of yearly, quarterly or monthly capacity to use this capacity on a DA or WD basis is zero.

8. Have you observed that DA and WD multipliers can be a market barrier (for instance by granting an advantage to holders of long-term bookings)?

- Yes
- No
- Other

8.1 Please explain your reasoning:

With the current maximum level for DA and WD multipliers at 3 in the TAR NC and the practice with the majority of TSOs to apply multipliers below this maximum we have not observed that DA and WD multipliers are a market barrier.

Conclusion

9. From your perspective, what would be the advantages and disadvantages of capping DA and WD multipliers at 1.5 across Europe?

The advantage of capping DA and WD multipliers at 1.5 is that it would make DA and WD capacity products more attractive, but only where TSOs currently apply higher multipliers. This could result in more network users booking DA and WD capacity products instead of either yearly or quarterly and monthly capacity products. Because this would only make economic sense if those network users would be able to reduce their tariff payments to the TSO, the disadvantage of capping DA and WD multipliers at 1.5 is that it is likely that there will be upward pressure on tariffs through the revenue reconciliation mechanism.

We believe that there should be a balance between the pricing of yearly capacity and shorter-term capacity products. Excessive multipliers for DA and WD should be avoided, but it should be recognized that multipliers play an important role in the booking behaviour of network users, and to avoid cross-subsidisation between network users having contracted yearly and non-yearly standard capacity products. The TAR NC allows multipliers of up to 1.5 for quarterly and monthly capacity products to provide this balance. Given this range we consider it justified to allow multipliers of up to 3 for DA and WD products.

We believe that the level of multipliers should be motivated and justified, not only when falling outside the limits set by the TAR NC.

Thank you for your reply!

Contact

[Contact Form](#)