

MINUTES

Network Code on Harmonised Transmission Tariff Structures for Gas

ENTSOG Consultation Workshop

25 June 2014 from 10:00 – to 17:00

At ENTSO-E Conference Centre, Av. de Cortenbergh 100, Brussels

| Company | Name | Company | Name |
|----------------------------------|---------------------|--------------------------|----------------------------|
| ENTSOG (chair) | Ann-Marie Colbert | EDF Trading | Amroze Adjuward |
| ENTSOG | Jan Ingwersen | E-Control | Markus Krug |
| ENTSOG | Aine Spillane | Edison SpA | Monica Immovilli |
| ENTSOG | Irina Oshchepkova | Enagas | Paloma Izquierdo Fernández |
| ENTSOG | Violeta Bescós Roy | ENOI | Ilaria Conti |
| Alliander | Joost Gottmer | EuRoPol GAZ | Lizak Slawomir |
| ACER | Thomas Querrioux | ExxonMobil / OGP | Kees Bouwens |
| ACER | Lewis Hodgart | Fluxys | Laurent De Wolf |
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| AEEG | Marco La Cognata | Gas Natural Fenosa | Rosalia Poblaciones |
| BP Gas Marketing | Andrew Pearce | GASCADE | Rolf Wagner |
| BNetzA | Frederic Düperthal | Gasunie Deutschland | Ksenia Berezina |
| CEFIC & IFIEC | Dirk Jan Meuzelaar | Gazprom M & T | Alex Barnes |
| Centrica Storage | Roddy Monroe | GCA | Martin Bliem |
| CRE | Benoit Esnault | GDF SUEZ | Isabelle Diversy |
| CRE | François Leveille | GDF SUEZ | Laurent Hamou |
| CREG | Tom Maes | GDF Suez Infrastructures | Sylvie Denoble-Mayer |
| Commission for Energy Regulation | Colm Ó Gormáin | GDF Suez Infrastructures | Laurent Percebois |
| DESFA | Nikos Katsis | GIE | Philipp Daniel Palada |
| DEPA | Theodoros Mantoukas | GRTgaz | Fabrice Desjardin |
| DG Energy | Tanja Held | GRTgaz Germany | Gregor Scholze |
| EDF | Claire Gall | GRTgaz Germany | Jean Dubard |

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|-------------------|--------------------------|------------------------|----------------------|
| GTG Nord | Jann Keller | RWE Supply & Trading | Stephen Rose |
| IFIEC Europe | Valentin Hoehn | Shell Energy Europe | Amrik Bal |
| Interconnector UK | Pavanjit Dhesi | Snam | Alessandro Gussetti |
| Net4Gas | Sebastian Borek Kubatzky | ONTRAS | Niels Krap |
| Net4Gas | Jana Krejčová | TAQA | Robert Jan Maaskant |
| National Grid | Colin Hamilton | TIGF | Emmanuel Bouquillion |
| National Grid | Malcolm Arthur | Thyssengas | Veit Seger |
| Ofgem | Victoria Volossov | Vattenfall | Helga Norrby |
| Reganosa | Laurent Moriceau | VNG-Verbundnetz Gas AG | Stefanie Gunst |
| Reganosa | Sergio Barral | | |

ENTSOG also provided a webcast facility on the day of the meeting for those unable to attend in person.

1. OPENING

Jan Ingwersen welcomed the participants to the TAR NC Consultation Workshop and thanked the prime movers and all the stakeholders for their participation at the previous workshops.

Ann-Marie Colbert gave an update on the process, including the next steps and a summary of the agenda for the workshop.

2. ACER'S PRELIMINARY VIEWS ON THE INITIAL DRAFT TAR NC

Benoit Esnault presented an overview of the main goals of the FGs and an overall assessment of the initial draft TAR NC. It was indicated that ACER is open to the debate but any amendment to the FGs would need to be appropriately justified. The specific issues mentioned that would need further debate were the definition of transmission services, payable price, cost allocation methodologies, secondary adjustments, multipliers, interruptible capacity and incremental capacity. ACER invited all stakeholders to respond to ENTSOG's consultation.

- > A trilateral meeting with N4G, ACER and EC to discuss the necessity and justification for the Asset Allocation Methodology was suggested and will be arranged. ACER and EC welcomed the opportunity to discuss this issue. Tanja Held pointed out that further discussion is needed on how to mitigate transit risks.

3. INITIAL STAKEHOLDERS VIEWS

3.1. GAZPROM's preliminary views on the draft TAR NC (on behalf of the Prime Movers)

Alex Barnes presented some preliminary views on the initial draft TAR NC. It was noted that the views expressed during the presentation were those derived from discussion by the members of the prime movers group. Some key issues were presented such as timely publication of reserve prices prior to the annual yearly auction of a gas year, clarity on the different tariff components and the key importance of transparency in order to enable the prediction of tariffs and of any other additional levies and charges. Comprehensive examples to enable full understanding of the end-to-end tariff derivation process and tariff models should be delivered before the completion of the TAR NC.

3.2. Discussion

Q: Is predictability of tariffs in the long term a key issue for the market, taking into account that the current multipliers incentivise short term bookings? Even if predictability is achieved, when there is available capacity, the flight to short term is going to be inevitable.

A: The level of the multipliers does play a role in the future profile of bookings. The problems that should be solved and the aims to be achieved are not clearly defined. Once the aim is defined, it would be easier to establish the importance of the different factors.

Q: The aims are to have competition at cross border trade and that shippers have a level playing field to compete in the market. A fair allocation of costs will help to achieve those aims. According to the prime movers, are the cost allocation methodologies important if transparency is ensured?

A: An assessment of the existing methodologies and their problems would need to be carried out first. An assessment on the efficiency of costs would also be positive, but this is out of scope and should be done nationally by TSOs and NRAs. Taking this into account, the only way to currently assess the methodologies is via the publication of the tariff models.

Q: Long term bookings are important when ensuring investment signals. A shift to short term could be understood as detrimental in some situations where incremental capacity would be needed. However, would market behaviour not naturally incentivise long term bookings where incremental capacity is demanded, such as new points or congested points?

A: The complexity of the processes could mean the interaction of other factors. The key is to consider the problems we are trying to fix and to find the mechanisms to solve them via an open debate.

Q: Is the predictability of tariffs in the long term really a key issue for traders, as in the end it is the end users who normally end up paying a floating tariff to the traders? The risks mentioned are usually covered by the end users and not by the traders.

A: Predictability of tariffs is deemed as positive for all market participants, independently of their role as end users or traders.

- > It was deemed as very positive to discuss the clarity of the text at this stage of the process, when a debate amongst all stakeholders can take place.

4. SCOPE OF THE TAR NC AND INTERACTION WITH THE CAM NC AND 3RD COUNTRIES

4.1. Overview

Irina Oshchepkova presented ENTSOG's considerations with regard to the interaction of the TAR NC with the CAM NC for non-IPs and regarding the situation of IPs with 3rd countries, making a distinction between the Energy Community countries and other countries.

Pavanjit Dhesi presented ENTSOG's consideration with regard to the situation for interconnectors. The specific nature of interconnectors should be taken into account, in particular with regards to effective revenue recovery mechanisms, in order to avoid creating vicious circles of higher tariffs and thus lower bookings.

4.2. Discussion

Q: How should interconnectors be dealt with in a hub-to-hub model? Can they be integrated and how?

A: The target model does not prescribe that interconnectors should be merged into other zones. However, there is a consultation taking place at the moment to see how the business model for interconnectors could be defined in the future. The TAR NC should be open enough for interconnectors to have that debate with the corresponding NRAs, taking into account the benefits they are providing to the markets.

Q: Are interconnection points amongst two market zones in the same Member State affected by all the rules of the TAR NC?

A: Yes, the definition of interconnection points in the CAM NC is clear in that respect.

5. MITIGATING MEASURES

5.1. Overview

Ann-Marie Colbert presented ENTSOG's approach on mitigating measures in the initial draft TAR NC and how the requirements of the FGs were translated in the Network Code. An explanation of why the one off capacity reset option has not been included in the initial draft TAR NC and the potential detrimental impacts that this measure could have on the gas market, according to ENTSOG, was presented. An example of the impact on capacity bookings and the increase in annual tariffs was shown with regard to a German TSO, e.g. where contracts can be terminated if the tariff increase is higher than the inflation rate. It was clarified that the figures consider only the diminution of bookings due to a shift to short term; the change of supplier, when this happened, was not considered in the figures.

5.2. Stakeholder Views

Laurent Hamou explained his views on why a reset clause mechanism is needed in order to ensure a level playing field for the shippers with different booking behaviours and some potential positive impacts of this mechanism were also described.

5.3. Discussion

Q: The one off capacity reset option is not acceptable for infrastructure operators, since TSOs are not protected in terms of recovering the allowed revenue in all circumstances. The decreasing gas demand also has an impact on the risks TSOs are bearing and will need to bear in the future. This affects all the TSOs across EU. Cross-subsidies could also be created between transit and domestic consumers. The market valuation of the TSO's business could be affected, since it is not only the price control which determines the value but also the level of recovered revenue could have an impact when high under recoveries occur.

A1: Mitigating measures are a key issue for most stakeholders. Although it is difficult to provide evidence of the potential positive impacts of the one-off capacity reset option, the risk of tariff uncertainty for network users when the NC will come into place is there.

A2: Annual capacity products should be incentivised, in order to be able to find a good balance between short and long term bookings; this would reduce the call for a one-off capacity reset option.

- > ACER showed its support for ENTSOG's position on this point. Ensuring a level playing field for all stakeholders could be achieved by other measures in the TAR NC. The legitimacy of the measure and the technical issues that could arise were noted.
- > Laurent Hamou noted that the way the capacity reset is implemented in Germany is not optimal. A single one-off capacity reset would be beneficial rather than having the possibility to do it any time, thus avoiding successive increases in annual tariffs by the different TSOs involved.

6. CEFIC-IFIEC PRELIMINARY POSITION ON THE INITIAL DRAFT TAR NC

Dirk Jan Meuzelaar presented IFIEC/CEFIC concerns on the initial draft TAR NC, considering it insufficient to contribute to a better functioning of the IEM; it was noted that the current proposals are primarily focused too much on revenue recovery mechanisms and cost allocation methodologies. Greater transparency and certainty should be achieved. The one-off capacity reset option could lead to an unfair redistribution of costs.

7. COST ALLOCATION AND REVENUE RECONCILIATION

7.1. Overview

Aine Spillane presented several cost allocation approach charging examples, showing how the different charges could be set and explaining how any under/over recoveries would be included for the next year or tariff period. It was noted that for the revenue excluded from the transmission services revenue definition is out of scope of the TAR NC and therefore national rules would apply to that revenue.

7.2. Discussion

Q: Is transparency guaranteed for the revenue out of scope of the TAR NC?

A: Only national rules would apply to that revenue. Moreover, there should be flexibility at national level to define what is excluded at EU level as this is extremely difficult.

- > There was a remark requesting transparency on the excluded revenue and requesting from TSOs a complete tariff model to enable stakeholders to have an overview of the tariff process and how it works.

8. RESERVE PRICES

8.1. Short-term capacity products (multipliers)

Nikolaos Katsis presented ENTSG's position with regards to multipliers. In particular, ENTSG's approach to how the multiplier ranges should be defined was explained and justified. An alternative approach that had been included in the Supporting Document was also described. The insertion of a safeguard in relation to the cap for multipliers was explained.

8.2. Discussion

Q: There are different issues arising for the use of the definition of contractual congestion for setting the multipliers ranges. If ACER's yearly monitoring report is to be used, there are clearly timing issues arising. The criteria mentioned in the CMP guidelines to solve contractual congestion should not be used for this purpose, as it does not take into account the whole revenue recovery picture. There could be contractual congestion at a point while the TSO has an under recovery, this will depend on the relative prices of the different capacity products and not on the criteria defined in point 2.2.3.1 of CMP guidelines. Therefore, could the use of the definition of contractual congestion for setting the multipliers ranges be reconsidered?

A1: With regards to the timing issue, the criteria established at point 2.2.3.1 analyses the clearing prices of the auctions in the year of the analysis or in one of the subsequent two years, so it is a combination of the past and the future. However, it is true that the report could determine that there is congestion based on the presence of an auction premium in exclusively past auctions. Therefore ENTSG's proposal to leave this to the NRAs/national discretion is reasonable.

A2: With regard to the issue of whether the specific criteria established at point 2.2.3.1 is a good trigger for lower multipliers, further discussions could be positive to get more clarity on the most appropriate approach. The approach should be based on the level of bookings, the specific trigger merits further discussion. Consistency amongst legislation should be preserved.

- > The cap of the multipliers in the FGs doesn't take into account how the reference prices are set. The main principle to take into account should be that the allowed revenue shall be recovered in the year the capacity is being used, as much as possible; in order to avoid cross subsidies.
- > Currently the initial draft TAR NC states that the applicable ranges should be based on a decision taken by the NRA in accordance with the criteria established in point

2.2.3.1. This could increase the timing issues making it difficult that every year the reality of congestion is evaluated. Direct evaluation of the criteria could simplify and make the process more dynamic. In any case, any change of the situation at a point with regard to congestion shall be taken into account as soon as possible.

- > Different approaches on how to set the multiplier ranges were mentioned, such as focusing on whether annual products are sold out. Another alternative that could simplify the process is to eliminate the different ranges depending on the level of contractual congestion, leaving the largest ranges as a default. To narrow the range of multipliers when there is congestion seems to add an additional layer of complexity that could be deemed as inappropriate.

8.3. Ex-post discount for the pricing of interruptible capacity products

Borek Kubatzky and Jana Krejčová presented how the ex-post mechanism to price interruptible capacity products would work and the formula to calculate this discount, including an example and explaining the benefits that maintaining ex-posts discounts could provide to the markets.

8.4. Discussion

Q: When firm and interruptible are offered in parallel, what would be the benefits for the shippers and traders of an ex-post discount?

A: Ex-post discounts could help TSOs to maintain the offer of interruptible capacity and not limit it to the minimum requirements in the CAM NC and to maintain interruptible capacity as an alternative CMP tool, offering a higher amount beyond the available capacity as interruptible. Over Subscription and Buy Back mechanisms are similar tools that allow TSOs to offer further firm capacity, but it sets out certain risk management issues that interruptible capacity doesn't.

8.5. Pricing of non-physical backhaul capacity

Gregor Scholze presented ENTSG's views on the marginal pricing of non-physical backhaul capacity and why ENTSG's approach is to apply the same pricing methodology for non-physical backhaul as for other interruptible products.

8.6. Discussion

Q: Could backhaul capacity be offered as firm capacity in certain cases? Firm backhaul could be a product that has not been considered in the Gas Regulation until now.

A: ENTSG understanding is that non-physical backhaul can't be a firm product, as it always depends on the forward flow shipper and their decision to transport gas.

- > To set the reserve prices of all interruptible products, including non-physical backhaul products, to 0 is not compatible with Gas Regulation. In the Gas Regulation it is clearly stated that the price of these products shall reflect the probability of interruption.

- > It was noted that on the one hand, backhaul products contribute to reducing the use of the system and on the other hand, all network users (in whichever direction) should contribute to finance the system. It was also noted that in terms of investments, these products differ from interruptible products because they may help to reduce investments costs.
- > The combination of non-physical backhaul products and ex-post discounts raises some issues. To book this type of product and then to be reimbursed afterwards for exactly the amount that you have been interrupted, which could be during a peak of use of the system, could be unattractive for network users.

9. GIE PRELIMINARY POSITION ON THE INITIAL DRAFT TAR NC

Philipp Palada presented GIE's preliminary views on the TAR NC, in particular on multipliers, interruptible capacity and gas storage. The complexity of the subject, together with the time pressure and the conflicting interests makes the NC development a complex process. With regards to storage connection points, GIE's view is that further work on that issue could be positive, taking into account the benefits they provide from a cost point of view.

10. PAYABLE PRICE - FIXED PRICE MECHANISMS

10.1. Overview

Colin Hamilton presented on payable price, describing a number of suggested fixed price mechanisms that could be introduced in order to give network users a certain degree of tariff predictability. The different mechanisms presented were fixed price + indexation, fixed price + a risk premium, fixed price + a variable charge. Different combinations of these mechanisms could also be possible. ENTSG believes that tariff predictability will encourage long term bookings, essential for investment signals and for revenue stability to the TSO, and thus for tariff stability for the network users.

10.2. Discussion

Q: For the alternative of fixed price + a risk premium as a buffer, a shipper would pay the actual floating tariff when the buffer is empty. Is the only advantage the fact that you can have certainty for a period, which is unknown at the time when capacity is allocated?

A: Yes, this is the advantage of this option. It is presented together with the other options to have a discussion with stakeholders and get feedback on all of them, in order to choose the ones that are most appropriate.

Q: ACER is open to the debate and welcomes the efforts done by ENTSG on the different mechanisms. However, ACER's preference is to have a floating payable price in all cases, as explained before and in previous workshops. Floating tariffs are currently the predominant approach across the EU. Is the concept of fixed tariffs a key issue for shippers in order to book long term? Could some evidence be provided on its detrimental effects for long term commitments?

A: For many stakeholders, to have a degree of predictability and certainty around tariffs is a key issue. ENTSOG has tried to take into account the feedback received from ACER related to the concern regarding cross subsidisation and consistency and also the feedback received from network users to have the possibility to have fixed prices in order to develop different fixed price mechanisms presented.

Q: Is the approach for the payable price going to be harmonised or are these different mechanisms going to be included in the NC as options? If one of these fixed price mechanisms are to be used, could it work as an upfront regulatory account, helping to buffer fluctuations over time?

A: Once the consultation has finished, ENTSOG will analyse the responses from stakeholders. The idea is to give network users the opportunity to choose amongst different alternatives when booking capacity. A degree of predictability could help to avoid a flight to short term capacity. The option(s) included in the end will in any case need further development; a debate will be needed on the trade-offs and the risk sharing amongst the different market participants in a fair manner. Different options could be included giving the opportunity to regulators to decide the most suitable approach for each system.

Q: Is ENTSOG planning further work to solve the issue of tariff visibility at least for the tariffs one year ahead, such as the alignment of the tariff year and the gas year?

A: ENTSOG, as requested, will produce an Impact Assessment on the harmonisation of the tariff year. In order to carry out this work, ENTSOG has included some questions in the consultation about the issue. The feedback received so far indicated that the key issue for stakeholders is to know what the tariffs are for the gas year before the start of the annual yearly auction.

Q: A possible mechanism could be to have indexation of tariffs in accordance with the change of the allowed revenue at the start of each year.

A: It could be a good mechanism; indexation gives stakeholders predictable variability. The mechanisms should be clear as it is important that shippers understand what is being paid.

- > Fixed pricing has an essential role in investment projects. For incremental capacity processes, this degree of predictability is very important; as it would increase the likelihood that the economic test is passed. Previously there have been exempted projects (interconnectors) with fixed tariffs, without cross subsidisation problems being created. For future investments, that may follow the rules in the NC, including the possibility to have fixed tariffs would be helpful as it is difficult to pass the economic test without long term bookings.

11. CONCLUSIONS

> Summing Up; Closing Remarks

Ann-Marie Colbert thanked the participants for their contribution to the discussions. Participants were encouraged to respond to the consultation, which ends on the 30th of July. The responses received will be very important to develop the next version of the TAR NC.

The upcoming phases of the TAR NC development process were described. It was indicated that ENTSG is open throughout the process for bilateral discussions, the best opportunity for that is between now and the refinement workshop.

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Next TAR NC stakeholder meeting (Refinement Workshop): **24 September 2014**

ALL DOCUMENTS RELATING TO THIS MEETING CAN BE FOUND ON THE ENTSG WEBSITE AT
<http://www.entsog.eu/events/tariff>