Response of Storengy to ENTSOG's consultation on the Implementation Document for the Network Code on Harmonised Transmission Tariff Structures

Storengy

Storengy, an ENGIE subsidiary, is the 1st storage operator in Europe and the 4th in the World. The working gas capacity of the 21 UGS operated by Storengy amounts to 12.2 Bcm.

It designs, builds and operates storage facilities and offers its customers innovative products based on the extensive know-how it has acquired through 60 years' experience with different markets and regulatory environments.

Drawing on its world-renowned knowledge and its experience in storage sales in France, Germany and the UK, Storengy supplies expert solutions to partners and customers worldwide (in China, Brazil, Turkey, Chile, Mexico and other countries besides) in a vast range of projects, favouring an industrial approach forged around partnerships.

Introduction

On 23 March 2017, ENTSOG published the Implementation Document for the Network Code on Harmonised Transmission Tariff Structures (IDoc) in order to provide the best practice guidance on national implementation for Commission regulation (EU) 2017/460 of 16 March 2017 establishing the TAR NC.

The IDoc is non-binding, prepared for information and illustrative purposes, and offers a set of examples and possible solutions for implementing the TAR NC. The examples used in the IDoc for any given Member State ('MS') reflect the situation as of the date of the IDoc publication, and may change in the future as an outcome of the national consultation processes foreseen in the TAR NC.

In this regard, Storengy welcomes the opportunity to comment on the IDoc as published by ENTSOG in March 2017. Storengy acknowledges ENTSOG's important role and efforts made to support the implementation of TAR NC and to give market participants further insights on how ENTSOG intends to interpret specific rules of TAR NC.

To this respect, Storengy would like to comment on ENTSOG's views as follows:

1. Comments on ENTSOG's interpretation of Article 2 of TAR NC (cf. page 22 of IDoc)

According to Article 2 of the TAR NC its scope is split between Chapters and Articles applicable to all entry and exit points to/from the gas transmission network ("broader scope rules") and certain Chapters and Articles which are only applicable to Interconnection Points and – subject to the decision of the relevant national regulatory authority – to entry points from third countries and/or exit points to third countries ("limited scope rules").

Nothing in Article 2 of TAR NC (nor in the scope of CAM NC) is intended to extend the limited scope rules to non-IPs such as entry points from or exit points to storage facilities.

Storengy considers proportionality as one of the basic principles which proper regulation must adhere to. As a consequence, national regulatory authorities should always overcome the temptation of "gold plating" EU regulation when transposing it into national regulation.

Storengy therefore does not share the view of ENTSOG in its interpretation of Article 2 of TAR NC, that limited scope rules are "assumed" to be applied to non-IPs as well. Quite to the contrary of ENTSOG's view, Storengy recommends national regulatory authorities to strictly stick to the scope of the TAR NC when transposing its respective rules into national regulation.

The last paragraph on page 22 and figure 3 on page 23 of IDoc should be amended accordingly:

"Broader scope' rules apply at all points. The application of 'limited scope' rules depends on the type of point: (1) at IPs, such application is 'by default'; (2) at points with third countries where the NRA decides to apply the CAM NC, such application is 'automatic' and does not require additional decision; (3) at other points, such application is possible per national decision. Based on Article 2(1), Figure 3 explains this difference. The red lines stand for the application of the 'broader scope' rules, while the orange lines represent the application of 'limited scope' rules. ~~Figure 3 also shows which connections are explicit (solid lines) in the TAR NC and which ones are based on ENTSOG's assumptions (dashed lines)~~. The IDoc is written to reflect the reference of IPs and non-IPs as set out in the TAR NC. ~~However, nothing prevents the relevant national authority to extend the 'limited scope' rules to non-IPs. Therefore, the IDoc should be read together with Figure 3.~~"

2. Comments on ENTSOG's interpretation of Article 8 of TAR NC (cf. pages 47 and 48 of IDoc)

The CWD methodology is the only counterfactual set out in the TAR NC, but lacks clarity on the definition of the Forecast Contracted Capacity (FCC). Along with distances, extensively addressed in the IDoc, the main influential driver of the tariffs is the Forecast Contracted Capacity (FCC), but this later is not defined and entirely left to interpretation.

Storengy considers that the tariffs resulting from the CWD methodology can vary greatly depending on the assumptions on FCC made for each entry and exit points. Critically, the absence of guidance leads to a large degree of subjectivity in the calculation of the counterfactual CWD tariffs, against which TSOs will have to compare the tariffs of their chosen Reference Price Methodology (RPM).

As an example, if any bias is introduced in the FCC used in the calculation of the CWD tariffs, this may lead to:

- A massive under/over recovery that will shift a substantial part of the transmission charges to adjustment mechanisms according to Article 6 (4), or to the Complementary Revenue Recovery Charge (CRRC) as per Article 4 (3) b. In both cases, the resulting tariffs would no longer match the principles of counterfactual CWD methodology.
- A distortion of the level playing field between tariffs at individual entry and exit points, caused by an incorrect weighting applied to distances, and/or by the large impact of CRRC that affects all domestic points but not the IPs between EU member states.

The FCC could be defined as TSO's best estimate or forecast of the amount of capacity that they expect to sell under contract at entry and exit points (this definition could be added in the glossary published by ENTSOG).

The IDoc should also set out that the FCC must aim at an objective and realistic forecast of the Contracted Capacity for each entry and exit point to minimize the need for further adjustments likely to skew the tariffs from the RPM.

A new item on page 47 of ENTSOG IDoc TAR NC should be inserted accordingly just before distance calculation:

FCC (ARTICLE 8(1)e)

"Responsibility: subject to consultation per Article 26(1) by TSO/NRA, as NRA decides; subject to decision by NRA

The CWD methodology can vary greatly depending on the assumptions on FCC made for each entry and exit points.

Therefore, FCC must aim at an objective and realistic forecast of the Contracted Capacity for each entry and exit point to minimize the need for further adjustments."

3. Comments on ENTSOG's interpretation of Article 9 of TAR NC (cf. page 50 of IDoc)

ENTSOG's explanation to consider the avoidance of double charging and to take into account the contribution that storage facilities make in avoiding the need for additional gas transmission investments should be modified slightly.

Indeed, "to avoid double charging" would be to provide a 100% discount.

For illustration

Gas imported and directly delivered to the end user or exported	Gas imported and stored before being delivered to the end user or exported
Gas price + 100% entry fee + 100% exit fee	Gas price + 100% entry fee + (1-x)% exit fee to storage + (1-x)% entry fee from storage + 100% exit fee

Storengy proposes to modify the following text on page 50:

"As a default, storage discounts must be at least 50 %, ~~to avoid double charging and~~ to take account of the contribution that storage facilities make in avoiding the need for additional gas transmission investments"

As there is a wide range of granting a discount, Storengy proposes to give further guidance on a fair and transparent universal methodology how to evaluate the net benefits of storages within transmission systems and in a second step calculate the direct and indirect benefits of the individual storages in the relevant Entry Exit zone.

It could also be mentioned that granting a higher discount than 50% would be the only way to get higher welfare and benefit from storage assets.

Storengy proposes also to add the following text on page 50:

"The discount granted at the SCPs within an Entry Exit zone shall be derived from a transparent evaluation and calculation of the following direct and indirect net benefits provided by storage sites to the well-functioning of the market and to the end consumers:

- *Efficient investment in new network infrastructure*
- *Reduced transmission system operating costs*
- *Network stability*
- *Security of Supply (availability of gas, facing peak demand)*
- *Enhanced market liquidity and flexibility, reduction of price fluctuation"*

4. Comments on ENTSOG's interpretation of Article 15 of TAR NC (cf. page 64 and Annex K/L of IDoc)

Storengy shares the view of ENTSOG that the application of seasonal factors at interconnection points shall foster the efficient use of the gas transmission system. Seasonal factors shall be employed to encourage system use during periods of low demand in summer and to discourage it during periods of high demand in winter. Gas storage may then be used to balance gas supplies with respective gas demand. Injecting surplus gas into storage during summer fosters availability of gas irrespective of technical failure in major import infrastructure and/or instability in political conditions, thus helping to maintain security of gas supply rather than relying on a "just-in-time" delivery in times of high demand.

Storengy would therefore like to encourage all competent national regulatory authorities to thoroughly consider the application of seasonal factors when a decision is made over the calculation of reserve prices for non-yearly standard capacity products at interconnection points in accordance with Article 28 of TAR NC.

ENTSOG should consequently strengthen respective wording on page 64 of IDoc as to highlight the importance of seasonal factors not only for an efficient system use but also to increase security of gas supply.

The first paragraph on page 64 of IDoc should be amended accordingly:

"Seasonal factors can be applied in addition to the multiplier to calculate reserve prices for non-yearly products. The purpose of seasonal factors is twofold:

- *to foster efficient system use by allowing higher reserve prices in months with high utilisation rates, and lower reserve prices in low-utilisation months. ENTSOG considers that such pricing: (1) provides incentives to shift gas flows away from high demand periods; (2) reduces the negative impact that profiled capacity bookings may have on revenue and tariff stability; and (3) avoids additional unnecessary investment, by encouraging network use in summer and discouraging it in winter*
- *to increase security of gas supply by allowing different reserve prices between the winter and the summer period, encouraging gas supplies and injections into gas storage well in advance of the peak demand period"*

5. Comments on ENTSOG's interpretation of Article 35 of TAR NC (cf. page 125 of IDoc)

Storengy agrees with the interpretation of ENTSOG on the three criteria that must be met to qualify for grandfathering. Concerning the "Type", we note that the TAR NC protects the capacity bookings as well as contracts.

Additionally, Storengy's view is that any adjustment under Article 6 (4) of TAR NC, part of the application of the RPM to provide a reference price as per Article 6 (2) shall not apply to the tariff level of existing contracts or capacity bookings in accordance with Article 35.

In addition to Capacity-/commodity-based transmission tariffs in grandfathered contracts, a new item on page 125 of IDoc should be added accordingly:

"Adjustments to the application of the reference price methodology as per Article 6 (4) shall not apply to the tariff level of existing contracts or capacity bookings protected under Article 35"

Please do not hesitate to contact one of the entities or persons mentioned below if you would like to further discuss any of our comments above.

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