Development of the TAR NC: 4th Stakeholder Joint Working Session

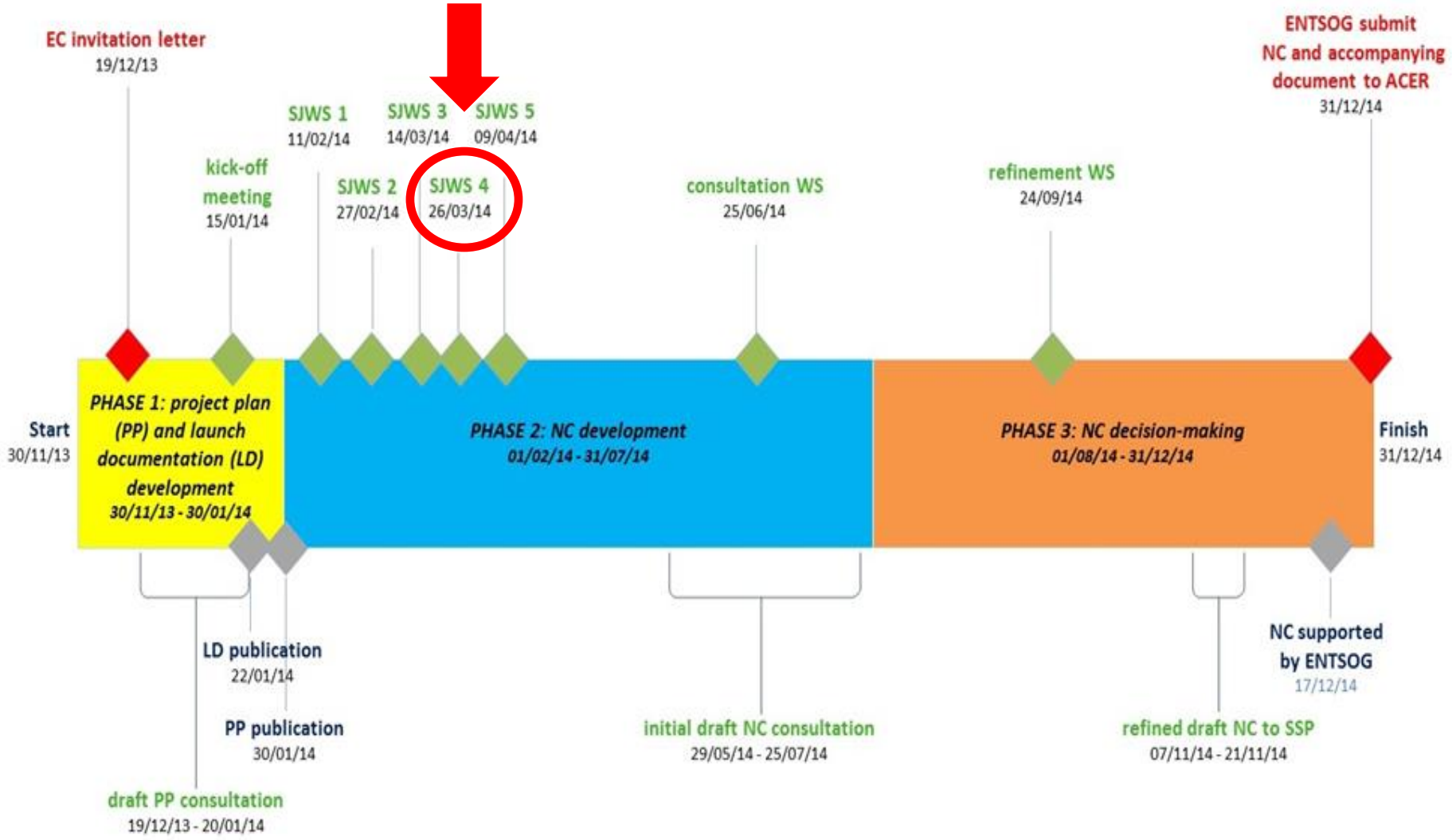
Introduction: Process Update and Meeting Objectives

Ann-Marie Colbert

ENTSOG

TAR SJWS 4 – the 26th of March 2014

Phase 2: Network Code Development



TAR NC SJWS 4 – Meeting Objectives

- Open Discussion of Tariff Topics below:
  - Multipliers and Seasonal Factors – Business Rules
  - Cost Allocation
    - Business Rules Chapter (Part 2)
    - Asset Allocation Approach
  - CAM Related Topics – Business Rules
  - General Provisions – Business Rules
  - Transparency – Business Rules
- Input from Stakeholders, feedback, questions and suggestions welcome

Thank you

Development of the TAR NC: 4th Stakeholder Joint Working Session

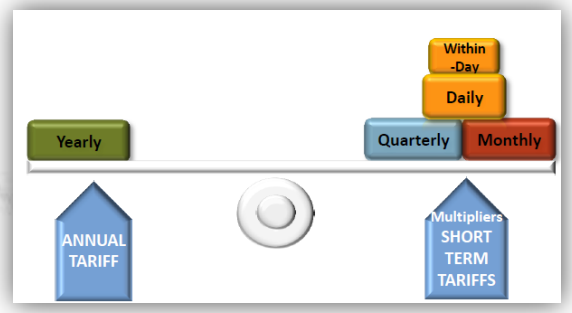
Multipliers

Fabrice Desjardin

GRTgaz (on behalf of ENTSOG)

TAR SJWS 4 – the 26th of March 2014

Business Rules for Multipliers and Seasonal Factors



- Scope of the Chapter – IPs
- The issues that NRAs shall take into account when determining multipliers
- Allowed multiplier ranges with and without congestion.
- Proposal to increase the upper limit when there is no congestion under certain circumstances.
- Methodology to calculate seasonal factors.
- Mathematical formulations for reserve prices of short-term products (including two alternatives for the pricing of within day products).

Published on the 21st of March on ENTSOG's website

Ranges proposed in the FGs

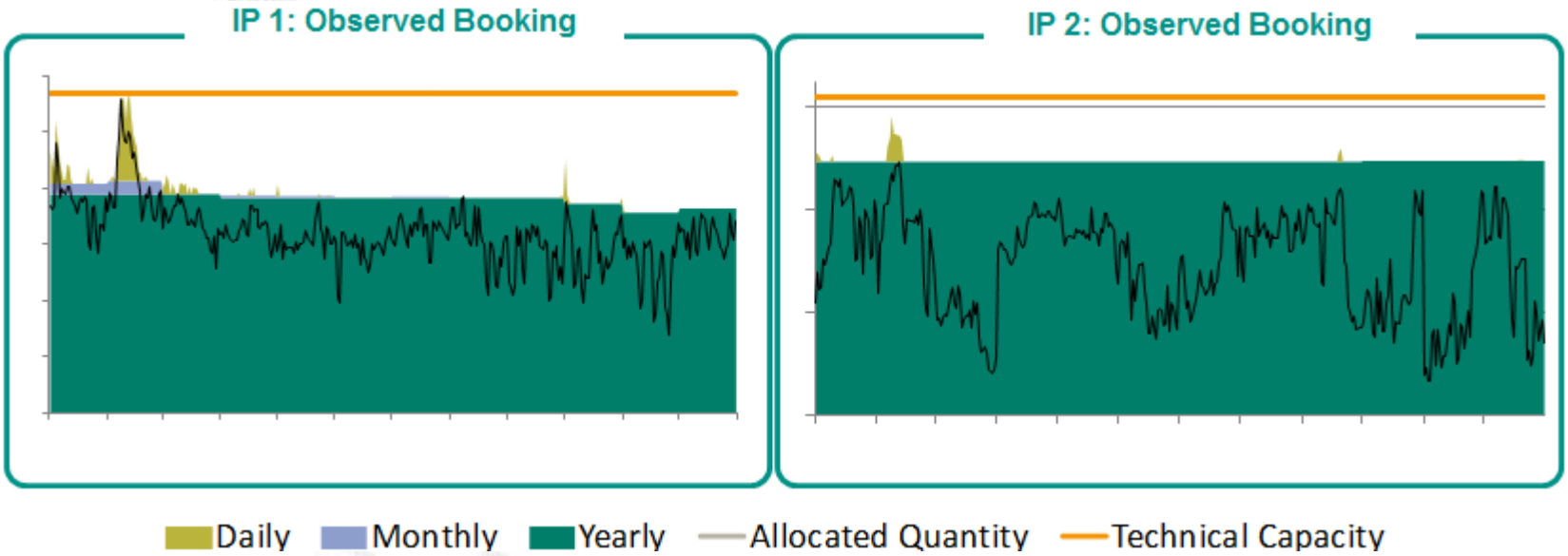
Duration of the short term product	Multiplier range with congestion	Multiplier range without congestion
Quarterly and monthly	0.5 – 1	0.5 – 1.5
Daily and within-day	0 – 1	0 – 1.5

The aim of this presentation is to present an attempt to quantify the impact of the proposed ranges on shippers' strategies for booking capacity

Multipliers and Seasonal Factors - Scenarios

To illustrate and quantify this impact, two different scenarios have been taken into consideration that consist of comparing the revenue coming from the sale of capacity with the revenue obtained if only daily capacity has been bought

- Scenario 1: Reserve prices for each product are constant through the year (m=1)
- Scenario 2: Reserve prices for winter products are higher (1.5) than those for summer products (0.5) (m=1 & SFs)



Multipliers and Seasonal Factors - Scenarios

- Scenario 1: Reserve prices for each product are constant through the year (m=1)

IP	Total booking on daily basis / observed booking
IP 1	-19%
IP 2	-40%

- Scenario 2: Reserve prices for winter products are higher (1.5) than those for summer products (0.5). (m=1 & SFs)

IP	Total booking on daily basis / observed booking
IP 1	-18%
IP 2	-43%

Clear signal for short-term bookings

entsog

Impact of Different Multipliers

Optimisation Process

A tool that enables shippers, for different levels of multipliers, to minimise their bills has been built

Result of the optimisation process on shippers' booking strategies

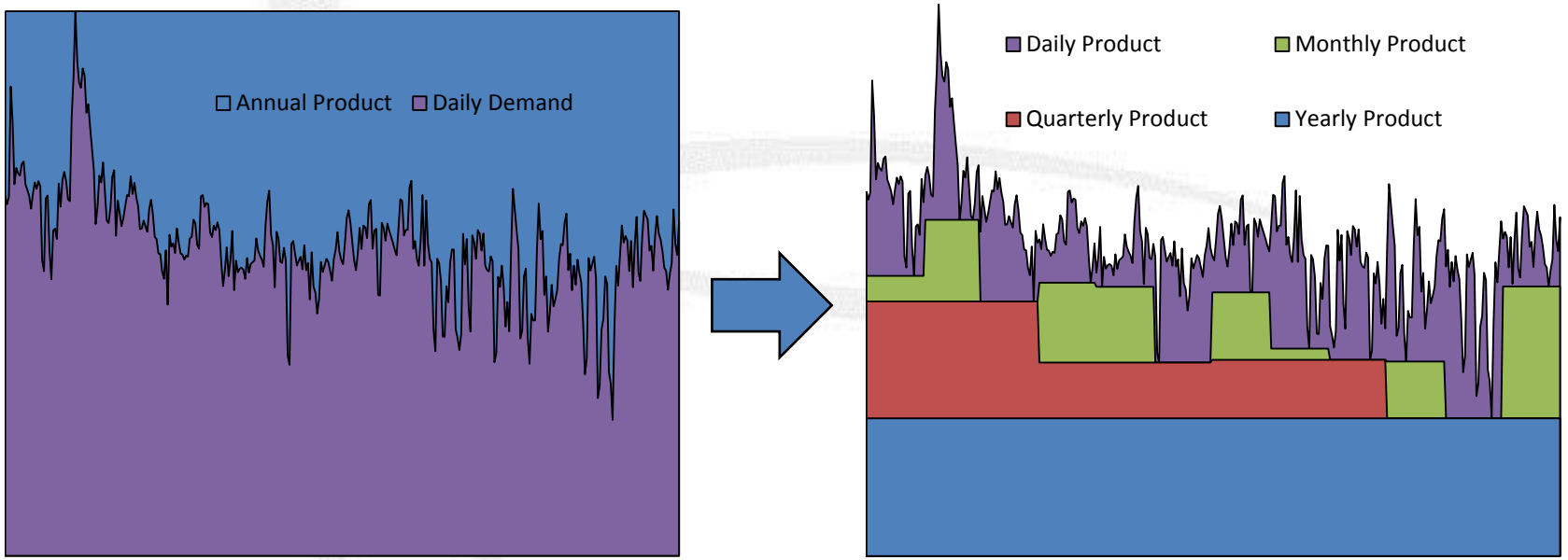


Illustration With the Global Curve

Observed Booking

IP 1

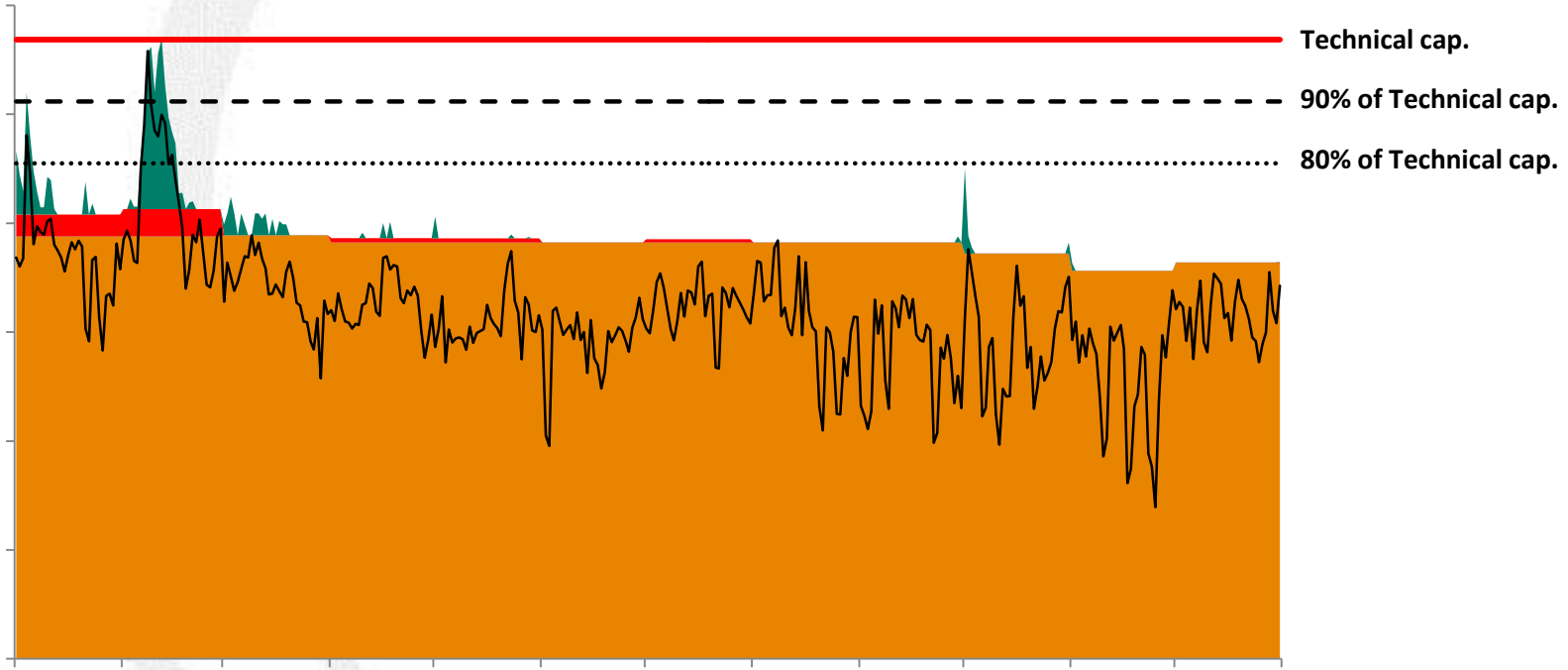
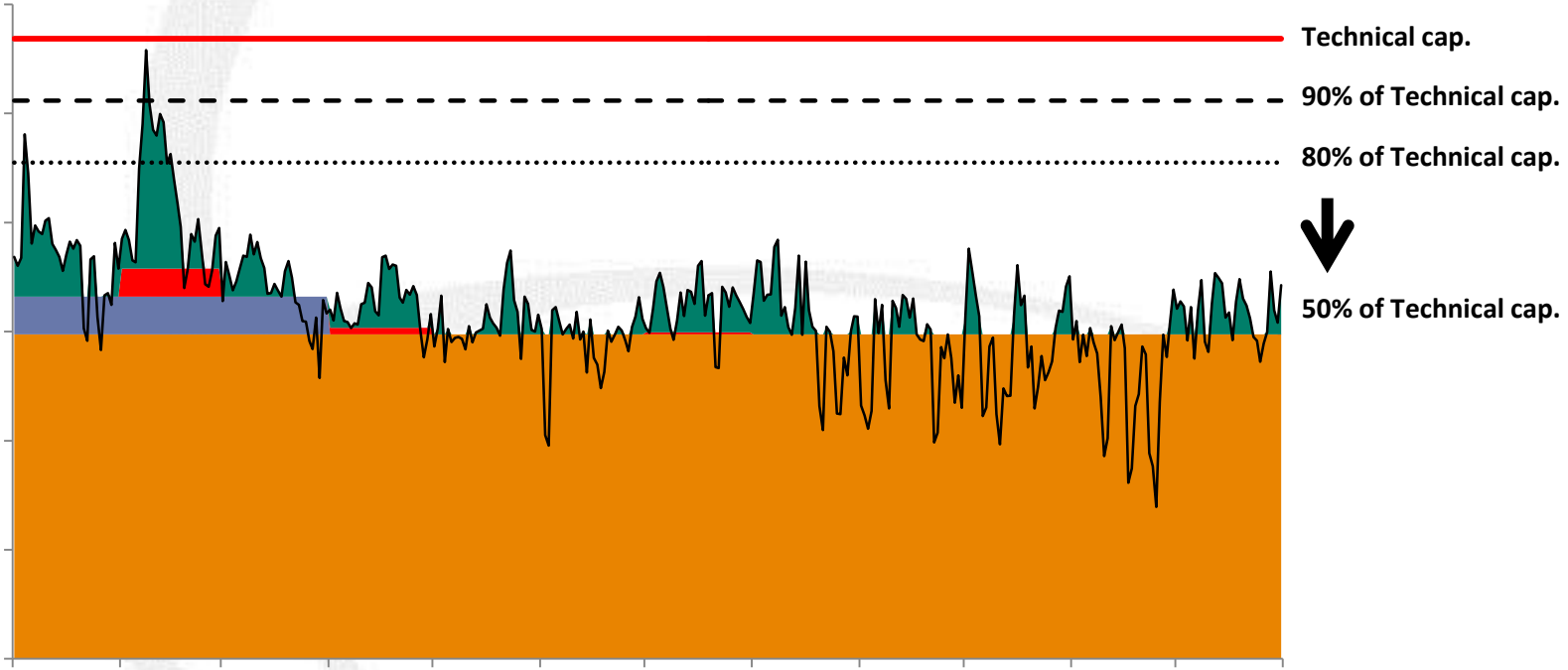


Illustration With the Global Curve

Optimisation with New Multipliers

IP 1

Year	Quarter	Month	Day
1.00	1.18	1.33	1.50



Increase of reference price of 14%

Illustration With the Global Curve

Optimisation with Higher Multipliers

IP 1

Year	Quarter	Month	Day
1.00	3.5	4.5	5.0

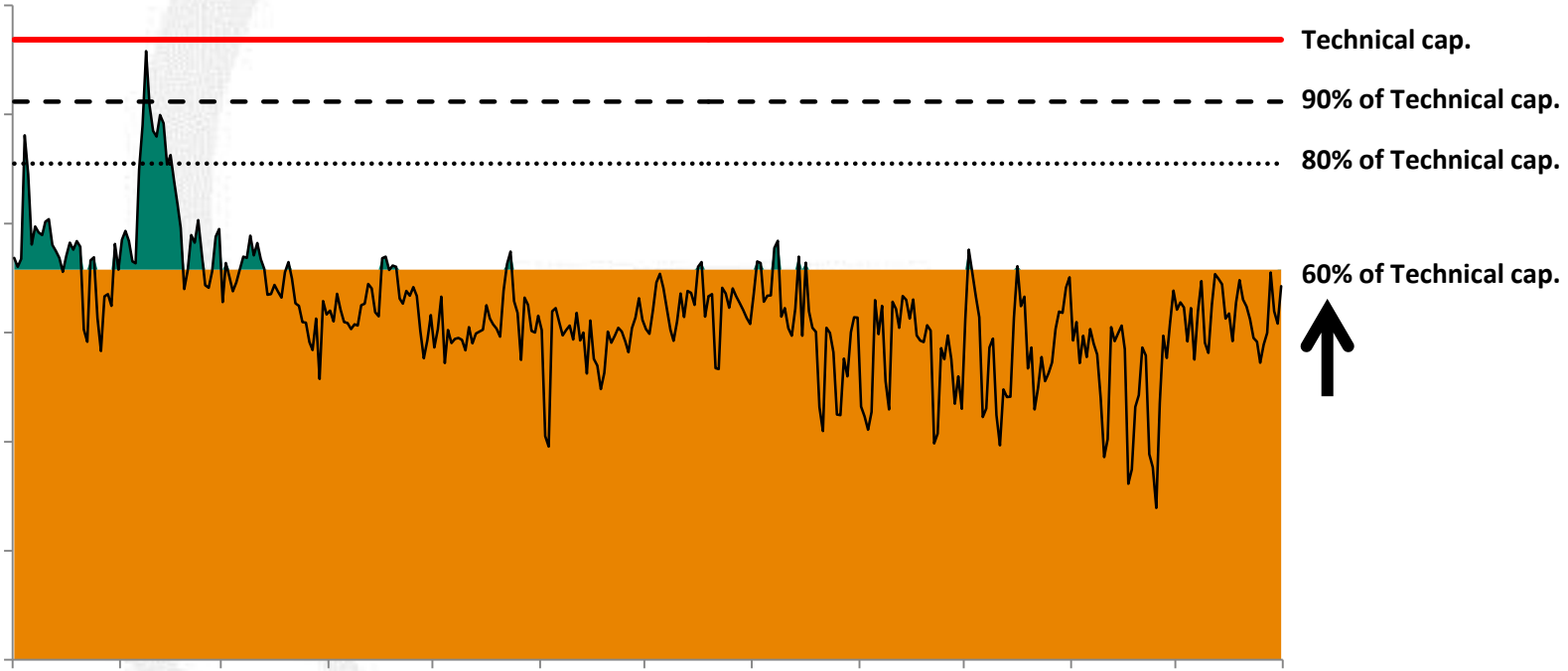


Illustration With the Global Curve

Optimisation with Observed Booking

IP 2

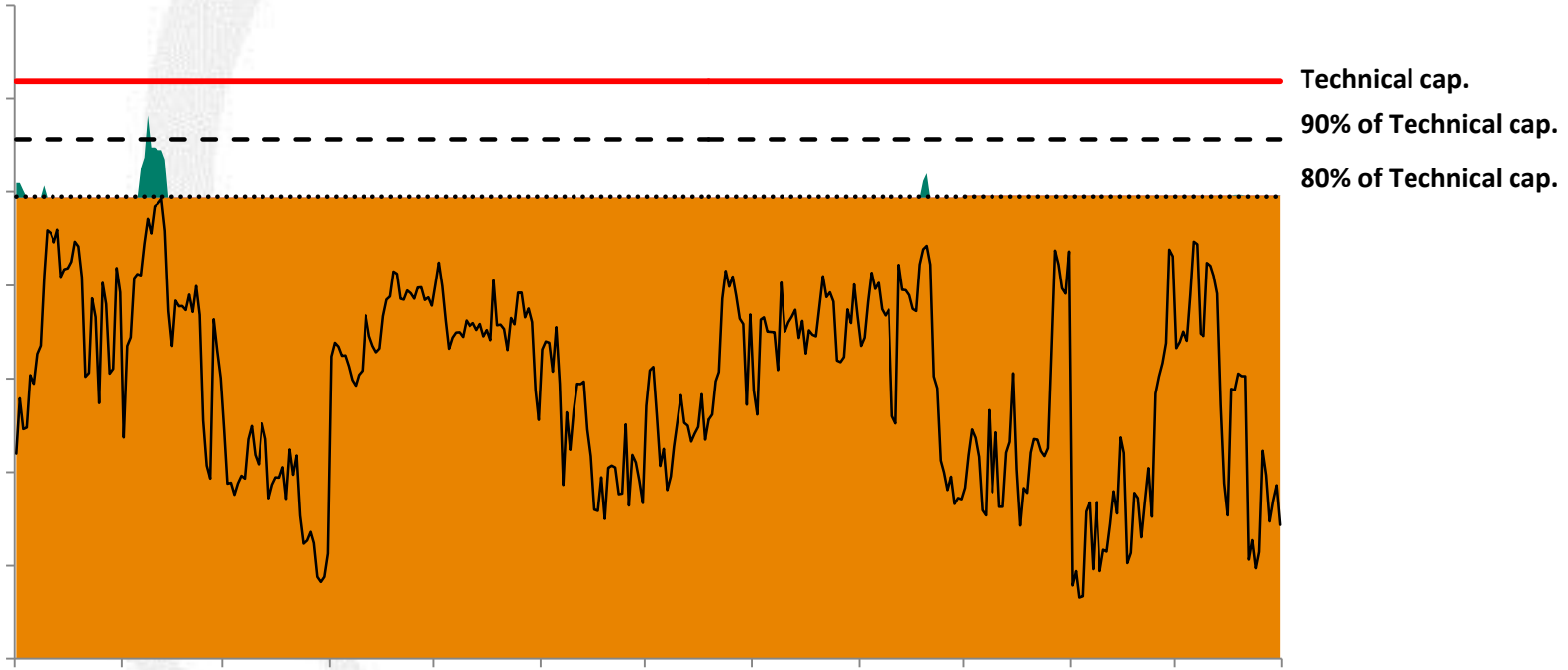
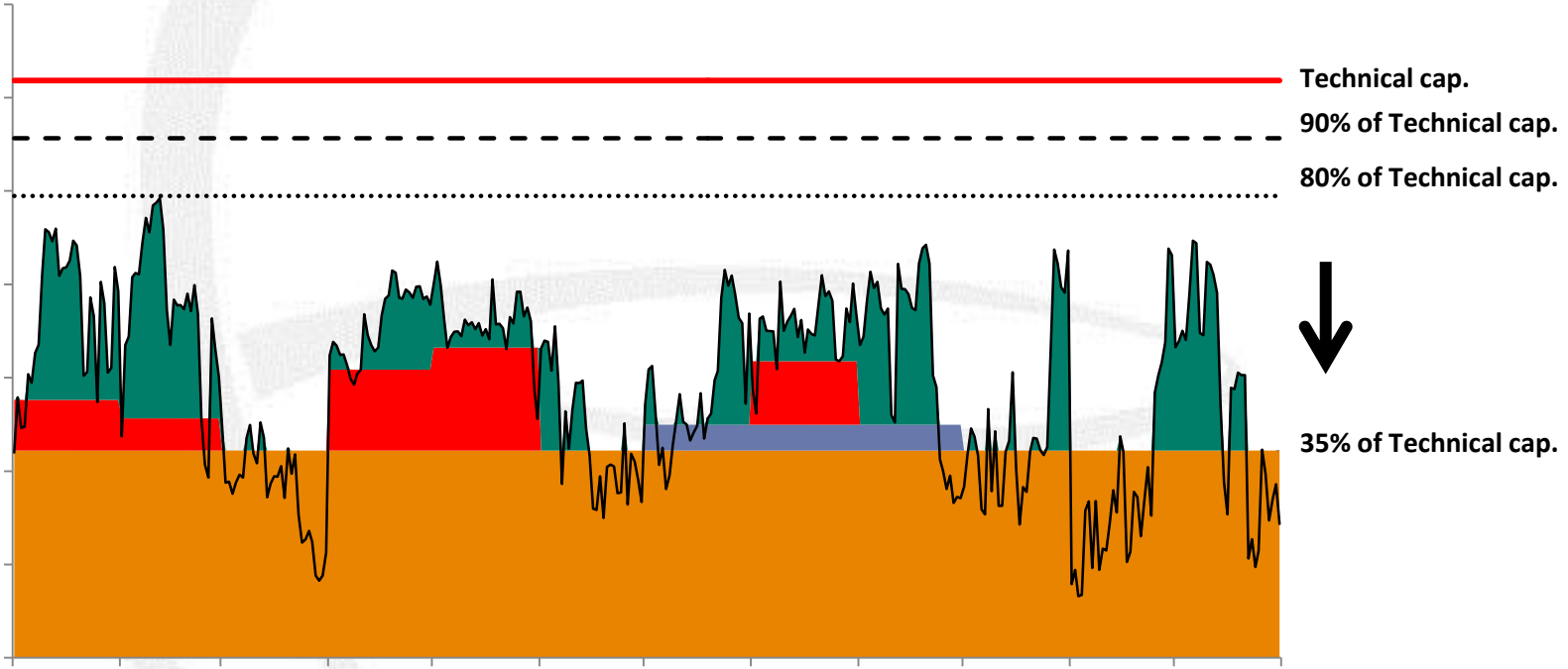


Illustration With the Global Curve

Optimisation with New Multipliers

IP 2

Year	Quarter	Month	Day
1.00	1.18	1.33	1.50



Increase of reference price of 40%

Conclusions on Multipliers

- If the IP is not congested, any multiplier equal or lower to 1 will give shippers a clear signal to book capacity on a daily basis to minimise their bill.

- Currently envisaged multipliers could lead to:
  - A shift from long term to short term reducing visibility on long term capacity needs
  - A drop in total capacity booked at each IP to be compensated for by an increase of the yearly reference price

- Balance between long term and short term bookings needs to be guaranteed for all cases.

Thank You

TAR NC : *Eurogas' views at this stage of the process*

Entsog's 4th SJWS

Brussels – 26 March 2014

Claude Mangin

Chairman of the Task Force on Tariffs

On Multipliers & Seasonal Factors

Multipliers & Seasonal factors must be higher than 1 in order to avoid discrimination against those network users already locked-in in long term capacity contracts and **massive cross-subsidization between different categories of shippers and consequently to massive under-recovery.**

- Eurogas agrees that **seasonal factors should be calculated based on system usage**, i.e. flow or bookings, **but should not be calculated each year based on previous year flow or bookings.**

- Seasonal factors should be based **on "normal" winter condition** (i.e. flow or bookings should be corrected to represent "an average year") or average on several years in order to avoid volatility from one year to the other.

- **Seasonal factors should be fixed for several years** to be able to arbitrate between long term and short capacity products.

  What is the point to recalculate them each year ?

Thank you for your attention!

Development of the TAR NC: 4th Stakeholder Joint Working Session

Cost Allocation Business Rules 2

Niels Krap

Ontras (on behalf of ENTSOG)

TAR SJWS 4 – the 26th of March 2014

Cost Allocation Business Rules

- ✓ ***Cost Allocation Business Rules Part 1 were presented at the last TAR NC SJWS.***

Structure of the Cost Allocation Business Rules Part 2:

12. Main cost allocation methodologies
13. Postage stamp
14. Capacity-Weighted Distance approach
15. Virtual point based approach
16. Matrix approach
17. Secondary adjustments
18. Rescaling
19. Equalisation
20. Benchmarking
21. Storage

Secondary Adjustments

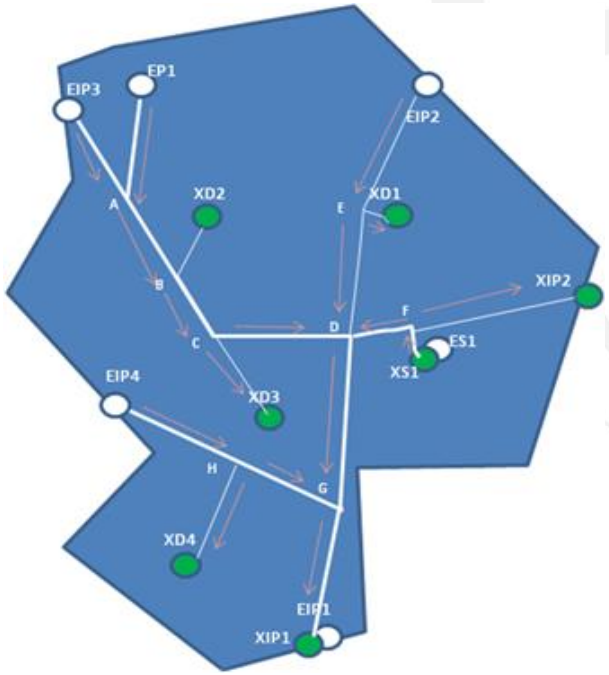
TAR SJWS 4 – the 26th of March 2014

Equalisation

FG states : The NC on tariffs shall only allow equalisation for the following reasons:

- security of supply, applied for points that connect assets that serve such purpose
- Price stability, in order to mitigate local forecast errors and compensate for local flow variations;
- Fostering competition in the retail market and/ or in the renewable energy sector

Results of the 1st cost allocation methodology

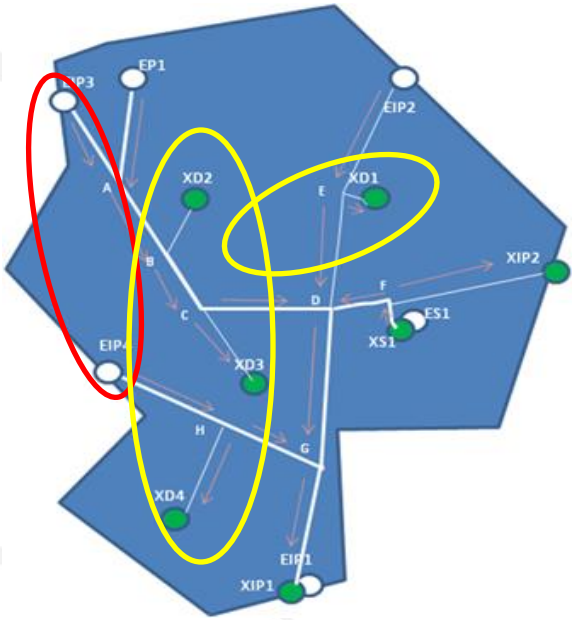


Points	Tariffs	Points	Tariffs
EIP1	100	XIP1	20
EIP2	90	XIP2	120
ELNG3	40	XD1	140
ELNG4	50	XD2	40
EP1	30	XD3	70
ES1	35	XD4	65
		XS1	125

Equalisation

Applying the secondary adjustment

Points	Tariffs	Points	Tariffs
EIP1	100	XIP1	20
EIP2	90	XIP2	120
ELNG3	40	XD1	140
ELNG4	50	XD2	40
EP1	30	XD3	70
ES1	35	XD4	65
		XS1	125



Example 1 : Equalisation to ELNG 3 and ELNG 4 (hypothesis $Cap_{ELNG3} = Cap_{ELNG4}$)

$Tarif_{ELNG3} = Tarif_{ELNG4} = 45$

Example 2 : Equalisation of exit domestic points XD1, XD2, XD3, XD4

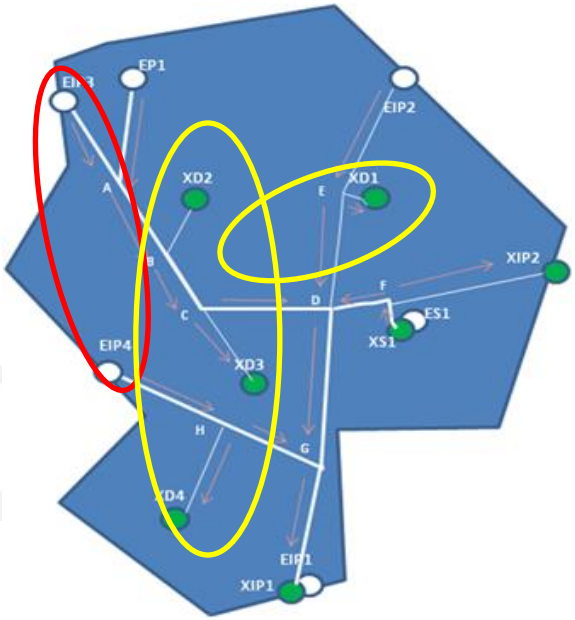
	tariffs	capa
XD1	140	3
XD2	40	5
XD3	70	4
XD4	65	8

Tariff weighted capacity	71

Equalisation

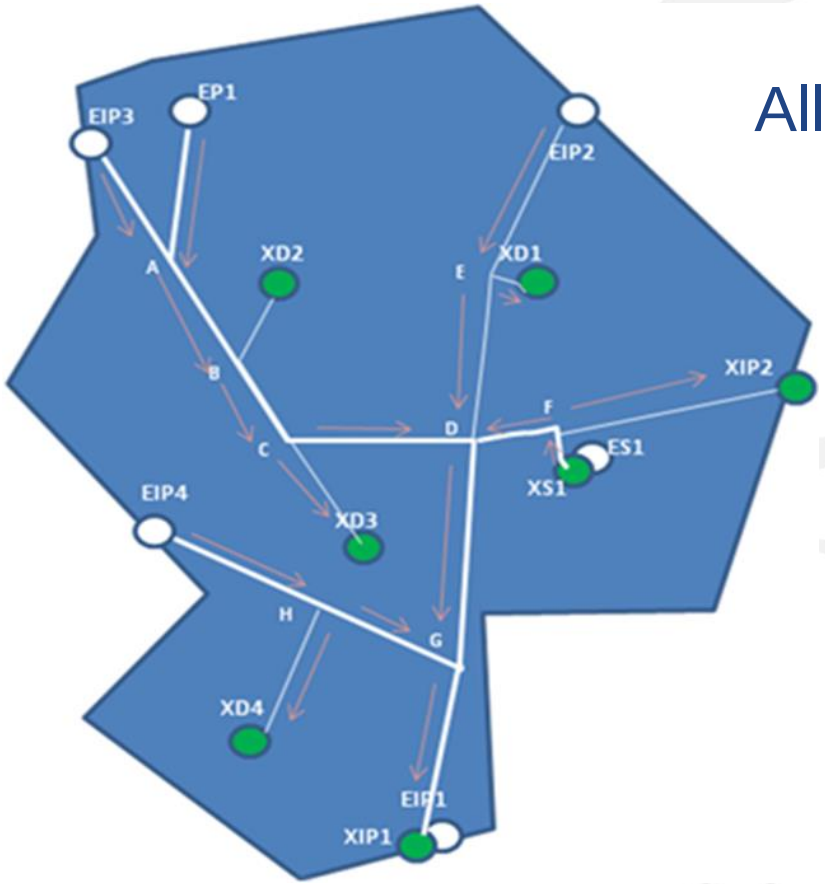
Applying the secondary adjustment : new tariffs

points	tariffs	points	tariffs
EIP1	100	XIP1	20
EIP2	90	XIP2	120
ELNG3	45	XD1	71
ELNG4	45	XD2	71
EP1	30	XD3	71
ES1	35	XD4	71
		XS1	125



Rescaling – Multiplicative Approach

Simple Example:



Allowed Revenues (entry points): 200 000

Entry Points	Capacity	Tariffs (from the Primary Metodology)	Revenues Recovered (from the Primary Metodology)
EIP 1	200	50	10,000
EIP 2	100	40	4,000
EIP 3	300	40	12,000
EP 1	200	10	2,000
EP 2	100	10	1,000
ES 1	300	20	6,000
			35,000

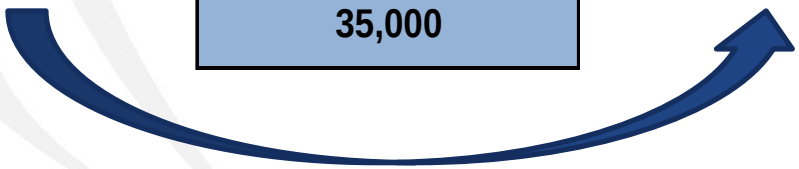
35 000 ≠ 200 000

Tariffs must be scaled to meet the Allowed Revenues

Rescaling – Multiplicative Approach

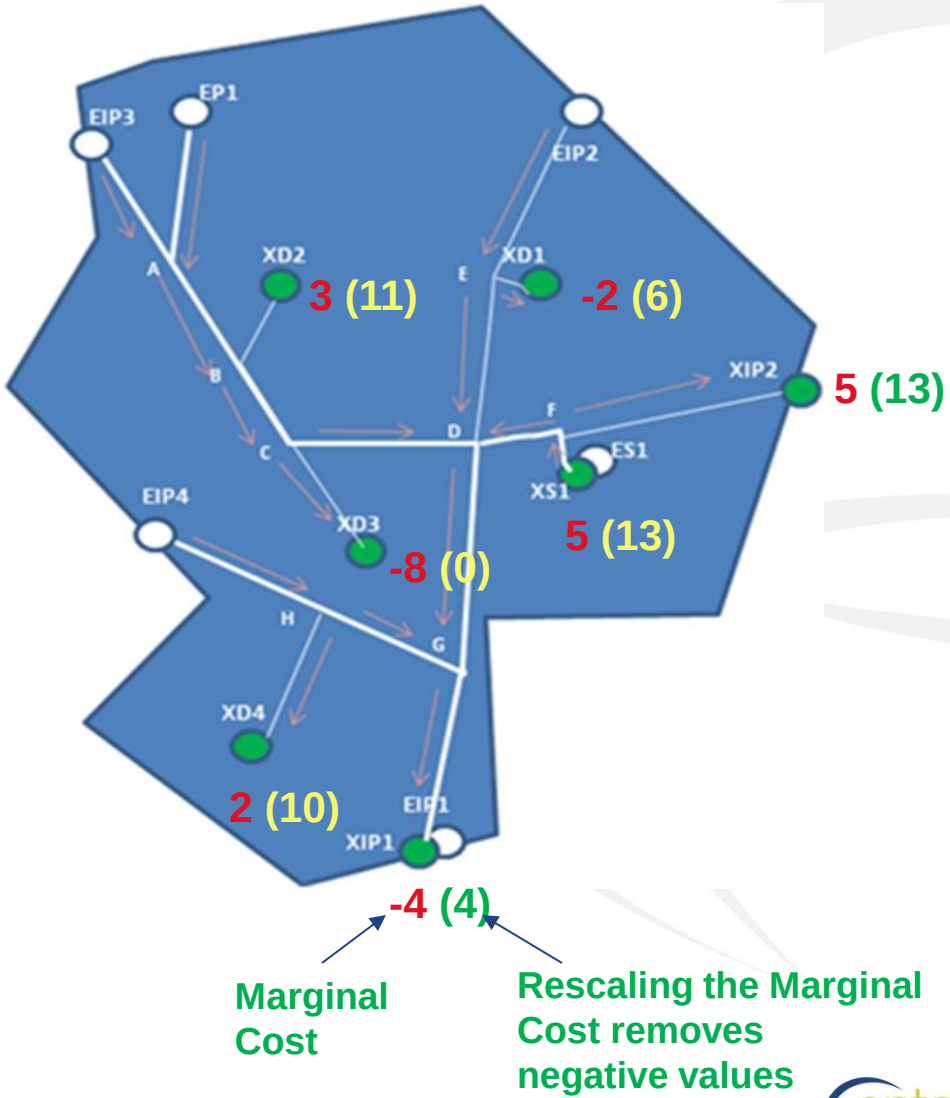
- All tariffs must be multiplied by the scale factor (5,7).

Entry Points	Capacity	Tariffs (from the Primary Metodology)	Revenues Recovered (from the Primary Metodology)	Tariffs Rescaled	Revenues Recovered
EIP 1	200	50	10,000	285.7	57,142.9
EIP 2	100	40	4,000	228.6	22,857.1
EIP 3	300	40	12,000	228.6	68,571.4
EP 1	200	10	2,000	57.1	11,428.6
EP 2	100	10	1,000	57.1	5,714.3
ES 1	300	20	6,000	114.3	34,285.7
			35,000		**200,000**



Scaling factor: $\frac{200\,000}{35\,000} = 5,7$

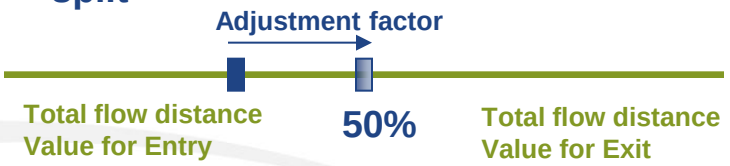
Rescaling – Additive Approach



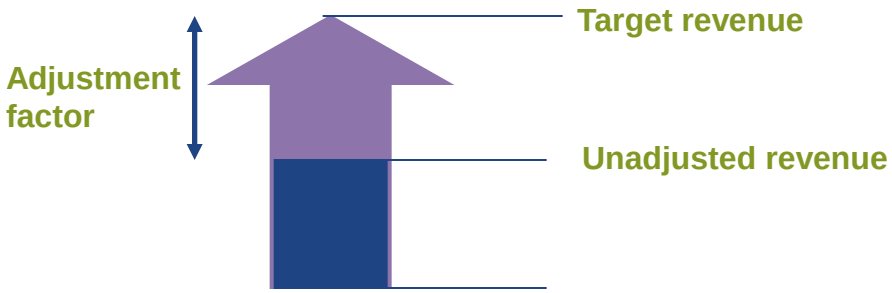
Application of rescaling can:

- **Remove negative flow distance values**
  (e.g. Virtual Point Based Approach – Variant A)

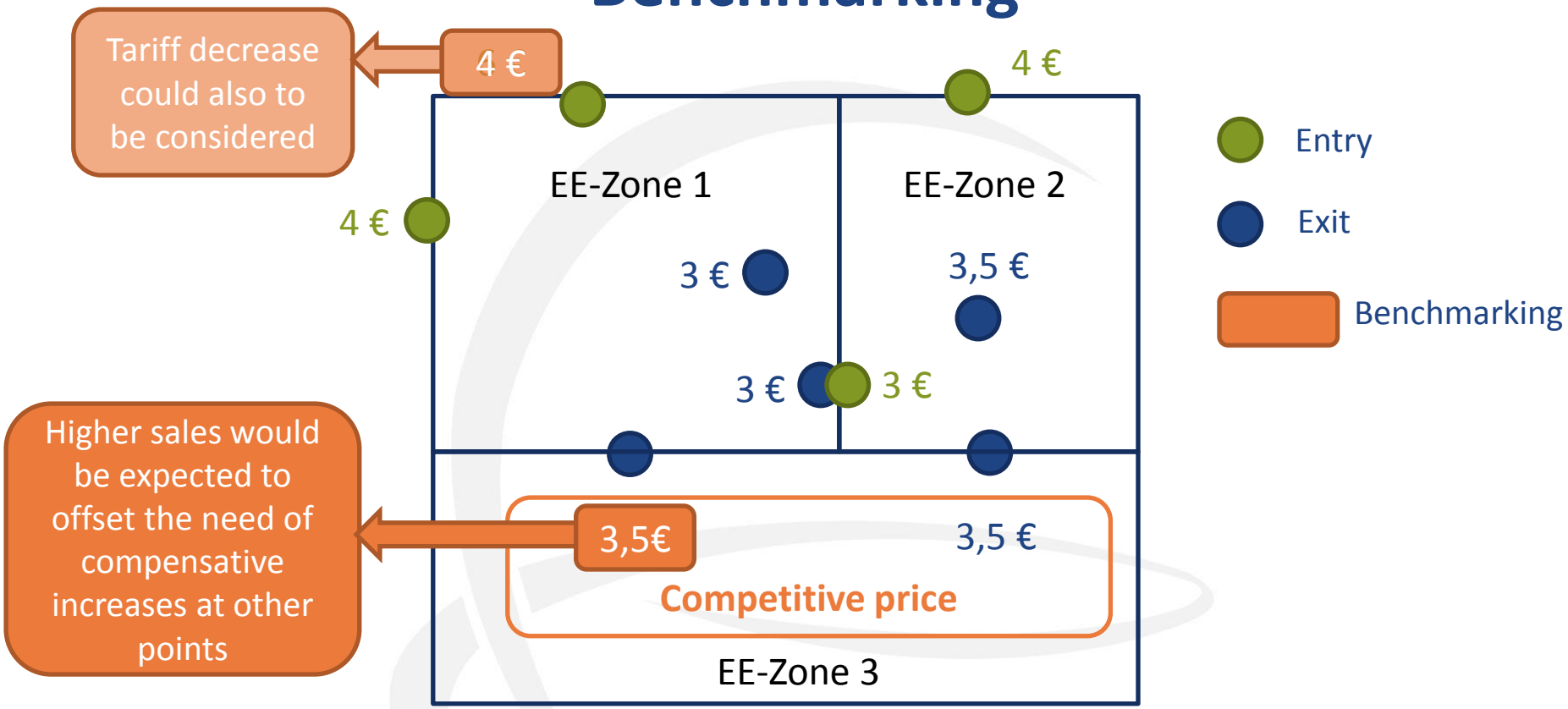
- **Revise values to give desired entry/exit split**



- **Revise values such that total revenue equals target revenue**



Benchmarking



- Limited to the cases where TSO face effective competition from other TSO's points or route
- Reasoning for decision shall be provided by the NRA
- NRA shall cooperate with each other to ensure a consistent and compatible approach
- The benchmarking proposal shall be consulted upon

Thank You

Cost Allocation Methodologies
- Asset Allocation Approach -

For Stakeholder Information

TAR NC SJWS 4

Borek Kubatzky, NET4GAS - Brussels, March 26th 2014

Cost Allocation Methodologies - Principles

Objectives of Cost Allocation Methodologies used for Tariff Calculation (in line with Art. 13 of Regulation (EC) 715/2009):

- Allocate overall costs of the transmission system to network users while avoiding cross-subsidies
- Facilitate efficient gas trade and competition on commodity market
- Providing incentives for investment and maintaining or creating interoperability for transmission networks
- No restriction of market liquidity or distortion of trade across borders

Asset Allocation Approach - Principles

General Approach:

- Identification of homogenous groups of network users, e.g.
  - domestic customers
  - customers abroad (i.e. transit customers)
  - subgroups of transit customers, e.g. from specific Member State(s) (for purpose of PCI cross-border cost allocation - CBCA)

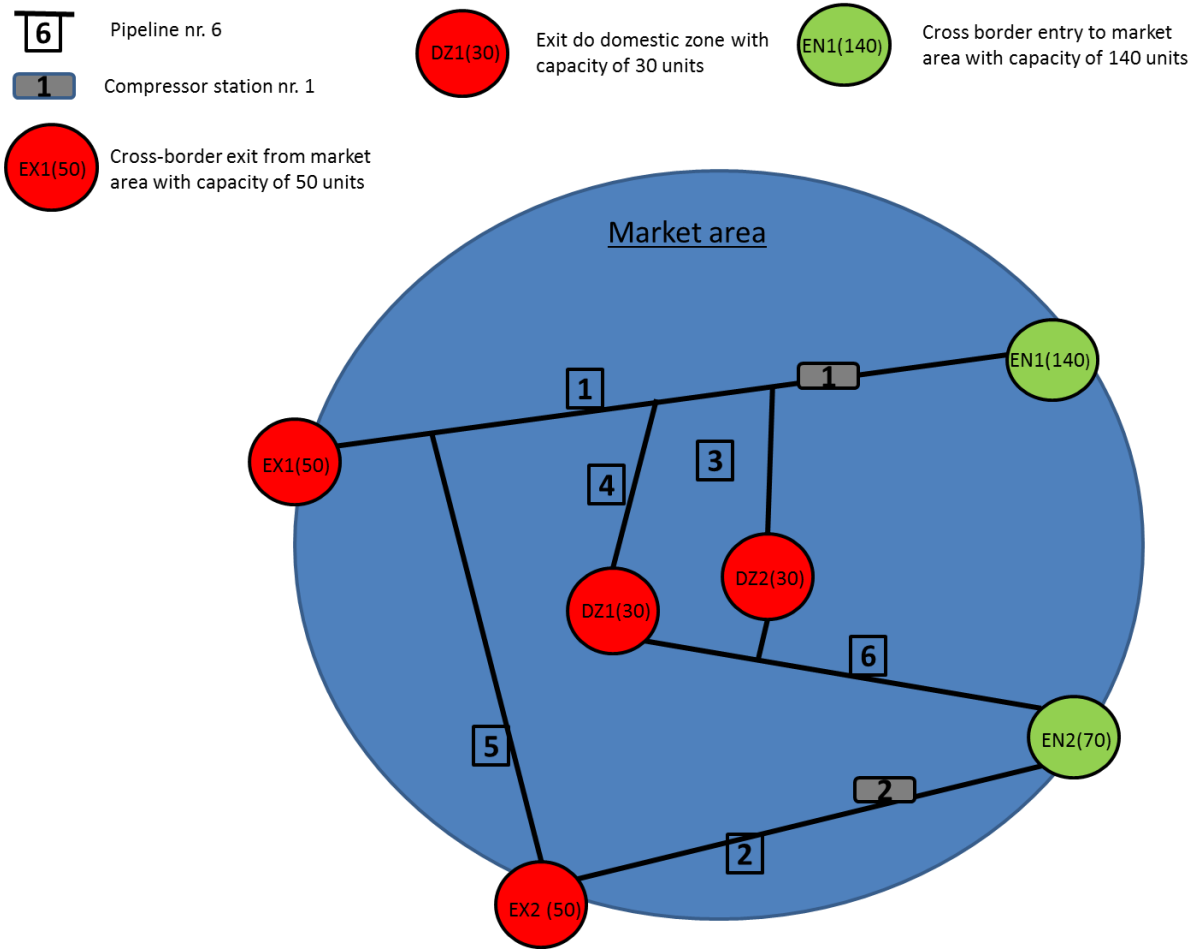
- Identification of assets necessary to provide peak demand capacity to each identified group of network users at associated entry/exit points
  - based on assumed flow scenarios agreed between TSO, NRA and Member State
  - including agreed level of “surplus” capacities for purposes of Security of Supply and diversification of sources
  - for CBCA purposes also based on assumed flow scenarios agreed with neighbouring TSO, NRA and Member State

- Calculation of costs for each identified group of network users

- Distribution of costs to identified entry/exit points

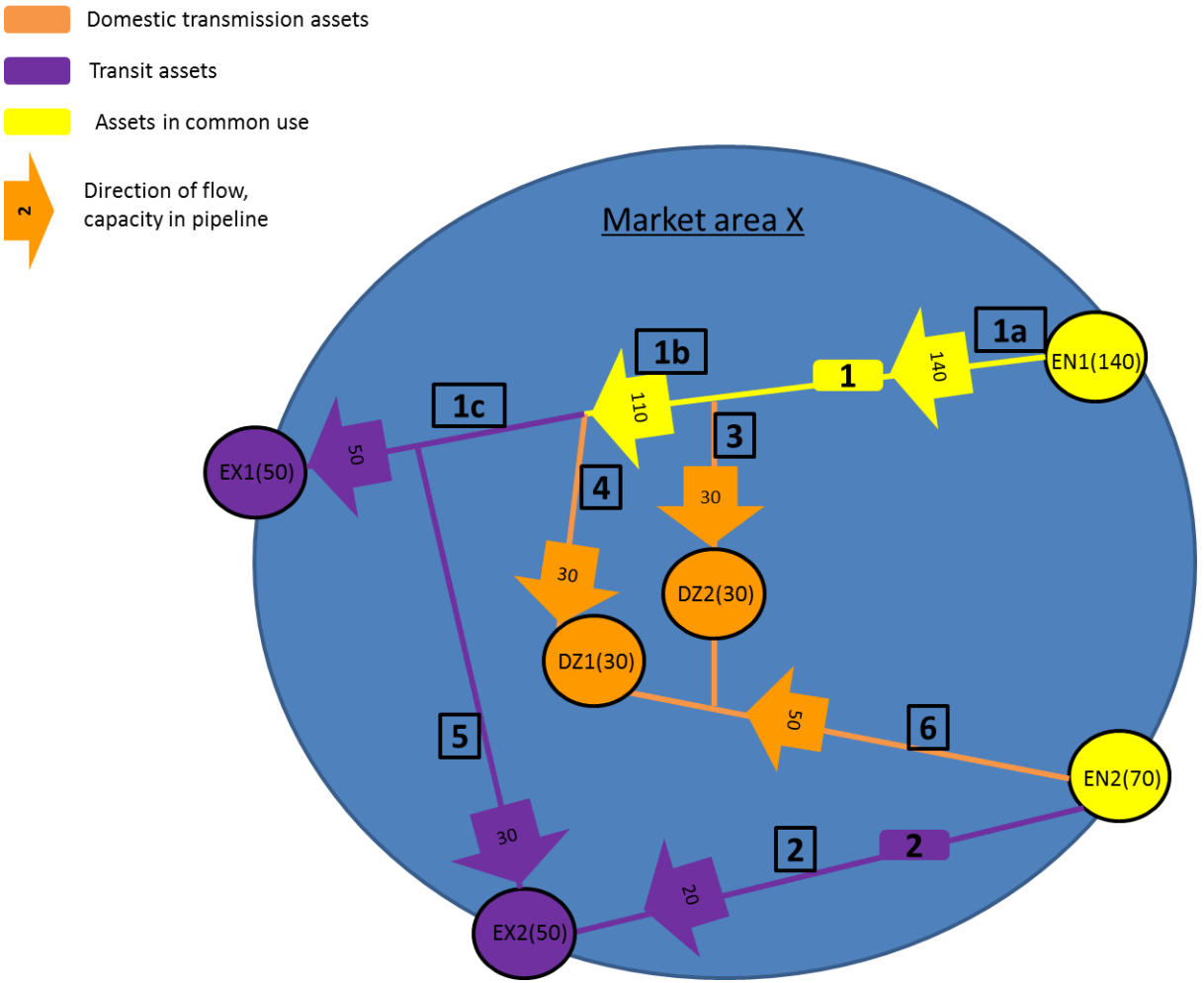
Asset Allocation Approach – Example (I)

Transmission Network Characteristics



Asset Allocation Approach – Example (II)

Identification of necessary capacities based on agreed flow scenarios



Asset Allocation Approach – Example (III)

Identification of necessary assets and their values

Assets	Value of assets
Cross border station (on ENTRY 1)	10,0
Cross border station (on ENTRY 2)	10,0
Compressor station 1	10,0
PIPELINE 1	80,0
Section 1a	*30,0*
Section 1b	*30,0*
Section 1c	*20,0*
PIPELINE 3	20,0
PIPELINE 4	20,0
PIPELINE 6	20,0
Domestic exit (DZ1 + DZ2)	20,0
PIPELINE 2	40,0
PIPELINE 5	40,0
Compressor station 2	10,0
Cross border station (on EXIT 1)	10,0
Cross border station (on EXIT 2)	10,0
Supporting assets	5,0
TOTAL	**305,0**

Asset Allocation Approach – Example (IV)

Assets necessary to provide capacities for more than one group of network users

Assets in common use	Capacity	Capacity %	Value of assets
PIPELINE 1 - section 1a	140,0	100,0%	30,0
Domestic transmission	60,0	42,9%	12,9
Transit transmission	80,0	57,1%	17,1
PIPELINE 1 - section 1b	110,0	100,0%	30,0
Domestic transmission	30,0	27,3%	8,2
Transit transmission	80,0	72,7%	21,8
Compressor station 1	140,0	100,0%	10,0
Domestic transmission	60,0	42,9%	4,3
Transit transmission	80,0	57,1%	5,7
Cross border station (ENTRY 1)	140,0	100,0%	10,0
Domestic transmission	60,0	42,9%	4,3
Transit transmission	80,0	57,1%	5,7
Cross border station (ENTRY 2)	70,0	100,0%	10,0
Domestic transmission	50,0	71,4%	7,1
Transit transmission	20,0	28,6%	2,9

Asset Allocation Approach – Example (V)

Common Supporting Assets

	Value of assets	Ratio %	Allocation supporting asset value to domestic and transit transmission
Supporting assets	5,0	-	-
Asset values allocated to domestic transmission	116,8	39%	1,9
Asset values allocated to transit transmission	183,2	61%	3,1

Asset Allocation Approach – Example (VI)

Calculation of annual costs for each group of network users

Calculation of annual costs of assets	Domestic transmission	Transit transmission
a) Operational expenses	15,0	20,0
b) Depreciation	11,9	18,6
c) Rate of return reflecting the capacity risk	8,0%	12,5%
d) Asset value ("RAB" or "RAV")	118,7	186,3
Annual costs [a + b + (c x d)]	**36,4**	**61,9**

Asset Allocation Approach – Example (VII)

Identification of entry and exit points used by groups of network users

	Identification of entry and exit points	
	Domestic transmission	**Transit transmission**
EXIT 1		x
EXIT 2		x
Domestic exit points	x	
ENTRY 1 (common use)	x	x
ENTRY 2 (common use)	x	x

Asset Allocation Approach – Example (VIII)

Initial application of entry/exit split – 50:50

	Cost of transmission	
	Annual costs of domestic transmission	**Annual costs of transit transmission**
EXIT	18,2	*
ENTRY	18,2	*
TOTAL	36,4	61,9

Asset Allocation Approach – Example (IX)

Calculation of tariff through estimated booked capacity – step 1: Domestic transmission

	Allocated annual costs of domestic transmission	Expected booked capacity for domestic purposes	Tariff
Domestic exit points	18,2	40	0,45
ENTRY 1 (common use)	12,1	30	**0,40**
ENTRY 2 (common use)	6,1	15	**0,40**

Asset Allocation Approach – Example (X)

Calculation of tariff through estimated booked capacity – step 2: Transit Transmission

	Expected booked capacity for transit purposes	Tariff	Allocated annual costs of transit transmission
ENTRY 1 (common use)	65	**0,40**	**26,3**
ENTRY 2 (common use)	25	**0,40**	**10,1**
EXIT 1 (cross-border)	40	0,28	11,4
EXIT 2 (cross-border)	50	0,28	14,2

Asset Allocation Approach – Example (XI)

Check of final entry/exit split

	Annual costs		Sum
	Allocated annual costs of domestic transmission	Allocated annual costs of transit transmission	
EXIT	18,2	25,6	43,7
ENTRY	18,2	36,4	54,5
TOTAL	36,4	61,9	98,3
Entry-Exit split	50 : 50	41 : 59	44 : 56

Asset Allocation Approach - Summary

Benefits compared to other Cost Allocation Methodologies:

- Transparent and simple calculation
- Clear input parameters
- Methodology reflecting actual system characteristics and minimising approximations
- Based on Supply-Scenarios (incl. SoS N-1) agreed with NRA(s) and Member State(s) after consultation with stakeholders
- Possibility to allocate costs to different groups of points / network users and to perform reconciliation avoiding unwanted cross-subsidies between different groups of points / network users
- Suitable especially for systems with substantial infrastructure accommodating transit flows
- Methodology enabling reflection of different risk levels for parts of the system for which reimbursement of costs is not guaranteed (i.e. under price cap regime)
- Enables clear and transparent Cross-border Cost Allocation

Asset Allocation Approach – Comparison to Other Methodologies

Aspects not covered by other approaches within one single methodology:

- Transparent and simple calculation
- Based on actual system characteristics minimising approximations to an absolute minimum
- Possibility to perform reconciliation clearly and transparently avoiding cross-subsidies between different groups of points / network users
- Transparent ex-ante choice of degree of cost socialisation through definition of groups of points / network users
- Possibility to clearly distinguish costs associated with infrastructure accommodating domestic capacity needs and costs associated with infrastructure accommodating transit capacity needs (or any other identified purpose)
- Differentiation of costs for which reimbursement of costs is guaranteed and costs for which reimbursement of costs is not guaranteed with possibility to reflect different risk levels for associated parts of the system
- Suitable for clear and transparent Cross-border Cost Allocation

Development of the TAR NC: 4th Stakeholder Joint Working Session

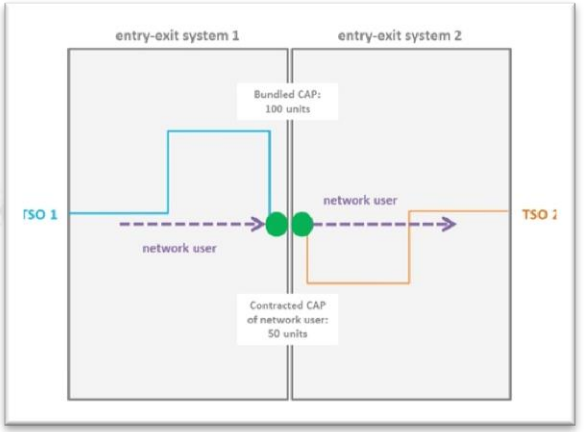
CAM-related topics: bundled capacity, VIPs, payable price

Colin Hamilton

National Grid (on behalf of ENTSOG)

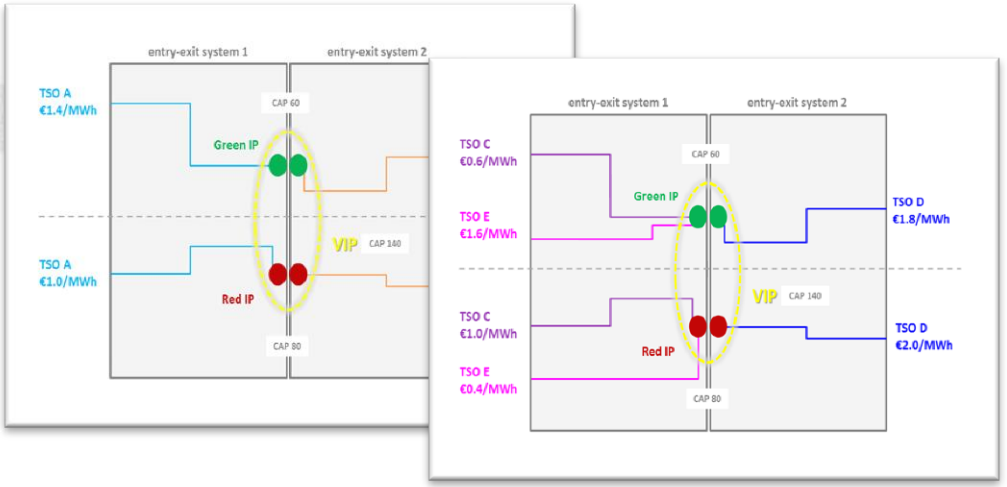
TAR SJWS 4 – the 26th of March 2014

Business Rules for Bundled Capacity Products



- Scope of the Chapter – IPs
- Components of the price for bundled capacity
- Split of revenue from bundled capacity products: from reserve price and from auction premium
- Scenarios for the split of revenue from auction premium
- Agreement between the NRAs (IP between MSs) and decision of 1 NRA (IP within 1 MS). Situation with an interconnector.

Business Rules for VIPs



- Scope of the Chapter – IPs
- Conditions for the establishment of VIPs – Article 19(9) of CAM NC
- VIP tariff = price at one side of the border
- VIP tariff for bundled capacity = price at one side of the border + price at the other side of the border
- Price at one side of the border: (1) situation with 1 TSO; (2) situation with more than 1 TSO
- Situation with one TSO: (1) cost allocation methodology allows 'merging' physical IPs; (2) cost allocation methodology does not allow merging physical IPs
- Situation with more than 1 TSO: necessity of an additional calculation

Business Rules for Payable Price

- Scope of the Chapter – IPs
- Applicable both for unbundled and bundled products
- Components of the payable price: reserve price plus auction premium
- Options for the payable price at IPs: fixed, floating, combination
- Option ‘fixed’: fixed reserve price, adjusted only by inflation = ‘fixing the floating price’, defined in the real terms
- Option ‘floating’: reserve price (applicable tariff) when the capacity is used
- Option ‘combination’ : e.g. bundled product (fixed price at one side of the border and floating price at the other side of the border)

Thank you

TAR NC : *Eurogas' views at this stage of the process*

Entsog's 4th SJWS

Brussels – 26 March 2014

Claude Mangin

Chairman of the Task Force on Tariffs

On Payable Price

Floating price should not be an issue for shippers if there are no massive under or over-recoveries since the reference price would then be quite stable. Nevertheless, <u>some options should be made available</u> :

- **the option to have a fix reserve price in exchange of a premium for both new and existing contracts (as the cost of this "guarantee"),**
- **the possibility to use the auction premium due by a network user (which in any case is an extra-revenue for the TSO) to "absorb" a tariff increase at the time of use of the capacity.**

- These options if set appropriately **should not lead to cross-subsidies** between network users. Indeed, the risk of reconciliation (i.e. of smearing) of the regulatory account on a "reduced and/or too small" perimeter **is balanced** by the fact that shippers who have subscribed one of these two options will pay a premium in exchange. This additional cost should be of the same magnitude of the variation of the reference price.
- On the contrary, they will reduce/avoid the risk of "vicious cycles" of tariff increasing for some users as a result of tariffs being fixed for other users.
  - The premiums collected from both options can be used to avoid this.
  - The fixed price option will encourage long term bookings and therefore stimulate investment possibilities and income stability for TSO's.
- Shippers must know, in advance of the LT auction, if these options are available or not.

Thank you for your attention!

Development of the TAR NC: 4th Stakeholder Joint Working Session

General Provisions - Business Rules

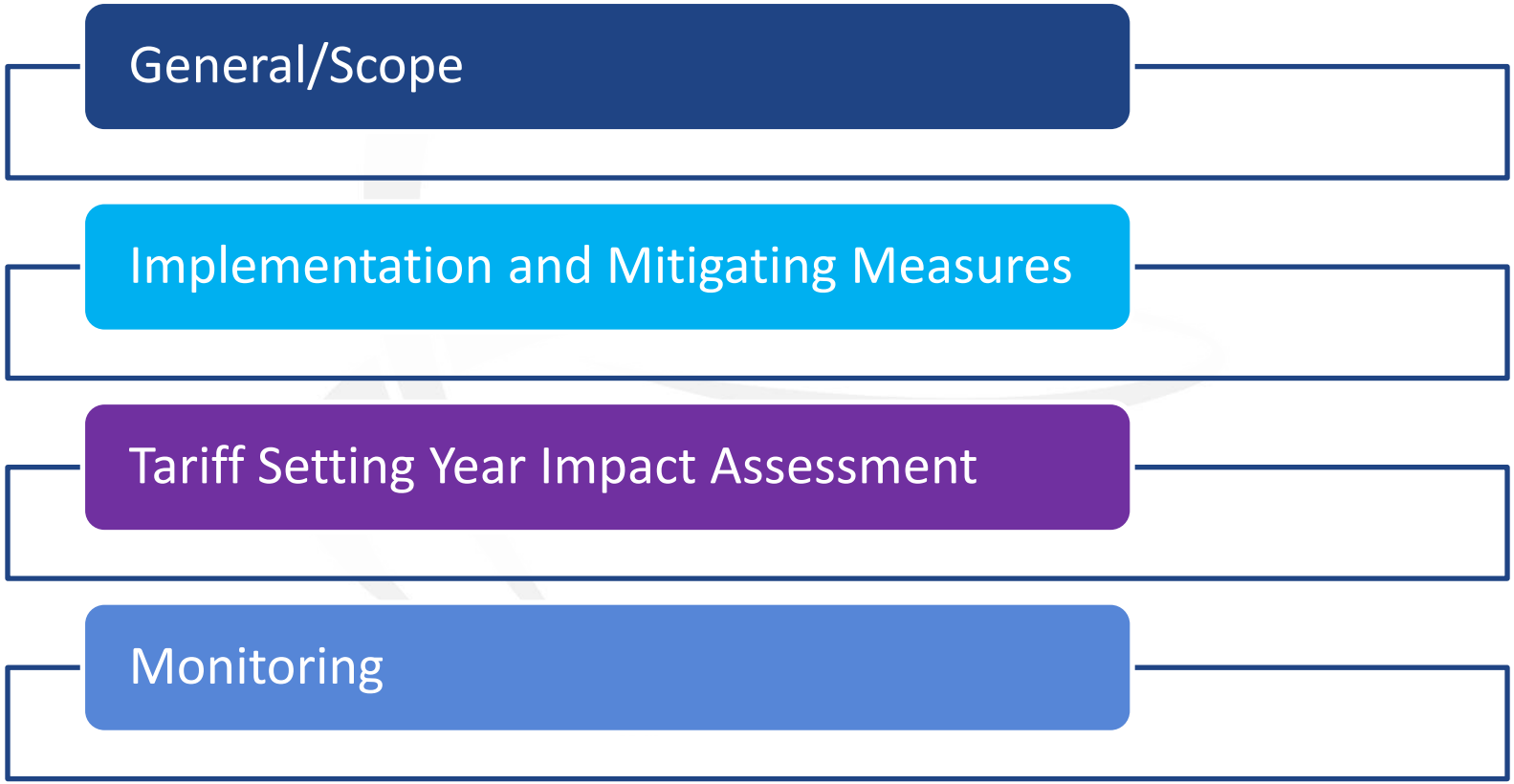
Ann-Marie Colbert

ENTSOG

TAR SJWS 4 – the 26th of March 2014

General Provisions - Business Rules

The Business Rules Chapter on General Provisions covers the following topics:



Implementation and Mitigating Measures

Implementation

'Implementation of the TAR NC shall take place by the 1st of October 2017 or 18 months from the date of entering into force of the network code, whichever is later.'

Mitigating Measures

'Other mitigating measures could include one or more of the following:

a) A step change for tariff increases up to a particular threshold e.g. a 20% tariff increase, with anything over the 20% threshold being smoothed over a defined period of time e.g. two years or a regulatory period
b) Using the auction premium, where applicable, to reduce floating tariff increases
c) A glide path for tariff increases and decreases which balances the changes between tariff increases and decreases so that they are smoother'

Tariff Setting Year IA and Monitoring

Tariff Setting Year Impact Assessment

- The business rules sets out the three options for consideration as part of the tariff setting year impact assessment as described during SJWS 2.

- Questions will be included in the draft TAR NC consultation document to assess the impact of potentially harmonising the tariff setting year and the discussed that were had in SJWS 2.

Monitoring

- ENTSOG believes that the monitoring of the network code implementation should be dealt with in a separate document rather than in the NC.

- It is being discussed between ACER and ENTSOG with the aim of achieving a common understanding by mid-2014.

Thank You

TAR NC : *Eurogas' views at this stage of the process*

Entsog's 4th SJWS

Brussels – 26 March 2014

Claude Mangin

Chairman of the Task Force on Tariffs

On Mitigating Measures

Smoothing of the price increase over the tariffs period may not be satisfying as a mitigating measure since it only delays the price increase. Other one-off options should be offered as :

- the possibility for a shipper to terminate capacity contracts when the NC on Tariff is entering into force

- the shift of entry points revenues towards exit points if exit points tariff scheme is reviewed to avoid cross-subsidies between modulated and non modulated end-customers.

Should solve the nowadays issue of IP tariffs which are not reflecting the spread between adjacent hubs but will lead to two different models across Europe :

- The US model "Henry hub + basis" : the wholesale price of gas in a market place will derive from the wholesale price of gas on the leading hub in Europe + the tariffs of IPs to reach this specific hub.

  It will lead to permanent tariff variations depending of the weather of the past winter.

- The "low IP tariffs model" will not change the model North West Europe is experiencing nowadays : hub prices are correlated and converging most of the time but will solve the "missing money" issue.

On Tariff Setting Year Impact Assessment

A shipper should be able to decide before the March long term auction if he books an annual product for next year or if he will profile his booking by buying quarterly, monthly and/or daily products.

In order to make this choice, he needs to know multipliers and seasonal factors in advance of the long term auction and the annual reference price for the whole gas year as well as reasonably predictable tariffs for following years.

- NRAs and TSOs should find out a workable solution, for instance by validating the reference price in advance.

- Shouldn't we harmonised the gas year across Europe starting the 1st of October ?
  - to be aligned with the timing for the yearly standard capacity products as defined in the CAM NC,
  - because of bundled IP capacity.

Thank you for your attention!

Development of the TAR NC: 4th Stakeholder Joint Working Session

Transparency

Raphaëlle Ciuch Pilette

Fluxys (on behalf of ENTSOG)

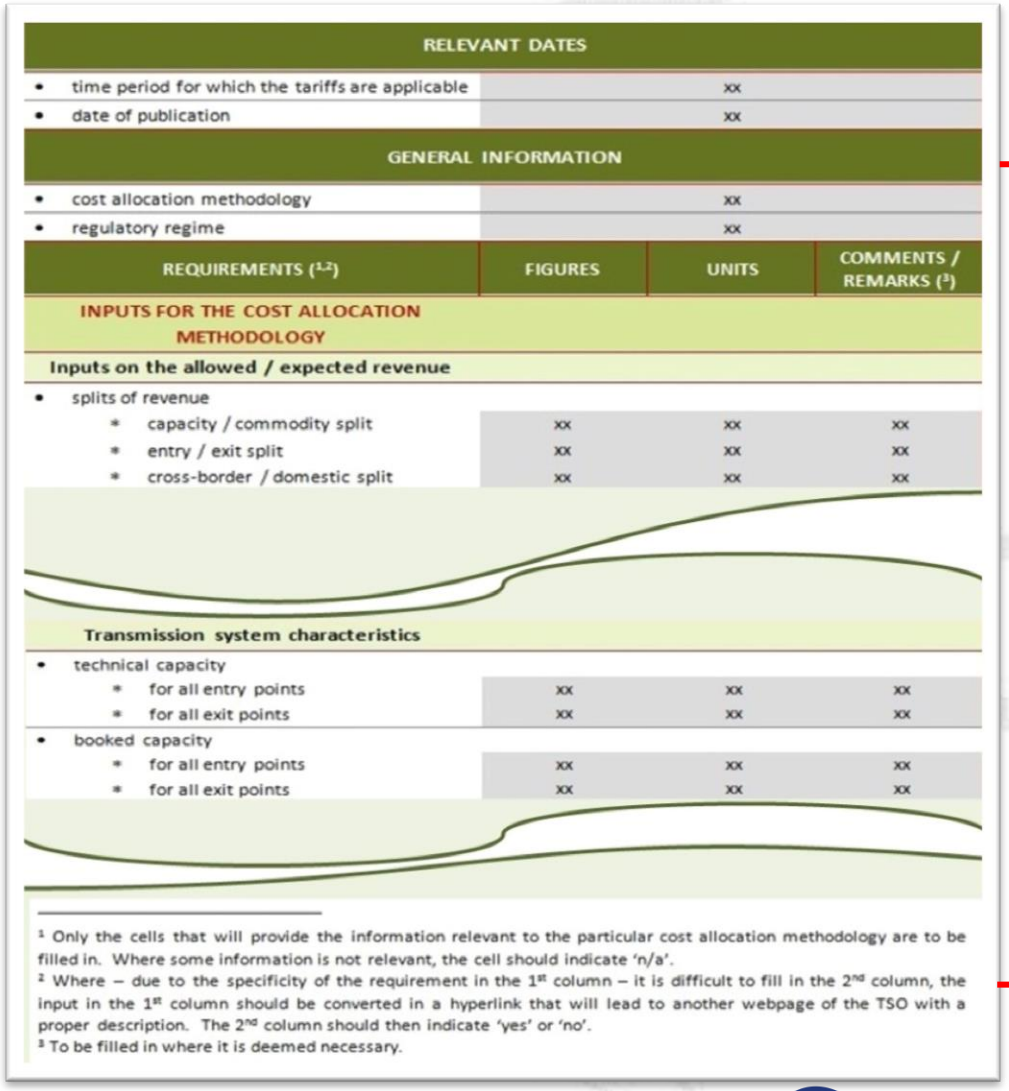
TAR SJWS 4 – the 26th of March 2014

TAR FG: task for ENTSOG for the development in the TAR NC

'The Network Code on Tariffs shall develop a *standardised format for publishing the information* specified above (e.g. by integrating it into the EU-wide ENTSO-G Transparency platform).'

TAR FG, Section 2.3 'General publication requirements' last paragraph, p. 12

Evolution of view: from SJWS 2 to SJWS 4



RELEVANT DATES			
• time period for which the tariffs are applicable	xx		
• date of publication	xx		
GENERAL INFORMATION			
• cost allocation methodology	xx		
• regulatory regime	xx		
REQUIREMENTS (1,2)	**FIGURES**	**UNITS**	**COMMENTS / REMARKS (3)**
INPUTS FOR THE COST ALLOCATION METHODOLOGY			
Inputs on the allowed / expected revenue			
• splits of revenue			
* capacity / commodity split	xx	xx	xx
* entry / exit split	xx	xx	xx
* cross-border / domestic split	xx	xx	xx
Transmission system characteristics			
• technical capacity			
* for all entry points	xx	xx	xx
* for all exit points	xx	xx	xx
• booked capacity			
* for all entry points	xx	xx	xx
* for all exit points	xx	xx	xx

[1] Only the cells that will provide the information relevant to the particular cost allocation methodology are to be filled in. Where some information is not relevant, the cell should indicate 'n/a'.
[2] Where – due to the specificity of the requirement in the 1st column – it is difficult to fill in the 2nd column, the input in the 1st column should be converted in a hyperlink that will lead to another webpage of the TSO with a proper description. The 2nd column should then indicate 'yes' or 'no'.
[3] To be filled in where it is deemed necessary.

To split into 4 parts:
Part (1) – inputs for the cost allocation methodology
Part (2) – reconciliation of regulatory account
Part (3) – information on reserve prices and seasonal factors
Part (4) – outcome of the cost allocation test

For Part (1):
To identify the list of inputs for each cost allocation methodology for the purpose of elaborating **customised templates**

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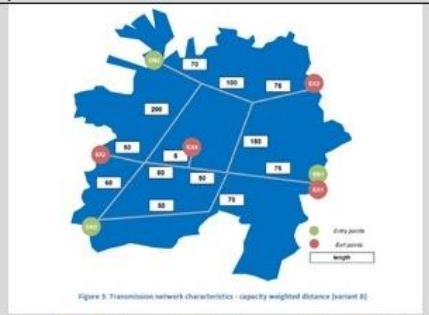
List of inputs ‘adjusted to the level necessary to run the methodology’

- Postage stamp: allowed revenue from transmission services, capacity, e/e split (where used as an input)
- CWD: allowed revenue from transmission services, forecasted booked capacity and technical capacity for each point, network representation (distance), e/e split (where used as an input), secondary adjustments
- VPB (A): allowed revenue from transmission services, flows for each point, network representation (distance), long run average incremental costs, e/e split (where used as an input), rescaling
- VPB (B): allowed revenue from transmission services, forecasted booked capacity and technical capacity for each point, network representation (length of pipelines), e/e split (where used as an input), secondary adjustments
- Matrix: allowed revenue from transmission services, capacity, network representation (segment and flow direction), costs, e/e split (where used as an input), secondary adjustments

- Price cap: the results of benchmarking (if relevant)

! Necessity to preserve the confidentiality of commercially sensitive information when publishing these inputs

Example of what to publish (for CWD)

<table>
<tr><th>Requirements</th><th>Value(with unit) / Text</th></tr>
<tr><td>Transmission services allowed/expected revenue</td><td></td></tr>
<tr><td>• Value of transmission services revenue</td><td>
<table>
<tr><th>2016</th><th>2017</th><th>2018</th><th>2019</th></tr>
<tr><td>500.246.276 €</td><td>495.039.482 €</td><td>511.351.916€</td><td>511.868.371€</td></tr>
</table>
</td></tr>
<tr><td>• Entry / exit split for capacity charges</td><td>25% entry / 75% exit</td></tr>
<tr><td>Primary methodology</td><td></td></tr>
<tr><td>• Capacity (all entries/all exits)</td><td>
<table>
<tr><th>Capacities</th><th>Expected bookings</th><th>Technical</th></tr>
<tr><td>Entry 1</td><td>10</td><td>13</td></tr>
<tr><td>Entry 2</td><td>10</td><td>12</td></tr>
<tr><td>Entry 3</td><td>5</td><td>10</td></tr>
<tr><td>Exit 1</td><td>10</td><td>12</td></tr>
<tr><td>Exit 2</td><td>5</td><td>8</td></tr>
<tr><td>Exit 3</td><td>5</td><td>8</td></tr>
<tr><td>Exit 4</td><td>10</td><td>12</td></tr>
</table>
Unit in GWh/h/year
</td></tr>
<tr><td>• Network representation and length of pipelines</td><td> 
For distance, the shortest path is used when several option are possible.</td></tr>
<tr><td>• Relevant entry/exit combinations</td><td>[for Variant B]</td></tr>
<tr><td>Secondary adjustments</td><td></td></tr>
<tr><td>• Rescaling</td><td>No rescaling</td></tr>
<tr><td>• Equalisation</td><td>For all the domestic exit points, we have made an equalisation for simplicity.</td></tr>
<tr><td>• Benchmarking</td><td>For entry 1, benchmark with competitors reveals that there is a competition on this point and the tariff resulting from the CWD methodology results in a too high tariff.
In agreement with NRA, tariff at entry 1 was decreased by 20%.
All other tariffs were increased by 5%.</td></tr>
<tr><td>Other</td><td></td></tr>
<tr><td>• Cost drivers</td><td>Capacity, distance</td></tr>
<tr><td>Result</td><td></td></tr>
<tr><td>• Tariffs</td><td>
<table>
<tr><th>[€/kWh/h/year]</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th></tr>
<tr><td>Entry 1</td><td>8</td><td>8.16</td><td>8.32</td><td>8.49</td></tr>
<tr><td>Entry 2</td><td>8</td><td>8.16</td><td>8.32</td><td>8.49</td></tr>
<tr><td>Entry 3</td><td>13</td><td>3.06</td><td>3.12</td><td>3.18</td></tr>
<tr><td>Exit 1</td><td>11</td><td>11.22</td><td>11.44</td><td>11.67</td></tr>
<tr><td>Exit 2</td><td>8</td><td>8.16</td><td>8.32</td><td>8.49</td></tr>
<tr><td>Exit 3</td><td>12</td><td>12.24</td><td>12.49</td><td>12.73</td></tr>
<tr><td>Exit 4</td><td>7</td><td>7.14</td><td>7.28</td><td>7.43</td></tr>
</table>
</td></tr>
</table>

Thank you

TAR NC : *Eurogas' views at this stage of the process*

Entsog's 4th SJWS

Brussels – 26 March 2014

Claude Mangin

Chairman of the Task Force on Tariffs

On transparency

It is mainly a reliability issue :

- It is still difficult to trust data and/or to understand what is happening at the system level.
  - e.g. is the point congested or not?

- Entsog should continue its good work with its transparency platform
  - See www.gas-roads.eu
  - By for instance making the informative data provided **exhaustive, coherent and consistent with a mandatory provision of every TSO**.

Thank you for your attention!

Summing Up and SJWS 5 Topics

TAR SJWS 4 – the 26th of March 2014

Draft Topics for TAR NC SJWS 5

- Revenue Reconciliation – Business Rules
- ACER Presentation on IIA/Justification Document
- ENTSOG Presentation on process, next steps and draft TAR NC
- Stakeholders Views on process and upcoming draft TAR NC

Please note that the next and final TAR NC SJWS will be held in the Diamant Centre, Brussels on the 9th of April

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european network
of transmission system operators
for gas

THANK YOU

TAR SJWS 4 – the 26th of March 2014