

MINUTES

Network Code on Tariff Structures in Gas Transmission Networks

ENTSOG Kick-Off Workshop

15 January 2014, 10:00 –17:00

At Diamant Conference & Business Centre, Bd A. Reyerslaan 80

Company	Name	Company	Name
Enagas	Abel Enriquez	Reganosa	Laurent Moriceau
ENTSOG	Aine Spillane	ACER	Lewis Hodgart
SNAM	Alessandro Gussetti	ENTSOG	Licia Aversano
GazProm	Alex Barnes	Europolgaz	Lizak Slaudmir
European Chemical Industry Council	Alexander Kronimus	Pivez Smart Grids Black Sea	Lulia Platona
Shell	Amrik Bal	Eurogas	Margot Loudon
EDF	Amroze Adjuward	ENTSOG	Mark Wiekens
ENI	Anais Rossi	E-Control	Markus Krug
EDF	Andrea Bonzanni	ICIS	Matilde Mereghetti
BP Gas Marketing Limited	Andrew Pearce	Transgaz	Mihai Fodor
ENTSOG (chair)	Ann-Marie Colbert	Gasum	Mikko Simola
GasTerra Netherlands	Arco Hofman	Edison	Monica Immovilli
ENTSOG	Armin Teichert	EDF	Nabil Mezlef
EFET	Aygun Avtakhova	Ofgem	Nathan Macwhinniz
Magyar Gáz Tranzit ZRt.	Bütösi Lajos	Ontras	Niels Krap
GDF Suez	Claude Mangin	ENTSOG	Nigel Sisman
National Grid	Colin Hamilton	GDF Suez	Noel Coupaye
StatOil	Davide Rubini	Transgaz	Oxidiu Schreiner
USGBV	Dirk-Jan Meuzelaar	ENTSOG	Panagiotis Panousos
TIGF	Emmanuel Bouquillion	Interconnector UK	Pavanjit Dhesi
CRE	Francois Leveille	MPO	Pavel Zastera
GDF Suez	Gunnar Dedecker	GIE	Philipp Palada
EET – Eon Energy Trading	Gunnar Steck	GDF Suez	Pierre Glasson
Nuon	Helga Norrby	Fluxys	Raphaëlle Ciuch Pilette
ENOI	Ilaria Conti	TAQA	RJ Maashant

ENTSOG	Irina Oshchepkova	FGSZ	Robert Feher
CREG	Ivo Van Isterdael	GSOG	Roddy Monroe
IFIEC Europe	Jacques van de Worp	Gascade	Rolf Wagner
ENTSOG	Jan Ingwersen	ENI	Simone Rossi
NET4GAS	Jana Krejčová	BNetzA	Stefan Krumnack
GTG Nord	Jann Keller	Open Grid Europe	Stephanie Ruhland
GRTgaz Deutschland	Jean Dubard	RWE	Stephen Rose
GDF Suez	Jean Louis Martinaud	DEPA	Theodor Mantoukas
CREG	Johan Allonsius	ACER	Thomas Querrioux
BNetzA	Johannes Heidelberger	Ofgem	Victoria Volossov
ExxonMobil	Kees Bouwens	ENTSOG	Violeta Bescós

ENTSOG also provided a webcast facility for those unable to attend in person.

1. Opening (Jan Ingwersen) (10:00 – 10:20)

Mr Jan Ingwersen, Market Business Area Manager, welcomed participants and thanked all stakeholders for their participation and encouraged them to continue their engagement throughout the Network Code on Harmonised Transmission Tariff Structures for Gas (TAR NC) development process.

Mr Ingwersen indicated that ENTSOG's aim is to accomplish the tasks of the association by building on the past experiences. The TAR NC development process will be an open and inclusive process, with the involvement of stakeholders being crucial to achieving the optimal required results. It was highlighted that the process has received some press interest including the attendance of journalists at the kick off meeting, however the development SJWS/workshops will be just for industry participants. Upon request, ENTSOG can provide post meeting/workshop briefing for any journalist interested.

2. TAR NC Project Plan Process (Ann-Marie Colbert) (10:20 – 11:00)

2.1 Presentation of the process

Ms Ann-Marie Colbert, Tariff Subject Area Manager, introduced the team of ENTSOG Advisers, who will be facilitating the development of the TAR NC.

Ms Colbert introduced the meeting objectives and encouraged stakeholders to ask questions and to seek clarifications during the workshop. The network code development process and its different phases were explained; including the dates for the stakeholder workshops. Ms Colbert explained the different levels of stakeholder involvement and highlighted that anyone wanting to indicate their level of commitment during the process would need to

complete the online consultation questionnaire. The relevant sections of the ENTSOG's website were presented to help stakeholders to find information about the TAR NC developments and upcoming events.

Ms Colbert noted that feedback on the draft Project Plan is welcome during the consultation, which will run until the 10.00 am (CET) on the 20th of January.

3. ACER's View on the Framework Guidelines (Mr Lewis Hodgart and Mr Francois Leveille, ACER) (11:15 – 12:30)

Mr Lewis Hodgart and Mr Francois Leveille presented some context for the drivers and key objectives of the process and an overview of the content of the Tariff Framework Guidelines (FGs). The main provisions of the FGs were presented.

On the scope of the FGs, key high level steps on how to go from the allowed/expected regulated revenue to the tariffs of the commercial products following the guidelines was explained. The FGs apply to the transmission services provided by TSOs. In some cases there are exclusions for dedicated or specific services (depressurisation, balancing, ...). These are not subject to the cost allocation methodology. One of the tasks of ENTSOG is to review the definition of a transmission service as it stands in the FGs. The particular exemptions for application of other charges different from capacity charges and their criteria for application were explained.

Q: Is there any existing cost allocation methodology that is not eligible under the FGs?

A: Yes, there are MSs that are currently applying a methodology not included in the FGs. Some other MSs might need to change their methodology if they do not meet the circumstances criteria for their current methodology.

Q: Will the new provisions affect any capacity contract signed prior to 2017?

A: Yes, the provisions will apply to all capacity contracts. Mitigating measures could be applied for maximum 24 months after 1st October 2017. The mitigating measures are intended to smooth the changes to tariff levels over the subsequent tariff years.

Different views were expressed on the topic of mitigating measures. It was suggested that the FGs / TAR NC could provide for the possibility for network users to terminate their contracts as a mitigating measure. Also, it was suggested that the mitigating measures should be an enduring feature.

Q: The application of the new provisions to existing contracts will effectively mean two things: a step change in 2017 as the result of the application of the new provisions (e.g. cost allocation methodology changes) and a change to floating prices from 2017 onwards. Applying a universal floating price could result in a shift to short term contracts.

A: Having a universal floating price was deemed as the most consistent way of spreading over/under recovery of allowed revenues amongst all network users, without differentiation for those network users booking existing capacity and those booking incremental capacity.

Q: What is the rationale behind the different pricing treatment for interruptible capacity at bidirectional points and non-physical backhaul capacity at unidirectional points, given the fact that they are all interruptible products?

A: The reason behind the different treatment is that for the case of non-physical backhaul capacity products, there is no need of extra investments. The marginal cost approach is intended to reflect the actual costs incurred for providing the service. Also, the difference in treatment of pricing for non-physical backhaul capacity and interruptible capacity is that there are no fixed costs for the virtual reverse flow.

Different dissenting views were expressed on this matter. It was noted that the price of backhaul products should also reflect the fact that investment was needed for the direction of the flow. On the other hand, it was also noted that the price of backhaul products is not reflecting the fact that these products could reduce some costs for TSOs, such as fuel costs.

A: The decision to charge the marginal costs was taken having considered the results from the consultation. Both positions were equally supported by stakeholders.

Q: Has any consideration been given to the fact that the change in tariff levels after the coming into force of the new provisions could lead to unexpected tariff increases, which could have an extremely negative effect on the business case for some costumers? Some companies are already going through a difficult situation currently, and mitigating measures are only smoothing the changes over 2-3 years, a rather short period.

A: A moving regulatory environment is already in place. Tariff levels have had variations in the past 5 years, in several countries beyond 20%. In the Initial Impact Assessment (IIA), to be published soon, ACER studied the different impacts of the FGs on the tariff levels after 2017. It was also noted that it is not unusual that there would be new provisions on tariff rules. A transition time to 2019 to smooth the effects has been included.

Q: There is currently an unstable environment in place with regards to tariff levels in some countries. Why are the FGs not addressing this issue? Why are other mitigating measures such as right of termination of contracts not being considered?

A: The FGs are addressing the problem of volatility of charges through dealing with revenue recovery mechanisms so the problem of under- or over-recovery is not exacerbated over the years. Moreover, some countries already have further mitigating measures such as capacity reduction mechanisms in place. It was noted that the FGs do not change the level of allowed or target revenues of the TSOs. Any

increase of tariff levels will therefore mean its corresponding decrease at other points within the system.

It was noted that tariff instability should be avoided, as it creates cross-subsidies with a negative effect for captive costumers. It was noted that the current tariff instability in some systems is due to the low short term multipliers that were put in place. In the end, this leads to higher long term prices and a subsequent greater shift to short term bookings, creating a vicious circle.

Q: Is harmonisation of seasonal factors across EU foreseen? Or will different sets of seasonal factors be possible per IP? The level of seasonal factors and multipliers may have an influence on how gas actually flows between Member States.

A: The FGs only set harmonised parameters for the cap and floor value. This is one of the aspects of the FGs that is left to national discretion.

Q: When can we expect the publication of the IIA and what is its level of detail?

A: It is an IIA produced by ACER. ENTSOG will work on assessing its policy decisions during the elaboration of the TAR NC. Different options for the key concepts that have been debated are evaluated, and it provides an analysis of the decisions taken. It includes information on the possible impact of new provisions. The IIA will be published soon. There have been some issues with regards to confidential information that have delayed the process.

Q: How ENTSOG will tie in the information of the IIA into the work in the upcoming months?

A: ENTSOG will evaluate the impact of the document once it is published and will try to manage that during the process. ENTSOG will produce an analysis of decisions document that will clarify the chosen approaches for significant topics tackled in the TAR NC.

Q: Are multipliers compliant with Regulation (EC) No 715/2009, where it is set that no arbitrary higher or lower tariffs for short term products shall be applied?

A: The ranges set in the FGs are not arbitrary as they are taking into account the presence or absence of congestion.

4. EC presentation on tariffs (Kristof Kovacs, DG ENER) (14.10-14.30)

M Kristof Kovacs provided some context for the TAR NC project. The current situation for the establishment process of the other network codes in the gas sector was presented.

There was a request for the IIA to be published soon as it will help the discussions to be held during the SJWSs in the upcoming months. It was agreed between the EC and ACER that the current IIA could be published by the end of the month.

5. Stakeholders' Views on the Framework Guideline

5.1 EFET (Gunnar Steck)

Mr Gunnar Steck presented EFET's first views on the FGs. Improvement of transparency, predictability/certainty and the simplicity of tariffs should be the key goals of the process. Views on multipliers, seasonal factors, mitigating measures and desired notice periods for regulated capacity tariffs were detailed.

5.2 Eurogas (Claude Mangin)

Mr Claude Mangin presented the initial views from Eurogas. It was highlighted that real case studies using actual examples should be used when discussing the issues. Their views on multipliers, seasonal factors and mitigating measures were detailed.

5.3 GIE (Philipp Palada)

Mr Philipp Palada presented GIE's initial remarks on the cost allocation test, secondary adjustments, storage, multipliers and floating tariffs. The scope of work for ENTSOG and the stakeholders in the TAR FG was also raised.

5.4 IFIEC (Dirk-Jan Meuzelaar)

Mr Dirk-Jan Meuzelaar presented IFIEC-CEFIC position on the main FGs provisions. It was noted that the emphasis in the TAR FG was on cost allocation rather than cost efficiency. Greater transparency will support an efficient cost level.

5.5 OGP (Kees Bouwens)

Mr Kees Bouwens presented the initial views of OGP on the main provisions of the FGs, and also pointed to several items that would need further clarification.

Q: Could it be clarified which issues are to be defined in the TAR NC development process and which are a 'closed' instruction, since in the text of the FGs it is not clear?

A: This topic has already been discussed and clarified between ACER and ENTSOG. Regular contacts will also take place during the development process, in case further clarifications are needed.

Q: Could it be clarified to stakeholders, since it is crucial to know where efforts are requested during the TAR NC development process?

It was noted that the FGs are very prescriptive. It could be the case that, due to the discussions held during the development process, we realise that some of these provisions could have a negative impact on the market. Also, it was indicated that

despite the fact that the FGs is quite a long document, it cannot just be copy-pasted for the purpose of the legal drafting of the TAR NC.

It was noted that the FGs is a non-binding document; ENTSOG's obligation is to draft a network code which is in line with the provisions in the FGs as it is foreseen in Regulation (EC) No 715/2009. It is ACER's task to evaluate whether the future TAR NC is in line with the FGs. It was also noted that each NC is a stand-alone EC Regulation, directly applicable and binding. Following the experience of the previous NCs, it is not intended that a NC would be Annexed to Regulation (EC) No 715/2009 although each NC supplements and forms an integral part thereof.

6. Conclusions

6.1 Summing up

Ms Colbert presented a summary of the main points discussed during the day. These were the following:

- stakeholders concerns on regulatory changes and the corresponding impact on tariffs;
- the changes to existing contracts and the impact on moving to floating prices; which leads to tariff uncertainty;
- the level of multipliers;
- the treatment of interruptible capacity; minimum notice periods; and
- mitigating measures.

It was noted that, as agreed during the meeting, the IIA will be published by ACER by the 31st of January 2014.

6.2 Information about the TAR SJWS1

Proposed topics for the 1st TAR SJWS on the 11th February included in the draft Project Plan are Cost Allocation and Determination of the Reference price, Virtual interconnection points, Bundled capacity reserve price, Payable price and Seasonal factors. This might change following the end of the consultation period to reflect the feedback from the stakeholders.

6.3 Closing remarks

Ms Colbert thanked all participants and presenters. It was noted that the Launch Documentation will be published on the 22nd of January. All the materials of the meeting will be published on ENTSOG's website as soon as possible. An invitation to the 1st TAR NC SJWS will be issued shortly.

Next TAR NC stakeholder meeting: the 11th of February 2014 → 1st Tariff SJWS

ALL DOCUMENTS RELATING TO THIS MEETING CAN BE FOUND ON THE ENTSOG WEBSITE AT

<http://www.entsog.eu/events/tariff>

