Network Code on Harmonised Transmission Tariff Structures for Gas

Kick Off Meeting

Jan Ingwersen
Business Area Manager
Market Area

15th January 2014

Tasks of ENTSOG

To deliver on Regulation 715/2009 requirements, including:

- Elaboration of Network Codes
- 10-Year Network Development Plans (TYNDPs)
- Building on past experience to fulfil ENTSOG's tasks

Stakeholder Engagement

- Regulation 715/2009 obliges ENTSOG to

  […] conduct an extensive consultation process, at an early stage and in an open and transparent manner, involving all relevant market participants […]

- ENTSOG therefore strides to listen and to be responsive in order to identify and promote a properly functioning Internal Energy Market

entsog

fair partner to all

Best wishes for a constructive dialogue and productive outcome of the SJWS

Jan Ingwersen
Business Area Manager, Market Area
jan.ingwersen@entsog.eu

15th January 2014

TAR NC Kick Off Meeting Objectives

15th January 2014

Meeting Objectives

- ENTSOG's Project Plan
  - Explanation of the process
  - TAR NC Draft Project Plan Consultation
- ACER's Tariff Framework Guideline (TAR FG)
  - Explanation of aspects of the TAR FG
- ENTSOG's Initial View of the TAR FG
  - Identifying topics for discussion
- EU Commission – providing context for the Tariff Network Code
- Stakeholders' Views on the TAR FG

Opportunity for stakeholders to ask questions and seek clarifications.

TAR NC Project Plan Process

Kick Off Meeting

15th January 2014

Agenda

Introduction

- *Why are we here today?*

TAR NC development process

- *Phase 1: Project planning*
- *Phase 2: Network Code development*
- *Phase 3: Network Code decision making*

Project Plan

- *Draft TAR NC Project Plan consultation*

Why are we here today?

Reg. 715

- Article 8(6)(k): a ***network code on rules regarding harmonised transmission tariff structures*** shall be developed upon the invitation from the EC

TAR FG

- ACER has prepared ***Framework Guidelines on rules regarding harmonised transmission tariff structures for gas***

Invitation of EC

- ENTSOG has been invited to draft a ***Network Code on Tariff Structures in Gas Transmission Networks***
- ENTSOG welcomes stakeholder involvement in this task

Network Code Development Process

Where does the Network Code process sit?

EC Priority List

European Commission (EC)

Framework Guidelines

ACER

Network Code

ENTSOG

Evaluation

ACER / EC

Comitology

Gas Committee/ Council / Parliament

Entry Into Force

Compliance by TSOs

ENTSOG Network Code Process

Network Code

Project Plan

Launch Docs

SJWS

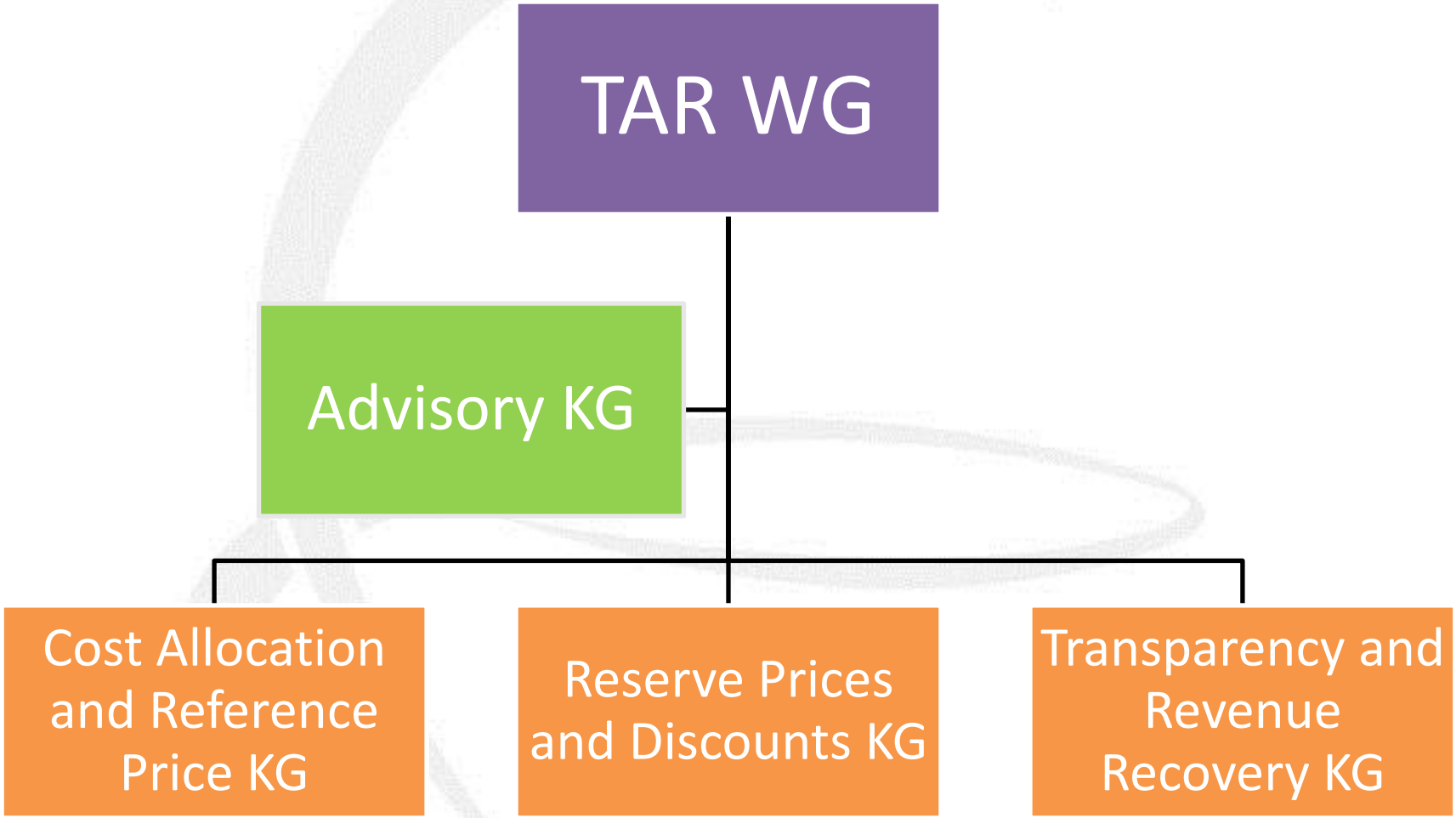
Draft Code

Formal Consult.

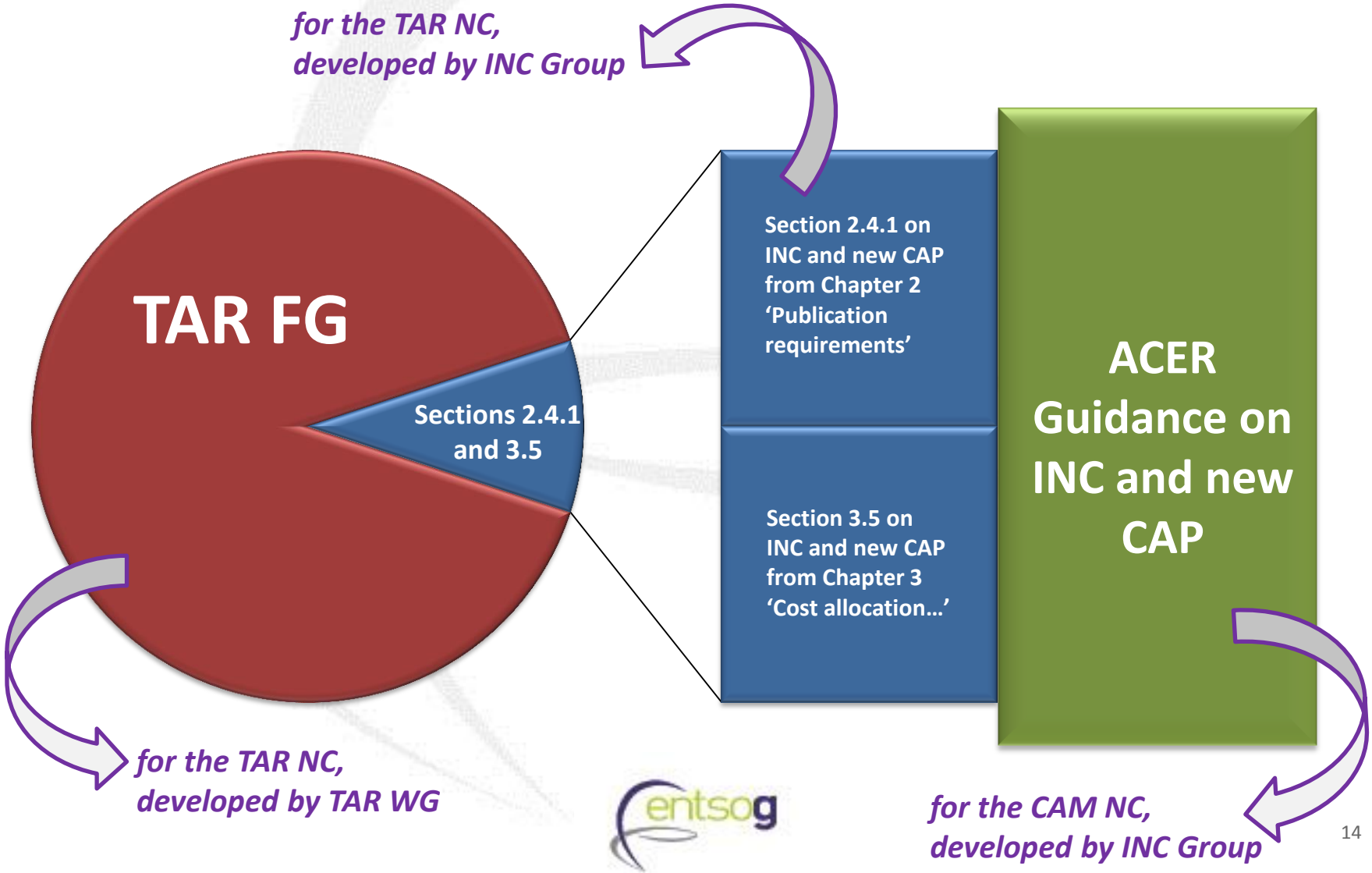
Refine-ment

Final Code

ENTSOG Tariff Working Group



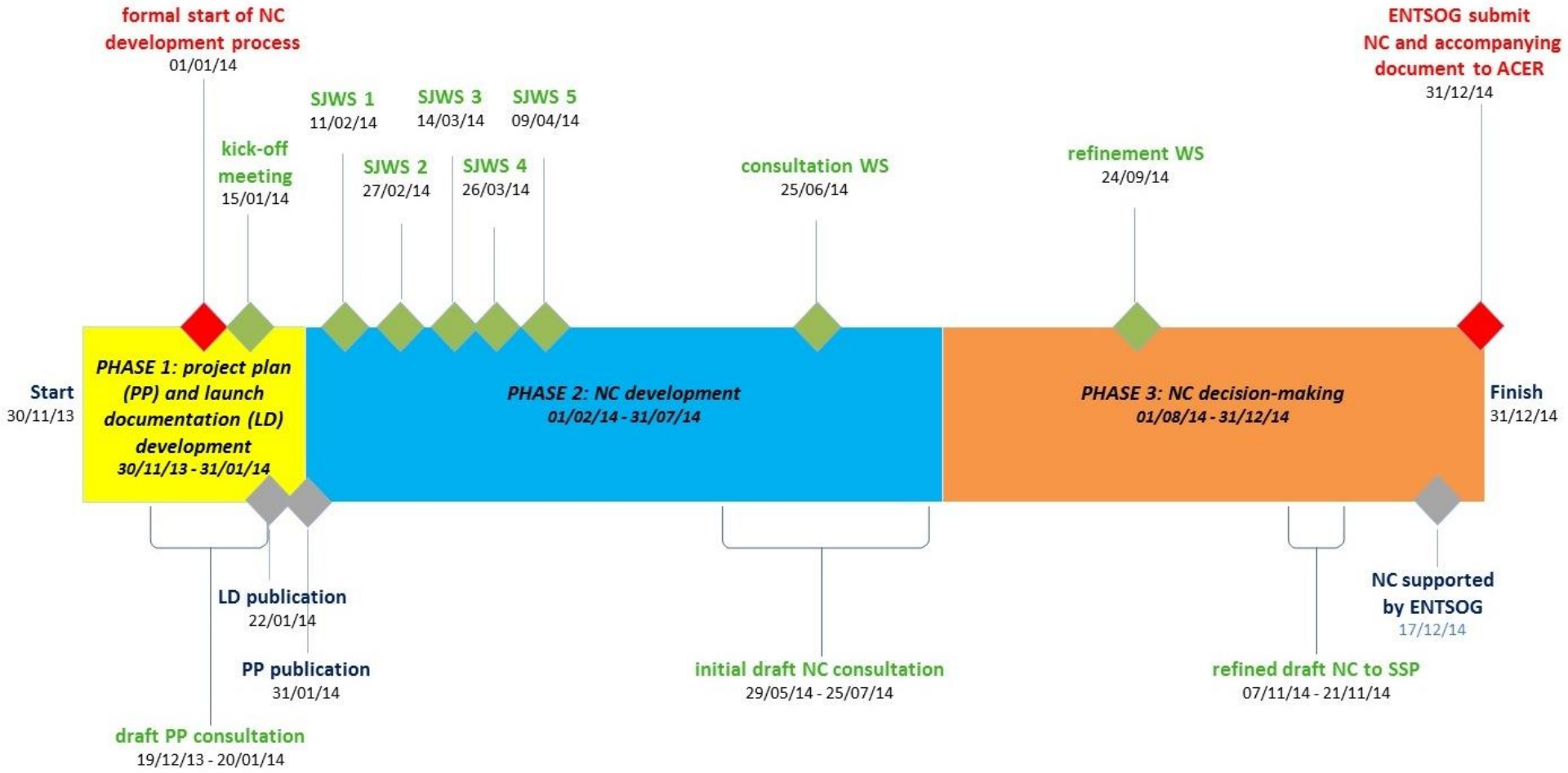
Interactions between TAR NC and INC proposal



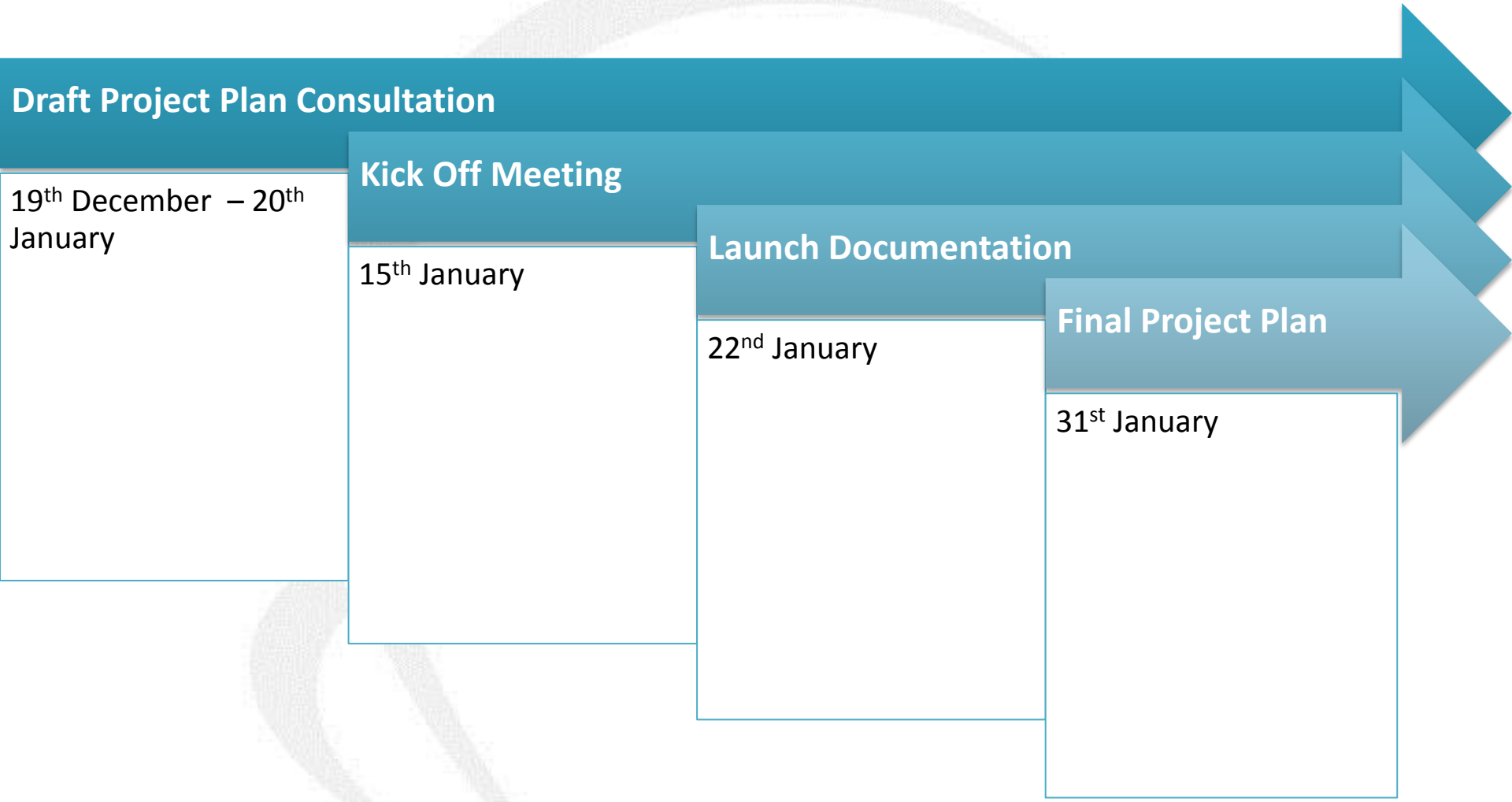
Phase 1

Project Planning

TAR NC Timeline



Phase 1: Project Planning



Phase 1: Draft TAR NC Project Plan Consultation; Kick-Off Meeting; publication of the Launch Documentation and Final TAR NC Project Plan

Phase 2

Network Code Development

Phase 2: NC Development

Phase 2: Stakeholder meetings (SJWSs); development of, and consultation on, the Initial Draft TAR NC; preparation of the Supporting Document; Consultation Workshop

Phase 3

Network Code Decision Making

Phase 3: NC Decision Making

Phase 3: Refinement of the Initial Draft TAR NC; preparation of the Analysis of Decisions; Refinement Workshop; Stakeholder Support Process; submission to ACER of TAR NC and Accompanying Document

Draft TAR NC Project Plan Consultation

Purpose of the Draft TAR NC Project Plan

Planning

- Limited timeline - 12 months to the deadline for submission
- Describe milestones and deliverables
- Describe stakeholder interaction

Stakeholder Engagement

- Stakeholder Joint Working Sessions (SJWS), consultation periods and workshops
- Stakeholder commitment to the development process

ENTSOG aims to keep all interested stakeholders involved and informed during all 12 months of the project

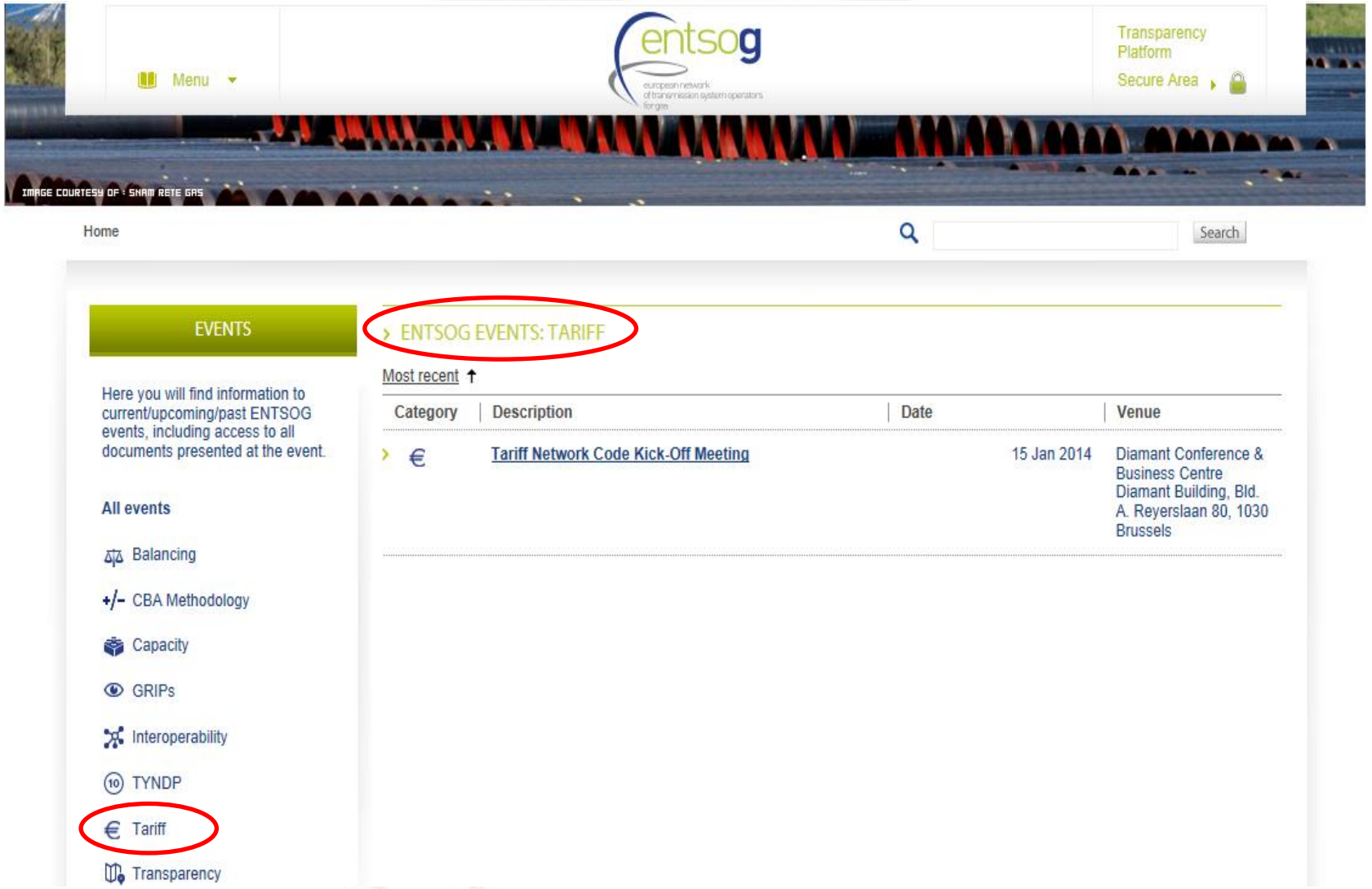
Stakeholder Involvement in the Process

Level	Description	Comments
1	Prime Mover	Committed to work on a bilateral basis and dedicate a lot of resources to assist in the formulation and evaluation/refinement of ideas/proposals for SJWS consideration. This commitment is likely to be intensive and involve many days of participation during the intensive phases of the TAR NC development.
2	Active SJWS Participant	Expected to attend all SJWS meetings and to read/review all material prior to the meetings so that the participant is prepared to explore the detail within the SJWS meetings. This commitment is likely to be around three days per month during intensive periods of activity.
3	Consultation Respondent	Expected to respond to ENTSOG consultations
4	Observer	Not expected to actively contribute to the development phase or to participate in formal ENTSOG consultations

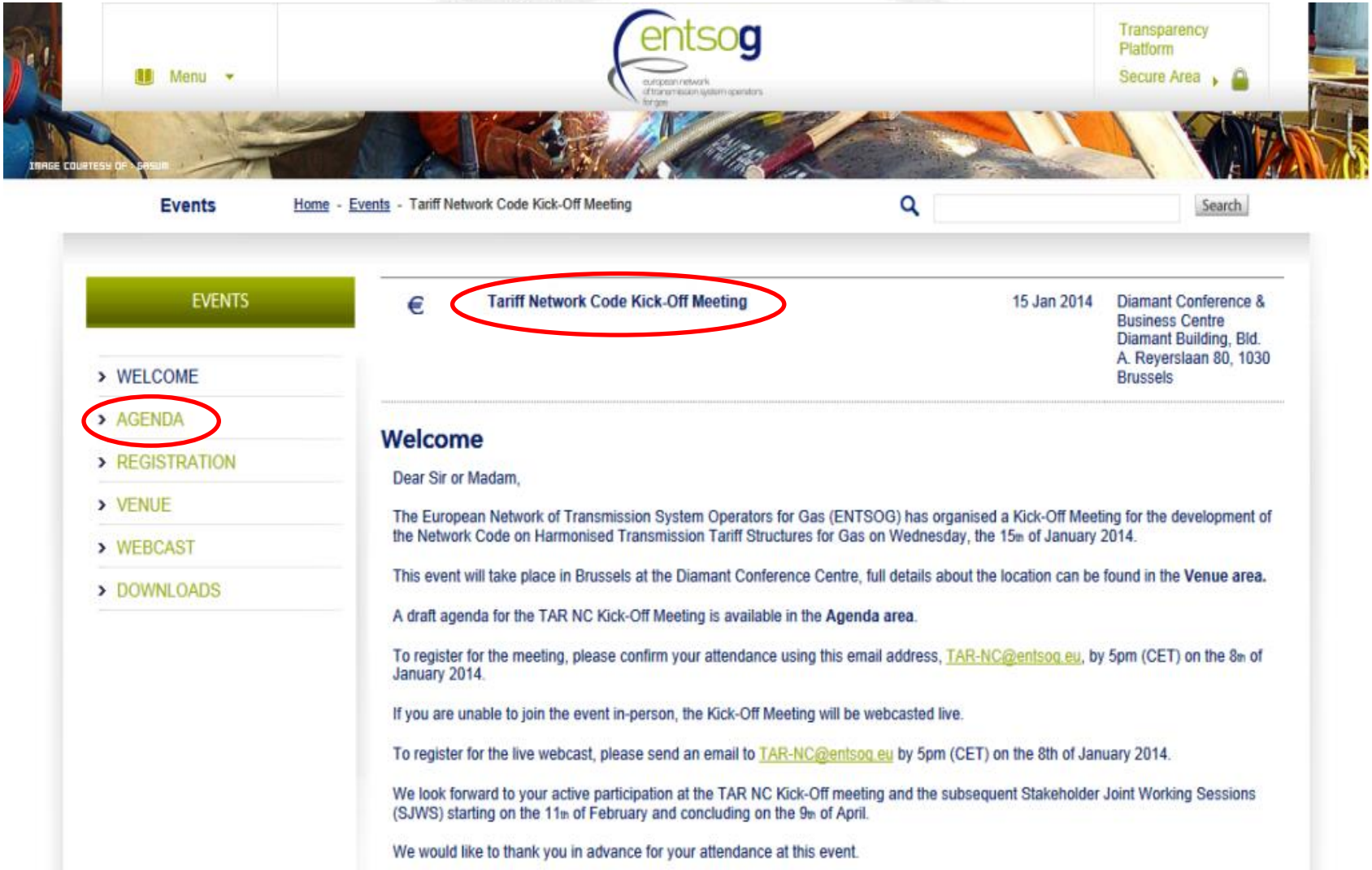
ENTSOG Website Menu

Publications: Tariff Section

Events: Tariff Section



Each Tariff Event



Thank You for Your Attention

Ann-Marie Colbert
Advisor, Market Area

ENTSOG -- European Network of Transmission System Operators for Gas
Avenue de Cortenbergh 100, B-1000 Brussels

EML: Ann-Marie.Colbert@entsog.eu
WWW: www.entsog.eu

ENTSOG Tariff Kick-off
Framework Guidelines on rules regarding Harmonised Transmission Tariff Structures

Tom Maes

ACER GWG vice-chair, and co-chair of ACER Tariff TF

Lewis Hodgart

ACER Gas Department expert

François Léveillé

Co-chair of ACER Tariff & incremental TF

ENTSOG Tariff Workshop– 15 January 2014

Milestones and Deliverables

Key dates of process / Objectives / EC invitation letter (29 June 2012) / Tariff FG specification

Structure of the Tariff FG – overview

Tariff FG - walk through

- **General provisions**

  Implementation and mitigating measures; Data publication and transparency requirements

- **Cost allocation methodologies :**
  - **Main methodologies: Methodology selection - Circumstances**
  - **Cost allocation test & Methodology counterfactual**
  - **Secondary adjustments**
- **Storage**
- **Revenue reconciliation -** Reconciliation of the regulatory account
- **Reserve prices -** Multipliers and seasonal factors
- **Interruptible capacity**
- **Payable price**
- **Incremental, reference price**

Key dates of the FG development process

- 26-27 September 2011: Madrid Forum invites the Agency to scope the project
- **29 June 2012**: Invitation letter from the EC to start the drafting of the FG
- 17 December 2012: Agency requested and EC granted a deadline extension
- 15 March 2013: EC request for further improvements
- 16 April 2013: Agency informally endorsed the draft FG without the Cost allocation and determination of the reference price chapter
- **29 November 2013**: Agency delivered the final (consolidated) FG to the EC.

Overall 3 consultations and 6 workshops (including Open House and the Q&A session) with the stakeholders.

- ***19 December 2013: positive EC feedback on the FG -the NC process is launched***

Objectives

- Overall objective for Tariff FG is to develop a level of harmonised transmission tariff structures necessary to better facilitate the completion of the internal EU gas market. This is in line with a number of EU legislative requirements.

- More specifically, Articles 1 and 13 of Gas Regulation 715/2009 set out requirements for transmission tariffs. In particular Article 13 states

  Tariffs, or the methodologies used to calculate them shall be transparent, take into account the need for system integrity and its improvement and reflect the actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator.

The Tariff FG and network code must be compatible with these objectives.

EC invitation letter (29 June 2012)

- The FG shall achieve **cost-reflectivity, the avoidance of cross-subsidies, the promotion of efficient new investment, and greater transparency**.

- **Scope:** entry-exit points of the gas transmission system

- **Principles and rules for at least:**
  - *General cost allocation aspects;*
  - *Reserve price, revenue recovery and payable price (and enable NC CAM);*
  - *Transparency.*

- **Based on an impact assessment provide specific provisions on:**
  - *Incremental Capacity and* relevant market test;.
  - *Usage of locational signals;*
  - *Effects Entry-Exit Zone mergers.*

Tariff FG specification - overview

Our approach to meeting the Tariff FG objectives

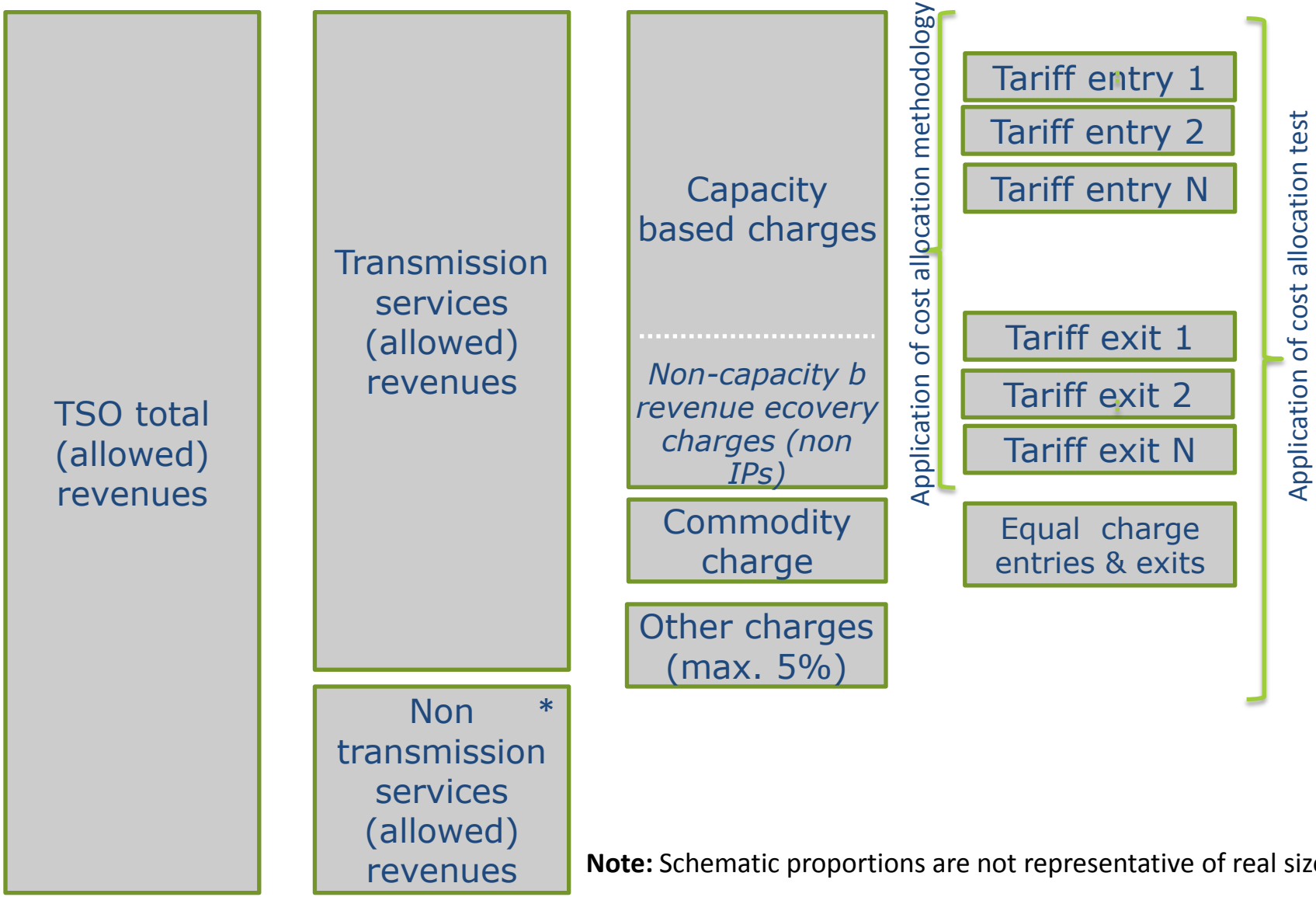
- Implementation of Tariff NC required by 1 October 2017 (mitigating measures specified to limit undue consequences of meeting this date).
- Specification of *transparency and data publication* requirements
- Specification of parameters *on revenue recovery mechanisms*
- Specification of four (plus two variants) possible *cost allocation methodologies* and how each methodology determines tariffs
- 'Three pillars' *methodology selection criteria* including justification against circumstances criteria; cost allocation test; and methodology counterfactual.
- Harmonised parameters on *revenue reconciliation, secondary adjustments, multipliers and payable price*.

This corresponds almost to the chapters of the Tariff FG.

Structure of the Tariff FG

- Chapter 1 - *General Provisions* (Scope, Definitions and Implementation)
- Chapter 2 - *Publication requirements*
- Chapter 3 *Cost allocation/ reference price* (including incremental)
- Chapter 4 - *Revenue reconciliation*
- Chapter 5 - *Reserve price*
- Chapter 6 & 7 - *Virtual Interconnection Points and Bundled capacity products*
- Chapter 8 - *Payable price* (including incremental).

Scope of Tariff FG



Note: Schematic proportions are not representative of real size.

Implementation and mitigating measures

- The provision of the NC on Tariffs shall apply to all contracts from 1 October 2017. This is compatible with the envisaged timeline for the completion of the internal market.

- To limit undue repercussions of moving to new tariff levels, mitigating measures may be applied in the following manner:

    - In advance of 1 October 2017 as a means of smoothing the glide path to any new anticipated tariff level.

    - After 1 October 2017 for a period not exceeding 24 months where:

        - moving to new tariff levels by 1 Oct 2017 would affect the execution of specific contracts;

        - where tariffs at individual entry or exit points would increase by more than 20% from one year to the next due to the application of the NC; or

        - where implementation by 1 Oct would not coincide with the commencement of the gas year, tariff setting cycle or regulatory period.

- ENTSOG impact assessment on harmonised transmission tariff setting year.

Data publication and transparency requirements

- The Directive and Regulation require NRAs and TSOs 'to provide reasonably and sufficiently detailed information on tariff derivation, methodology and structure.'

- To meet these requirements the Tariff FG specifies that NRAs/TSOs must:

  - Publish a public consultation on the proposed cost allocation methodology (more detail on this contained in methodology selection criteria slide)

  - At least every four years review the effectiveness of the methodology

  - Make publicly available all of the input data necessary to calculate tariffs, and keep such data up to date.

  - Make publicly available the information specified in Para 2.3 of the FG, including inputs on allowed revenues; transmission system characteristics; costs concepts; impact of efficiency targets; and locational signals.

  - Provide a notice period of at least 30 days for the publication of revised reference prices and a notice period of at least 60 days for points where reference prices are expected to increase by more than 20%.

Revenue recovery mechanisms

- The balance of revenue recovery between entry and exit points shall be based on an assessment of relevant cost drivers. Otherwise a default 50:50 split shall be applied.

- A majority of network costs are assumed to be capacity driven, therefore revenue recovery shall be based on capacity charges, except in the following cases:

    - To cover costs determined to be driven by the volume of gas flowed, a commodity charge can be levied.

    - Subject to a cap of 5% of total allowed revenues, a specific charge related to dedicated services can be levied.

    - For non-CAM points (i.e. Domestic points) alternative revenue recovery methods may be used providing these are demonstrated to be cost reflective.

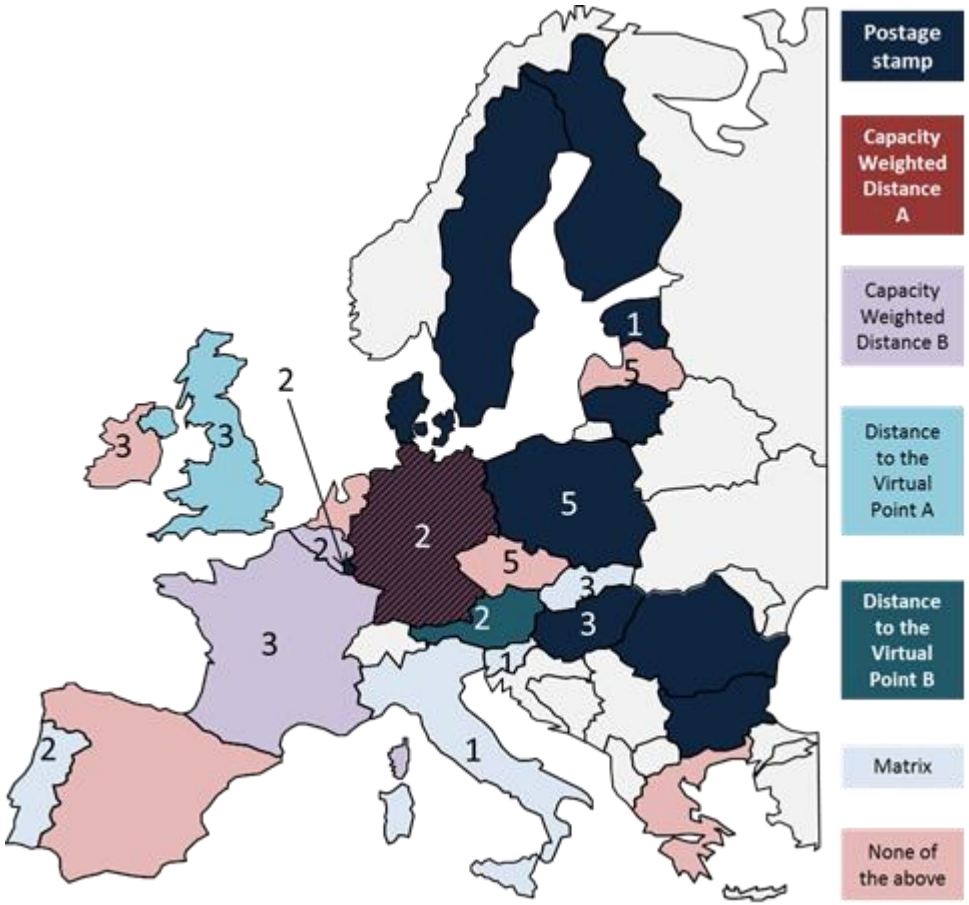
Primary cost allocation methodologies

The Tariff FG specifies the following four (plus two variants) possible primary cost allocation methodologies:

- Postage stamp
- Capacity-Weighted Distance (Variants A and B)
- Virtual point based approach (Variants A and B)
- Matrix approach

A description of each methodology is contained in Chapter 3 of the Tariff FG. In determining the NC, ENTSOG shall review whether one or more of the methodologies with variants can be represented as one methodology.

Primary cost allocation methodologies



Source: ACER

Methodology selection criteria

•The 'circumstances' under which each methodology should apply have been further delineated, **however** the circumstances criteria alone is not sufficient to ensure 'the right methodology for the right network'. Therefore we have specified a three pillars methodology selection criteria.

•Following implementation of the NC TSOs/NRAs shall launch a public consultation that assesses the proposed methodology against:

- Circumstances criteria;
- Cost allocation test; and
- Methodology counterfactual (consisting of an assessment of at least one other of the possible methodologies against the circumstances criteria and the results of the cost allocation test).

•Following the consultation NRAs shall publish an approval decision containing a **detailed explanation and reasoned justification** for the choice of methodology.

Circumstances criteria

The Tariff FG specifies the following circumstances criteria:

- Appropriateness of the methodology (restriction on postage stamp and recommendation of methodologies)
- Appropriateness of input assumptions (with a view to the cost concept and capacity assumptions)
- Further specifications for ENTSOG to work on the relevance of the following parameters:
  - Status of the system (Production/ Proportion of domestic and cross-border gas flows/ Consumption);
  - Dynamics of demand (congestion in the system)
  - Topological considerations (age of the network, length of the pipeline).

Cost allocation test

- The cost allocation test compares the ratio of revenues recovered between domestic and cross border points to the ratio of costs imposed by each.
- The cost allocation test therefore acts as an important high level test of the cost reflectivity of a given methodology and gives a measure of the level of cross subsidy, if any, between domestic and cross border users
- The NRA (or relevant TSOs) shall be responsible for correctly calculating and publishing the results of the test
- The test shall be based on physical cost drivers in the system (such as distance and capacity) and shall reflect the relative importance of these cost drivers.
- NRAs shall explain deviations between the two ratios of more than 10%. When applied to the methodology counterfactual the test may provide an important indication of the most appropriate methodology to apply.
- Where deviations between the ratios of greater than 10% arise as a result of alternative revenue recovery or revenue reconciliation methods, NRAs shall adjust those methods to ensure the 10% threshold is not breached

Methodology counterfactual

•Counterfactual allows an assessment of the relative benefits of the proposed methodology in terms of:

- Cost-reflectivity,
- Locational signals,
- Transparency,
- Tariff stability.

•Public consultation may consider that the counterfactual better serves the FG objectives and requirements. Counterfactual can be approved.

•Postage stamp can be used as counterfactual, even when it cannot be applied as alternative due to the FG requirements (circumstances criteria)

•No counterfactual required, where postage stamp is used, but postage stamp methodology must clearly meet the circumstances criteria in this case.

Secondary adjustments

•The primary cost allocation methodology establishes a unit cost per entry or exit point. In some cases secondary adjustments would be appropriate to better meet the Tariff NC objectives.

•The following instruments may be used for secondary adjustments. Each has harmonised parameters but may be applied with NRA discretion.

- Rescaling
- Equalisation
- Benchmarking

•Secondary adjustments should be applied in a fully transparent way and should not be used in a way which undermines the principle reason for adopting a given primary cost allocation methodology

•If benchmarking is applied the effect should ensure that increased capacity sales at the benchmarked point offset the need for tariff increases at other points on the system

Storage

•The Tariff FG specifies that in determining tariffs for storage, NRAs may consider the following:

- The benefits which storage facilities may provide to the transmission system.
- The need to promote efficient investments in networks.

•This provides NRAs with an objective criteria for administering an appropriate level of storage discount – either on the grounds of cost reflectivity, or for system integrity reasons.

•NRAs shall minimise adverse effect on cross-border trade.

Revenue reconciliation

- Recovery of the efficiently incurred costs
- Gaps between entitled TSO revenues and obtained based on the regulatory regime shall be minimised
- Single regulatory account per TSO
  - ex-ante log of over and under-recovery, excluding incentive efficiency targets met by TSO;
  - specific account for auction premia could be used by NRAs.
  - Only the latter applies to price cap regimes.

Reconciliation of the regulatory account

- Reconciliation shall allow timely recoveries without sharp adjustments (NC shall specify it)
- Reconciliation occurs in accordance with the chosen methodology and the adjustment of the reference price
    - except for specific accounts on auction premia to reduce physical congestion.
- Alternative methodologies for revenue reconciliation on non CAM points
    - NRA competence;
    - Respecting the principle to avoid cross-subsidies;
    - Flow-based charges.

Reserve prices

- Balanced objectives in order to reach:
  - Short-term gas trading,
  - Efficient revenue recovery,
  - Long-term signals for efficient investment,
  - Cost-reflectivity in terms of:
    - Interruptible product prices reflect probability of interruption
    - Non-standards contracts and standard products get priced proportionately to the yearly product.
- Adjacent NRA cooperate when set multipliers.
- NRAs may not apply multipliers.

Multipliers and seasonal factors

- Multipliers reduced to certain ranges:

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

- A set of values relate to the existence of congestion.
- Proportionate price and balanced facilitation of short term gas trading.
- Seasonal factors apply on top of multipliers, but the range shall not exceed 1.5 to 0.5.
- Seasonal factors shall only apply if they improve the efficient use of the transmission system and contribute to cost-reflectivity.

Interruptible capacity

- Discounted to the firm capacity reserve price
  - (Bi-directional) interconnection points: discount reflects risk of interruption, low risk los discount;
  - Unidirectional points: to reflect the actual marginal costs of the TSO providing interruptible service.
- Network Code shall set out the methodology on the above criteria.

Payable price

- **Universal floating tariffs** to avoid fragmentation of tariffs
- Floating tariffs composed of
  - Reference price
  - and auction premia, if any.
- Applies to incremental and new capacity.
- Ensures appropriate risk sharing across the network users.

Incremental

➔ ACER presented in detailed presentation at the Incremental Kick-off meeting on tariff rules for incremental capacity.

➔ The NC Tariffs shall be developed in consistency with CAM amendment on incremental capacity. Outputs from both workshops (incremental and tariffs) shall be considered.

- A harmonised economic test has been elaborated to promote transparent market based capacity development ***(***$PV_{UC} \geq f \bullet PV_{AR}$, $f \leq 1$***)***
- NRAs shall determine level of cost coverage (**f**) on an individual project basis taking into account:
  - Duration of users' commitment period,
  - Capacity set aside for short term,
  - Positive externalities.

Incremental, reference price

- By default, the reference (annual) price resulting from the application of the **cost allocation methodology applies** to incremental capacity.

- In the specific case where selling all the incremental capacity at this price would not generate sufficient revenues to pass the economic test, NRAs may adjust the reserve price.

⇒ The default adjustment should be a minimum mandatory premium in the first auction

⇒ ENTSOG shall consider alternative approaches, where users who did not commit in the first place but benefit from the investment would also bear a part of the costs.

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Agency for the Cooperation of Energy Regulators

Thank you for your attention!

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Annex

Pricing VIP and Bundled products

- Virtual interconnection points:
  - Combination of the reserve prices of the individual E/E points
  - Mechanism developed by the NC
  - Shall not create barriers to cross-border trade
- Bundled products
  - Sum of reserve prices
  - Auction revenue split based on NRA agreement or equal split
  - ACER is informed of the NRA agreements

ENTSOG's Initial View on the Tariff Framework Guideline

Kick Off Meeting

15th January 2014

Tariff Framework Guidelines

- General Provisions
- Publication Requirements
- Cost Allocation & Determination of the Reference Price
- Revenue Reconciliation
- Reserve Price
- Virtual Interconnection Points
- Bundled Capacity Products
- Payable Price

The focus of this presentation is on the tasks for the tariff network code (TAR NC) set out in the tariff framework guideline (TAR FG).

General Provisions

- Definitions
  - Elaboration of definition for Transmission Services

- Implementation & mitigating measures
  - Drop dead date of 1st Oct 2017
  - Implementation before application of mitigating measures

- Tariff Setting Year – Impact Assessment
  - Harmonisation of the tariff setting year so that the tariffs apply from the 1st January to the 31st of December;
  - Harmonisation of the tariff setting year so that the tariffs apply from the 1st October to the 30th of September;
  - Status quo – no harmonisation of the tariff setting year

Publication Requirements

- The publication requirements chapter of ACER's TAR FG goes further than Regulation 715 and is prescriptive in terms of the amount of information that is required to be published

- One of the aims of the publication requirements is that third parties should be able to make a reasonable estimation of the reference price from published transmission cost data

- ENTSOG has been asked to develop a standardised format for publishing the information

- ENTSOG has concerns about some of the publication requirements and about how the publication of all requirements can be standardised.

Cost Allocation and Determination of the Reference Price

There are a number of tasks in the Cost Allocation and Determination of Reference Price chapter for development in the TAR NC

- ENTSOG has been asked to develop appropriate forecasting models and provide proxies for unstable flow patterns
- ENTSOG is working on assessing the pros and cons of the cost allocation methodologies and looking at the rationale for the circumstances in the TAR FG
- Discussions are taking place about a list of services that could be covered by charges for dedicated services/infrastructure
- ENTSOG is looking at how the cost allocation test could be applied

Revenue Reconciliation

- There are interactions between the cost allocation chapter and the revenue reconciliation chapter

- ENTSOG is exploring the interactions to understand better how they work together

- Considerations
  - One regulatory account
  - revenue recovery at IPs
  - revenue recovery at non-IPs, e.g. commodity charges

Reserve Prices

- Multiplier ranges have been set in the TAR FG but there is concern that applicable multipliers will create cross subsidies between network users with different booking profiles.

- ENTSOG has been asked to develop a methodology for determining seasonal factors and is currently working on a methodology

- ENTSOG has also been asked to set out a methodology for determining reserve prices for interruptible capacity
  - Interruptible capacity at bi-directional points
  - Interruptible capacity at uni-directional points

- There is a different pricing treatment for bi- and uni-directional interruptible capacity and there may be issues arising from this

Virtual Interconnection Points, Bundled Capacity Products and Payable Price

- Combination mechanism for VIPs, considering the following:
  - Bundled and unbundled capacity
  - VIPs with one TSOs on each side and with multiple TSOs on one or both sides of the border

- Bundled capacity reserve price
  - Price for bundled capacity
  - Split of auction premium, if any

- Payable price
  - ENTSOG will provide a mathematical formulation for the payable price
  - In the TAR FG, the payable price is just based on a floating price (the reference price of the capacity at the time of use) with an auction premium, if any

Thank You for Your Attention

The context of the Tariff Network Code

ENTSOG Kick-off Workshop on Tariff Network Code
Brussels, 15 January 2014

Kristóf Kovács – European Commission, DG Energy

Overview of NC development process

Incremental and new capacity

Interoperability & data exchange

Prep. for comitology

Balancing

Last stages

Capacity allocation

Transmission tariff structures

Rules for trading related to network access

Scoping

Congestion management procedures

European Commission

Tariffs are complex – detailed analysis must accompany conceptual work

- Work on Tariffs started over 2 years ago with the "Think" report
- The development of the Framework Guideline has been a complex process
- EC has also requested additional modules to ensure this is a decisive step toward the development of tarification structures that promote further market integration
- ACER has delivered a robust Framework Guideline that can serve as the basis for the ENTSOG work
- ACER impact assessment still to be delivered in Q1 2014

European Commission

EC looking forward to tariff work led by ENTSOG

- Assessment of impacts, including analysis of base case and options should feature prominently in SJWSs work (serving as the foundation of conceptual work)
- EC has specifically highlighted analysis requirements for ENTSOG in invitation letter relating to

  Tariffs and zone mergers

  Harmonization of tariff setting periods

  Circumstances in setting primary methodologies and applying secondary adjustments

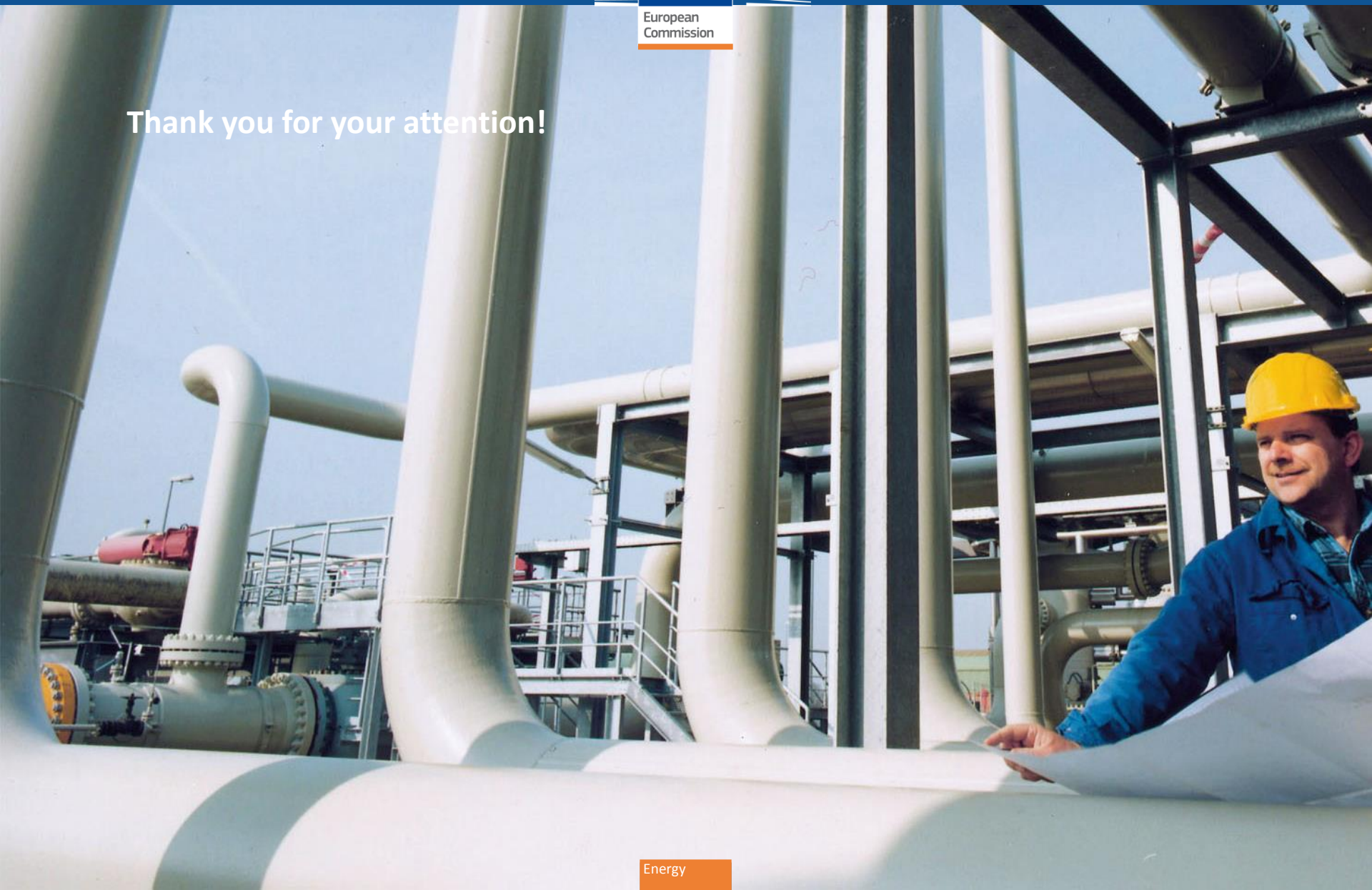
  Cases where there is insufficient financial commitment to pass economic test

  Multipliers and seasonal factors

European Commission

EC looking forward to tariff work led by ENTSOG

- EC looking forward to usual robust ENTSOG process of developing NCs
- Need for alignment with Incremental/New capacity work clear
- EC ready (as usual) to be/remain involved throughout the process
- After delivery of NC amendment end 2014 , ACER amendment proposal and comitology in 2015/early 2016


European
Commission
Thank you for your attention!
Energy

ETNSOG Workshop on Gas Tariffs

Brussels, 15/01/2014

EFET

European Federation of Energy Traders

Towards an effective Network Code on Gas Tariff Harmonisation

Key issues

Gas Committee Tariff Group

Initial reaction to final Framework Guidelines

- Finding consensus on tariffs is not easy
- Transparency, predictability/certainty and simplicity are key goals
- Harmonisation is beneficial if it helps achieve the above goals or removes/avoids distortion
- Need to build on the transparency and predictability in the FGs
- FGs do not go far enough in providing certainty
- Should harmonisation be more ambitious? – IA may provide clarity

Tariff certainty - publication requirements and timing

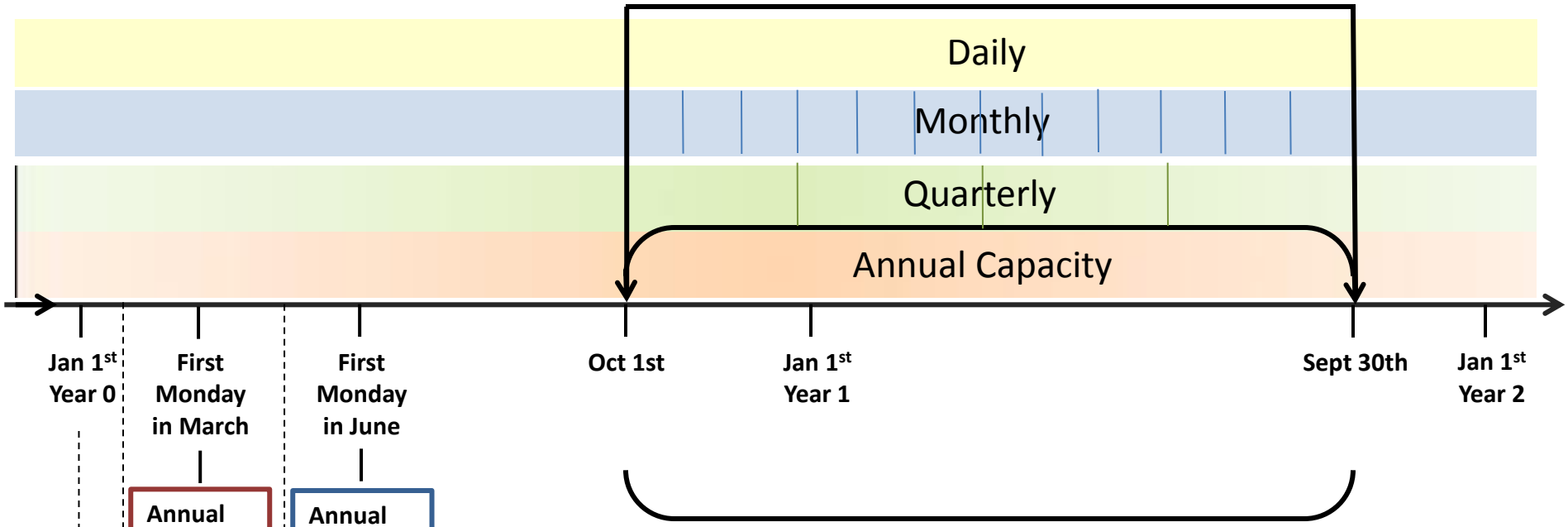
- **Notice period:**

Reserve prices, seasonal factors (if any) and multipliers (if any) relating to all auctioned capacity products in the relevant gas year (Oct – Sept) must be published at least 30 days **in advance of the first annual auction** for that gas year; they must not change during the year.

- **Projections:**

Forward **projections of reserve prices** should be published [x] years in advance (rolling/regulatory period)

Publication Timeline for Regulated Capacity Tariff Information



2-week notice about the amount of capacity to be offered

CAM requires 1-month notice of the amount of capacity to be

Need the same notice for tariffs when change in reserve price is < ± 10%

2-month notice needed if change in reserve price is > 10%

For all Capacity Products in the 0/1 supply year, including:

Reserve Prices
Seasonal Factors (if any)
Multipliers (if any)

Quarterly and monthly firm standard capacity products

- Quarterly and monthly reserve prices should be proportional to the annual reserve price → **multiplier of 1 by default**

  →Justification and stakeholder consultation in the event of any deviation from the default option but always within the FG range

- **Reserve price multipliers applying at an IP:** NRAs on both sides of the border should consult and agree a single multiplier for each flow direction
- **Factors to be considered:** the magnitude of price spreads between the relevant market areas; congestion; risk of under/over recovery;

Daily and within-day firm standard capacity products

Day-ahead or within-day multipliers limit potential opportunities for optimisation and efficient price arbitrage.

A +ve day-ahead multiplier is likely to be needed at any IP where there is an abundance of available capacity.

Should there be a default day-ahead reserve price multiplier?

Within-day reserve prices multiplier should be **zero by default**.

Justification and stakeholder consultation in the event of any deviation from the default option but always within the FG range

Let’s try and keep it simple!

Tariff certainty - payable price

- **Principle:** With a ‘floating‘ payable price, it would be helpful for TSOs/shippers to have greater certainty over revenues/prices. Measures to mitigate the impact of substantial changes in the reserve price still need to be developed.

- **Examples**

❶ Cap any increase to ‘x’% per year or within future tariff projections

❷ TSOs could offer an equivalent fixed price for an option fee

❸ Allow termination of contract if tariff increases by >‘z’ % in one year/ define range of fluctuation during contract term

Other challenges for tariff certainty

- Seasonal factors – single set of multipliers across the EU, methodology allowing for variability at specific IPs, or other?
- Interruptible capacity reserve price – how to determine the risk of interruption (only available when firm sold out)?
- Storage prices – determining the benefits of storage and the need for efficient investment - how to apply these to entry/exit tariffs?
- Implementation – what does the “NC on Tariffs shall apply to all contracts from Oct 2017 at the latest” really mean?
- Mitigating measures – how to apply - what about cost allocation methodology changes or large price changes post 2019?

European Federation of Energy Traders

Amstelveenseweg 998
1081 JS Amsterdam

For more information, please contact:

Aygul Avtakhova, *Policy and Communication Associate*, EFET
Email: A.Avtakhova@efet.org

www.efet.org

TAR NC :

Eurogas' initial views

Brussels, 15 January 2014

Presentation by Claude Mangin
Chairman of the Task Force on Tariffs

On the process

• **Eurogas is always pleased to be involved in Entsog's drafting process.**

• In order to feed the debate with "facts", Eurogas would like Entsog to give **"real" examples** of what has been implemented by different TSOs especially on two mains issues :

- **The multipliers and the seasonal factors.**

  Example : the GB system where day-ahead and within day capacities are discounted compared to longer capacity products (quarter and month) and lead to massive under-recovery.

- **The need for "permanent" mitigating measures.**

  Example : the ability for a shipper to terminate capacity contracts in Germany.

On the content : multipliers and seasonal factors

Eurogas' most important issue concerns **the price to be set for short term capacity products compared to long term ones** which can lead to :

- **discrimination** against those network users already locked-in in long term capacity contracts (and therefore not in a position to adapt their booking strategy to the new rules) and

- **massive cross-subsidization between different categories of shippers and consequently to massive under-recovery.**

- One simple solution is to apply the so-called revenue equivalence principle, i.e. the booking cost for a shipper will be the same, for instance, for these three profiles :

- Initial view : **Multipliers and seasonal factors should be higher than 1.**
- Nevertheless, **the GB system should be studied more in details to get a deeper analysis.**

On the content : the need for permanent mitigating measures (1/2)

- **Mitigating measures are absolutely necessary** since else shippers who have booked long-term capacity would have been unprotected against massive changes in tarification

  but the FG only allow mitigating measures :

  - **up to 1 October 2019 (as final deadline)**
  - **and under exceptional circumstances.**

→ **Eurogas will have a close look on these "exceptional circumstances" in the NC which should be more specific and exhaustive than the ones written in the FG.**

On the content : the need for permanent mitigating measures (2/2)

- Initial view on the design : different solutions must be debated and assessed during the drafting process as
  - the smoothing of the price increase over the tariff period,
  - the possibility for a shipper to terminate capacity contracts (as provided in Germany),
  - the option to have a fix reserve price in exchange of a premium (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,
  - 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.

→ **For instance, the German example regarding the possibility for a shipper to terminate capacity contracts will ease the assessment of this particular design.**

→ **The NC should detail all the mitigating measures that could be employed.**

Contact details

Av. de Cortenbergh 172
1000 Brussels
BELGIUM

Phone:
+32 2 894 48 48

eurogas@eurogas.org
www.eurogas.org

THANK YOU FOR YOUR ATTENTION !

Network Code Tariffs

-initial GIE remarks-

ENTSOG kick off WS, 15 January 2014

General remarks

- GIE supports the overarching scope and objectives
- Some general questions to be solved within the Network Code (NC)
  - Area of application
  - Issues to be defined in the NC vs. complete „instructions“ of Framework Guideline (FG)
  - Consistency of rules
- In some aspects the FG is very prescriptive
  - what is left for the stakeholder process?
- In some aspects the FG is quite general
  - will authorities accept ENTSOG/stakeholder‘s solutions?

Some initial views on specific aspects

- GIE supports the general approach to define a set of cost allocation methodologies and to criteria for their use
  - The combination of circumstances criteria, cost allocation test and methodology counterfactual might be too complex and too narrow to cover all „circumstances“ in Europe
- Secondary adjustments might be needed, but
  - Methodology used should be clear
  - General principles of Regulation (EC) No 715/2009 should be respected
- Clear rules for transmission-storage connection points needed
  - Cost reflectiveness taking into account the service rendered at the IP
  - Possible contribution of storages to system stability, efficient use of the network and efficient level of investments

Some initial views on specific aspects

- GIE welcomes that there are rules regarding reconciliation of regulatory account
  - consistency is crucial
  - Avoidance of cross subsidies between network users needed
- Reserve Prices
  - How to avoid cross subsidies between network users booking long term vs. short term
  - How to avoid cross subsidies between network users booking cross border vs. down stream
  - How to ensure cost reflectivity
  - Interaction between multipliers and seasonal factors
- Floating tariff might be threat for long term bookings

Thank you for your attention.

GIE - Gas Infrastructure Europe
www.gie.eu

Tariff Network Code
ENTSOG
kick-off meeting

IFIEC-CEFIC position

Dirk-Jan Meuzelaar

Brussels, January 15th 2014

A harmonized and robust Tariff Structure in the interest of TSOs and its customers

TSOs should be able to get a fair return on their efficient investments (CAPEX) and operational costs (OPEX) in order to:

- Safeguard Security of Supply:
  - ability to replace worn out infrastructure;
  - ability to invest in new infrastructure;
- Safeguard high standard of operations and services;
- Facilitate unhindered market competition (free trade of commodity).

IFIEC/CEFIC insist that the Tariff Structure is based on the following guiding principles

Tariffs should:

- reflect efficient costs (low risk premiums);
- be based on cost reflectiveness and actual costs;
- prevent (price) discrimination;
- minimize cross subsidization;
- prevent free riders behavior via ‘causer pay’ principle;

For these reasons Tariff Structures in the internal EU gas market should be harmonized

FG is focused on cost allocation instead of cost efficiency

- Focus is driven by fear for decreasing revenues or even under-recovery;
- Insufficient revenues for new investments;

Network Users have evidence that they pay more than once for the same network

Efficient cost: transparency is key!

Network Users must have information about the real transport cost and the allocation methodology (Tariffs):

- historical and actual data on tariffs for all entry and exit points will help consumers to understand and estimate transport price fluctuations in the future that will be dominated by capacity auctions;
- Reliable and deductible Tariffs and Tariff development;

IFIEC-CEFIC welcome the limitation of the number of methodologies

- It is easier to compare and benchmark transportation costs……
- ….. which will support an efficient cost level.

Cost drivers allocation should reflect decoupled entry-exit and free flow/trade cross border

We support collection of revenues based on capacity charges:

- capacity as main cost driver, …
- … not distance,
- main part of transport costs are fixed costs.

For virtual markets, transport costs should be equally shared between entry and exit

- 50/50 split between entry and exit as a starting point.

Project Plan on development of Tariff NC

Disclaimer: For discussion, this not a final OGP position

ENTSOG kick-off workshop on Tariff NC
Brussels, 15 January 2014

Kees Bouwens, ExxonMobil

Since 1974...

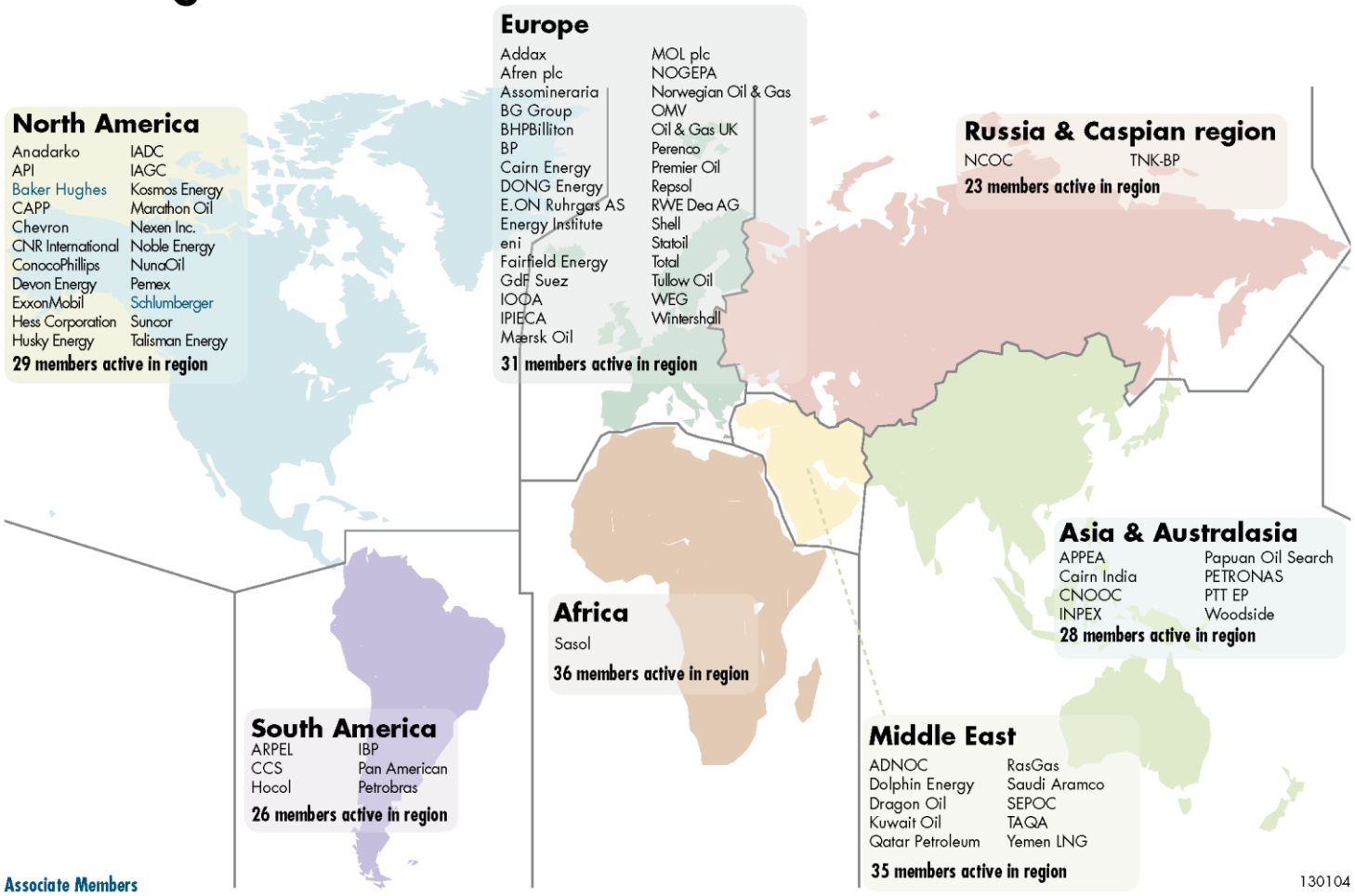
OGP

- OGP represents publicly traded, private and state oil & gas companies, field service companies & industry associations
- Members produce more than half of the world's oil and over one third of its gas
- Offices in London and Brussels
- Sharing experience, debating emerging issues & promoting cooperation, consistency and effectiveness
- Facilitating continual improvement in HSE, CSR, engineering and operations

Some 80 members around the world

OGP

Base region of Members



ENTSOG's Project Plan

- **OGP supports ENTSOG's proposed Project Plan**
  - Builds on the experience with previous NCs
  - Time schedule is very tight, set to meet 12-month term
  - Process relies on active stakeholder involvement
    - We welcome close alignment with project on Incremental
    - Please contemplate some flexibility/contingency in the plan
- **Scope of the Tariff NC project**
  - For products under CAM NC: pricing of short-term capacity
  - For all capacity products: Cost allocation methodology and Publication requirements
  - Scope excludes Chapter on Incremental/New Capacity

ACER Guidance

- **ACER's FG provide extensive guidance on Tariff NC**
- **Objective of Tariff NC is:**
  - Harmonising the gas transmission tariff structures across the EU, to the extent that this is necessary to contribute to the completion and the efficient functioning of the market
- **What is the problem that needs fixing?**
  - Accumulation of entry and exit charges at IPs?
  - Potential impact of this NC on individual users could be very significant - is this justified?
- **We look forward to ACER's Impact Assessment**

ACER Guidance

- **Which elements do we like?**
  - Transparency / Publication requirements
  - Consultation requirements (in English)
  - Methodology counterfactual
    (subject to clarification)

point|sect.	3.3.1.1	3.3.1.2 (A)	3.3.1.4
EN1	1,073	819	804
EN2	1,073	1,449	2,729
EN3	1,073	945	243

  - Harmonisation of reserve prices for short-term products
    (subject to clarification)

ACER Guidance

- **Questionable items:**
  - Entry-exit split, although we understand 50/50 is included only as 'last resort'
  - Cost allocation methods
    - Aimed at harmonisation, or to maintain status quo?
    - Seems to ignore that distance is eliminated as major cost driver in entry-exit regime
  - Lack of stability in tariff regulation
    - Network users should be protected from significant and rapid tariff changes caused by regulatory changes
    - Is ongoing concern, not just implementation issue

ACER Guidance

- **Items that need further clarification include:**
  - Aim of Multipliers and Seasonal factors
    - In our view they should avoid discrimination and cross subsidies between long-term and short-term capacity products
  - Mitigating measures
  - Publication notice period
    - Alignment with CAM auction calendar
    - Possibility to differentiate for products under CAM NC?
  - Cost allocation methods: capacity assumptions and system representation
  - Cost allocation test
  - Postage stamp - yes or no? Or tariff equalisation?

Thank you for your attention !

Proposed Topics for TAR NC SJWS 1

Kick Off Meeting

15th January 2014

TAR NC SJWS 1 – Proposed Topics
(11th February: ENTSO-E Conference Room)

1. Cost Allocation and Determination of the Reference Price
2. Virtual Interconnection Points
3. Bundled capacity reserve price
4. Payable price
5. Seasonal Factors

These topics are outlined in the draft project plan consultation, which may change following the end of the consultation period.