‘4 February 2013 Open House Materials’
on
Draft
Framework Guidelines on rules regarding harmonised transmission tariff structures for gas

31 January 2013

Agency for the Cooperation of Energy Regulators
Trg Republike 3
Ljubljana - Slovenia

This Document contains the 4 February 2013 Open House materials on draft Framework Guidelines on rules regarding Harmonised Transmission Tariff Structures in European Gas Transmission Networks. Any written comments are welcome.

The aim of the Document is to share the refined policy options, as an outcome of the stakeholder inputs and discussions (public consultation of the Agency launched on 5 September 2012 and the workshop organised on 23 January 2013).

This Document is part of the framework guideline development process and is only a draft text, which may change subject to additional stakeholder comments and further analysis of the Agency. Furthermore, the current text only concerns the main issues currently under discussion. Smaller changes due to stakeholder input in the consultation may be introduced in the remainder of the Framework Guidelines text, without them being presented here.

Stakeholders are encouraged to review the refined draft proposals concerning the policy options and submit any written comment to:

Open-House-Gas-Tariff@acer.europa.eu

By 11 February 2013, 12:00 CET.

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1. General

1. Questions for Open House

1) Agency kindly requests shippers to inform the Agency if they have gas transportation contracts which go beyond 2017 and contain a fixed tariff.
2) And if shippers have such contracts (see question 1), until when are these contracts guaranteed?

2. General provisions

The few references to Article 7(4) of Regulation (EC) No 713/2009 will be replaced by one single general reference:

The Framework Guidelines are adopted on the basis of Regulation (EC) No 715/2009, which it intends to supplement. Irrespective whether or not the subsequent network code will be adopted as an Annex to the Regulation (EC) No 715/2009, references to this Regulation shall be understood as also referring to these Framework Guidelines.

On each topic from chapter 2 onwards we ask for your views on the feasibility and proportionality of the changes considered.

2. Indicators

1. Rationale

Indicators are required by Article 9 of the Regulation (EC) No 715/2009, and are necessary to monitor the implementation and follow up on the results of the policies set out in the Network Code (NC) in a comparative way throughout the EU.

2. Draft text (September 2012) and new text under consideration (January 2013)

Proposed text to be inserted in chapter 1 of the draft Tariff FG, in Implementation subchapter:

Draft text (September 2012)	New text under considertaion (January 2013)
-	*ENTSO-G shall assist the Agency in conducting its monitoring tasks pursuant to Article 9(1) of Regulation (EC) No 715/2009. Therefore, all the relevant information shall be communicated by ENTSOG to the Agency pursuant to Article 8(8) and Article 8(9) of Regulation (EC) No 715/2009 ,*

Draft text (September 2012)	New text under considertaion (January 2013)
	including timings of communication. Within three months after the entry into force of this Network Code, the relevant information shall be determined by the Agency in close cooperation with ENTSOG and updated when appropriate,. This relevant information is without prejudice to the Agency's right to request from ENTSOG other information required by the Agency to fulfil its tasks under Article 9(1) of Regulation (EC) No 715/2009. ENTSOG shall maintain a comprehensive, standardised format, digital data archive of the information required by the Agency. *The relevant information for the NC on Tariffs to be communicated by ENTSOG to the Agency shall contain the results of the implementation monitoring with regard to the goal pursued by these Framework Guidelines*, in a comparative way, delivering information in particular on: » direct tariff related aspects such as percentage changes in tariffs, the amount of over- and under-recoveries in each year and the size of regulatory accounts, » beneficiaries and/or concerned parties of the potential over and under recovery, » number of cross-border tariff-related discrimination complaints, and the value of multipliers per product, IP etc. in each year. » fulfilment of the transparency norms, formulated in the NC, in a qualitative and quantative manner.

3. Transparency

1. Rationale

During the public consultation on the draft Framework Guidelines (FG), many stakeholders have expressed their wish to be given the possibility to anticipate and estimate tariff changes. This requires that greater transparency over the tariff framework and methodology[1] is introduced at the EU level. Neither the draft FG of 4 September 2012, nor the current regulatory framework, addresses these concerns of the stakeholders fully. The FG shall therefore further clarify and reinforce the provisions on transparency.

2. Draft text (September 2012) and new text under consideration (January 2013)

Draft text (September 2012)	New text under consideration (January 2013)
The Network Code on Tariffs shall ensure that, irrespective of the regulatory regime applied (price cap, revenue cap or rate of return), the methodologies for determining the reference prices for interconnection points between entry-exit zones and the regulated prices for other points which are not subject to auctioning, as well as the cost allocation methodology, shall be discussed, before adoption, with all stakeholders in public consultations and shall be published and made transparent to all network users by the TSO's or relevant national authorities[2]. The Network Code on Tariffs shall specify that these methodologies be cost-reflective and non-discriminatory, and that transparency be provided in particular on the following points: • Assumptions on capacity utilisation and subscriptions; • Evolution of tariffs (methodology to calculate tariffs and relevant input data); • Assumptions on costs; • Use of flow simulations; • Locational signals; and • Cost-efficiency targets.	*For the reference prices for interconnection points between entry-exit zones and the regulated prices for other points which are not subject to auctioning, third parties must be enabled:* • *to make a reasonable estimation of pricing calculations in the presence of transmission cost data, including a reasonable estimation on the evolution of tariffs over the next regulatory period;* • *to understand all the TSO services rendered and the corresponding tariffs;* • *to understand how individual tariffs have been derived and why they (do not) differ.* *In view of these objectives, the Network Code on Tariffs shall ensure that, irrespective of the regulatory regime applied (price cap, revenue cap or rate of return or a combination of these approaches), the methodologies for determining the reference, respectively regulated prices, as well as the cost allocation methodology, shall be discussed, before adoption, with stakeholders in public consultation and shall be published in detail and made transparent to all network users in the local language(s) and in English either by the TSOs or, where relevant, by the national regulatory authorities.* *Moreover, information, in an aggregated format where necessary for confidentiality reasons, shall be published on :*

1 See Art. 18(2) of the Gas Regulation (715/2009) (TSOs shall publish reasonably and sufficiently detailed information on tariff derivation, methodology and structure) and point 3.4(6) of Annex I, chapter 3 on transparency, also in the Gas Regulation (TSOs shall provide user-friendly instruments for calculating tariffs).

2 Article 18(2) of Regulation 715/2009 states that: "In order to ensure transparent […] tariffs […], transmission system operators or relevant national authorities shall publish reasonably and sufficiently detailed information on tariff derivation, methodology and structure".

Draft text (September 2012)	New text under consideration (January 2013)
	• *Allowed revenue where applicable;* • *Cost parameters, such as:* • *OPEX and CAPEX, level and re-evaluation of RAB, costs of capital, WACC()s and its components, investment remuneration, depreciation and (if any) stranded assets; operating costs, costs for fuel energy;* • *Cost-efficiency targets, inflation;* • *Regarding the methodology applied to calculate tariffs: the entry-exit split, the cross-border - domestic split, and, where applicable, the distance to the VTP, a comprehensive description of the LRMC, matrix, or average cost methodology and/or locational signals;* • *any public outlook information on forecasted technical capacity or sale of capacities and Load flow commitments[3];* • *Reconciliation of the regulatory account, including treatment of auction revenues;* • *Information on Reserve prices, such as level and underlying reasons of multipliers andseasonality factors; formulas to calculate discounts/reserve prices for interruptible products.* *The Network Code on Tariffs shall set a minimum notice period of at least 30 days for motivated communication on changes to the reference prices for interconnection points between entry-exit zones and the regulated prices for other points which are not subject to auctioning.* *At interconnection points, when some capacity is offered beyond the existing technical capacity and investment is to be validated according to*

[3] We note that nationally 3 different methods are currently at use to arrive at such assumptions, such as bookings, technical or flow estimates. The choice which method to use is left to NRAs and TSOs.

Draft text (September 2012)	New text under consideration (January 2013)
	the level of bookings, the tariff shall be made transparent to the bidders, including its inputs and potential evolution. Such inputs may include TSO investments costs and assumptions about future capacity bookings and other parameters used for net present value calculations. Any relevant information regarding the way the investment decision shall be published (while preserving the confidentiality of commercially sensitive information). *The Network Code on Tariffs shall develop a standardized format for publishing the information specified above.* *Network Code on Tariffs shall specify that the information for multiple TSOs in one entry-exit zone can be published on entry-exit zone level.*

4. Cost allocation

1. Rationale

<u>Cost allocation to entries and exits</u>

The objective of this rule is to reduce the possibility of cross-subsidisation between domestic and cross-border network users. The framework guideline shall introduce a test based on two ratios that separately analyse costs paid by domestic and by cross-border users. The test allows to take into consideration the differences between countries, while pursuing an objective method to verify that a non-discriminatory cost-allocation is applied to domestic and cross-border network users.

<u>We also seek amendments so that there are specific transmission tariffs when exiting the system to a storage facility or entering the system from a storage facility</u>

The objective of this amendment is to ensure that cost-reflective transmission charges are paid by system users accessing underground storages located within an entry-exit system The transmission charges that such users should pay should account for them entering the entry-exit system only once and exiting the entry-exit system only once. While these users should not pay the full transmission charges to enter the entry-exit system twice and exit the entry-exit system twice, they may be charged specific costs relating to the costs they impose on using the entry-exit system.

2. Draft text (September 2012) and new text under consideration (January 2013)

Draft text (September 2012)	New text under consideration (January 2013)
The Network Code on Tariffs shall specify that: • The reference and regulated prices for all entry capacity services, and the reference and regulated prices for all exit capacity services be established using forecast allowed revenues and forecast subscriptions, and using the same methodology for all entry and exit points[4]; while at the same time setting out that: • The reference and regulated prices for entry capacity services shall mainly take into account the major cost drivers such as (inter alia) distance. However, an equalisation approach may be used provided that NRAs duly justify where and why all entry points may have equal reference or regulated prices. When justifying an equalisation approach, NRAs need to demonstrate that the approach does not lead to discrimination between domestic and cross-border network users and has no detrimental effect on cross-border trade. • The expected revenues from the sale of transmission services at all entry points shall equal 50% of the overall revenues expected to be generated at all entry and exit points of the entry-exit zone (i.e. the total allowed revenues in revenue cap regulatory regimes). NRAs may deviate from the 50% rule when such an allocation rule would significantly and detrimentally affect the cost reflectiveness of resulting network tariffs. When justifying such a deviation, NRAs will need to demonstrate that any alternative approach does not lead to discrimination between domestic and	*The Network Code on Tariffs shall specify that:* • *The reference and regulated prices for all entry capacity services, and the reference and regulated prices for all exit capacity services, shall be established using forecast allowed revenues and forecast subscriptions/ technical capacities. One and the same methodology shall be used for all entry points, and one and the same methodology shall be used for all exit points;* *while at the same time setting out that:* • *The reference and regulated prices for entry capacity services shall take into account the major cost drivers such as distance. However, an equalisation approach may be used provided that NRAs duly justify where and why all entry points have equal reference or regulated prices. If applicable, NRAs need to demonstrate that the equalsiation approach does not lead to discrimination between domestic and cross-border network users and has no detrimental effect on cross-border trade.* • *The expected revenues from the sale of transmission services at all entry points shall add up to at least 25%, but not exceed 50% of the overall revenues expected to be generated at all entry and exit points of the entry-exit zone (i.e. the total allowed revenues in revenue cap regulatory regimes). When applying this rule, NRAs may decide to exclude the revenues related to some dedicated services (e.g. metering, odorisation, ...) and/or some dedicated pieces of*

4 The application of the same methodology does not rule out the possibility of different, but still consistent, tariff structures for entry and exit points, as long as these are based on the same or consistent modelling assumptions (i.e. on the requirement for a single calculation methodology, including the same underlying assumptions in terms of cost, demand projections, capital expenditure, etc.).

Draft text (September 2012)	New text under consideration (January 2013)
cross-border network users and has no detrimental effect on cross-border trade. Before adopting their decision regarding such a deviation, NRAs shall consult with NRAs of adjacent Member States and the relevant stakeholders. In adopting their decision, NRAs shall take account of the opinion of adjacent NRAs. Article 7(4) of the Agency Regulation applies to the decisions of NRAs regarding such deviation. • The reference and regulated prices for exit capacity services shall mainly take into account the major cost drivers such as (inter alia) distance. However, an equalisation approach may be used for domestic exit points provided that NRAs duly justify where and why all domestic exit points may have equal reference or regulated prices. When justifying any equalisation approach, NRAs need to demonstrate that the approach does not lead to discrimination between domestic and cross-border network users and has no detrimental effect on cross-border trade. Before adopting their decision regarding the equalisation approach, NRAs shall consult with NRAs of adjacent Member States and the relevant stakeholders. In adopting their decision, NRAs shall take account of the adjacent NRAs' opinion. Article 7(4) of the Agency Regulation applies to the decisions of NRAs regarding the equalisation approach. The above shall not preclude the harmonisation of methodologies for setting reference prices on both sides of an interconnection point, where agreed between NRAs. The Network Code on Tariffs shall determine that entry and exit points to and from gas storage	*infrastructure (e.g. lower pressure networks to supply only domestic customers). If applicable, NRAs will need to demonstrate that the exclusion of services and/or assets does not lead to discrimination between domestic and cross-border network users and has no detrimental effect on cross-border trade.* • *The reference and regulated prices for exit capacity services shall take into account the major cost drivers such as distance. However, an equalisation approach may be used for domestic exit points provided that NRAs duly justify where and why all domestic exit points have equal reference or regulated prices. If applicable, NRAs need to demonstrate that the approach does not lead to discrimination between domestic and cross-border network users and has no detrimental effect on cross-border trade.* *In view of avoiding cross-subsidies between domestic and cross-border network usage, the Network Code on Tariffs shall develop a comparative test whereby the expected revenues from the sale of transmission services at domestic, respectively cross-border, points will be divided by its cost drivers (e.g. capacity, distance, ...). In order to indicate that there is no manifest cross-subsidisation between domestic and cross-border services, the two obtained ratios of revenue per cost driver(s) have to be within a reasonable margin (e.g. 5%). If the ratios are not within this range, the tariffs have to be adapted in such way that the test delivers a proper result. The TSO or, where applicable, the NRA will publish the input parameters, its numbers and the outcome of the test.* *The Network Code on Tariffs shall develop a tariff methodology regarding capacity and/or commodity base charges that NRAs have to*

Draft text (September 2012)	New text under consideration (January 2013)
facilities with third party access may be priced at an adequate discount[5].	*apply to entry and exit points to and from gas storage facilities, taking into account that users of gas storage facilities have already paid an entry fee when entering in the transmission network and will be paying an exit fee when exiting it.* *[Alternative : The network code on tariffs shall develop a methodology for the pricing of entry and exit to and from gas storages to safeguard efficient investments in networks. In developing this methodology ENTSOG should take into account the effects on cross-border trade and cost-reflectivity such that the resulting tariffs will reflect the role of gas storages in the functioning of the internal market.]* *[text allowing for special rules for cost allocation for incremental capacity may be needed]*

5. Revenue recovery

1. Rationale

The public consultation revealed a clear preference for a capacity approach for the reconciliation of the regulatory account to be adopted as a harmonized approach for IPs, as the default rule. An alternative revenue recovery mechanism may be adopted by an NRA only on domestic points, in accordance with the ratio alignment between domestic and cross-border network services as defined in section 2 of the draft Framework Guidelines, on *Cost allocation and determination of the reference price*. Transparency towards market participants on the allocation of under and over-recoveries is needed.

2. Draft text (September 2012) and new text under consideration (January 2013)

Draft text (September 2012)	New text under consideration (January 2013)
3. Revenue recovery **3.1 Regulatory account**	***3. Revenue recovery*** ***3.1 Regulatory account***

[5] Please note that the NC is to provide the reasoning behind this discount, and the methodology to apply in order to calculate it transparently.

Draft text (September 2012)	New text under consideration (January 2013)
The Network Code on Tariffs shall set out that, irrespective of the regulatory regime applied (price cap/tariff basket, revenue cap or rate of return), the following rules shall be complied with. The Network Code on Tariffs shall specify that the determination of the reference prices for the interconnection points between entry-exit zones and of the regulated prices for the other points seek to minimise any gaps between the revenues which the TSO is entitled to obtain on the basis of the applied regulatory regime and the revenues actually obtained by the TSO. A regulatory account shall record the difference between the revenues which the TSO is entitled to obtain on the basis of the applied regulatory regime and the revenues actually obtained by the TSO. The Network Code on Tariffs shall specify that NRAs: • determine or approve how often and how fast the regulatory account has to be reconciled, with a view to allowing for timely cost recovery and avoiding sharp adjustments of network tariffs; and • determine or approve, and justify ex-ante at a national level, which fraction of the under- or over-recovery will be logged on to the regulatory account (and therefore paid by, or returned to, consumers), and which part should be met by the TSO(s). The Network Code on Tariffs shall specify that NRAs may decide to use any over-recovery resulting from auction premia to reduce congestion. **3.2 Reconciliation of regulatory accounts** The Network Code on Tariffs shall specify that regulatory accounts be reconciled on an ex-post basis via one of the two mechanisms defined below. Before adopting their decision regarding the mechanism to be used for the reconciliation of the regulatory account in respect of	*The Network Code on Tariffs shall set out that, irrespective of the regulatory regime applied (price cap, revenue cap or rate of return), the following rules shall be complied with.* *The Network Code on Tariffs shall specify that the determination of the reference prices for the interconnection points between entry-exit zones and of the regulated prices for the other points shall seek to minimise any gaps between the revenues which the TSO is entitled to obtain on the basis of the applied regulatory regime and the revenues actually obtained by the TSO.* *A regulatory account shall record the difference between the revenues which the TSO is entitled to obtain on the basis of the applied regulatory regime and the revenues actually obtained by the TSO during the same period of time. The Network Code on Tariffs shall specify that each TSO has a single regulatory account.* *The Network Code on Tariffs shall specify that NRAs determine or approve, and justify ex-ante at a national level, which fraction of the under- or over-recovery will be logged on to the regulatory account (and therefore paid by, or returned to consumers), and which part should be met by the TSO(s) in line with incentive efficiency targets. The Network Code on Tariffs shall specify that NRAs may decide to use any over-recovery resulting from auction premia to reduce congestion.* ***3.2 Reconciliation of regulatory account*** *Any revenue to be recovered by the TSO or redistributed back to network users is allocated ex-post, to every entry or exit point in accordance with the chosen cost allocation methodology, with a view to keeping the ratios defined in section 2 aligned. The network code shall specify that NRAs determine or approve how often and how fast the regulatory account has to be reconciled, with a view to allowing for timely cost recovery and avoiding sharp adjustments of network tariffs.* *At interconnection points, where capacity is*

Draft text (September 2012)	New text under consideration (January 2013)
interconnection points, NRAs shall consult with NRAs of adjacent Member States and relevant stakeholders. In adopting their decision, NRAs shall take account of the adjacent NRAs' opinion. Article 7(4) of the Agency Regulation applies to the decisions of NRAs regarding the choice of the mechanism(s) to be used for the reconciliation of the regulatory account. **Option 1: Capacity approach** Any revenue to be recovered by the TSO or redistributed back to network users are allocated ex-post, in the subsequent period(s), in accordance with the chosen cost allocation methodology, to every entry or exit point. At interconnection points, where capacity is allocated through auctions, revenue shall be recovered or redistributed back through an adjustment of the reserve prices set in the auctions. The reserve price applicable to capacity allocated in a previous auction, but not yet used, may also be adjusted accordingly[6]. At other entry or exit points where capacity is not allocated through auctions, revenue shall be recovered or redistributed back through an adjustment of the regulated price. In this way, all entry and exit points will contribute to the reconciliation through an adjustment of either the reserve price or the regulated price (in order to avoid a situation whereby the adjustment of the reserve price or the regulated price at only one or a few entry or exit points where under- or over-recovery occurred exacerbates the problem). For the avoidance of doubt, under this option each TSO shall have only one regulatory account. **Option 2: Separate charge based on capacity and commodity**	*allocated through auctions, revenues shall be recovered or redistributed back through an adjustment of the reserve prices set in the auctions. The reserve price applicable to capacity allocated in a previous auction, but not yet used, has to be adjusted accordingly. At other entry or exit points where capacity is not allocated through auctions, revenues shall be recovered or redistributed back through an adjustment of the regulated price. In this way, all entry and exit points will contribute to the reconciliation through an adjustment of either the reserve price or the regulated price (in order to avoid a situation whereby the adjustment of the reserve price or the regulated price at only one or a few entry or exit points where under- or over-recovery occurred exacerbates the problem).* *On domestic points, the Network Code on Tariffs shall set out that NRAs may decide to use alternative methodologies to reconcile the regulatory account and recover allowed revenues while respecting the ratios alignment defined in section 2.* *On domestic points, where a flow based charge is used to collect costs that are driven mainly by the volume of flows, NRAs may decide that under- or over- recovery of such flow based costs are recovered by allocating ex-post changes to the flow based charge.*

Draft text (September 2012)	New text under consideration (January 2013)
The amount of revenue to be recovered is allocated ex post, primarily to the entry and exit points as part of either the reserve or regulated price, and secondarily through a separate charge. This charge can be based either on gas flows (commodity) or on capacity bookings (capacity). The share of the regulatory account to be covered by the capacity (or commodity) charge must be equal to the share of the total allowed revenue to be covered by the capacity (or commodity) charge. The separate charge is levied at a TSO level and applies to all entry and exit points. For the avoidance of doubt, under this option each TSO shall have only one regulatory account.	

6. Reserve price

1. Rationale

Reserve prices for firm products

During the public consultation on the draft Framework Guidelines, a majority of stakeholders has indicated that they favor a higher level of harmonization. In particular, the decision of the application and level of multipliers as well as seasonal factors should be left less to the discretion of NRAs. On the other hand, stakeholders acknowledged the need for a distinction in the approach towards congested and non-congested networks.

The goal of the proposed changes is to strike a balance between the need for presciptiveness and the necessary room for flexibility. As a result, proportional reserve prices are the default rule for quarterly and monthly capacity products. Deviations from the default rule are possible within a defined range.

The propssals regarding daily and within-day capacity products remain unchanged.

Reserve prices for interruptible and non-physical backhaul capacity

Stakeholders acknowledge that the pricing of interruptible capacity should reflect the value of the product, i.e. the risk of interruption. The exact methodology for assessing the risk of interruption and the "translation" of that risk into discounts shall be set out in the Network Code. No change is required on this point in the draft FG.

Stakeholders have diverging views on the pricing of non-physical backhaul capacity. Some stakeholders argue for pricing non-physical backhaul capacity at marginal cost as this methodology would ensure cost-refelctivity. Other stakeholders argue for pricing non-physical backhaul capacity the same way as interruptible capacity whereby the risk of interruption should be reflected in the reserve price.

2. Draft text (September 2012) and new text under consideration (January 2013)

Draft text (September 2012)	New text under consideration (January 2013)
4.1 Reserve prices for firm standard capacity products The Network Code on Tariffs shall set out that the reserve prices for all standard capacity products with a duration of less than one year be on average lower than, or equal to, the price set proportionately to the yearly reference price ("multipliers" for short-term capacity are on average lower than, or equal to, one). This implies that, on average over the gas year, the daily, monthly and quarterly reserve prices are lower than, or equal to, the product of the annual reserve price and the ratio of their duration (in days) divided by 365[7]. Seasonal factors may apply where necessary to improve gas transmission system efficiency and cost reflectiveness. When seasonal factors are applied, in some seasons the reserve price for all standard capacity products with a duration of less than one year may be higher than the price set proportionately to the yearly reference price, but on average over the year the general condition, as defined in the previous paragraph, would still apply. The Network Code on Tariffs shall set out that NRAs may decide to allow for multipliers higher than one, but not higher than 1.5[8], if significant under-recovery is to be expected.	***4.1 Reserve prices for firm standard capacity products*** *The Network Code on Tariffs shall set out that the reserve prices for quarterly and monthly firm standard capacity products shall be on average equal to the price set proportionately to the yearly reference price. This implies that, on average over the gas year, the monthly and quarterly reserve prices are equal to the product of the annual reserve price and the ratio of their duration (in days) divided by 365[9].* *The Network Code on Tariffs shall set out that the reserve prices for daily and within-day firm standard capacity products be on average less than or equal to the price set proportionately to the yearly reference price.* *The Network Code on Tariffs shall set out that if significant under-recovery is to be expected NRAs may decide to allow for average multipliers higher than one, but not higher than 1.5[10].* *Significant under-recovery shall be assumed only if it would lead to an increase in the reference price at a certain IP of more than x %.* *[Alternative: Significant under-recovery shall be assumed only if the gap between expected and actually obtained revenues exceeds x % of the allowed revenues of the TSO.]* *For quarterly and monthly products, the Network Code on Tariffs shall set out that if significant*

[7] For leap years, it may be considered to divide by 366.

[8] For the avoidance of doubt we clarify that seasonal factors can be higher than 1.5. From a terminology point-of-view we distinguish between "multipliers" which apply to different categories of standard capacity products (day, month, quarter,...) and "seasonal factors" which apply to products offered at

Draft text (September 2012)	New text under consideration (January 2013)
Before adopting their decision, NRAs shall consult with NRAs of adjacent Member States and relevant stakeholders. In adopting their decision, NRAs shall take account of the adjacent NRAs' opinions. Article 7(4) of the Agency Regulation applies to the decisions of NRAs regarding the level of the multiplier.	*over-recovery is to be expected NRAs may decide to allow for multipliers lower than one, but not lower than 0.5.* *Before adopting their decision on these reserve prices, NRAs shall consult with NRAs of adjacent Member States and relevant stakeholders. In adopting their decision, NRAs shall take into account the adjacent NRAs' opinions.* *Seasonal factors shall only apply if they improve the gas transmission system's efficiency and cost reflectiveness. When seasonal factors are applied, the reserve price for all standard capacity products with a duration of less than one year may be higher than the price set proportionately to the yearly reference price for some seasons, but on average over the year the general condition, as defined in the previous paragraphs, still has to apply.*
The Network Code on Tariffs shall develop: • a methodology for determining seasonal factors and the conditions under which seasonal factors are applied; and a concept for determining multipliers for short-term capacity for cases in which NRAs have decided that multipliers higher than one may be applied. This concept has to represent a well-balanced approach that must take into account the risk of significant under-recovery, as well as facilitating improvements in cross-border competition.	*The Network Code on Tariffs shall develop:* • *a methodology for determining seasonal factors and the conditions under which seasonal factors are applied; and* • *a methodology for determining multipliers for short-term capacity for cases in which NRAs have decided that multipliers higher or lower than one may be applied. This concept has to represent a well-balanced approach that must take into account the risk of significant under-recovery, as well as facilitating improvements in cross-border competition.*

different times within a certain category of standard capacity product (e.g. 365 days). The « 1.5' » applies to multipliers only, and is based on <u>an average</u> as explained in first paragraph of chapter 4.1.

[9] For leap years, it may be considered to divide by 366.

[10] For the avoidance of doubt we clarify that seasonal factors can be higher than 1.5 for a given quarter, month or day.

Draft text (September 2012)	New text under consideration (Januarty 2013)
4.2 Reserve prices for interruptible and non-physical backhaul standard capacity products The Network Code on Tariffs shall set out that reserve prices for interruptible and non-physical backhaul standard capacity products be set at a discount to the firm standard capacity product with equivalent duration. The Network Code on Tariffs shall, in case of interruptible standard capacity products, set the discount(s) in such a way to adequately reflect the risk of interruption, so that if the risk is low, the discount will also be low. TSOs shall need to publish their assessment of the risks of interruption. The discount is to be recalculated once a year. The Network Code on Tariffs shall, in case of non-physical backhaul standard capacity products, set the discount so that the reserve price reflects the level of actual (marginal) costs that the TSO incurs to provide this service, i.e. the IT and administrative costs of providing non-physical backhaul standard capacity products.	***4.2 Reserve prices for interruptible capacity*** *The Network Code on Tariffs shall set out that reserve prices for interruptible capacity be set at a discount to the firm standard capacity product with equivalent duration.* *The Network Code on Tariffs shall set out a methodology for determining reserve prices for interruptible capacity.* *The methodology shall meet the following criteria: At interconnection points where firm capacity is offered in both directions the discount(s) for interruptible capacity shall adequately reflect the risk of interruption, so that if the risk is low, the discount shall also be low. TSOs shall publish their assessment of the risks of interruption. The discount is to be recalculated at least once a year;* *In addition to the above rule, at unidirectional interconnection points where TSOs offer technical capacity only in one direction and capacity is offered in the other direction on an interruptible basis (non-physical backhaul capacity), the methodology for determining the reserve price shall be set to reflect the actual (marginal) costs that the TSO incurs to provide this service.* *[Alternative rule for unidirectional interconnection points: at unidirectional interconnection points where TSOs offer technical capacity only in one direction and capacity is offered in the other direction at least on an interruptible basis (non-physical backhaul capacity), the methodology shall duly take into account any reductions in cost for flows in the direction in which the TSO offers the technical capacity for determining the reserve price for non-physical backhaul capacity.]*

7. Payable price

1. Rationale

In this chapter key changes concerns a payable price option being developed, which ensures that NRAs may adjust the payable price when network expansions are made, to allow for a payable price which strikes a fair balance between existing and new shippers.

2. Draft text (September 2012) and new text under consideration (January 2013)

Draft text (September 2012)	Considered new text (2013)
This section of these Framework Guidelines applies to all entry and exit points under the scope of the Network Code on CAM. The Network Code on Tariffs shall set out that the difference between the reserve price at an auction and the clearing price be considered a premium to be paid on top of the reserve price at the time of use of the capacity. Therefore, the payable price shall be the sum of the reserve price at the time of use of the capacity and the premium as determined in the auction[11]. The payable price to be paid might differ from the sum of the reserve price and the premium (clearing price) when the capacity was auctioned, in case the reserve price for the capacity already auctioned, but not yet used, is adjusted. This occurrence might take place because of a number of reasons, for instance the purpose of reconciling the regulatory account (Option 1 in Section 3.2) or when allowed TSO revenue has changed.	*This section of these Framework Guidelines applies to all entry and exit points under the scope of the Network Code on CAM.* *The Network Code on Tariffs shall set out that the difference between the reserve price at an auction and the clearing price be considered a premium to be paid on top of the reserve price at the time of use of the capacity. Therefore, the payable price shall be the sum of the reserve price at the time of use of the capacity and the premium as determined in the auction[12]. The payable price to be paid might differ from the sum of the reserve price and the premium (clearing price) when the capacity was auctioned, in case the reserve price for the capacity already auctioned, but not yet used, is adjusted. This occurrence might take place because of a number of reasons, for instance the purpose of reconciling the regulatory account or when allowed TSO revenue has changed.* *In case incremental capacity developments modify either the reference price or the congestion level at a point, NRAs may decide to adjust the payable price in a transparent and non-discriminatory manner [further text may follow].*

[11] For the avoidance of doubt, it is worth noting that the reserve price is not fixed. Instead, the auction premium is fixed. For the avoidance of doubt, we also clarify that the reserve price for capacity products more than 3-4 years ahead (depending on the capacity allocation regime) will not be set at the time of the auction. Therefore, the reserve price for some products might only become known later.

[12] For the avoidance of doubt, it is worth noting that the reserve price is not fixed. Instead, the auction premium is fixed. For the avoidance of doubt, we also clarify that the reserve price for capacity products more than 3-4 years ahead (depending on the capacity allocation regime) will not be set at the time of the auction. Therefore, the reserve price for some products might only become known later.