



Development of the TAR NC: 5th Stakeholder Joint Working Session

Introduction and Meeting Objectives

Ann-Marie Colbert
ENTSOG

TAR SJWS 5 – the 9th of April 2014

TAR NC SJWS 5 – Meeting Objectives

- Revenue Reconciliation
 - Business Rules – Chapter 4
- ACER Presentation
 - IIA/Justification Document
- ENTSOG Presentation
 - Process update, next steps, structure of draft TAR NC and linking policy options
- Stakeholders Views on process/draft TAR NC
 - EFET, IFIEC, Gazprom M&T, GIE and OGP



Thank you

TAR SJWS 5 – the 9th of April 2014



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5th Stakeholder Joint Working Session**

Revenue Reconciliation Business Rules

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Revenue Reconciliation - Business Rules

The Business Rules Chapter on Revenue Reconciliation covers the following topics:

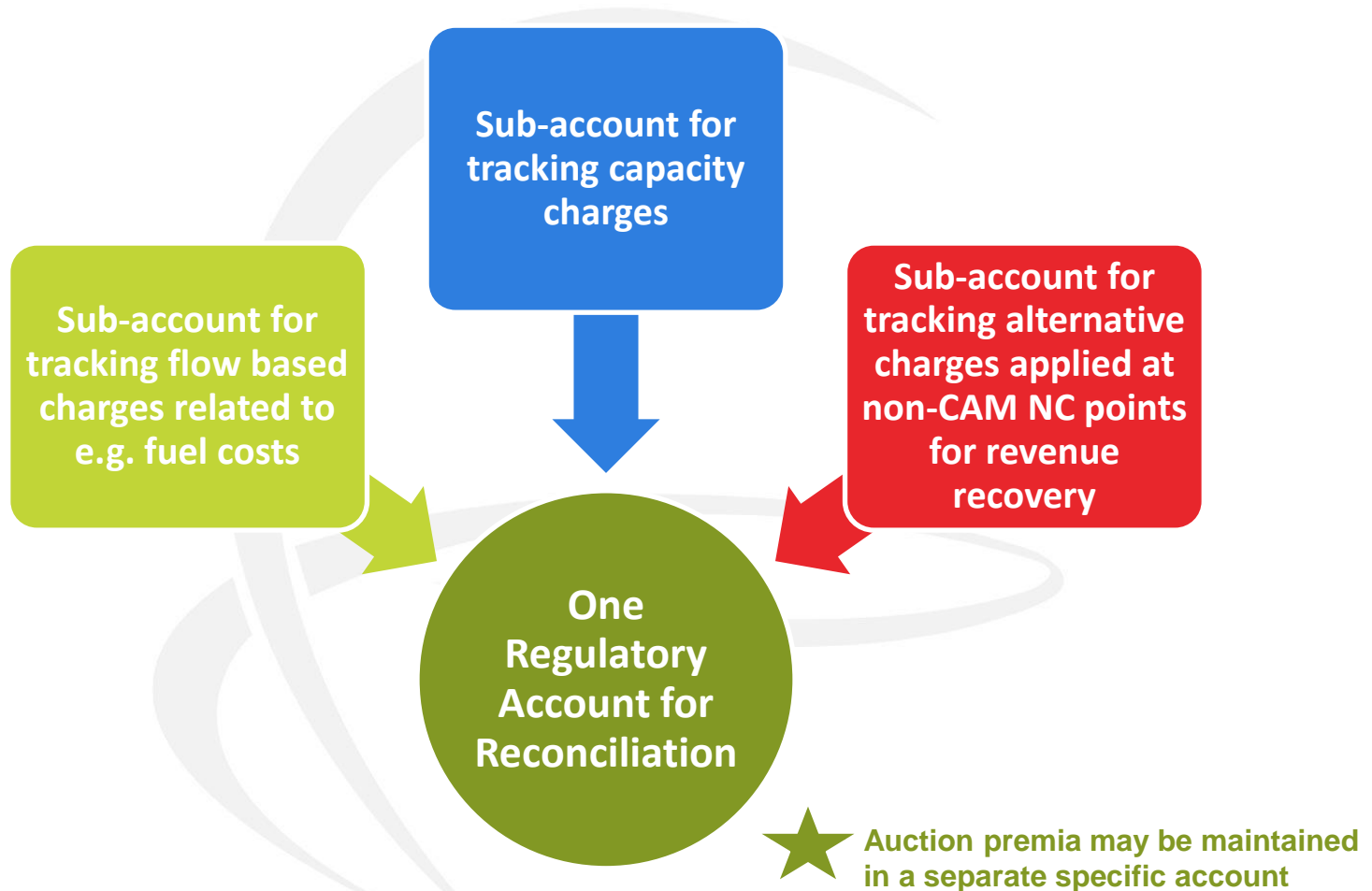
General

Regulatory Account

Under/Over Recovery

Reconciliation

Regulatory Account



Possibility to have sub-accounts to track different types of charges but all under/over recovery should be aggregated into one regulatory account for reconciliation

Under / Over Recovery

Different types of charges may be applied to address any under-/over-recovery:

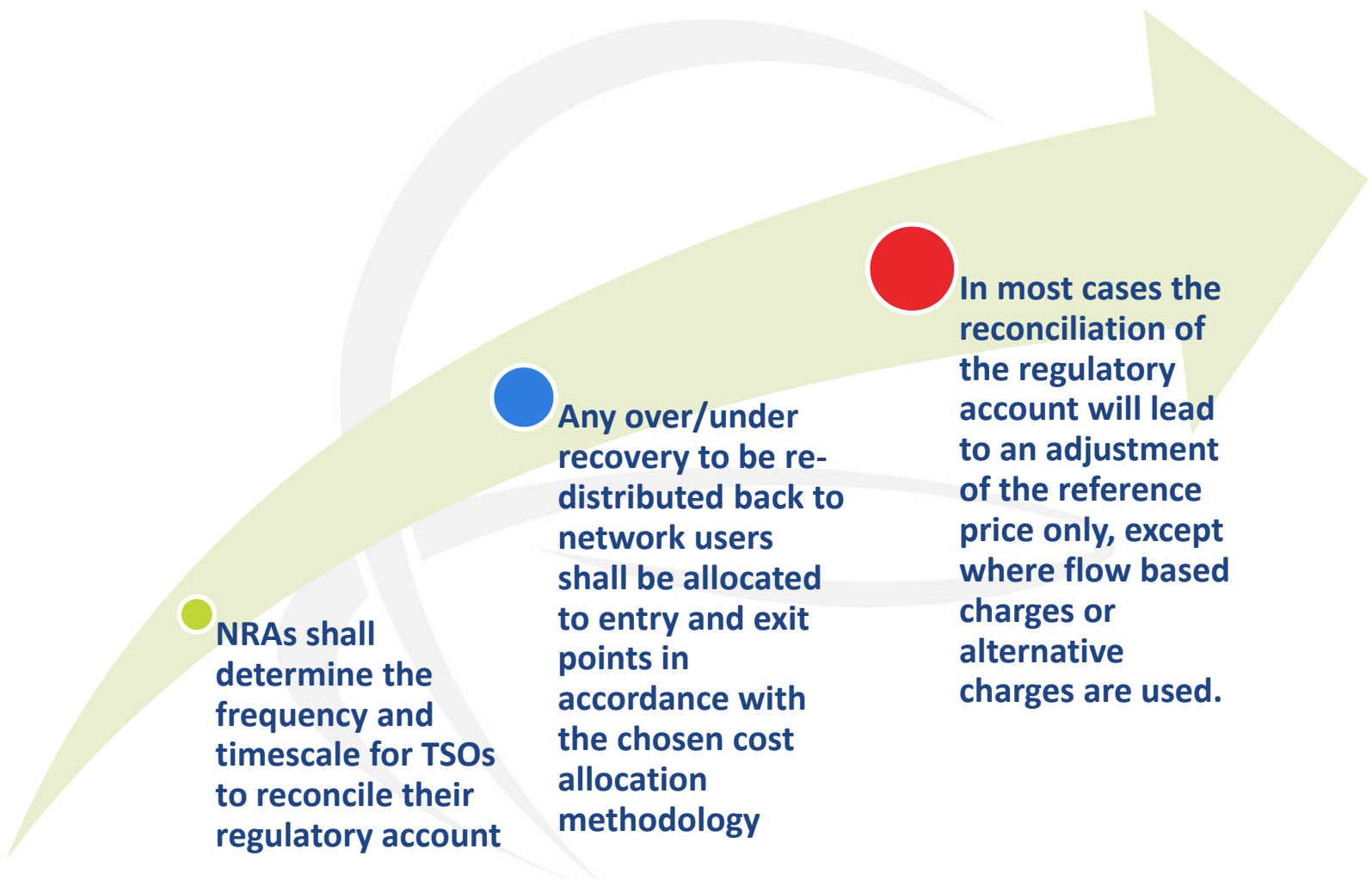


Capacity based charges – the majority of the revenue should be recovered via these charges and in some cases all revenue may be recovered via capacity charges.

A non-capacity based charge that may be used to recover costs mainly driven by actual flows e.g. fuel costs.

An alternative charge may be applied at non-interconnection points to reconcile the revenues if approved by the NRA and while avoiding cross subsidies between domestic and cross border customers.

Revenue Reconciliation



NRAs shall determine the frequency and timescale for TSOs to reconcile their regulatory account

Any over/under recovery to be re-distributed back to network users shall be allocated to entry and exit points in accordance with the chosen cost allocation methodology

In most cases the reconciliation of the regulatory account will lead to an adjustment of the reference price only, except where flow based charges or alternative charges are used.




european network
of transmission system operators
for gas

Thank You

TAR SJWS 5 – the 9th of April 2014

ACER

 Agency for the Cooperation
of Energy Regulators

**Assessment of Policy Options:
Justification document for
Framework Guidelines on rules regarding
Harmonised Transmission Tariff structures**

Lewis Hodgart

ACER Gas Department, Seconded national expert

Thomas Querrioux

ACER Gas Department, FG/NC officer

ENTSOG Tariff SJWS 5 – 9 April 2014

Contents

1st part - Context

- Milestones
- Justification document – integration with FG process

2nd Part - Content

Conclusion and Next steps...

Justification document - Integration of Tariff FG process (1/2)

- The purpose of the *Justification document* is to underpin the policy decisions taken in the Tariff FG with a deeper analysis.
- The *Justification document* is consistent with the principles of Better Regulation, whereby the Agency provides further justification for important policies.
- ENTSOG is invited to provide further evidence – including deepening the *Justification document* analysis – in its development of the NC.

Justification document - Integration of Tariff FG process (2/2)

The analysis was begun in conjunction with and complemented the development of the Tariff FG policy options.

However, the FG options were not developed by ACER in isolation:

- The FG development process involved extensive stakeholder input – 3 consultations, 4 workshops plus other events;
- ACER Director presents the FG to the BoR for favourable opinion - high level of NRA input and agreement is therefore essential
- The Commission is responsible for validating FGs based on the principles of Article 6(4) of the GR. The Commission actively followed the Tariff FG process from scoping to the publication of *Justification Document*.

The Justification document provides...

- A concrete identification and definition of the problem or problems the Tariff FG is trying to solve
- A clear set of objectives which the Tariff FG is trying to balance
- A credible range of policy options for addressing the problem(s)
- An assessment of the policy options against an assessment criteria
- Reasoned justification for the policy decision taken in the Tariff FG
- A partial assessment of the distributional effects of the Tariff FG (case studies)

The Justification document does not provide...

- A cost assessment of implementing the Tariff FG
- A micro assessment of every choice implicit in the Tariff FG

Contents

1st part - Context

2nd Part – Content

- Structure
- Problem identification
- Policy objectives
- Policy Options and enforcement design choices
- Assessment of policy options

Conclusion and Next steps...

Structure

The format for the document draws on the Commission’s Impact Assessment Guidelines*:

- **Problem identification & extent of the problem**

The problem definition should describe and provide evidence of the nature and scale of the problem.

- **Objectives**

Clear objectives are directly related to solving the problems which have been identified. Objectives provide the only effective criteria for assessing the success or failure of the proposed policy options.

- **Policy Options and enforcement design choices**

Options and delivery mechanisms most likely to achieve the objectives, at the appropriate level (considerations of proportionality).

- **Assessment of the options**

*http://ec.europa.eu/smart-regulation/impact/commission_guidelines/commission_guidelines_en.htm

Problem identification & extent of the problem (1/3)

Data collected from NRAs during the Tariff FG development process demonstrates there is considerable heterogeneity in the implementation of tariff regimes, in terms of:

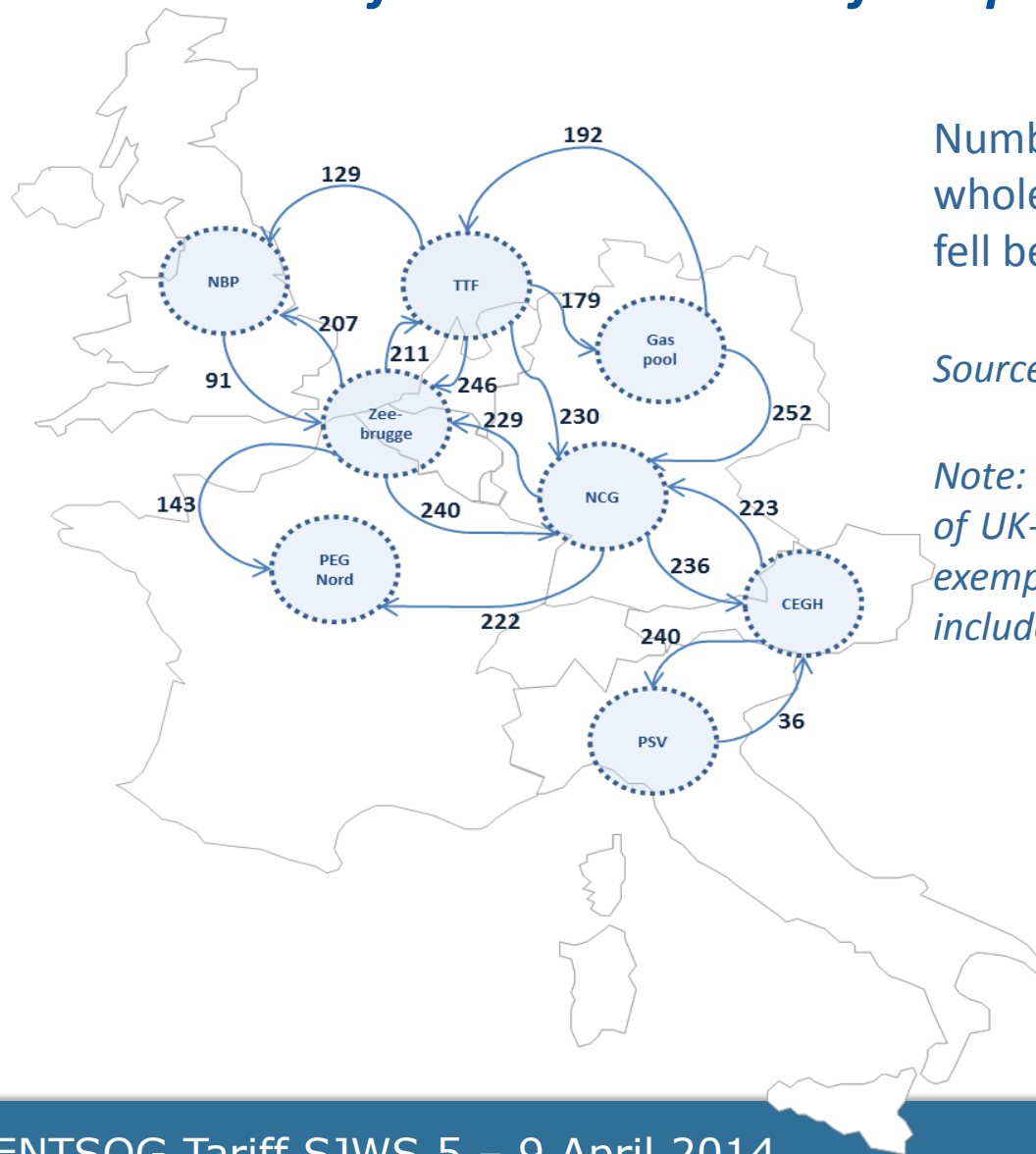
- The applied entry/exit split;
- The applied capacity/commodity split;
- The approach to locational capacity pricing signals;
- The methodology applied (distinct from postage stamp);
- The applicable regulation/ contracts in relation to transit lines.

Problem identification & extent of the problem (2/3)

Differences of approach are not necessarily problematic where tariffs derive from an objective and transparent methodology; however:

- Inconsistent tariff structures across member states make cross-border gas transportation more complex for network users;
- Where tariff structures lack objectivity or do not reflect system costs, this can lead to inefficient use of the transmission networks;
- Unjustifiably high transmission tariffs can negatively affect wholesale market integration, especially if wholesale market (spot or forward) price spreads across hubs fall below relevant cross-border transmission charges at any point in time.

Problem identification & extent of the problem (3/3)



Number of days in 2013 during which wholesale market day-ahead price spreads fell below transmission charges in EU

Source: ACER based on Platts and ENTSOG

Note: calculations do not include VAT. In the case of UK-NL and UK-BE transactions, the charges of exempted UK-Continental Interconnectors are not included.

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.

Objectives

The operational objectives include:

- Aligning and harmonising the interpretation of each cost allocation methodology and determination of the reference price;
- The harmonisation of the approach, tools and frequency for revenue reconciliation;
- The harmonisation of the range within which a reserve price may vary, including provisions on proportionate pricing;
- The harmonisation of the approach to payable price;
- Enabling the Network code on Capacity allocation mechanisms, including:
 - Principles for setting tariffs at Virtual interconnection points;
 - Principles for bundled capacity products.

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Conclusion and Next steps...

Policy options and enforcement design choices

The following aspects of tariff structures were considered for evaluation:

- ***Cost allocation and reference price methodology***
- ***Revenue reconciliation mechanism***
- ***Reserve prices for capacity products of shorter duration and the application of multipliers, seasonal factors and pricing of interruptible services***
- ***Payable price (interconnection points)***

For each area 3 broad policy options were considered (some options contain sub-set options):

- **Option 1:** no further EU action to address the issue (baseline scenario);
- **Option 2:** increased transparency/some harmonisation parameters
- **Option 3:** fully harmonised parameters/specification at EU level

Assessment of the options - criteria used

- Each option was assessed against the following criteria:
 - **Effectiveness** – This is an assessment of the extent to which the option meets the FG and Gas Reg. objectives, in particular Article 1 and 13 of the Gas Regulation.
 - **Feasibility** – This is an assessment of the feasibility of implementing the given policy option, including any foreseeable structural barriers.
 - **Acceptability** – This is an assessment (based on con responses and NRA input to FG process) of the extent to which the option has support among industry stakeholders.
- Policy options were scored between 0 and 3 (e.g. not effective = 0; very effective = 3)
- The criteria provides a transparent assessment framework for our analysis. Scoring is indicative. Qualitative assessments translated into a quantitative framework imply a degree of subjectivity.

Cost allocation and reference price methodology (1/6)

3 policy options were considered:

- **Option 1:** no further EU action to address the issue (baseline scenario);
No new EU policies. Any steps taken to harmonise tariff structures would be on a voluntary basis between member states.
- **Option 2:** further/ increased transparency;
New obligations set concerning the transparency of the various approaches to tariff calculation. Potential for network users to better understand and challenge objectivity of tariff structures.
- **Option 3:** harmonised parameters at EU level (including three sub-variants).
 - **Variant 3.a: Top-down approach** – ex-post assessment of the cost allocation and reference price methodologies
 - **Variant 3.b: Bottom up approach** - harmonised description of allowed methodologies
 - **Variant 3.c: fully deterministic approach**

Cost allocation and reference price methodology (2/6)

Option	Effectiveness	Feasibility	Acceptability	Total
1 No further action	0	3	1	4
2 Increased transparency	1.5	2.5	1.5	5.5
3 Harmonised parameters	2.5	2	2.5	7

Effectiveness

- Status quo is characterised by a lack of transparency and a divergent approach in the treatment of common issues. This potentially undermines competition.
- Option 1 would rely on a level of voluntary harmonisation not witnessed to date. In our view it would do nothing to address the problem and scores 0.
- The provision in Option 2 would provide more safeguards to the market, so it is an improvement on the status quo.
- Option 3 is the best option against effectiveness. It addresses the question of the optimal harmonised arrangements.

Cost allocation and reference price methodology (3/6)

Option	Effectiveness	Feasibility	Acceptability	Total
1 No further action	0	3	1	4
2 Increased transparency	1.5	2.5	1.5	5.5
3 Harmonised parameters	2.5	2	2.5	7

Feasibility and Acceptability

- We do not anticipate significant practical barriers to the implementation of any of the options, hence the feasibility scoring of each option is similar.
- Option 3 implies the greatest change, and may face greater barriers to implementation, this option scored lower than Options 1 and 2. The same rationale has been applied to the difference between Option 1 and 2.
- A majority of stakeholders support a greater level of harmonisation therefore we have scored Option 3 highest in respect of acceptability and no further action the lowest.
- Tariff FG provisions are aligned with Option 3 in this assessment.

Cost allocation and reference price methodology (4/6)

- **Variant 3.a: Top-down approach** – ex-post assessment of the cost allocation and reference price methodologies

A set of indicators would evaluate how the outputs of the methodologies perform in terms of non-discrimination and cost-reflectivity; tariffs would be required to satisfy specific thresholds and tariff adjustments would be triggered in the case of misalignment.

- **Variant 3.b: Bottom up approach** - harmonised description of allowed methodologies

Harmonised description (parameters and tariff calculation) of a limited number of allowed methodologies. Methodology choice required to satisfy selection criteria.

- **Variant 3.c: fully deterministic approach**

This variant mandates the application of a specific methodology by way of a fully deterministic set of circumstances.

Cost allocation and reference price methodology (5/6)

Option	Effectiveness	Feasibility	Acceptability	Total
3a Top down	1.5	2	1.5	5.5
3b Bottom up	2.5	2	2.5	7
3c Fully deterministic	3	1	1	5

Effectiveness

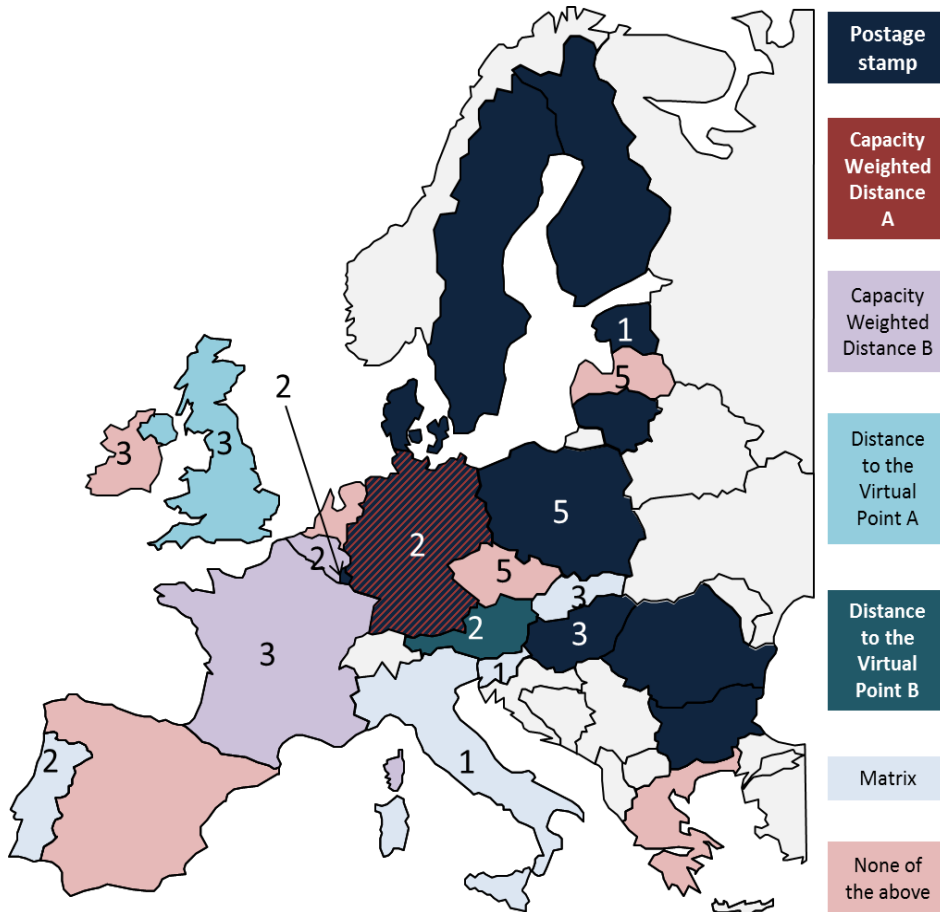
- The fully deterministic approach (Option 3c) scores marginally higher than Option 3b as if it could be implemented it would ensure the correct approach.
- Option 3a would provide benefits: its assessment of the tariff outputs could provide corrective measures to instances of cross subsidy.
- Option 3b scores higher as it embeds cost reflectivity in the methodology rather than as an add-on.

Cost allocation and reference price methodology (6/6)

Option	Effectiveness	Feasibility	Acceptability	Total
<i>3a Top down</i>	1.5	2	1.5	5.5
<i>3b Bottom up</i>	2.5	2	2.5	7
<i>3c Fully deterministic</i>	3	1	1	5

Feasibility and Acceptability

- In the scoring of the fully deterministic set of circumstances (Variant 3.c) against the feasibility and acceptability criteria we considered: in the first instance whether it is possible; in the second, whether an attempt to mandate it would be acceptable for stakeholders.
- Variants 3.a and 3.b are similar against feasibility. Variant 3.a may appear less interventionist and therefore more feasible, but the extent of the adjustments which could be necessary to adapt to the requirements of the cost allocation test, could be difficult to administer.
- Variant 3.a. would not be as acceptable among many stakeholders as it does not go far enough in terms of the level of harmonisation.
- Tariff FG provisions are aligned with Option 3b in this assessment: limited choice of harmonised methodologies; justification against counterfactual, circumstances and cost allocation test.



Note: This is a NRA qualitative assessment of the cost allocation methodologies best fitting their network specificities following the entry into force of the Framework Guidelines. The values reflect, the anticipated impact of the implementation of the cost allocation methodologies of the FG on their current approach. (The lower the number, the lower the anticipated impact on the current approach: 1 – little impact/ 5 – high impact.)

Qualitative assessment of the cost allocation methodologies to be implemented following the entry into force of the Network Code on Tariffs

Revenue reconciliation mechanism (1/3)

- **Option 1:** no further EU action to address the issue (baseline scenario);
No new EU policies would be introduced.
- **Option 2:** transparency and harmonisation of the reconciliation principles;
provides a common approach to revenue reconciliation around the following principles:
 - minimization of the gap between collected and allowed revenues;
 - use of a ‘regulatory account’ in order to log any under/over recovery from year to year;
 - for cross border points, the network share of any under/over recovery shall lead to an adjustment of the capacity price.
- **Option 3:** harmonisation of the reconciliation tool and its application (restrictions on the reconciliation tool in terms of magnitude and frequency).
Full harmonisation at the EU level of the followings:
 - The frequency over which an under/over recovery is reconciled; and
 - The percentages that would trigger reconciliation.

Revenue reconciliation options (2/3)

Option	Effectiveness	Feasibility	Acceptability	Total
1 No further action	0	3	1	4
2 Transparency and harmonisation of reconciliation approach	2	2.5	2	6.5
3 Harmonisation of reconciliation tool & its application	3	2	1.5	6.5

Effectiveness

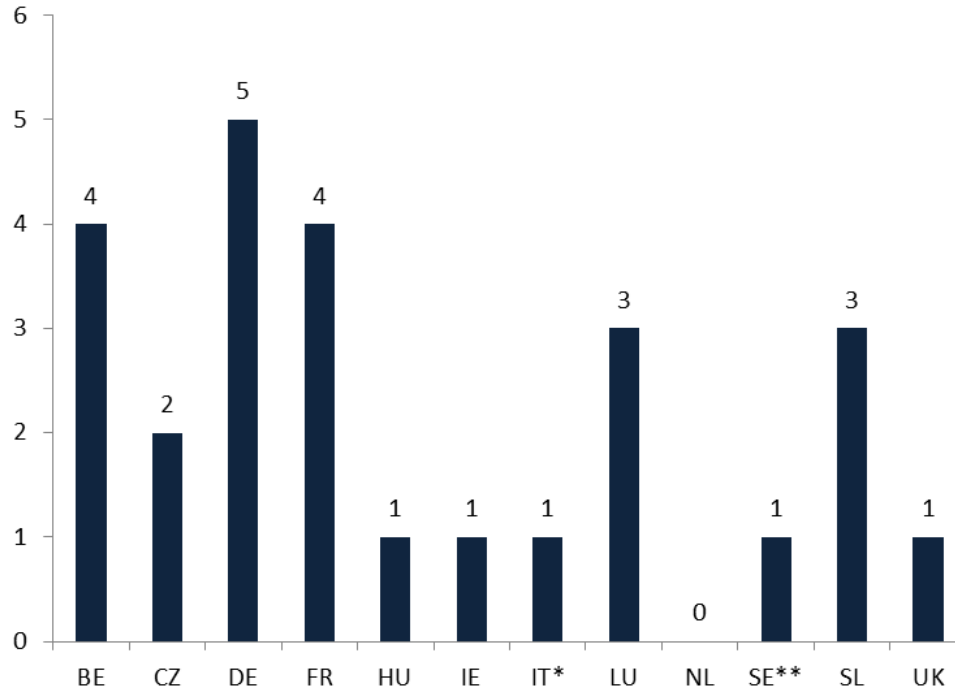
- The approach to revenue reconciliation has implications for the stability, transparency and distribution of tariffs among network users, all of which may impact on competition.
- Option 1 would rely on a level of voluntary harmonisation not witnessed to date. In our view it would do nothing to address the problem and scores 0.
- Option 2 could provide significant benefits as it would lead to a greater level of harmonisation within a set of parameters.
- Option 3 is the best option against effectiveness. It addresses the question of the optimal harmonised arrangements and would offer network users full certainty on the frequency and the type of revenue reconciliation to be applied.

Revenue reconciliation options (3/3)

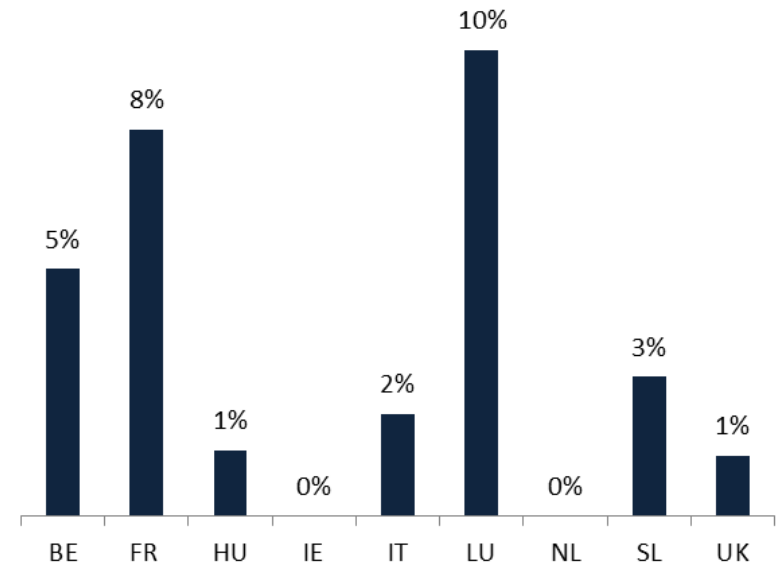
Option	Effectiveness	Feasibility	Acceptability	Total
1 No further action	0	3	1	4
2 Transparency and harmonisation of reconciliation approach	2	2.5	2	6.5
3 Harmonisation of reconciliation tool & its application	3	2	1.5	6.5

Feasibility and acceptability

- Option 1 would require no further action therefore would not face barriers to implementation.
- Mandating a single harmonised approach (Option 3) may create compatibility problems for some MS depending on regulatory cycle. Option 2 would provide more flexibility in this regard.
- A single approach to the reconciliation tool (Option 3) would be unpopular among some MS therefore we have rated it lower than Option 2 against acceptability.
- Option 1 scores lowest against acceptability as consultation responses reveal support for harmonisation options.
- The Tariff FG is aligned with Option 2 against this assessment.



Number of years over which the reconciliation of under/over recoveries is currently spread



Amount of revenue subject to reconciliation, as a proportion of the total amount of allowed revenue, over the period 2010-2012

Reserve prices for capacity products of shorter duration and the application of multipliers, seasonal factors and pricing of interruptible services (1/3)

- **Option 1:** no further EU action to address the issue (baseline scenario);
No new EU policies would be introduced.
- **Option 2:** reserve price ranges for capacity products of shorter duration and principles for interruptible products;
Reduces the scope for divergent approaches at IPs, while allowing for some flexibility within the proposed ranges and constraints.
- **Option 3:** fully harmonised approach.
The same multipliers for capacity products of shorter duration would apply across the EU with no flexibility to use ranges for the reserve prices.

Reserve prices for capacity products of shorter duration and the application of multipliers, seasonal factors and pricing of interruptible services (2/3)

Option	Effectiveness	Feasibility	Acceptability	Total
<i>1 No further action</i>	1	3	1	5
<i>2 Reserve price ranges</i>	3	3	2	8
<i>3 Fully harmonised approach</i>	2	2	1	5

Effectiveness

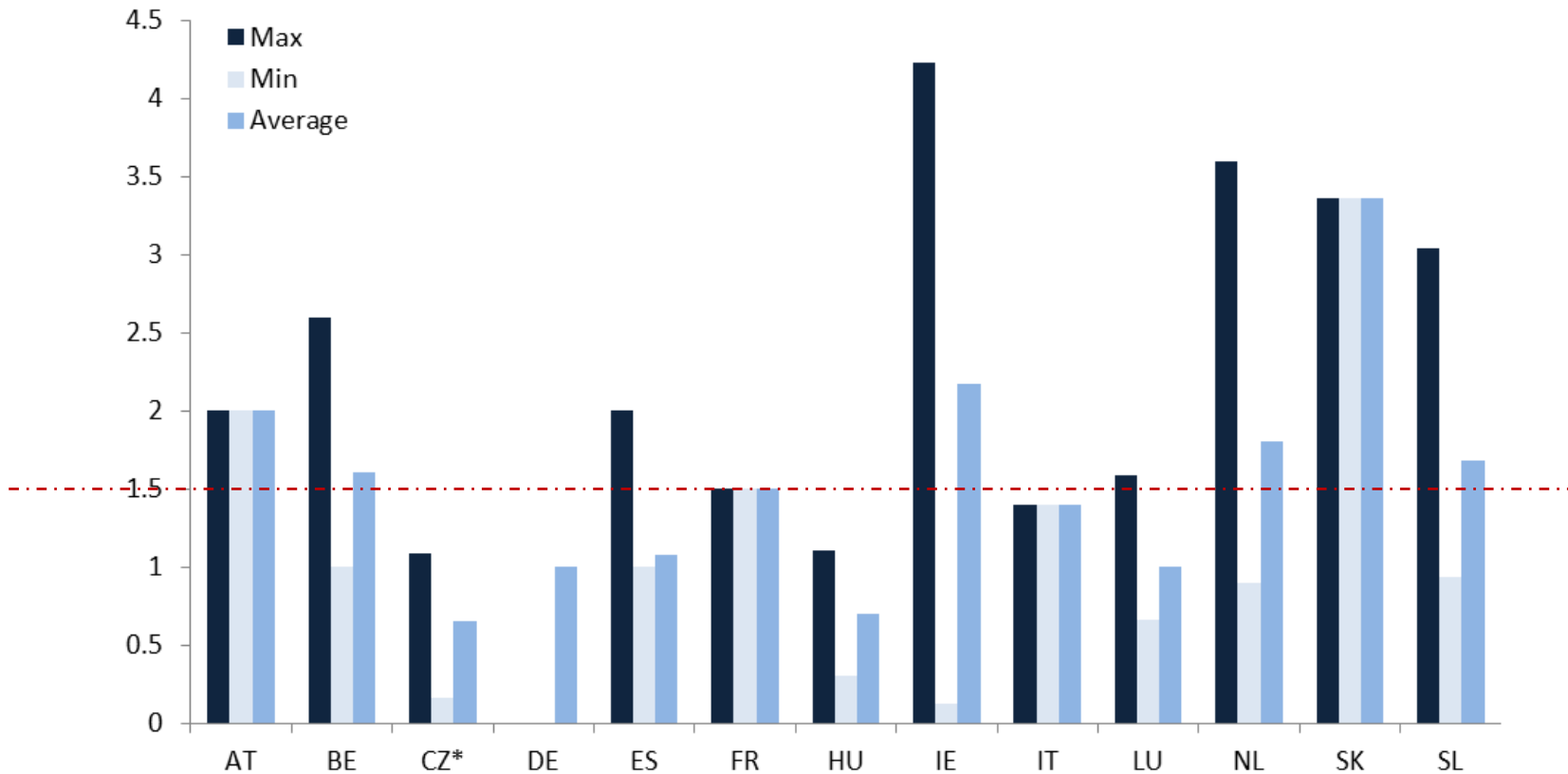
- Option 1, would allow the level of diversity to endure or grow larger and thus scores low as an effective policy option.*
- Option 2 scores higher than Option 1 against the effectiveness criteria, because it harmonises the default approach.*
- Option 2 scores higher than Option 3, because it preserves an appropriate level of flexibility for NRAs to determine the precise level of multipliers necessary to balance the trade-offs.*
- Option 2, in addition, simplifies short term price setting and improves transparency.*
- Thus Option 2 scores high in terms of effectiveness.*

Reserve prices for capacity products of shorter duration and the application of multipliers, seasonal factors and pricing of interruptible services (2/3)

Option	Effectiveness	Feasibility	Acceptability	Total
1 No further action	1	3	1	5
2 Reserve price ranges	3	3	2	8
3 Fully harmonised approach	2	2	1	5

Feasibility and acceptability

- Option 3 would be the least feasible, as it would imply fixing the level of multiplier to be applied for each capacity product across the EU, and as a uniform approach could hardly balance the different needs and trade-offs of adjacent markets.
- We considered Option 2 to be the most acceptable, because it most closely aligns with the consultation results (offers a level of harmonisation, without mandating a specific multiplier).
- Tariff FG is aligned with Option 2 in this assessment.



Monthly multipliers in 2012

Note: CZ is the only country for which the variation in multipliers does not result from seasonal factors.

Payable price (interconnection points) (1/3)

- **Option 1:** no further EU action to address the issue (baseline scenario);
- **Option 2:** harmonised parameters;

Harmonised parameters would be developed to keep payable price approaches aligned and limited to a discrete set of alternatives.

- **Option 3:** fully harmonised approach to payable price, via
 - **Floating price (Variant 3.a)**

A floating payable price is based on the reference price prevailing at the time of use.

- **Fixed price (Variant 3.b)**

A fixed payable price is based on the reference price of capacity at the time of the booking.

Payable price (interconnection points) (2/3)

Option	Effectiveness	Feasibility	Acceptability	Total
<i>1 No further action</i>	0	3	1	4
<i>2 Harmonised parameters</i>	1	2	2	5
<i>3.a Fully harmonised floating payable price</i>	3	3	2	8
<i>3.b Fully harmonised fixed payable price</i>	2	3	2	7

Effectiveness

- Payable price has important implications for risk sharing and the distribution of tariffs.
- Options 1 scores least well as it provides no parameters on the optimal approach. Option 2 scores slightly better but it does not fully safeguard against divergent or hybrid approaches which could be detrimental to competition.
- Options 3a and 3b would provide a harmonised approach, however offering a fixed tariff insulates some users from revenue reconciliation which could lead to cross subsidies and could exacerbate revenue under recovery.
- Applying a floating commodity tariff in combination with a fixed capacity tariff could mitigate some of these risks, but this could also lead to cross subsidies to the extent that the commodity tariff is less cost reflective.

Payable price (interconnection points) (3/3)

Option	Effectiveness	Feasibility	Acceptability	Total
<i>1 No further action</i>	0	3	1	4
<i>2 Harmonised parameters</i>	1	2	2	5
<i>3.a Fully harmonised floating payable price</i>	3	3	2	8
<i>3.b Fully harmonised fixed payable price</i>	2	3	2	7

Feasibility and acceptability

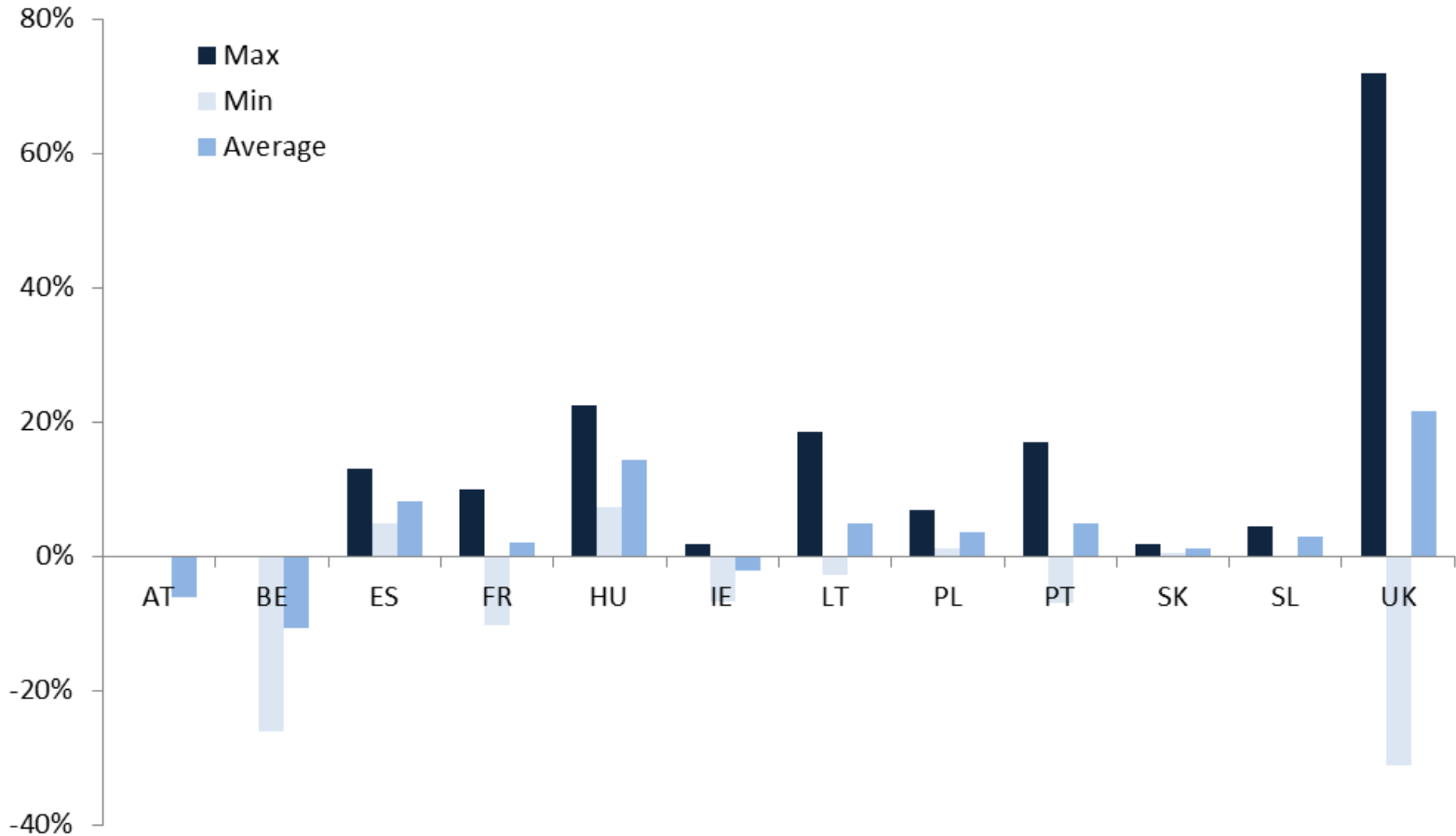
- We do see significant structural barriers to implementing any of the options, however Option 2 scores the least well as it may lead to difficult value judgments, where divergent approaches were preferred on either side of interconnection point.
- Divergent approaches at IPs may not be problematic providing the tariff dimension is consistent.
- We consider Option 1 to be least acceptable as there is general support for a level of harmonisation on this issue, albeit no clear mandate for one option over another.
- We are aware that Option 3.a has vocal opponents (e.g. producers), but we also note that Option 3.b would have opponents if it was prioritised, as the harmonised solution.

Mitigating measures – spectrum of options (1/2)

1. No mitigating measures: full implementation at all points by October 2017;
2. Maintain the draft FG option: 25% threshold on tariff changes; 12 month max;
3. Amend the draft FG option to expand mitigating measures parameters;
4. Right to cancel contracts where NC introduces tariff changes;
5. No harmonised parameters on mitigating measures: NRAs to apply mitigating measures as they determine fit for as long as deemed necessary.

Mitigating measures – assessment of options (2/2)

- Responses to 2013 consultation confirmed support for mitigating measures
- Option 1 was discounted as it may provide insufficient notice of significant tariff changes.
- Option 5 was discounted because it only provides flexibility: firm deadlines are necessary to realise the benefits of the Tariff FG.
- Option 4 was not considered feasible: potential conflict with MS contract law and Tariff FG; further, the uncertainty could destabilise tariffs for other network users.
- Option 2 – (12 month time limit) would provide two years over which to fully implement Tariff changes. We considered a further year (to extend the glide path over 3 tariff setting periods) would be appropriate.
- PC responses argued 25% threshold for tariff changes too high: we reduced this to 20%
- Tariff FG is aligned with Option 3. The criteria where mitigating measures may be applied is:
 - Where the Tariff NC would affect execution of contracts;
 - Where implementation would not align with the gas year, tariff or regulatory year.
 - Where tariffs would increase by more than 20%



Order of magnitude of the tariff adjustments in EU over the period 2007-2012

Contents

1st part - Context

2nd Part – content

Conclusion and Next steps...

Conclusion

The following policies were included in the Framework Guidelines :

- Cost Allocation Methodologies: harmonised description of allowed methodologies, including limiting the number of methodologies to be used, and associated inputs. In addition, the methodology selection criteria include the obligation to justify the choice of methodology against circumstances criteria; the results of a cost allocation test; and a methodology counterfactual.
- Revenue Reconciliation: increased transparency and harmonisation of the tool used for revenue reconciliation (regulatory account) allowing a common approach to revenue reconciliation.
- Reserve prices for products of shorter duration: harmonised parameters limiting the possibility of inconsistent approaches at IPs.
- Payable price: fully harmonised approach to payable price, via floating price

Next steps...

ENTSOG is invited to work on further evidence and on **deepening the analysis** during the development of the Network Code.

In particular, ENTSOG is invited to contribute to further elaborating the present justification document by:

- Improving the accuracy and comprehensiveness of figures provided in the document, particularly regarding tariff adjustments, comparison between domestic capacity and domestic revenue, and variable costs in the system;
- Further analysing the circumstances influencing the choice of a cost allocation methodology, with a view to the influence of inputs on the tariff variance (Theoretical section of Annex G);
- Enhancing countries case studies by improving the accuracy and comprehensiveness of technical inputs.

ENTSOG and its members are invited to expand the current justification document with additional evidence, underpinning all the points where the Network Code developed by ENTSOG **completes** the policy options detailed in the Framework Guidelines.

Annexes and other analysis provided by the Justification document

- **Other analysis**

TARIFF ADJUSTMENTS FOR INCREMENTAL AND NEW CAPACITY

- Justification document (pages 57-59)

- **Annexes:**

THEORETICAL CONSIDERATIONS

- Annex F - Cost-plus versus Price (or Revenue) cap
- Annex G - Theoretical analysis of the Impact of Cost allocation methodologies on tariff levels
- Annex H - Impact of difference capacity/ commodity splits
- Annex I - Cross-subsidies between domestic and transit users
- Annex J - Storages
- Annex K - Pricing of non-physical backhaul capacity and interruptible products
- Annex L - Mitigating measures

CASE STUDIES

- Annex M - Case studies on the Cost Allocation Methodology (Hungary, Italy- in the text of the Justification document (pages 38-39); Austria, France, The Netherlands, United Kingdom in the Annex),
- Annex N – Germany - Application of a single Entry/Exit split and a single cost allocation methodology per Entry/Exit zone



Development of the TAR NC: 5th Stakeholder Joint Working Session

Process and Draft TAR NC

Ann-Marie Colbert
ENTSO-G

TAR SJWS 5 – the 9th of April 2014

Agenda

Process Update & Next Steps

Structure of the Draft TAR NC

Linking Tariff Policy Options

Important Dates to Remember



european network
of transmission system operators
for gas

Process Update and Next Steps

TAR SJWS 5 – the 9th of April 2014

What has been done so far?

27%

- ✓ Just over a quarter of the way through the TAR NC project
- Launch Documentation
 - Published on the 22nd of Jan
- Kick Off Meeting
 - Held on the 15th of Jan
- 5 SJWSs (including today)
 - 11th & 27th Feb, 14th & 26th Mar and 9th Apr
- 5 Prime Mover Meetings
 - 4th & 18th Feb, 6th, 17th & 31th Mar
- Bilateral and trilateral telcos/meetings with ACER and the Commission

Topics Covered in TAR NC SJWSs 1 & 2

- SJWS 1
 - ACER's Initial Impact Assessment
 - Cost Allocation Tasks – Technical Aspects
 - Interruptible Capacity and Non-physical backhaul capacity
 - CAM Related Topics – VIPs, Bundles Capacity & Payable Price
- SJWS 2
 - Multipliers and Seasonal Factors
 - Cost Allocation Tasks – Methodologies, Adjustments & Test
 - Implementation and Mitigating Measures
 - Transparency
 - Tariff Setting Year Impact Assessment

Topics Covered in TAR NC SJWSs 3 & 4

- SJWS 3
 - Revenue Reconciliation
 - Storage
 - Virtual Interconnection Points
 - Cost Allocation – Business Rules Part 1
 - Interruptible Capacity and Non-physical backhaul capacity – Business Rules
- SJWS 4
 - Multipliers and Seasonal Factors – Business Rules
 - Cost Allocation – Business Rules Part 2
 - Asset Allocation Approach Presentation by Net4Gas
 - CAM Related Topics – Business Rules
 - General Provisions – Business Rules
 - Transparency – Business Rules

The Process So Far

Open and Accessible

- Invitations for workshops/SJWSs have gone to a broad distribution list
- Meetings held in Brussels or alternatively can access the meeting remotely via a webcast with the possibility to contribute questions

Preparation and Transparency

- Materials for the meeting provided a few days before the meetings to allow participants to prepare
- All presentations available on the website the day after the meeting and minutes provided a number of days later

Project Plan

- Followed the schedule of topics set out in the final project plan with some tweaks
- Keeping to the timeline and meeting deadlines so far...

Feedback on improving the process is always welcome!

Excellent participation and contribution from stakeholders attending the SJWSs in person and via webcast

Challenges

- *Understanding different aspects of the TAR FG and how it all fits together*
- *Working within a tight timeline – a lot to cover in 12 months*
- *Understanding stakeholders' positions*
- *Trying to encourage productive discussion and an open exchange of views*
- *Create a coherent and workable network code for the Internal Energy Market*

What Happens Next?

- *Consider feedback from Stakeholder Joint Working Sessions*
- *Develop legal text for the first draft of the TAR NC and a supporting document with members*
- *Refine the legal text of the draft of the TAR NC and the supporting document with members*
- *Approve the draft TAR NC and supporting document via ENTSOG's internal governance process*
- *Publish draft TAR NC and supporting document for consultation*

Stakeholder Involvement Post SJWSs

- ❑ *ENTSOG welcomes written feedback from stakeholders*
- ❑ *Public Consultation on the draft TAR NC will take place from the end of May to the end of July*
 - ❑ Two months for stakeholders to consider the draft TAR NC and respond to the consultation
 - ❑ **May 30th to July 30th**
 - ❑ Consultation questionnaire
 - ❑ Possibility to provide text proposals

❑ ***Next Workshop:***



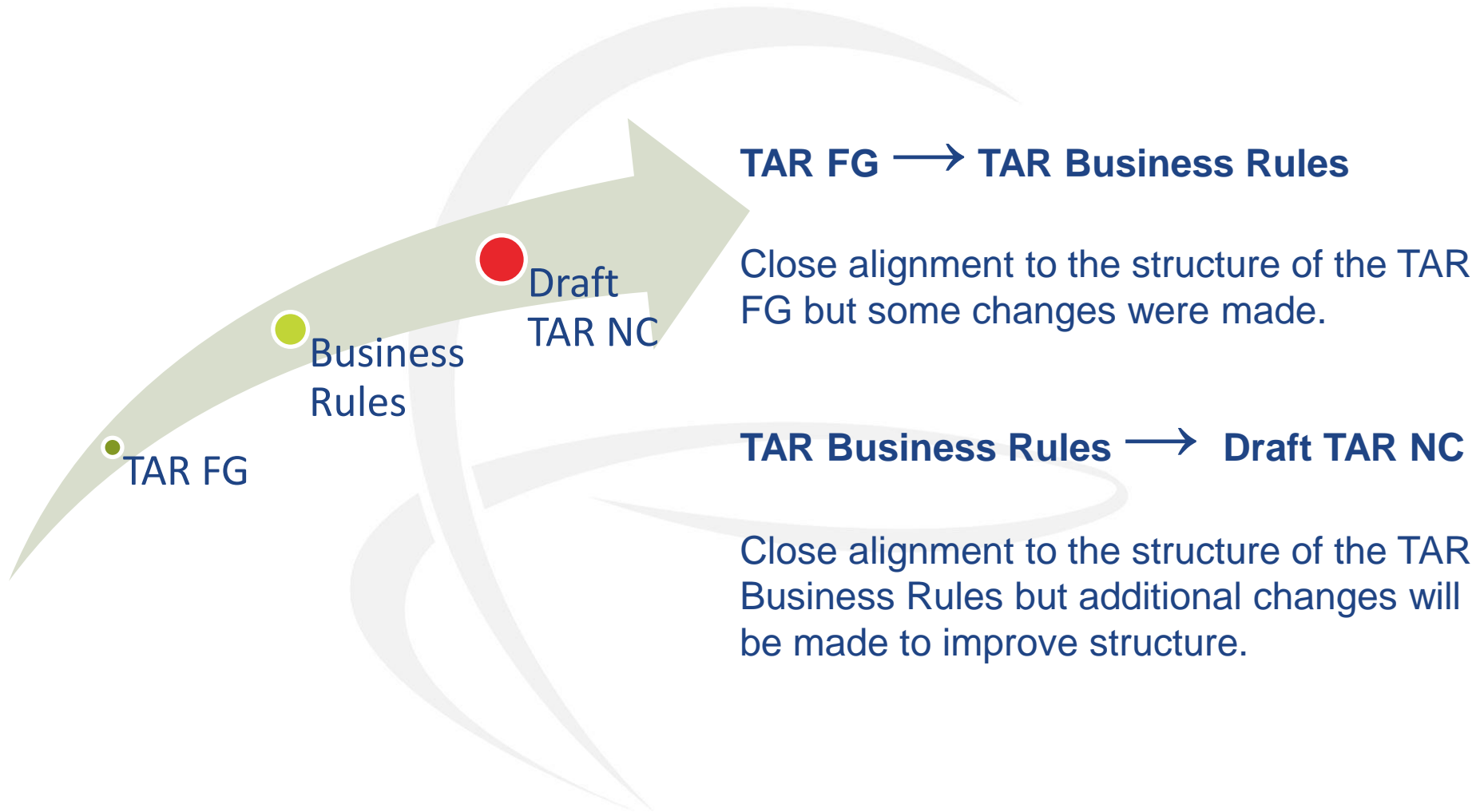


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for gas

Structure of the Draft TAR NC

TAR SJWS 5 – the 9th of April 2014

Structure of the Draft TAR NC



Structure of the Draft TAR NC

Recitals

Chapter 1 General Provisions

- Subject matter
- Scope
- Definitions

Chapter 2 Cost Allocation Methodologies

- Link to transmission revenue
- Inputs
- Entry/exit split
- Selection and approval process/criteria
- Cost allocation methodologies
- Secondary Adjustments
- Cost allocation test
- Storage

Structure of the Draft TAR NC

Chapter 3 Publication Requirements

- Aims of information publication
- What to publish
- How to publish
- Publication of information for multiple TSOs
- Tariff setting year
- Publication notice period

Chapter 4 Reserve Prices

- Firm standard capacity product pricing (multipliers and seasonal factors)
- Interruptible capacity pricing (uni- and bi-directional interruptible capacity)

Chapter 5 Revenue Reconciliation

- Aims of revenue reconciliation
- Under/over revenue recovery
- Regulatory account
- Reconciliation of the regulatory account

TAR FG versus Draft TAR NC

Chapter 6 CAM Related Topics

- VIP pricing
- Bundles capacity pricing
- Payable Price

Chapter 7 Incremental and New Capacity

- Publication requirements
- Economic test
- Determination of the price

Chapter 8 Final and Transitional Provisions

- Mitigating Measures
- Entry into force

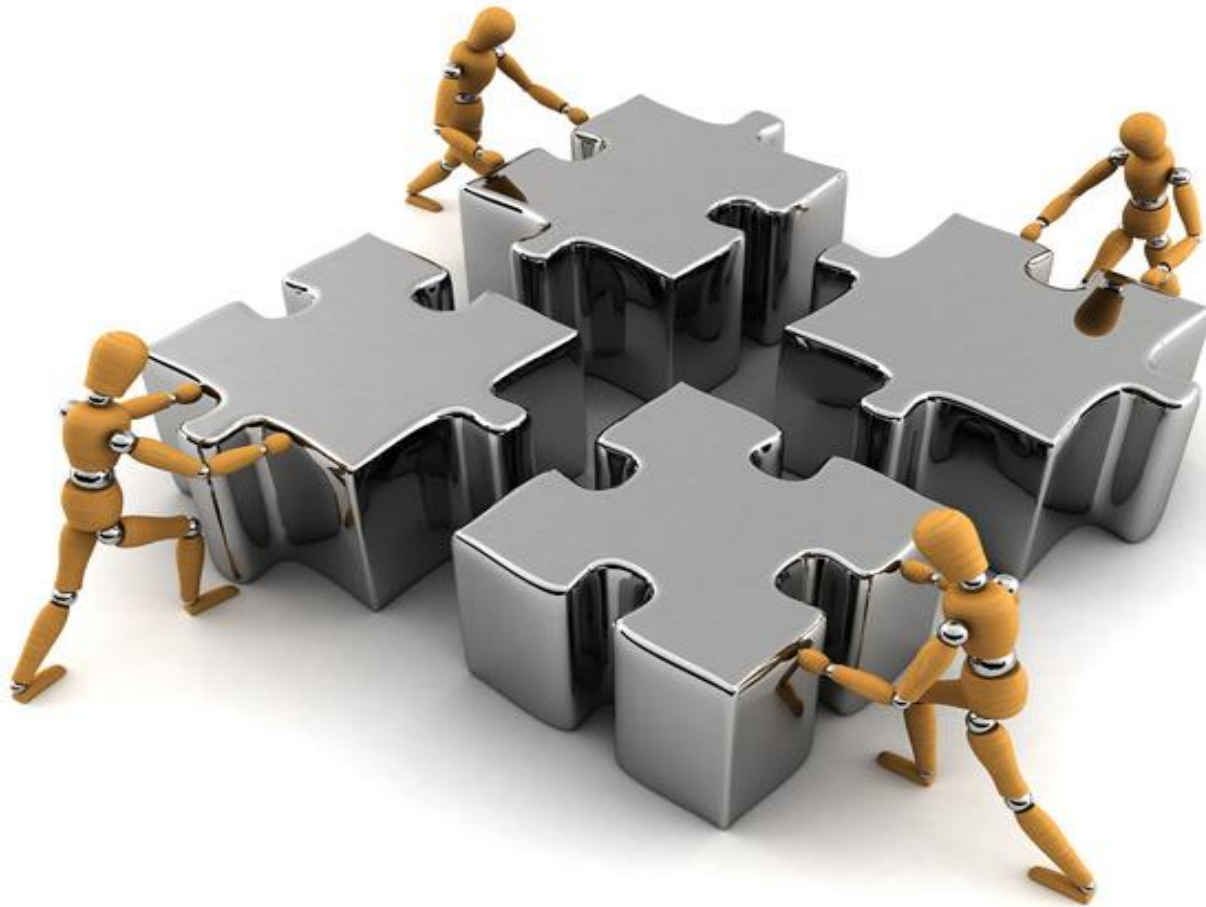


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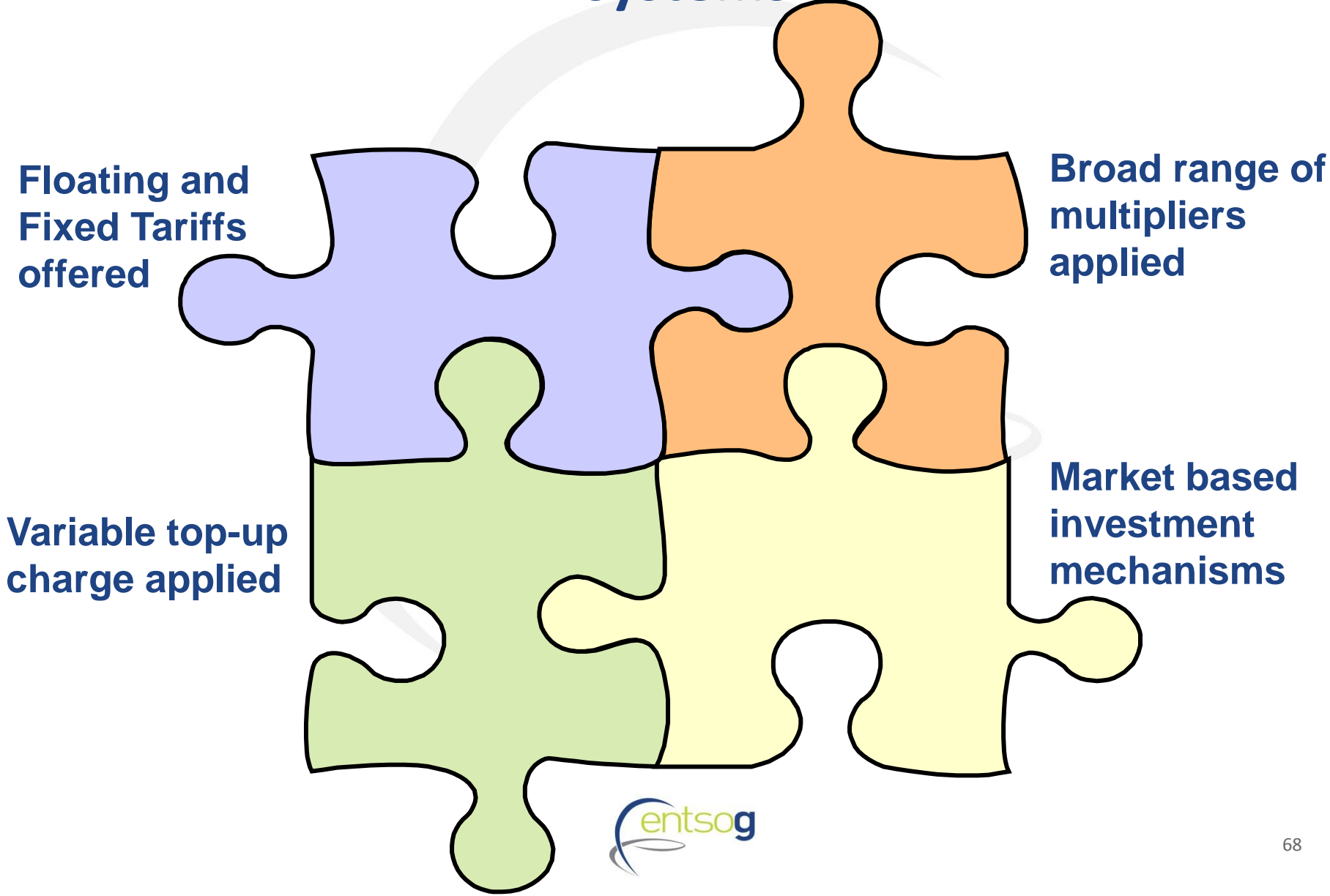
Linking Tariff Policy Options

TAR SJWS 5 – the 9th of April 2014

Understanding how the different chapters of the TAR NC fit together...



How rules currently fit together in some systems



How rules currently fit together in some systems

**Floating Tariffs
only offered**

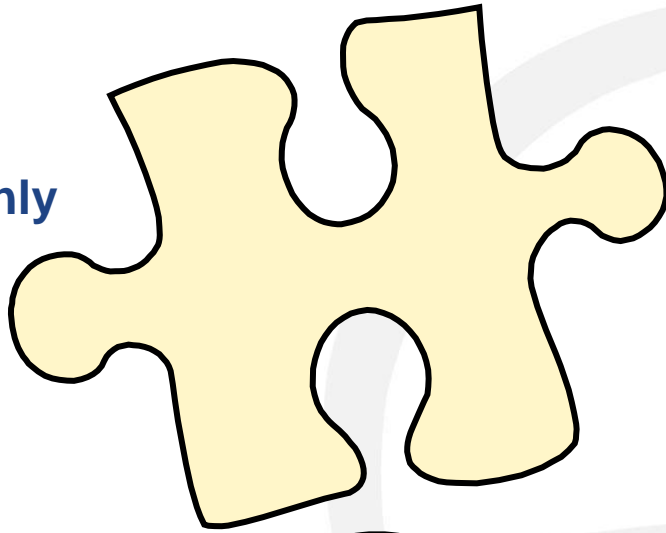
**No multipliers
applied**

**No variable top-
up charge**

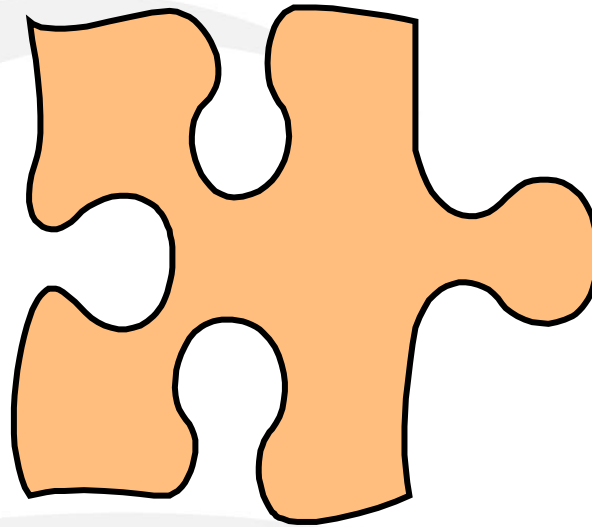
**Non-market
based investment
mechanisms**

What if the rules don't fit together?

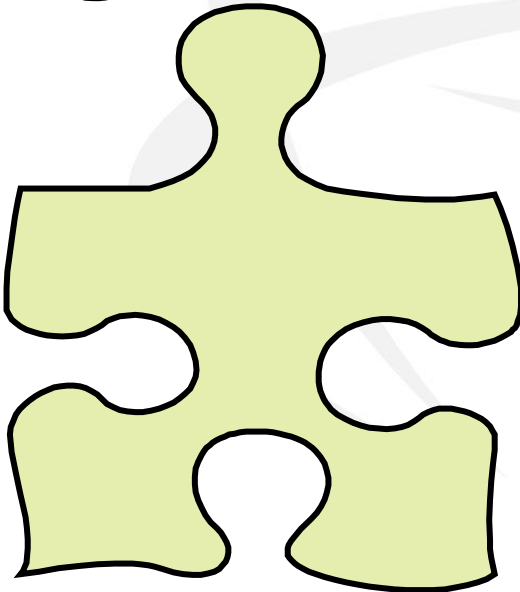
Offer of
Floating
Tariffs only



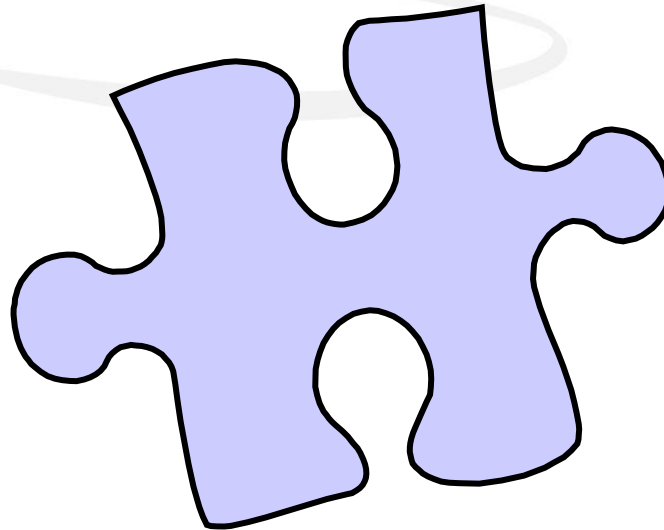
Cap on the
range of
multipliers
applied



Variable
top-up charge
only for non-
CAM points



Impact on
investments
and the
application
of the
economic
test





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Important Dates

TAR SJWS 5 – the 9th of April 2014

Important Dates to Remember



Draft TAR NC and supporting document are published and the consultation starts



Consultation Workshop to discuss the draft TAR NC and get initial feedback from stakeholders



Deadline for responses to the draft TAR NC consultation which will then be analysed



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Thank You

TAR SJWS 5 – the 9th of April 2014



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STAKEHOLDER VIEWS

TAR SJWS 5 – the 9th of April 2014

SJWS 5 - Brussels
9th April 2014



European Federation of Energy
Traders

EU Tariff Network Code

Development of the first draft

Colin Lyle

EFET Gas Committee



EFET Membership ...

A wide variety of members, with different priorities



EFET Membership ... (continued) but a shared commitment to the internal market



Time for a reality check ... to help ENTSOG achieve a worthwhile first draft



- We support an EU Tariff Network Code that provides a more consistent, transparent and market-oriented approach to x-border transmission tariffs, and which aims for TSOs to recover efficiently incurred costs.
- ACER's FG sought a balance; but workshops show problems remain. Trying to resolve tensions risks adding undue complexities.
- The new text must be fit for purpose as a European Network Code, which should help the development of a competitive gas market.
- To ensure a workable code, certain key features must be in the ENTSOG draft, even if this 'stretches' the Framework Guidelines

What do we mean by fit for purpose? Transparent, predictable and timely



- **Tariff transparency and predictability – important benefits**
 - NC should specify data/inputs to be published including price control data*
 - Tariff changes must be fully explained before they apply, with no delays in publication
 - TSOs should publish working tariff models pre-loaded with relevant input and regularly updated
 - Postage stamp should be harmonised as the methodology counterfactual
 - No surprise tariffs and levies that circumvent the Network Code

- **Reserve prices, multipliers and seasonal factors must be known before the CAM annual auctions**
 - Minimum 30 days before, otherwise default values apply and cannot be changed.
 - Reserve prices, multipliers and seasonal factors must be fixed for the first capacity year
 - Ability to determine auction strategy more important to shippers than harmonised tariff year

* i.e. allowed revenue, RAB, WACC, allowed capital remuneration, depreciation, inflation indices, entry-exit split, technical capacity, booked capacity and concept used (historical, actual or forecasted), flows and concept used (peak or average; historical, actual or forecasted), costs and concept used (observed or incremental), distance between points and approach used (Euclidean or path)

Some examples of reserve price simplicity: Tariffs for storage and interruptible products



- **Entry and exit capacity charges for storage should by default be zero**
 - All gas in store also pays entry & exit capacity tariffs, it should not normally pay twice
 - Existing storage typically reduced transmission system investment but –ve charges unrealistic
 - Provides a harmonised starting point for all storage facilities across the EU
- **TSOs/NRAs may deviate from zero following stakeholder consultation**
 - On a case-by-case basis (e.g. new storage facilities) where the costs exceed benefits
 - To reflect variable costs
- **Day-ahead (DA) interruptible capacity must have a zero reserve price**
 - Day-ahead interruptible capacity is only made available when firm is sold out
 - A non-zero reserve price would be incompatible with OSBB
- **Non-DA interruptible capacity (if offered) may have an ex-ante discount**
 - Subject to stakeholder consultation
- **Ex-post discounts for interruptible capacity should be outlawed**

The Tariff Network Code is for the future ... it must recognise changes in the market



- **CAM, CMP & economic outlook changed perspectives on capacity booking**
 - Economic outlook remains challenging with uncertainty around future demand
 - CAM helps to bring choice to shippers, but bundling changes the business case
 - CMP encourages shippers to profile their bookings
- **Utilisation of capacity has decreased and short term booking is preferred**
 - Floating payable price adds to uncertainty which may accelerate a “vicious circle”
 - Multipliers and Seasonal Factors must not hamper trade or unfairly discriminate
- **Mitigation* can best be achieved through a capacity contract reset option**
 - The Network Code should require NRAs and TSOs to provide a one-off capacity reset right on entry-into-force.

“ Other mitigating measures have been suggested, including fully fixed payable prices or transitional mitigation for remaining contract duration if tariffs increase > indexed rate. These would not be needed if a capacity reset option is included, but otherwise will need much further development.

A practical approach to mitigation ...

The reset option and transitional measures



- **One-off capacity reset option**
 - Offered to all shippers when NC TAR comes into effect (Oct 2017 or earlier/later)
 - Shippers entitled to relinquish all or part of their existing IP capacity extending beyond Oct 2017 with no penalty
 - Any retained existing IP capacity becomes subject to NC TAR along with unsold capacity

- **Impact of capacity reset**
 - All shippers can amend their booking strategies to reflect changed market/price perspectives
 - Adjustment should be rapid and smooth, thus reducing price volatility
 - TSOs may offer more flexible capacity products to captive customers (e.g. CCGTs, LNG etc)
 - Price increases resulting from any significant under-recovery could be smoothed over an initial period of [2] years or through a one-off adjustment to the entry/exit split.

Towards an effective tariff Network Code ...

A reminder of the key measures



- **Transparency of information with predictable outcomes and timely decision making**
- **Avoid undue complexity by ensuring that there are simple default values for reserve prices etc...**
- **Recognise that the market is changing, and the Tariff Network Code will further influence commercial behaviour**
- **Mitigating measures are essential; a one-off capacity reset option has strong support**

**And finally, good luck with the drafting ...
It needs to be a European Tariff Network Code**



European Federation of Energy Traders

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www.efet.org**

Tariff Network Code ENTSOG SJWS 5

IFIEC-CEFIC response on Network Code on Tariff structures

Dirk Jan Meuzelaar

Brussels, April 9th 2014

The Gas Directive 2009/73/EC aims at safeguarding the interest of gas consumers. (1)

Harmonized Tariff Structures = Key Success Factor

- Competitive prices
 - Our Performance Indicator!
 - Goal competitive liquid IEM
 - **Concern: increasing and non-amendable costs for end-users**
- Efficiency gains
 - Efficient cost of the required infrastructure
 - Cost reflectiveness and actual costs
 - **Concerns: Allowed revenues not part of Network Code;
Unfair and incorrect incentives for Network Users;**

The Gas Directive 2009/73/EC aims at safeguarding the interest of gas consumers. (2)

- Higher Standards and Services
 - Transparency and deductibility
 - **Concern: translation of information into knowledge is difficult**
- Security of Supply & Sustainability
 - Sufficient transport capacity available to facilitate liquid IEM
 - **Concern: current Economic test detrimental for new entrance players**
Capacity (transport and storage) primarily to consolidate position of pivotal suppliers

CEFIC/IFIEC are concerned that the current proposals will NOT lead to more competition, more efficiency and necessary price reductions and that the energy market still will be ruled by the strongest instead of the fittest

Will current proposals for Storages contribute to safeguard the interest of end consumers? (1)

- Storages are primarily an instrument for optimization the portfolio of suppliers:
 - Flexibility for customers with profiled or seasonal pattern;
 - Storages are volume driven and not capacity driven:
 - Transport tariffs and capacity are based on (*contracted*) peak demand
 - Storages are a 'bridge' between the spot and forward markets

FORWARD PRICE = SPOT PRICE + STORAGE COST + INTEREST

- Storages are NOT part of the regulated system:
 - Owned by suppliers;
 - Commodity and capacity are not part of the 'line pack';
 - Commercial utilization of the assets.

Storages support and increase the entry capacity

- We are not convinced that storages contribute to competitive prices and price reductions;
- Efficiency gains primarily for the benefit of the suppliers;
- Storages increase the entry capacity (Security of Supply);
- Storages can contribute to more flexibility needed for intermitted Renewables;
- We doubt that storages will contribute to lower investments in domestic transportation network capacity (grid capacity designed for peak demand).

Storages should pay the normal entry and exit tariffs

Transport costs storages may not be transferred to domestic exits

Conditions Tariff Structures

IFIEC/CEFIC preliminary position

- NC is too much focused on short term recovery of costs instead of a long term strategic integration of one European IEM;
- Cost allocation: only efficient costs based on allowed revenues (CAPEX [RAB, WACC] & OPEX) reimbursed through Tariffs;
- Transparency & deductibility of Tariff Structures and Tariffs;
- Cost allocation methodology: transparent, 'simple', fair and proper incentives for Network Users: postage stamp preferred;
- Entry-exit split 50-50: deviation only when substantiated underlying costs;
- Mitigating measures: reluctance for any compensation as regulatory risk = as any other risk; no cherry picking!!
- Seasonal factors and multipliers: should be in line with causer pay principle and avoiding cross subsidization.

We still have concerns that the proposal will insufficiently contribute to the goals set in the 3rd package / Gas Directive

Feedback on the Tariff network code development

Nigel Sisman

sisman energy consultancy ltd

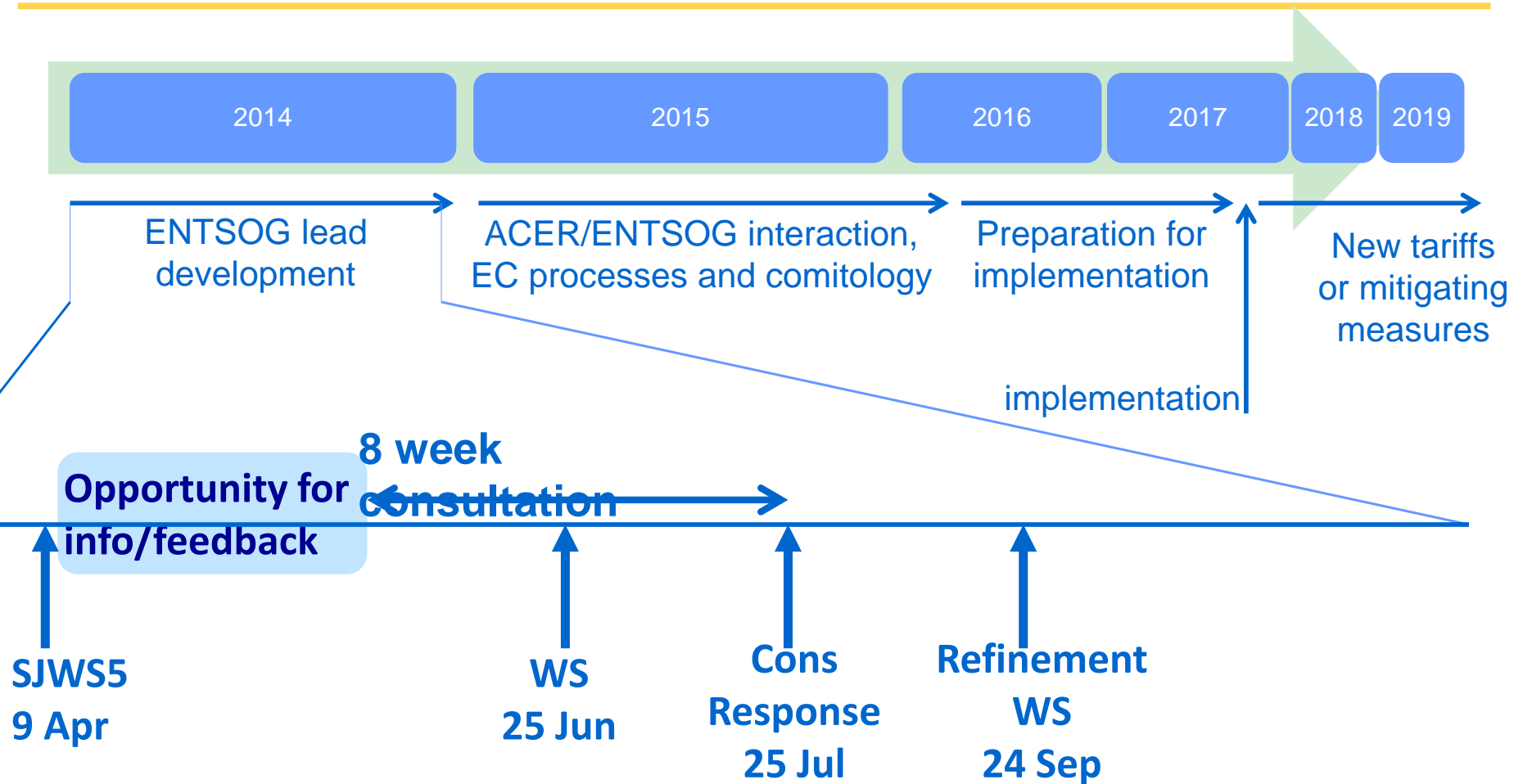
working for



Disclaimer

This presentation has been based on initial discussions about the Tariff network code development process and cannot be considered to be the final position of either Gazprom M&T or *sisman energy consulting ltd.*

Stakeholders may appreciate further information



Content points:

◆ Transparency

Good transparency to support initial choice of methodology

- but what about the 4 yearly reviews?
- and will there be full transparency for each tariff reset?

◆ Cost allocation

Underlying network model and expected cost attribution must be available for next 3-4 years

◆ Revenue reconciliation

Projection of Regulatory Asset Base for next 20 years

◆ Reserve price

◆ Payable price

Content points:

- ◆ Transparency

Is it viable to determine circumstances to define methodology?

- ◆ Cost allocation

Are the approaches sufficiently open to interpretation or to selection of input variables that outputs are very difficult to estimate?

- ◆ Revenue reconciliation

All network models and necessary inputs must be made available

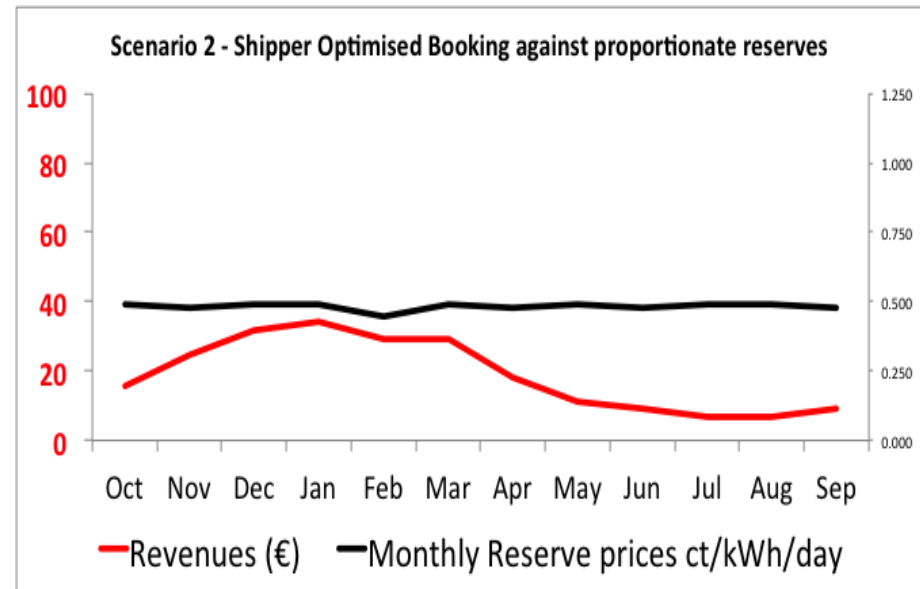
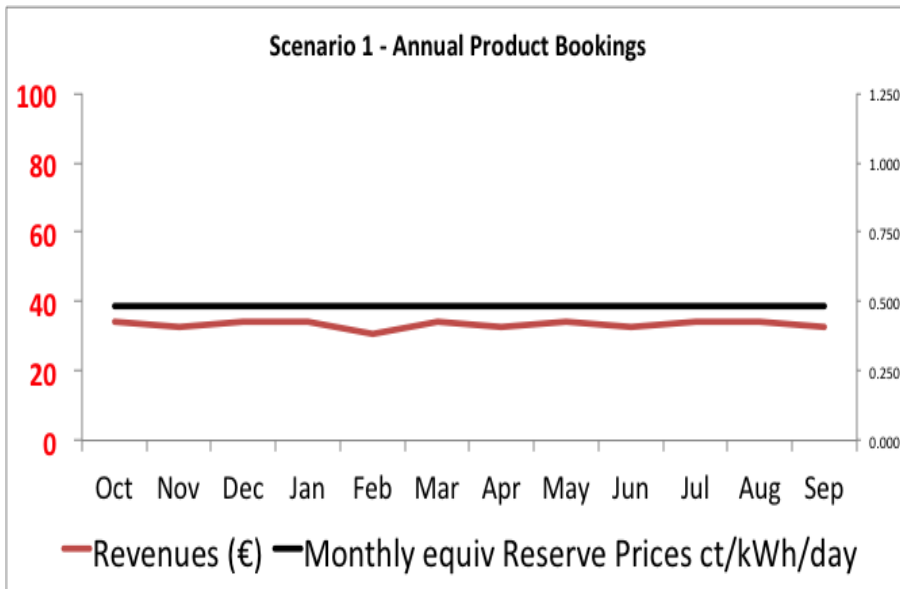
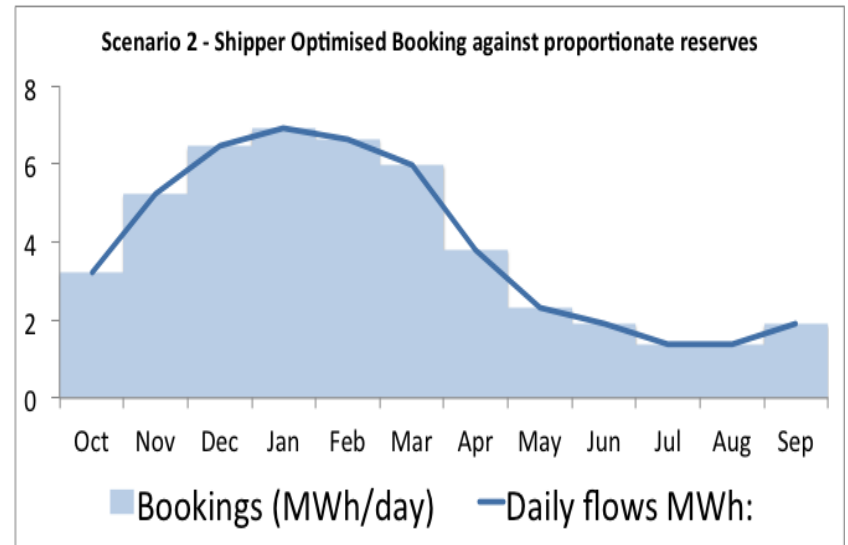
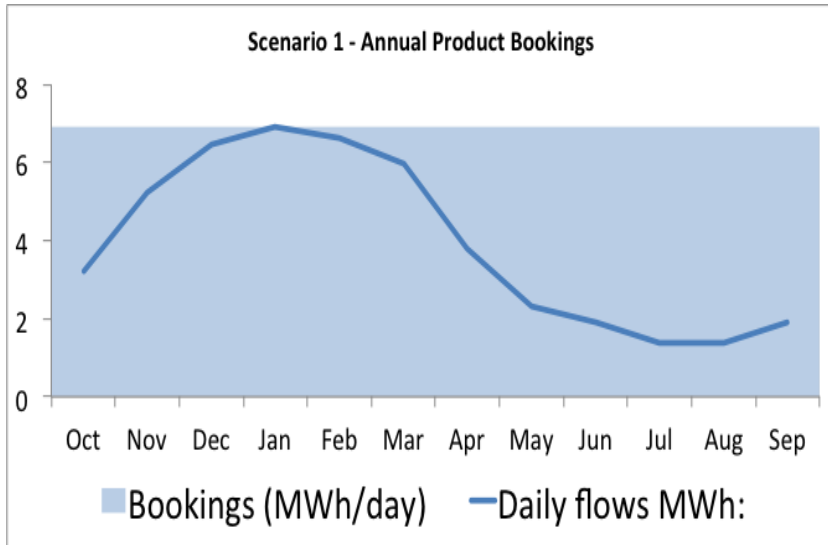
- to enable robust forecasting of prices over 2-4 year period
- to allow an assessment of price trends over a longer period

- ◆ Reserve price

What are the multipliers and seasonal factors trying to achieve?
Are the pricing/booking behaviour implications appreciated?

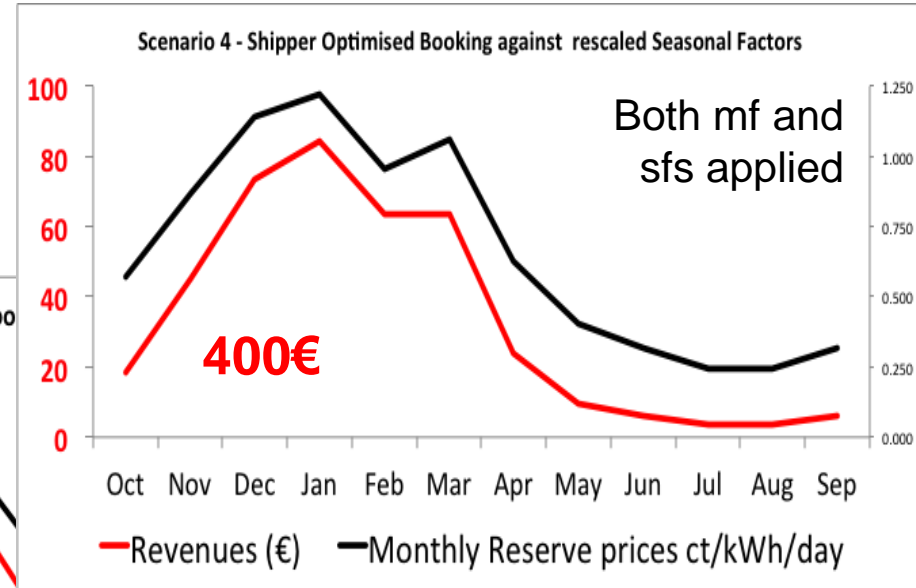
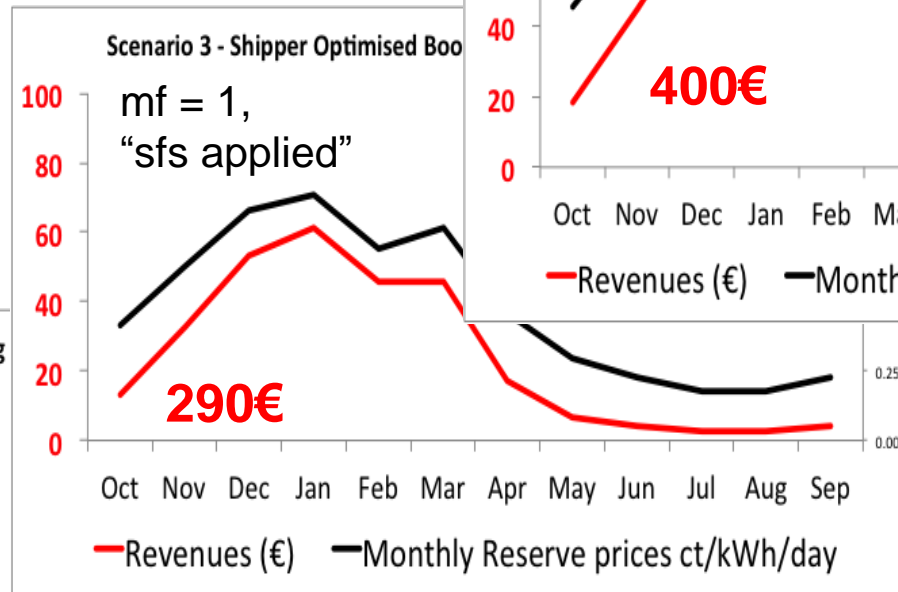
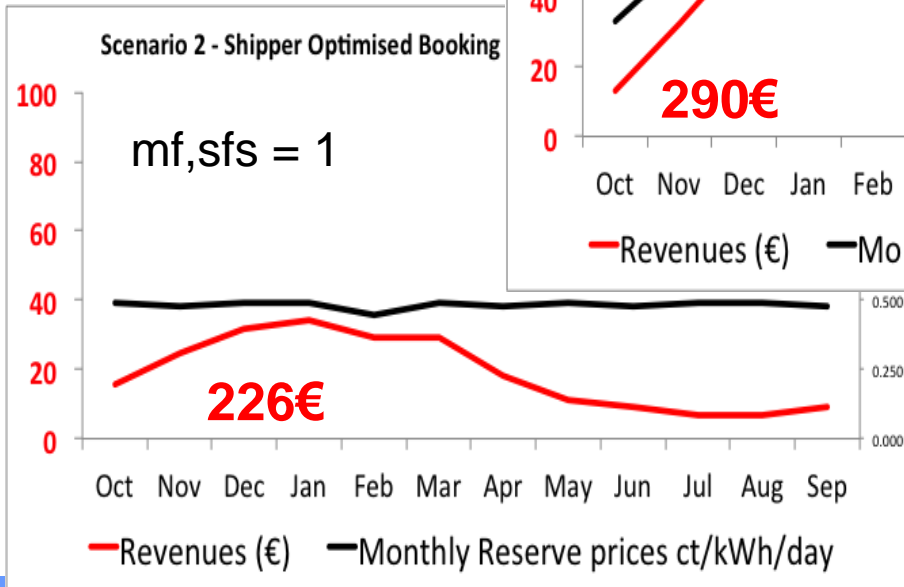
- ◆ Payable price

Multipliers and scaling factors – “tilting the playing field”



Multipliers and scaling factors – “applying the scaling factor”

Target revenue 400€

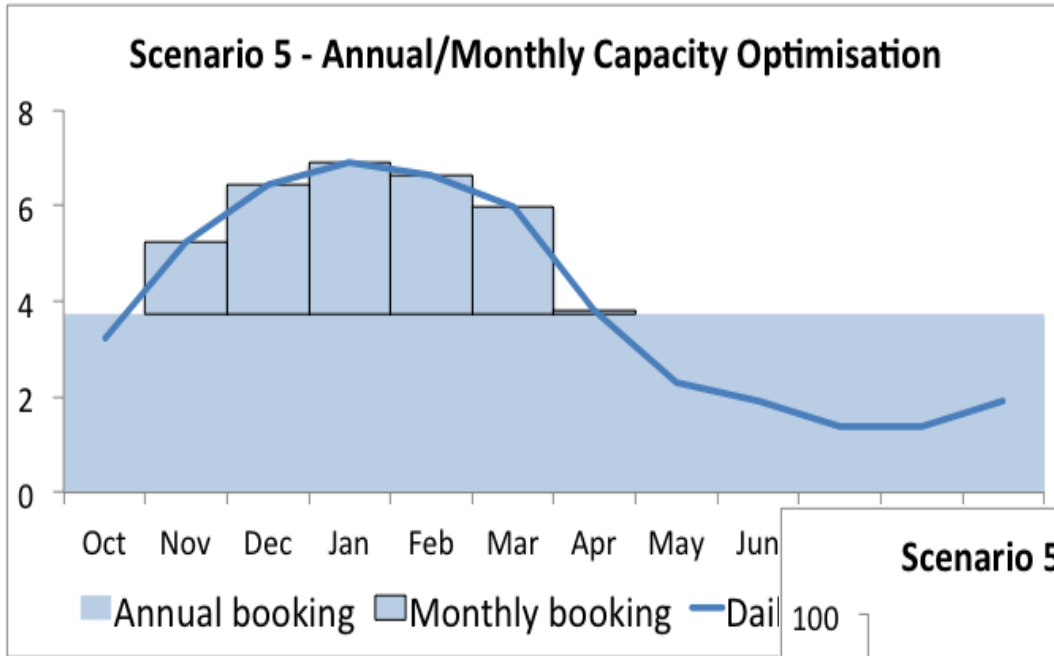


.. but shippers can then optimise their bookings of annual and monthly capacity

Based upon apparent sequencing implied by Launch Documentation



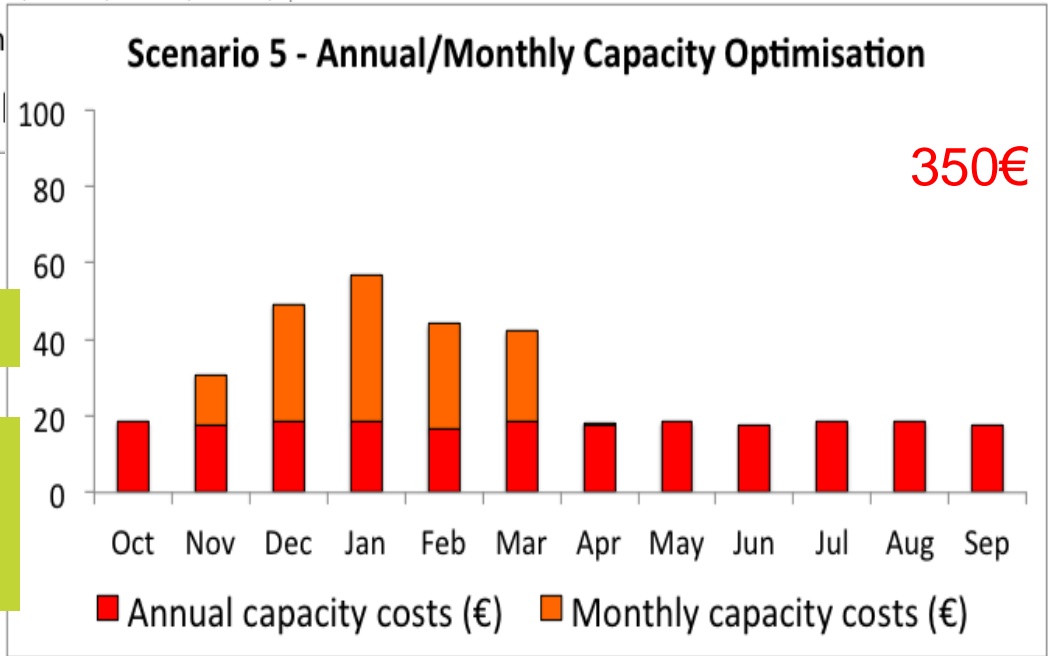
Multipliers and seasonal factors – network user and TSO interplay



Network users will optimise their bookings across the standard products

... so a revenue shortfall will arise

... so should the NRA sanction a raise in the reference price to try to achieve revenue recovery?



Content points:

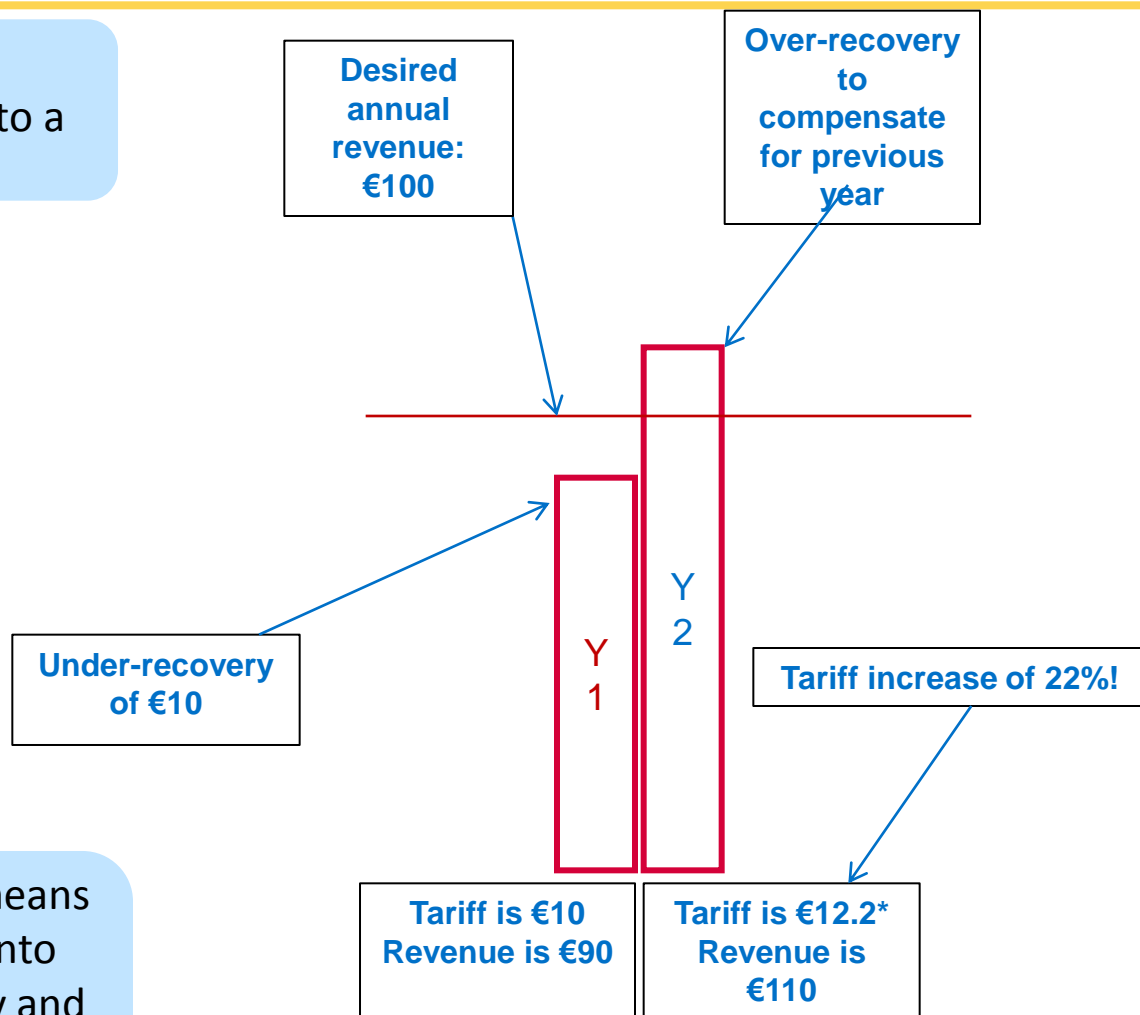
Beware of the catch-up effect
– a 10% fall in revenue could lead to a 22% increase in tariffs

◆ Cost allocation

◆ Revenue reconciliation

◆ Reserve price

... but the single regulatory pot means that shortfalls at one point feed into “allowed revenues” subsequently and therefore are re-attributed to all network users in a non-targetted way



* Assumes TSO only expects to sell 9 units again

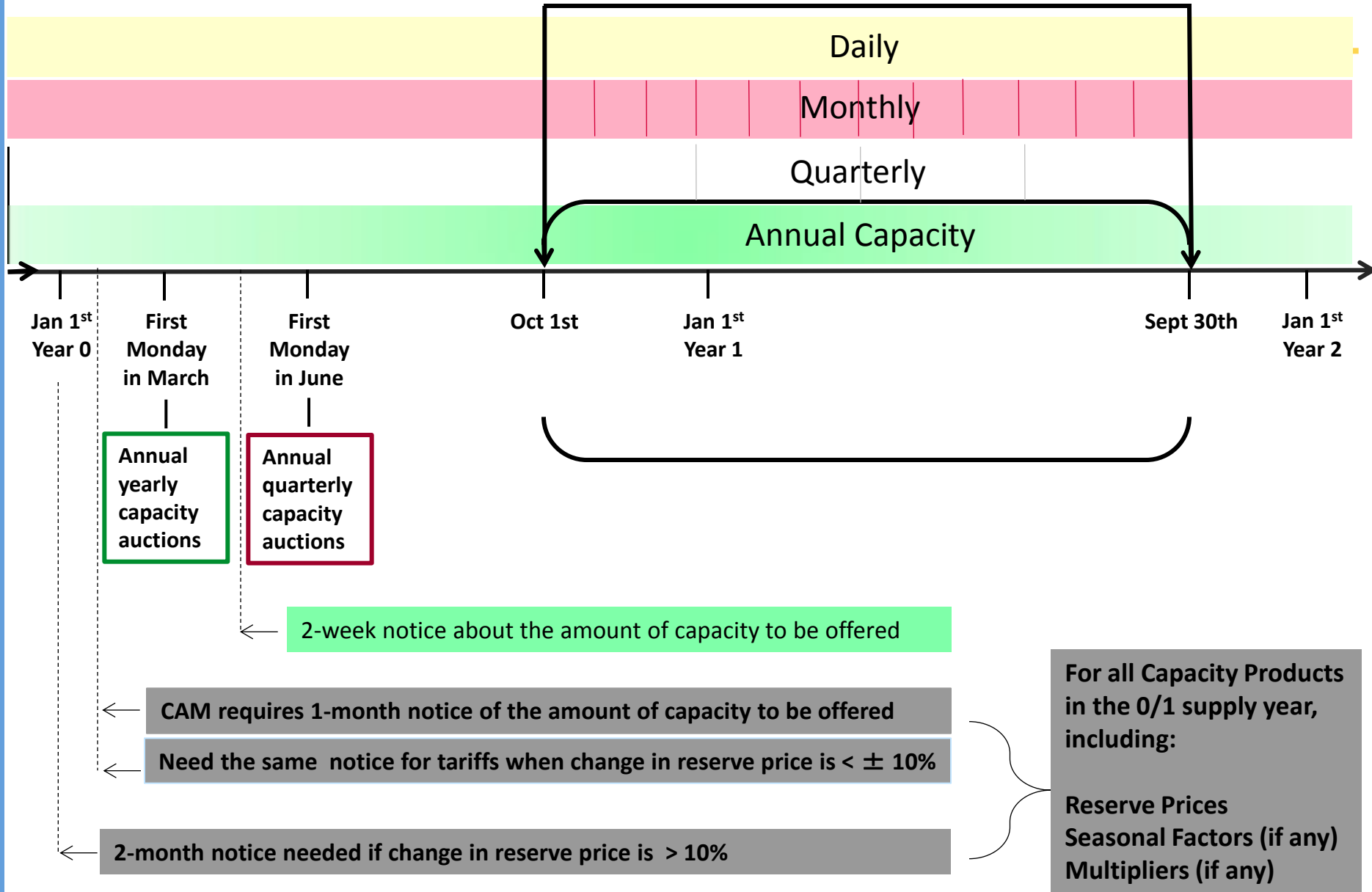
Content points:

- ◆ Transparency
- ◆ Cost allocation
- ◆ Revenue reconciliation
- ◆ Reserve price
- ◆ Payable price

When you buy something don't you want to know the price before the purchase decision is made?

Going forward regulated prices might not be as stable as they have been in the past?

Publication Timeline for Regulated Capacity Tariff Information



Content points:

- ◆ Transparency

Is the Impact assessment really convincing?

Option	Effectiveness	Feasibility	Acceptability	Total
Floating	3	3	2	8
Fixed	2	3	2	7

- ◆ Cost allocation

How will the approaches fit with the evolution of tariffs?

- ◆ Revenue reconciliation

Are there risks of double whammies for incremental capacity buyers?

- ◆ Reserve price

Is there a valid third way?

A “fixed but indexed” or “floating but limited” approach?

- ◆ Payable price

Wouldn't it be better to allow some discretion, subject to consultation, justification, and appeal to ACER if approach inconsistent with proper market functioning?

Conclusions

- Need time to assess ACER Tariff Impact Assessment
 - Many stakeholders (and MSs?) may want to challenge some decisions
- Transparency
 - Requirements need to go beyond framework guideline
 - Specifically to include anticipated trajectory of Regulated Asset Bases
- Cost allocation
 - Difficult to assess the approaches without meaningful data covering full process
- Reserve price setting
 - Proper formulation and precise sequencing of all steps to be articulated
- Fixed v payable price
 - Are the benefits of harmonisation fully explored? and the risks of unintended consequences?
- Some participants need more time to absorb implications of Business Rules

Are we being over-prescriptive and risking unintended consequences?

Do we need more time to understand the interactions and consequences?

Why not focus on transparency and better understand issues to solve?



Tariff Network Code

GIE view at current status

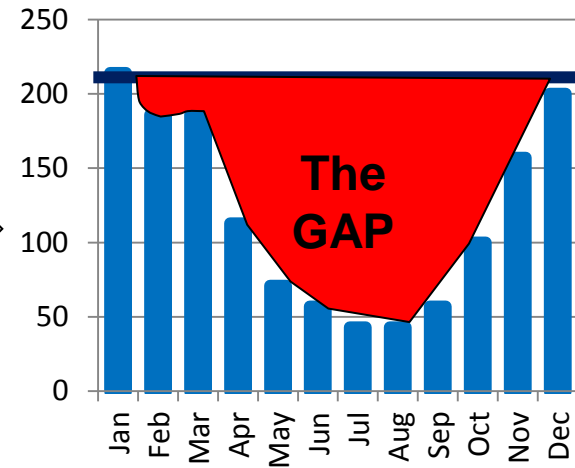
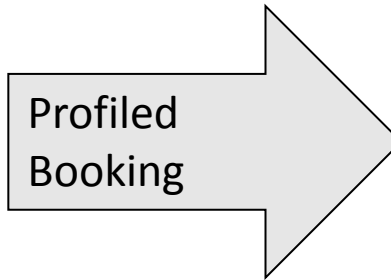
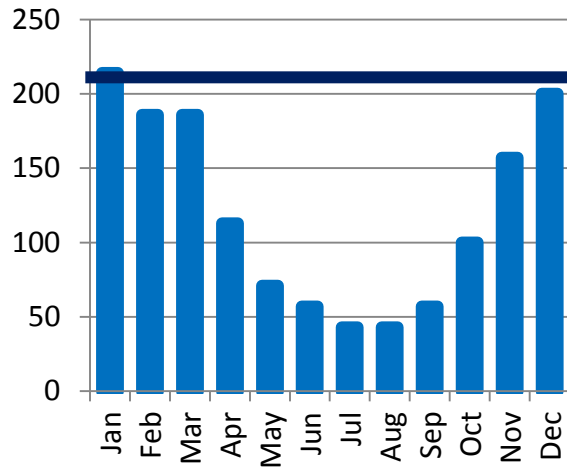
April 2014

Marginal cost-approach for non physical backhaul capacity delivers unintended signals

- From network user's perspective, reasons for interruption do not matter, consequently the risk to be interrupted shall also be the price setting criterion for non physical backhaul
- Non physical backhaul requires the use of firm forward flow capacity
- Where non-physical backhaul and physical reverse capacity are in competition, demand for physical capacity will be lower although it has more overall value
- Free riders mentality undermines investment signals
- Solution: apply the same methodology to non physical backhaul and to reverse flows with discount reflecting the interruption risk

**It is not about TSOs revenues only
It is about fair treatment of shippers**

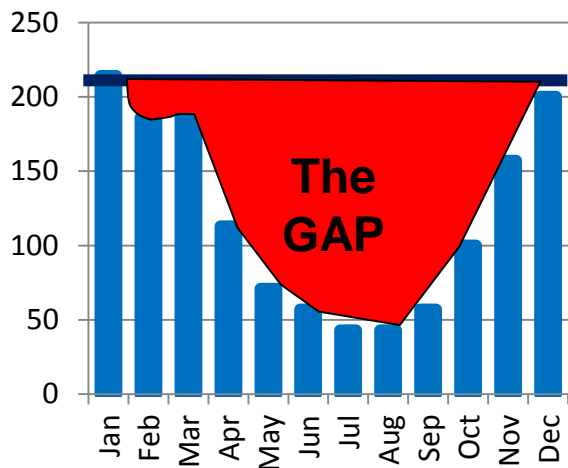
The issue of profiled booking



In order to facilitate cross border trade, network users have the ability to book profiled (short term) on quarterly, monthly or daily basis.
The network code has to deal with the consequences of potential under recovery.



How to balance short/annual bookings

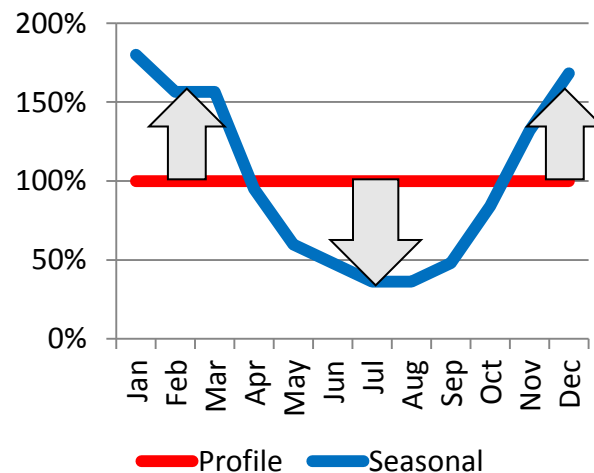


Setting the tariff simply based on average use of capacity would undermine long-term booking and would not deliver any signal for efficient use.

↪ Something more intelligent is needed

Seasonal Factors are a proper instrument to incentivise efficient use of network and to deliver a signal for the congestion and/or value of capacity at given time.

Seasonal factors in combination with reasonable defined multipliers can ensure in addition cost coverage for the TSO.



Trade offs between pragmatism and correct reconciliation

- FG foresees one regulatory account and use of primary cost allocation to split the reconciliation „pot“ between Entry and Exit
- This may cause problems:
 - In case of huge transit capacities
 - In case of massive under/over-recovery due to changed flow patterns
 - In case of insufficient recognition of possible profiled bookings
- At least full transparency should be achieved on where and why over/under-recovery occurs
- There should be some flexibility compared to a purely mechanical solution

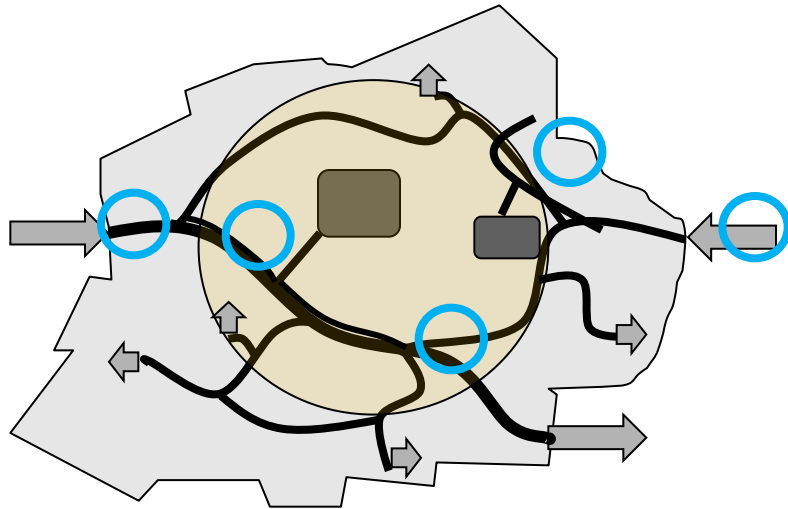
**It is not about TSOs revenues only
It is about fair treatment of shippers**

Subject to intensive discussions among stakeholders

- Floating tariffs might decrease network user's willingness to book long term, results in problems for TSO to recover costs and/or lead to increases in following regulatory period
- Fixed tariffs might lead to cross-subsidies among network users and/or less stable tariffs
- But there are merits when it comes to new/incremental capacity

**Some discretion might be needed at least for
incremental/new capacity**

Storage in Entry/Exit-Systems



A network user (NU) has paid his share of the network cost upon entry via an entry fee and upon exit via an exit fee

When a NU decides to store gas, he should not pay more for transmission than the incremental costs directly attributable to the connection to storage while taking into account the benefits that storages bring to the system

These benefits include: increased flexibility, avoided Capex covering peak capacity demand, reduced Opex, improved system stability and security of supply.

A stylized globe is depicted in the background of the slide, rendered with light blue lines. The globe shows latitude and longitude lines, with a prominent circle representing the equator. The globe is positioned on the left side of the slide, partially overlapping the title text.

Balancing Annual Capacity and Short-term Products

**ENTSOG 5th SJWS on Tariff NC
Brussels, 9 April 2014**

Kees Bouwens, ExxonMobil

- **OGP supports the offer of short term capacity products under CAM**
 - Facilitates cross-border trade, provides choice of products to network users and improves network utilisation
- **Tariff NC will determine how short-term products ‘compete’ with annual capacity**
 - This doesn’t depend only on multipliers and seasonal factors
- **Market will respond when given an incentive to change behaviour**
 - Tariff NC should strike the right balance between annual capacity and short-term products
 - Users with a sustained demand should be incentivised to book annual capacity

- **Long-term bookings are needed to support incremental and new capacity, but FG do not respect existing contracts**
 - NC should respect rights of parties under existing contracts
- **Floating tariffs provide uncertainty for long-term bookings**
 - NC should provide flexibility to allow 'fixed' price
- **Tariff decision could be as late as 30 days prior to gas flow**
 - Tariffs, multipliers and seasonal factors should be known at the time of the March CAM auctions
- **Annual reserve price could be based on average demand iso peak**
 - Annual reserve price should be based on peak demand
- **Multipliers <1 result in a discount for short-term products**
 - Multipliers for short-term products should at least be 1

- **When the balance is distorted, users may book within-day capacity**
 - TSOs to recover revenue through commodity charges
 - Creates barrier to cross-border trade
 - Removes incentives for investment
- **Bias against annual capacity products should be stopped**
 - Annual capacity products provide incentives for investments, facilitate efficient gas trade and competition, provide tariff stability
 - CMP guidelines should resolve contractual congestion

Thank you for your attention !



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Summing Up and Consultation Workshop

TAR SJWS 5 – the 9th of April 2014

Consultation Workshop

- Draft TAR NC consultation
 - Starts: Friday, 30th May
 - Ends: Wednesday, 30th July
- ENTSOG Consultation Workshop
 - Date: 25th of June
 - Location: ENTSO-E Conference Room (Ground Floor of 100 Avenue de Cortenbergh)
- Consultation Responses
 - Plan to use an online tool similar to the one used for the draft TAR NC project plan consultation

Feedback

If you have any feedback on the business rules or on any of the topics that we have discussed during the TAR NC SJWSs, please send your feedback to ENTSOG, by the 23rd of April, using the following email address:

TAR-NC@entsog.eu



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THANK YOU

TAR SJWS 5 – the 9th of April 2014