MINUTES

Network Code on Harmonised Transmission Tariff Structures for Gas

ENTSOG Stakeholder Joint Working Session 2

27 February 2014 from 10:00 – to 17:00

At ENTSO-E Conference Centre, Av. de Cortenbergh 100, Brussels

Company	Name	Company	Name
ENTSOG (chair)	Ann-Marie Colbert	SSE	Jeff Chandler
ENTSOG	Áine Spillane	ExxonMobil/OGP	Kees Bouwens
ENTSOG	Irina Oshchepkova	ACM	Kirsten Bouwens
ENTSOG	Violeta Bescós	DESFA	Kleopatra Avraam
ENTSOG	Panagiotis Panousos	Fluxys	Laurent De Wolf
ENTSOG	Jan Ingwersen	ACER	Lewis Hodgart
ENTSOG	Adam Balogh	Snam	Marco Gazzola
Gazprom Marketing and Trading Ltd.	Alex Barnes	Eurogas	Margot Loudon
VCI/CEFIC	Alexander Kronimus	E-Control	Markus Krug
Shell Energy Europe Ltd.	Amrik Bal	Bundesnetzagentur	Meike Schoenemeyer
EDF	Amroze Adjuward	Enagas GTS SAU	Miguel Martitegui
GAZ-SYSTEM S.A.	Andrzej Robaszewski	Edison SpA	Monica Immovilli
EFET	Aygul Avtakhova	ONTRAS Gastransport GmbH	Niels Krap
GTS	Bas Barten	ENAGAS	Paloma Izquierdo Fernandez
GDF SUEZ	Claude Mangin	Interconnector	Pavanjit Dhesi
National Grid	Colin Hamilton	GIE	Philipp Palada
CEFIC & IFIEC	Dirk Jan Meuzelaar	Bundesnetzagentur	Rafael Gralla
BP Gas Marketing Ltd	Doug Wood	Fluxys	Raphaëlle Ciuch Pilette
TIGF	Emmanuel Bouqillion	Centrica Storage Ltd.	Roddy Monroe
GRTgaz	Fabrice Desjardin	GASCADE Gastransport GmbH	Rolf Wagner

Croatian Energy R.A.	Goran Babic	NET4GAS	Sebastian Borek Kubatzky
GRgaz Germany GmbH	Gregor Scholze	RWE Supply & Trading GmbH	Stephen Rose
E.ON Global Commodities	Gunnar Steck	DG Energy	Tanja Held
Energie-Nederland	Hein-Bert Schurink	DEPA S.A.	Theodoros Mantoukas
IFIEC Europe	Jacques van de Worp	IFIEC Europe	Valentin Hohn
GasTerra B.V.	Warner ten Kate	GDF Suez Infrastructures	Laurent Percebois
BNETZA	Stefan Krumuach	CRE	Francois Leveille
Snam	Alessandro Gussetti	TAQA	Robert Jan Maashant
CREG	Tom Maes	Gastransport Nord GmbH	Jann Keller
Europol GAZ S.A.	Adam Leszczynski		

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

1. OPENING

> Welcome / Introduction

Ms Ann-Marie Colbert welcomed the participants to the 2nd TAR NC SJWS and highlighted that the TAR NC project is now in its 2nd phase, i.e. the network code development phase.

> Objectives

The objectives of SJWS 2 were indicated as follows: (i) to discuss the topics listed in the Agenda of the Meeting and (ii) to encourage inputs and suggestions from the stakeholders.

2. MULTIPLIERS AND SEASONAL FACTORS

2.1. Overview

On behalf of ENTSOG, Mr. Fabrice Desjardin provided an overview of the topic of short term capacity multipliers. It was highlighted that as per the CAM Network Code there is a requirement for TSOs to not only offer yearly capacity products but also short term products, i.e. quarterly, monthly, daily and within-day products. Multipliers would be taken into account when setting the reserve price for short term products and they may increase or decrease from one year to the next depending on under/over recovery of revenue. The NRA may decide not to apply multipliers and if so then the reserve price for all standard capacity products shall be set proportionately to the yearly reference price. As per the tariff framework guidelines the multipliers range is between 0 – 1 where there is congestion and 0

– 1.5 without congestion. However, it was outlined that ENTSOG is of the view that there is a risk of cross subsidisation between different network users and a potential for large increases in the annual tariff with the application of these multipliers. Therefore ENTSOG proposes that multipliers higher than 1.5 should be permissible in certain cases in order to avoid unsustainable situations.

Mr. Emmanuel Bouquillion provided an overview of seasonal factors and outlined ENTSOG's initial view and proposal. The purpose of seasonal factors is to have reserve prices of short term products that evolve proportionally to the rate of transmission infrastructure usage or bookings. ENTSOG suggests that the seasonal factors are based on months and that seasonal factors for other product durations, e.g. quarterly and daily, could be derived from the monthly values. A worked example of how to calculate seasonal factors was provided and it was suggested that a correction factor could also be applied. In addition, a worked example of how to calculate reserve prices was presented.

2.2. Stakeholder Views

Mr. Philipp Palada provided his views as prime mover. Setting the tariff simply based on average use of capacity would undermine longterm bookings and would not deliver any signal for efficient use and therefore 'something more intelligent is needed'. The combination of seasonal factors and well defined multipliers delivers a sensible solution i.e. a balanced price for short and long term bookings, a clear signal for efficient use of capacity and a cost reflective solution for dealing with consequences at the point of origin.

In addition, Kees Bouwens presented his views as a prime mover. The Tariff NC should find the right balance between the annual reserve price and the pricing of short term capacity products. Multipliers and seasonal factors may help to set a balanced price. At IPs with strong seasonal utilisation the multiplier should be greater than or equal to 1. A multiplier of less than one needs further discussion.

2.3. Discussion

Q: TSOs are entitled to recoup their allowed revenue and multipliers may help. However the flow profile may be so extreme that a multiplier of <1.5 would not lead to full recovery of revenue.
A: You could deal with that issue by using the seasonal factors, however further investigation would be necessary to see if there are cases where a multiplier of >1.5 would be required in some cases.

Q: The aim of CAM, CMP etc. is to have profiled bookings. At non-congested points there is a problem of under-recovery but cross border is only one of the sources of revenue. The entry-exit split could also be changed in order to recover more revenue. If it is kept at 50:50 then you will not recover your revenue.
A: By introducing seasonal factors and multipliers we are moving towards monthly profiling. Of course if you optimise your portfolio you will book some long term capacity but in general there is a move towards shorter term bookings but there should be a balance.

A: A balanced entry-exit split will avoid cross-subsidies. To recover greater costs from exists could be a burden in some cases for cross border trade. The cost allocation test will prove that cross-subsidies and corresponding distortions are avoided.

Q: The aim of the 3rd package was to promote market liquidity and avoid hindering cross border trade and hoarding. There is a concern that if you have high multipliers then there will be no liquidity, particularly short term liquidity.
A: Hoarding shouldn't come into question given that the CMP guidelines deal with hoarding.

Q: ENTSOG is proposing the inclusion of an 's' factor. Do you envisage a cap on this factor?
A: It is undecided at this stage and requires more discussion, it will be explored further.

Q: In which circumstances the input for the methodology for determining seasonal factors will be the forecasts of flow profiles/bookings?
A: If flows change from one year to another due to drastic changes in the market, use of forecast could be more precise than using historic data. Which inputs are more appropriate in each case could be considered at national level.

Q: Should the same multipliers and seasonal factors apply at each point?
A: They should be applied for each interconnector where there is seasonality in demand. Applied only where CAM applies, i.e. not exit points to power plants etc.

Q: ACER disagrees with the idea that tariff structures won't lead to cheaper tariffs. With regard to the Framework Guidelines, does ENTSOG foresee narrowing some of the parameters, e.g. multipliers?
A: No, ENTSOG has a concern that 1.5 is not enough and if anything would be seeking to expand these parameters.

The following points were also discussed

- CAM was not just about profiling bookings but giving the choice in the way capacity is booked. It also recognises that TSOs have to recover their revenue and there needs to be a balance.
- It should be noted that not all TSOs have captive demand, e.g. interconnectors.
- There should be freedom for TSOs to promote the use of pipelines to increase revenue, particularly where there is an oversupply of capacity due to investment. They should be facilitating competition.
- With regard to incremental capacity where long term capacity bookings are sought from network users, there may not be a successful economic test without multipliers in excess of 1.5 and hence this may hinder security of supply.

3. COST ALLOCATION TASKS II

3.1. Overview

> **Circumstances/Criteria**

Mr. Colin Hamilton presented ENTSOGs preliminary views on Circumstances for selecting Primary methodologies. The initial view was that some parameters appear less relevant for the methodology selection, e.g. congestion and age of networks. Four tables highlighting the pros and cons of each methodology were also presented. The circumstances for selecting Primary methodologies as outlined in the Framework Guidelines were also presented and in addition ENTSOG's initial view on the circumstances for secondary adjustments are that they are already prescriptive and therefore would question the need for any further circumstances.

> **Methodology Variants & Cost Allocation Test**

Mr. Niels Krap provided ENTSOG's initial view on the Methodology Variants and Cost Allocation Test. It was felt that it may be possible to merge the variants in the Capacity Weighted Distance Approach but more difficult to do so in the Virtual Point Based Approach. An example of how the cost allocation test could be determined was then provided for the stakeholders to consider.

3.2. Discussion

Q: With regards to the benchmarking secondary adjustment, if there are 2 IPs within different systems that compete and if you would lower the price in order to compete in both systems, you could end up with a price of 0. The 3rd Package doesn't give the right to lower prices on individual entry/exit points.
A: You do need to prove that there is system to system competition first as set out in the tariff framework guidelines.

Q: The Postage Stamp methodology is the least cost reflective but is best situated to favour non-discriminatory tariffs. Therefore, I'm in favour of the Postage Stamp approach being used as the counterfactual.
A: We need to be careful not to be too prescriptive. Postage Stamp is not cost reflective and this is one of the key things we are trying to achieve but yes it is simple to calculate.

Q: Are stakeholders interested in seeing a 5th methodology based on Asset Allocation?
A: One stakeholder responded that they would possibly be interested in reviewing it, if it was sufficiently differentiated from the methodologies already set out in the TAR FG and if it was felt that it would be a viable option.

Q: It is proposed to use the Euclidean method of distance calculation for all cost allocation methodologies?
A: No, this would depend on the chosen cost allocation methodology.

Q: How are the cost drivers calculated in the cost allocation test example provided?
A: They were calculated using a weighted average approach. (Described in the launch documentation)

Q: Secondary adjustments can reduce the cost reflectivity of the cost allocation methodology, how is this coherent with the cost allocation test?
A: You are required to carry out the cost allocation test after the primary methodology and secondary adjustments and therefore consideration is given to any changes that might occur between primary and secondary methodologies.

Q: Is there merit in having clearly described methodologies and circumstances in the Network Code?
A: ENTSOG have been working a lot on the circumstances but is finding it extremely difficult to describe clearly defined circumstances of when to choose one methodology over another. What matters to the stakeholder, is it the cost allocation methodology that provides the lower tariff.

Q: If Postage Stamp cannot be used as a methodology in a particular system, should there be a requirement to explore other options to use as counterfactual?
A: The decision was taken that even if Postage Stamp was not a suitable methodology for a system, it should still be taken for counterfactual.

The following points were also discussed

- A stakeholder raised the possibility of having a 5th cost allocation methodology based on asset allocation however it was reiterated that this was considered previously by ACER and the decision was to not allow it as a 5th methodology as it was too close to some of the other methodologies already set out in the TAR FG. It was also noted that differentiation between costs based on domestic and transit was a historical issue which was essential wiped out with the introduction of the 3rd Package.
- There also appeared to be a general consensus that a lot of time should not be spent on outlining circumstances for when to use the varying cost allocation methodologies.
- The reasoning for narrowing down the number of cost allocation methodologies was also discussed. The main reasons were seen to be: in the long term to align the methodologies within the different systems, to have a vision of the different routes in addition to creating a competitive internal gas market.

4. IMPLEMENTATION & MITIGATING MEASURES

4.1. Overview

Ms Ann-Marie Colbert provided an overview of Implementation and Mitigating Measures. Two scenarios were outlined. 1) where there were no delays and 2) where there were delays at two points in the process. It was felt that an implementation period of at least 18 months was necessary to ensure that the provisions of the TAR NC were properly implemented and ENTSOGs suggestion is that the implementation deadline either be: 1) the 1st October 2017 or 2) 18 months from the date of entering into force, whichever is later. An overview of Mitigating Measures was also provided and ENTSOGs suggested mitigating measures were:

1. Step change for tariff increases up to a particular threshold over a certain period of time
2. Using the auction premium where applicable to reduce floating tariff increases

3. Have a glide path of tariff increases and decreases

4.2. Stakeholder Views

Mr. Kees Bouwens provided views as a prime mover on causes for concern with regards to existing contracts. He suggested that in order to alleviate these concerns contracts signed before entry into force of the TAR NC with fixed or indexed prices should be respected and that for existing contracts with a floating price the parties shall agree to implement the Network Code in a way that respects their positions. If no agreement was reached then the network user would have a right to terminate. It was also stated that ongoing mitigating measures were needed to provide tariff stability.

Mr. Claude Mangin provided views on when and how to apply mitigating measures and what type. It was felt that they should apply as often as needed and that the 20% tariff increase trigger was too high. It was also highlighted that a fixed percentage may not be the best solution for all IPs and that smoothing the price increase over time may not be a suitable solution as it would merely delay the increase. Two one off solutions and two permanent solutions were presented. In conclusion it was felt that most of the shippers strongly advocate for enhanced mitigating measures.

Mr. Gunnar Steck outlined how CAM, CMP and macroeconomics have changed shippers perspective on capacity usage and that this will inevitably decrease the rate of utilisation of European transport systems. Following on from this, the concept of floating prices would lead to increased tariffs and may hamper some business cases from being successful. NRAs and TSOs should have the option to provide either a once-off capacity reset with entry into force of network code or allow ongoing mitigating measures

4.3. Discussion

The following comments were raised and discussions took place within the session:

- It was pointed out that not all stakeholders are entirely against floating tariffs – tariffs may go down as well as up
- The Commission emphasised the importance of mitigating measure while ACER highlighted the fact that any time you invoke a mitigating measure, the tariff will inevitably increase elsewhere as it is a zero-sum game
- There was a very strong emphasis and desire shown by the stakeholders in general to allow a once-off exit right for existing contracts as it was felt that fundamentally one side of the contract was changing (i.e. the tariff) and therefore the other party should essentially also be allowed to 'change their mind'. If you don't allow the one-off termination right you are just 'prolonging the pain'
- Stakeholders emphasised that the problem isn't that the TSOs won't recover their allowed revenue, but that because of the uncertainty that floating tariffs bring, shippers would only book for a couple of years ahead. Stepping out of contracts would result in shippers then booking less capacity based on higher tariffs.
- ACER outlined the concern of a socialisation of costs of a long term investment that has already taken place due to allowing termination rights. Would this be acceptable to stakeholders?

5. TRANSPARENCY

5.1. Overview

Ms Irina Oshchepkova provided the overview of Transparency requirements, what and how to publish. It was highlighted that 'all the relevant input information necessary to calculate tariffs' is required as per the FG. The workshop participants were reminded of the objectives of publication requirements and that finding a proper balance between relevant information and information overload was important. The examples to ascertain the relevance of the information to be published were demonstrated. An example of what a standardised format might look like and where it would be published was also presented.

5.2. Stakeholder Views

Mr Dirk-Jan Meuzelaar explained why transparency is key for end customers in terms of confidence, competition, better integration etc. and emphasised support for improving the transparency. However, it was felt the cost allocation methodologies could be open to manipulation (e.g. a backhaul correction factor) and that it disallows the comparative analysis. He highlighted overall concern that the network code may not deliver the proper information leading to end users being 'more confused than convinced'. It was noted that that the FG foresees the publication of 'a lot of information' but it is of doubt whether it is the 'right information'.

Mr. Steve Rose outlined the aims of Transparency as is envisaged by the FG. It was suggested that this could be achieved by requiring TSOs to release working versions of their tariff models or that ENTSOG could produce a generic working tariff model for each allowed methodology. TSOs should be required to provide explanatory documentation with each tariff change, ongoing updated, consistent templates, breakdowns of any new investment costs associated with incremental capacity and breakdown of how PV_{AR} is determined for the Single Economic Test.

5.3. Discussion

Q: What data does the end user actually need?
A: Some of the information that would be required can be seen as out of the scope for the TAR NC e.g. WACC, RAB etc. These are important in order to gauge how much is going back into investment of the pipeline and how much goes to the shareholders etc. Essentially it would be desirable to understand how the tariffs are built up.

Q: Why would the RAB be important for the stakeholders, aside from not trusting the TSOs and NRAs?
A: Essentially the end user wants to ensure he is not paying more than once for an asset.

Q: It was stated that you would require the RAB and the WACC, which is essentially about the allowed revenue, but isn't the allowed revenue out of scope for the TAR NC?
A: From the Commission point of view understanding the allowed revenue is in scope, as it was also in the 2nd package.

Also, the following comments were raised within the session:

- Some transparency information would be considered by the TSOs as confidential, so the confidentiality of such commercially sensitive information should be preserved.
- ACER – The vision foreseen in the FG of Transparency requirements was so that end-users had all the necessary information in order to be able to calculate tariffs and prohibiting this would be seen as a serious omission. It is very important to get this chapter right in order to ensure confidence in the Network Code. A user-friendly format of publication is very much desired.

6. TARIFF SETTING YEAR IMPACT ASSESSMENT

6.1. Overview

Ms Ann-Marie Colbert provided an overview of the Tariff setting year impact assessment and outlined 3 options for consideration: harmonising the tariff setting year from 1st January – 31st December, harmonising from 1st October to 30th September or maintaining the status quo. The need to balance the costs of harmonising with the benefits that such harmonisation may bring was highlighted. Considerations on this topic would also include: what are the trade-offs for each option, what is the value to the market of a harmonised tariff setting year and what is the impact on the timing of setting the revenue.

6.2. Stakeholder Views

Mr. Alex Barnes provided his views on the the Tariff Setting year and highlighted that this was not the issue but the uncertainty of tariffs was the issue. i.e. you will not know the tariffs you are going to pay for capacity in an auction when the auction takes place, regardless of harmonisation or no harmonisation. Possible solutions were also suggested, e.g. publication of tariffs before the auctions, synchronisation of the capacity year (as set out in the CAM NC) and the tariff year, earlier publication or the publication of indicative tariffs.

6.3. Discussion

- There was general consensus and support from the stakeholders regarding the importance of knowing the tariff before booking capacity and that harmonisation of the tariff setting year was considered as secondary to that.
- It was noted that it would be inconsistent with information provision requirements if the appropriate tariff information was not provided in advance of the relevant auctions
- It was suggested that this would only work if you had fixed tariffs and not with floating tariffs.
- There was also a suggestion that if you had fixed prices only, then the issue of under-recovery in future years would essentially just move to a commodity tariff. It was noted that with capacity you are locked into paying the price of the capacity you contracted for regardless of usage. While there is actually an element of choice with commodity as you only pay for what you flow and therefore you have more ability to manage the risk.

7. CONCLUSIONS

> **Information about the topics to be discussed at TAR NC SJWS 3**

Ms Ann-Marie Colbert indicated the topics to be discussed at SJWS 3: (i) revenue recovery (ii) storage (iii) VIPs (iv) cost allocation business rules (v) Interruptible capacity & Non-physical capacity business rules

> **Summing Up; Closing Remarks**

Ms Ann-Marie Colbert thanked the participants for their contribution to the discussions. The draft slides for the next SJWS will be uploaded onto ENTSOG website a couple of days ahead of the meeting. The participants were invited to register for TAR NC SJWS 3 once they receive the respective invitation.

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Next TAR NC stakeholder meeting (SJWS 3): **14 March 2014**

ALL DOCUMENTS RELATING TO THIS MEETING CAN BE FOUND ON THE ENTSOG WEBSITE AT http://www.entsog.eu/events/tariff