

## ***Questionnaire for the Draft Framework Guideline on Harmonised transmission tariff structures<sup>1</sup>***

Please provide the Agency with your full contact details, allowing us to revert to you with specific questions concerning your answers.

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Please indicate, if your company/organisation is:

- a. European association
- b. National association
- c. TSO
- d. Shipper or energy trading entity
- e. End-user
- f. Other (e.g. Power Exchanges, Storage Operator etc.), namely:.....

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1 Further also referred to as “FG”. The resulting Network code on Harmonised transmission tariff structures is further also referred to as “NC”.

Please provide, if relevant, reasoned indication if you wish to consider (part of) your response as confidential<sup>2</sup>.

When writing your responses could you include how your arguments contribute to the objectives set out in section 1.2 of the draft Framework Guideline. For definitions please consult section 1.3 of the draft FG.

Firstly we welcome the opportunity to respond to this consultation as the Tariffs structure is a complicated issue and it has a high importance for all the Member States and all gas regimes.

In our point of view we believe that TSOs should not be directly related in the development of this Framework Guidelines (development of the Network Code) as their revenues depend on the tariffs, so in this sense they would like to have as much revenues as possible

We believe that with the aim to secure a correct application of the Tariff Structure Framework Guidelines, and the final quantity of these tariffs, NRAs should be responsible on this process taking into account stakeholders opinion

**1. General provisions. Scope, application, definitions and implementation (Chapter 1 of the draft Framework Guideline)**

**1.1. Please explain whether any of aspects of the application of the draft FG (NC) to existing contracts would cause disproportionate effects on gas business in relation to 3<sup>rd</sup> Package objectives?** Please give reasons for your answer, including any quantitative evidence, tables and examples (if required, under confidentiality).P

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<sup>2</sup> The Agency shall carefully consider all responses received (whether confidential or not) subject to the provision that anonymous responses or responses from respondents who do not want their identity to be made public will generally not be taken into consideration. The Agency will make public the number of responses received to formal consultations, the names of the respondents, and all non-confidential responses. Respondents may request that information or data in their responses is treated as confidential. The Agency will assess, in co-ordination with the respondents requesting confidentiality, which information or data shall not be made public and may request from the respondents an explanation of their confidentiality interests and a non-confidential version of their response for publication. The Agency will evaluate confidential responses as transparently as possible without undermining the respondents' confidentiality interests.

Applying new policy options to existing contracts, could have distortionary effects and could retrospectively undermine the business strategy or commercial position of network users who in, good faith, acquired capacity under preceding tariff arrangements. It this way we believe that if the FG applies to existing contracts, shippers should be able to finish these contracts without any penalty. If the application of the FG applies to existing contracts , it is possible that some contracts are no more interesting for the shipper as they become very expensive, contractual conditions are not good enough,....

## 1.2. Please explain if any further definitions should be added for clarity of the FG (NC)?

- Non-Physical backhaul flows: Not only at unidirectional but also at bidirectional entry exit points. If there are flows in both directions actual commercial capacity offered in the short term products (day ahead, intraday...) would be higher.

## 1.3. Please suggest the top-5 *core indicators*<sup>3</sup> for monitoring the future EU-wide implementation of the future tariff FG (NC)? ACER and ENTSO-G both have legal obligations to monitor NC implementation (in accordance with Article 9 (1) and Article 8(8) of Regulation (EC) No 715/2009 respectively).

- The relative size of Regulatory account
- Impact of the tariffs methodology in the adjacent entry-exit system in the cross border trade, possible pancaking or discrimination
  - Cost allocation or revenues distribution between different Entry-exit points IP (cross border, internal...)
  - Differences of the Reference prices apply in each side of the same IP

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<sup>3</sup> An example of a *core indicator* could be e.g. the relative size of (positive or negative) Regulatory account in comparison to overall Tariff revenues, indicating under- or over recovery of the tariff regime in a specific entry- and exit zone.

- National level developments based in possible exemptions considered in the Final FG or Network Code: monitoring their effects
- Costs calculation

NRAs should closely monitor the effect of changes to the tariff regime as part of their market monitoring role. In particular, NRAs should assess the extent to which the tariff regime is contributing to under/over recovery, increased liquidity, volatility of transmission and commodity prices and increased price correlation and convergence with adjacent market areas.

## **2. Cost allocation and determination of the reference price (Chapter 2 of the draft Framework Guideline)**

### **2.1. Transparency provisions**

#### **2.1.1 Do you agree with the level of harmonization proposed for the transparency in relation to tariffication methodologies<sup>4</sup>?**

- a. Yes, because.....;
- b. **No, because.....;**
- c. No opinion, because.....

With the aim to achieve general objectives considered in the Draft, in our point of view harmonised criteria should be applied in all the process from the determination of investment cost to the implementation of access tariffs, taking into account cost allocation, tariffs structure, invoice, ...

According to above mentioned, first step determination of investment cost should be included explicitly in this document because different criteria could suppose cross subsidies,

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<sup>4</sup> 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”. The proposed text in the draft FG seeks to ensure such reasonable and sufficient detailed information.

discrimination between systems, shippers, customers....and disincentives cross border flows and the efficient use of interconnection capacity.

In our opinion, the estimated costs of a TSO's investment to provide incremental capacity should be published, including details of the specific infrastructure considered necessary to deliver varying ranges of incremental capacity. Stakeholders should be consulted on these costs and the methodology used to determine auction/OSP reserve prices. ACER should intervene to settle disputes between TSOs and NRAs about the magnitude and efficiency of neighbouring TSOs efficient investment costs, using benchmarking techniques and independent engineering advice where necessary.

The impact of the methodology in the adjacent entry exist system should be take into account too in order to avoid any detrimental effect on cross border trade.

The FG should also include a general statement that all assumptions underpinning the methodologies and data used to calculate transmission charges, including cross-border, should be transparent to network users. We share ACER's concern that it is currently impossible for network users to reasonably forecast future tariffs with any degree of accuracy in virtually all EU transmission systems. Only by providing full transparency of all cost/flow data, assumptions and price control information relevant to tariff setting in a timely manner can this situation be improved.

**2.1.2 Would you support additional requirement(s) to ensure “reasonable and sufficiently” detailed tariff information<sup>5</sup>? For example, one could consider including a provision such as: “the transmission system operators or relevant national authorities shall provide additional information if a significant tariff fluctuation is expected on a specific or on all entry- and exit points”.**

**a. Yes, such as.....;**

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<sup>5</sup> 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”.

- b.**No, because.....,<sup>6</sup>  
**c.** No opinion, because.....

The methodology shall be well-known, clear, predictable and easily reproducible by shippers, so the transmission system operators or relevant NRAs shall provide all information needed to achieve those principles and, any change is making for the future, it should be communicated/disclosed in a clear, effectively, timely and in advance (giving sufficient time to agents to take their logistic decisions).

Other important issues;

- TSOs should also publish information regularly on their progress towards recovering allowed revenue throughout the year and full supporting information to help explain any price changes.
- See greater harmonisation around the frequency and timing of tariff changes, at least at cross-border points, as this would provide clarity to the market about when transmission charges could be expected to change
- Define at least a minimum period of notice TSOs are required to give before tariff changes take effect, e.g. 60 days

## **2.2 Cost allocation and reference price setting methodology, general questions.**

### **2.2.1 Do you agree with proposed level of harmonization for the reference price setting methodology, aiming for same methodology for all types of network users per one entry-exit zone?**

- a.** Yes, because.....;  
**b.** No, because.....;  
**c.** No opinion, because.....

Please give reasons for your answer, including any quantitative evidence, tables and examples. Would you propose alternative levels of harmonization to that proposed?

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<sup>6</sup> Please consider specifically if there are legal barriers in your jurisdiction(s), preventing such level of transparency. E.g. it might be that the transmission system operators or relevant national authorities could be liable for such a 'prediction'.

Yes. Using the same methodology and assumptions for all types of network users in an entry-exit zone avoids the likelihood of discrimination and cross subsidy. Whilst we support harmonised tariff setting methodologies throughout Europe as a long term goal, we do not think it is necessary or practical at this stage for the FG or NC to attempt this.

We agree the NC should include a general premise that reference and regulated prices for entry and exit points should aim to recover fixed costs. We also agree that the NC should provide the option for TSOs to aim to recover costs that are driven mainly by the volume of flows (such as compressor cost) either via the sale of capacity services or via a specific commodity charge. However, in the case of interconnection points our preference would be for such costs to be recovered via capacity services. This would have the advantage of simplifying cross border charging such that capacity charges become the sole basis of charging network users to flow gas hub-to-hub. It also avoids the possibility of any commodity charge specifically preventing flows of gas between hubs which might otherwise have taken place.

## **2.3 Cost allocation and the Reference price setting methodology, detailed questions.**

### **2.3.1 Do you agree with proposed option for setting reference prices for entry capacity i.e. to have methodology based on major cost driver (e.g. distance) unless use of equal tariffs can be justified?**

- a. Yes, because.....;
- b. No, because.....;
- c. No opinion, because.....

Please give reasons for your answer, including any quantitative evidence, tables and examples. Would you propose alternative measures or e.g. additional cost drivers' examples as to those proposed?

In our opinion, setting reference and reserve prices for entry and exit capacity based on major cost drivers is a way to ensure tariffs are cost reflective. However, Gas Regulation remarks that tariffs cannot be based on contract paths. Also this idea is not consistent with the hub-to-hub and the entry-exit system that are defined by the European Regulation.

it seems pragmatic for now to allow TSOs/NRAs to adopt an equalisation approach to setting the regulated and reference prices at cross-border and national entry points.

**2.3.2 Do you agree with proposed option for setting Reference prices for exit capacity i.e. to have methodology based on major cost driver (e.g. distance) unless use of equal tariffs can be justified?**

- a. Yes, because.....;
- b. No, because.....
- c. No opinion, because.....

Please give reasons for your answer. Would you propose alternative measures or e.g. additional cost drivers' examples as to those proposed?

[See answer 2.3.1](#)

**2.3.3. Do you agree with the cost allocation principle that revenue from entry points should equal 50% of revenue from all entry and exit points?**

- a. **Yes, because.....;**
- b. No, because.....;
- c. No opinion, because.....

Please give reasons your answer, including any quantitative evidence, tables and examples. Would you propose alternative levels of harmonization to that proposed? Please specifically consider how this affects cost-reflectivity and cross-subsidies between different types of network users, and quantify in which circumstances a deviation from such a '50%' rule would be necessary, and why.

[Equaling revenues from entry points to revenues from exist points is a way to ensure that there is no discrimination between entry and exit network users. However it has to be taken into account the difficulty associated for implementing this with the idea of a full cost reflectivity entry-exit system.](#)

**2.3.4. Do you agree with application of the proposed options for setting reference prices to all entry and exit points (without any separate mechanism for the domestic points, whilst ensuring no discrimination between domestic and cross-border network usage)?**

- a. Yes, because.....;

- b. No, because.....
- c. No opinion, because....:

Please give reasons for your answer, including any quantitative evidence, tables and examples. Would you propose an alternative option to that proposed?

We agree with the idea of having the same methodology forecasts and assumptions for setting the reference and reserve prices in all entry and exit points which should minimise the risk of discrimination

## **2.4 Pricing of entry- and exit capacity on the transmission network to and from gas storage facilities (see also questions under '9' Locational signals).**

### **2.4.1. Do you agree with proposed option to base tariffs for entry and exit capacity on the transmission network to and from gas storage facilities at an adequate discount to other entry and exit points on the TSO?**

Yes. In our opinion if the entry exit capacity on the transmission network to and from storage has not have any discount, it will happen that shippers who have the obligation to storage (strategic reserves ...), will pay 2 entries and 2 exists to and from the transmission network;

- Entry to the transmission network
- Exit to the storage
- Entry to the transmission network from storage
- Exit to other system, to customer,...

So taking into account this, we support the idea of having a discount to other entry and exit points on the TSO.

Even though the current situation in Portugal is not the ideal one, i.e. a full discount, there is a discount on the tariff of the exit capacity on the transmission network from gas storage.

Currently in Spain there is not a tariff associated to the entry and exit to and from underground storage facilities.

**2.4.2. Do you agree with harmonization of such a discount across all storage points in the EU?**

Please reason your answer, including any quantitative evidence, tables and examples. Please also specify, if you believe that harmonization should go even further, e.g. benchmarking absolute entry-exit tariff levels for gas storage sites.

- a. Yes, because.....;
- b. No, because.....
- c. No opinion, because.....

Yes. It should apply to all storage points in the EU or at least the ones who work under the TPA

**2.4.3. If you prefer harmonization for an 'adequate' discount, which level of such a discount applied to firm capacity level do you advocate?**

- a. 0, because....
- b. 0-30%, because.....;
- c. 30-50%, because.....
- d. 50-80%, because...
- e. 80-100%, because....
- f. No opinion or other suggestions, because....

Please give reasons for your answer, including how you would suggest to calculate the discount, including any quantitative evidence, tables and examples, e.g. based on current practice in EU known to you. Would you propose alternative measures as to those proposed?

100% (See answer 2.4.2)

**2.4.4. What are your views on harmonization of tariff measures, leading to harmonization of transmission tariff levels across all storage points in the EU (instead of harmonizing a discount across all storage points in the EU)?**

Please reason your answer, including any quantitative evidence, tables and examples. Please consider question 2.4.2, where we also asked about your ideas on benchmarking of absolute entry-exit tariff levels for gas storage sites.

See answers above

### **3. Revenue recovery (Chapter 3 of the draft Framework Guideline)**

#### **3.1. General – interdependency questions.**

##### **Introduction.**

Revenue recovery (chapter 3), Reserve price for firm standard capacity products (chapter 4.1) and Payable price (chapter 7) cannot be considered separately. The main interaction is that a regime where auctions are used will have a greater level of uncertainty in revenues collected from auctions.

The use of specified in FG chapters 3, 4 and 7 policy options need to work together to meet the objectives of the FG whilst ensuring the TSO recovers their allowed revenues. There is a possibility that in practice there might be under- or over recoveries, especially as a consequence of policy options regarding short term reserve prices and payable price. Therefore there will need to be a Regulatory Account to ensure the TSOs recover their allowed revenues.

##### **3.1.1. Do you agree that the current draft FG proposals on Reserve prices for short term products, on revenue recovery and on payable price are consistent together?**

- a. Yes, because.....;
- b. No, because.....;
- c. No opinion, because.....

No. Whilst we recognise policy options on reserve prices for short term products, revenue recovery and payable prices are inter-related, we are not sure whether they are entirely consistent.

##### **3.1.2. Are the current draft FG proposals on Reserve prices for short term products, on revenue recovery and on payable price properly addressing the ambition for the pricing of transmission capacity to strike the right balance between facilitating short-term gas trading on one hand and providing long-term signals for covering costs and promoting efficient investments on the other?**

- a. Yes, because.....;
- b. No, because.....
- c. No opinion, because.....;

Please give a brief explanation for your answer, including the beneficial and detrimental interactions you see.

Yes, because although the long-term products are essential for security of supply and tariff stability, we consider that the price for short-term products should be calculated in a fair way based in a principle of proportionality, in order to facilitate short-term gas trading.

### 3.2 Regulatory account

#### 3.2.1 Do you agree with the principle to set reference prices to minimise the difference between allowed and collected revenues?

- a. Yes, because.....;
- b. No, because.....
- c. No opinion, because.....

Please give reasons for your answer, including any quantitative evidence, tables and examples. Would you propose an alternative option to that proposed?

Yes, provided a TSO's allowed revenues are based on its efficiently incurred costs this will lessen the possibility of under/over recoveries building up during the year.

#### 3.2.2 Do you agree with proposed level of harmonization of using the regulatory account?

- a. Yes, because.....;
- b. No, because.....
- c. No opinion, because....

Please give reasons for your answer, including any quantitative evidence, tables and examples. Would you propose an alternative option to that proposed?

No. In our point of view the TFG should define the following issues:

- Regularly information of the progress towards recovering allowed revenue throughout the year and the forecast for the end of the tariff period.
- Established thresholds of the regulatory account that would supposed an automatic reconciliation of the account in ex-ante predefined periods ( quarterly or each six months)

**3.2.3 Do you agree that NRAs should determine or approve how often and how fast the regulatory account has to be reconciled on a national level, whilst preserving balance between timely cost recovery and sudden adjustments to tariffs?**

Yes. Harmonising the frequency and manner in which the regulatory account is reconciled risks creating distortions, as the cause and magnitude of any under/over recoveries will depend on many different factors and may differ from year to year.

**3.2.4 What is your view on including the option to use the Regulatory Account (including the potential over-recoveries from auction premium) to contribute to solving congestion? How could this be done, especially in view of principles of non-discrimination and cost-reflectivity? Please give reasons for your answer, including any quantitative evidence, tables and examples.**

In principle we agree with the option of using over-recoveries from auction premium to contribute towards solving congestion. However, over-recoveries may not result solely from auction premiums. Where they do, if they are to be targeted back to the congested point from which they arose this will require the regulatory account to be sub divided, which is not what is proposed.

**3.3. Reconciliation of Regulatory accounts.**

**3.3.1. Which option for the reconciliation of regulatory accounts do you prefer?**

In our point of view a minimum level of harmonisation should be achieved across the European Union in order to avoid among others distortions in the wholesale markets or cross-border subsidies.

Regarding the different options, we believe that the option 1 , where a regulatory account may assure unintended differences of actual revenues as compared to allowed revenues, are accounted for in the following tariff periods. In the same way that ACER said in the document, in

our opinion that regulatory account offers security for the TSO regarding the recovery of its allowed revenues and enhances tariff stability. For example, a similar model is applied currently in the Spanish gas system.

Furthermore, with implementation of the option 1 is avoided other mechanisms as ex-ante commodity charges (option 2) or revenue-recovery charges (option 3) which could create distortions.

According to above mentioned harmonisation and implementation of option 1, we think that this shall include a harmonised process of recovery possible shortfalls and surpluses.

- For example, if one side of the interconnection decide to recover the shortfalls in the next year and in the other side that difference will be recovered in 5 years. This situation could distort cross border flows between adjacent systems.

**3.3.2. In line with the interdependency discussion above in question 3.1, what are your views on recovering revenues by means of a separate charge set at the start of the gas year with the aim of minimising the amount that goes into the regulatory account?**

As we have said before, we do not support the idea of ex ante commodity charges because they could create distortions.

**3.3.3. Do you agree with application of the option on reconciling regulatory account to all entry and exit points (both domestic and cross-border)?**

No. The TFG seem to be suggesting there should be a single regulatory account, with all under or over recoveries being smeared equally back to all entry and exit points. We are concerned about the potential cross subsidies that could arise from this approach and think there should be a requirement in the TNC for NRAs/TSOs to at least consider how under or over recoveries could be effectively targeted back to the causing network users.

**3.3.4. Do you agree that the regulatory account should be recovered by splitting the total under- or over- recovery across all entry and exit points in the same proportion as set out in the cost allocation methodology? For example if the cost allocation methodology is a 50:50 split then 50% of all under- or over- recovery will be from the entry points and 50% from the exit points.**

No. A 50% -50% split of the total under-or over-recovery across all entry and exit points does not fit with a full cost reflectivity in an entry exit system.

#### **4. Reserve prices (Chapter 4 of the Framework Guideline)**

NB: when answering, please specify if your answer differs for daily, monthly and/or quarterly products.

##### **4.1 General.**

##### **4.1.1 Do you consider it sufficient to have rules on firm, interruptible and non-physical backhaul capacity products or are you aware of other capacity products that should be addressed in the FG?**

- a. Yes, because.....;
- b. No, because.....
- c. No opinion, because.....

Please give reasons for your answer, including any quantitative evidence, tables and examples. Would you propose an alternative option to that proposed?

Yes. In our opinion there is another capacity product that could be offered in the Transmission System, and is the possibility for storing gas in the linepack (TSO).

Also non-physical backhaul capacity is not specifically defined in the CAM Network Code, so could be treated the same as any other interruptible product.

##### **4.2 Reserve prices (firm)**

##### **4.2.1 Do you agree with proposed level of harmonization?**

- a. Yes, because.....;
- b. No, because.....
- c. No opinion, because.....

Please give reasons for your answer, including any quantitative evidence, tables and examples. Would you propose an alternative option to that proposed?

Yes. The proposed level of harmonisation says that the reserve price for all standard capacity products with duration of less than one year shall be on average lower than, or equal to, the price set proportionately to the yearly reference price. From our point of view the reserve price for products with duration of less than one year shall be proportional to the yearly reference price. We believe that this is a balanced solution for both products, where the advantages are i)

security of supply and a stable revenue recovery and ii) increase of market liquidity and its flexibility, for long-term and short-term products, respectively.

**4.2.2 Do you agree with proposed option for the Reserve price for short-term products including the possibility that the national regulatory authority may decide to allow for higher short-term prices that may apply (via multiplier higher than one, but not higher than 1.5) if there is risk of *significant* under-recovery of allowed revenues?**

- a. Yes, because.....;
- b. No, because.....
- c. No opinion or other view, because.....

No. See answer 4.2.1

**4.2.3 Do you agree with application of the proposal on short-term Reserve prices to entry and exit points where the Network Code on CAM applies, i.e. interconnection points only?**

Yes. The application of the short-term reserve prices should only apply to interconnection points.

**4.2.4. What criteria would you propose to set the Reserve price for short-term products that will be higher than the price of an annual product, to interconnection points?**

See answers above.

**4.2.5. Would you agree with using Seasonality (or other criteria, which you may suggest) of the systems as criteria to set the Reserve price for short-term products that will be higher than the price of an annual product, to interconnection points?**

- a. Yes, because.....;
- b. No, because.....
- c. I don't know:

Please give reasons for your answer, including any quantitative evidence, tables and examples. Would you propose an alternative option to that proposed?

We are not convinced of the need for, or benefits of, seasonal factors. They add further complexity, particularly when applied in conjunction with short term multipliers, but could

be easier to harmonise either side of the border. Seasonal factors are likely to be based on the historic flows, which may not be an accurate indicator in future. As liquidity increases in EU markets and cross-border capacity is increasingly seen as a product used to arbitrage spreads between market areas, flow will become less weather dependent and predictable

In our point of view if auctions mechanisms are used, the seasonal factors are not necessary, because its effect would be inside the auction final price.

### **4.3 Reserve prices (interruptible)**

**4.3.1 Do you agree with proposed option to set Interruptible Reserve prices at a discount to firm capacity where the discount is based on the likelihood of interruption, and to recalculate once a year?**

Yes. Setting interruptible prices based on the probability of interruption is required under the Gas Regulation.

**4.3.2 If you prefer a fixed discount, which level of such a discount applied to firm capacity level do you advocate?**

- a. 0, because....; whereas risk of interruption is.....;
- b. 0-30%, because.....; whereas risk of interruption is.....;
- c. 30-50%, because.....; whereas risk of interruption is.....;
- d. 50-80%, because...; whereas risk of interruption is.....;
- e. 80-100%, because....; whereas risk of interruption is.....;
- f. ....% (customized value, as above values are chosen arbitrary to allow for a global grouping of answers), because....; whereas risk of interruption is.....; and risk of interruption is calculated as follows:.....

On one hand, ACER should do a propose that takes into account the probability and the discount associated to that probability.

On the other hand, it also could be possible to celebrate an auction where network users auctioned the probability of been interrupted and the discount associated to that probability

**4.3.3 Do you agree with application of the proposed option to entry and exit points where the Network Code on CAM applies, i.e. interconnection points only?**

Yes. The application of the proposed option should only apply to interconnection points

### **4.4. Reserve price (backhaul)**

**4.4.1 Do you agree with proposed level of harmonization?**

Yes. Backhaul prices should be set at a discount of the firm capacity taking into account not only IT and administrative costs but only the reserve price for firm capacity.

**4.4.2 Do you agree with proposed option to set backhaul prices at a discount to firm capacity level so that Reserve prices reflect the level of actual marginal costs (= IT and administrative costs)?**

See answer 4.4.1

**4.4.3 Do you agree with application of the proposed option on backhaul capacity pricing to entry and exit points where the Network Code on CAM applies i.e. interconnection points only?**

Yes. The application of the proposed for the backhaul capacity pricing should only apply to interconnection points

**5. Virtual IPs**

**Do you support the proposed option for Reserve price in Virtual IPs as EU-wide standard? Please reason your answer, including any quantitative evidence, tables and examples on balance between cost-reflectivity and cross border trade stimulation.**

Yes. Obviously the reserve price for virtual interconnection points has somehow to be established based on a combination of the reserve prices that previously applied when individual entry or exit points were in place ensuring pancaking effect and distortions on cross border flows are avoided

**6. Bundled capacity products**

**6.1 Reserve price (Bundled)**

**6.1.1 Do you agree with proposed level of harmonization?**

Yes. The reserve price for bundled products would be a combination of regulated tariffs applied in each side of interconnection point ensuring pancaking effect and distortions on cross border flows are avoided

**6.1.2. Do you agree with the proposed option that the sum of Reserve prices for unbundled capacity is used as bundled Reserve price?**

Yes. See answer 6.1.1

**6.1.3 Do you agree with application of specified the proposal to entry and exit points where the Network Code on CAM applies i.e. interconnection points only?**

Yes. The application of the proposed for the reserve price of bundled capacity products should only apply to interconnection points

**6.2. Do you support the proposed option for Reserve price (if unbundled) as the EU-wide standard? Please give reasons for your answer, including any quantitative evidence, tables and examples on balance between cost-reflectivity and cross border trade stimulation. We encourage you to specify if you support the Unbundled Reserve price being higher to support bundling of products.**

We do not support, and we consider that the two products must exist for cross-border trade.

We do not understand the logic behind this taking into account CAMs Network Code

**6.3 The Network Code on Tariffs shall specify that the revenues from Reserve price of bundled capacity products shall be attributed to the TSOs proportionally to the Reserve prices of their respective capacities in the Bundled Capacity. The revenues from the auction premium from bundled capacity above the Reserve price shall be split according to agreement between the relevant national regulatory authorities. Furthermore, the Network Code on Tariffs shall in the case that no agreement is concluded before the auction, specify that the revenues from the auction premium shall be split equally between the TSOs.**

**6.3.1 Do you agree with proposed level of harmonization in that approach above?**

Yes. Harmonising how revenues received from auctions are apportioned between adjacent TSOs is appropriate.

**6.3.2 Do you agree with proposed option for splitting auction revenues from bundled products to the relevant TSOs?**

We consider that the method for calculating the reserve price should be clear and transparent. This price has to cover transport cost and the profitability accorded in each case. Once this has been done, an auction premium from bundled products should be split into equal shares. In addition, the split of auction premium proportional to reserve prices as default, provides a perverse incentive to increase the access tariffs at congested IPs (which in some cases might not be justified).

**6.3.3 Do you agree with application of the proposal to entry and exit points where the Network Code on CAM applies i.e. interconnection points only?**

Yes. The application of the proposed for splitting auction revenues from bundled products should only apply to interconnection points

**7. Payable price**

**7.1.1 Do you agree with proposed level of harmonization?**

Yes. Harmonising the payable price for bundled capacity at interconnection points between adjacent market areas avoids distorting trade between those market areas.

**7.1.2 Do you agree with the proposed option to set payable price equal to the current Reserve price for year in which capacity is used plus any premium?**

No. In our opinion network users should have a large degree of certainty about the prices they will pay for capacity secured in the auctions throughout the entire duration of their commitment. This will allow them to take into account this factor in their commercial decisions more easily. Nowadays if capacity is booked in medium and long term uncertainty already exist, but if cleared capacity auction prices also vary over the time, this will further discourage long term booking.

**7.1.3 Do you agree with the application of specified options regarding payable price to entry and exit points where the Network Code on CAM applies i.e. interconnection points only?**

Yes. The application of the proposed for the payable price should only apply to interconnection points

**8. Incremental capacity (no explicit chapter in draft FG, implications at least to chapters 2/3 foreseen).**

In EC letter ACER is invited to consider in the Impact Assessment if tariffication principles should be developed in the Framework Guideline for Incremental Capacity.

Incremental capacity is defined as capacity that is provided (by investment) on top of capacity at an existing IP, after a 'market test' has been met. The market test sets out what the criteria are for providing incremental capacity. The key issue from 'incremental capacity' for tariffication is that incremental capacity can expose consumers to costs incurred by TSOs which may be problematic if incremental capacity costs are not fully recovered by users triggering the capacity provision as a result of the market test.

Therefore it is very important how economic test(s) (principles) are constructed at country- or even broader EU level, to get a balance between timely increases in capacity, efficient increases in capacity and under-recovery of revenues.

We note that in CEER-roundtable 2012 discussions on Incremental capacity experts have noted that harmonization of the specific parameters in the market test might not be needed, but rather a consistent approach to the principle of having a market test to trigger Incremental capacity may be needed at the EU level<sup>7</sup>.

**8.1. Please provide evidence of concrete problems with the current arrangements for incremental capacities, whereas these problems affect tariff structures in EU.** Any quantitative evidence, tables and examples (if necessary, subject to confidentiality) are welcomed.

From our point of view, a problem with the current arrangements for incremental capacity is the lack of transparency regarding the investment costs associated with incremental capacity and the methodologies for setting tariffs related to the investments that has been done.

**8.2. Please therefore consider if harmonization, or partial harmonization of any parameters in the "market test" is appropriate within Tariffication principles at EU-level ?**

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<sup>7</sup> Please consider the ongoing consultation on Incremental capacity issues by CEER, available via [http://www.energy-regulators.eu/portal/page/portal/EER\\_HOME/EER\\_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/Investment%20Procedures%20for%20Gas%20Infrastructure](http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/Investment%20Procedures%20for%20Gas%20Infrastructure) . Please also note that ACER will work with CEER during 2012 to further analyze the issues in this area.

Harmonization with the CAM Network Code and with Open Seasons where network users signal their demand at a bid step price on a particular level of commitment will be appropriate within Tariffication principles at EU-level

**8.3. Are there any other elements required in the Network Code on transmission tariff structures, to accommodate incremental capacity offer (e.g. influence on regulatory accounts, regulatory periods length, requirement for a fixed for period of years tariffs).**

**9. Usage of locational signals (no explicit chapter in FG, implications at least to chapters 2/3/4 foreseen).**

Locational signals are considered to contribute to shippers using the system in a way which minimises future costs. Locational signals can be defined as specific tariff measures for specific entry or exit points in the system.

In EC letter ACER is invited to consider in IA if locational signals should be developed in the Network Code on transmission tariff structures. For example to address decisions on locating gas-fired power plants and/or gas storages and/or LNG terminals.

**9.1 Please provide evidence of concrete problems with the current arrangements for locational signals.** Any quantitative evidence, tables and examples (if necessary, subject to confidentiality) are welcomed.

We have no knowledge of concrete problems with the current arrangements for locational signals

**9.2. Are there any other elements required in the Network Code on transmission tariff structures to accommodate locational signals?**

No

**9.3. Please consider whether the chapter on 'Reference price' should have more options added in regard to use of locational signals. Please consider specifically how tariff structures can be used to signal investment for e.g. gas-fired power plants, storages, LNG terminals, etc.**

Power plants, storages, LNG Terminals, ..... are not part of the scope of the TFG

**9.4 Shorthaul as a form of 'locational signal' in e/e systems.**

Recent THINK-study, commissioned by European Commission, recommended ‘some harmonization in natural gas transmission tariffication to ensure that the breakdown of costs among grid users and among entry- and exit points respects the principle of cost-reflectiveness as much as possible. Adequate discounts on short-haul transports should be encouraged’<sup>8</sup>.

Entry-exit systems require users who want to take gas onto the system and deliver it to others in the system to buy entry capacity (to allow them to flow gas from the entry point to the virtual hub) and exit capacity (to allow them to flow gas from the virtual hub to the exit point). If users want to flow significant volumes of gas from an entry point to a nearby exit point they may consider building their own pipeline between the two points if that is cheaper for the user than paying for entry and exit capacity plus any additional revenue recovery charges (as their own pipeline would also be subject to less onerous tariff regulation in general). Building additional pipelines when there is capacity available on the system may not be the most efficient way to develop the network. Whilst it must be considered that permitting construction of such a pipeline might not be a realistic option in all EU Member-States. E.g. in GB a user could decide to locate a CCGT (= Combined Cycle Gas Turbine power plant) 1 km from a large entry point and decide to build their own pipeline from the large entry point to their CCGT. This is an example of how such a concern arises in practice, stemming mainly from inefficiency of constructing an additional pipeline.

**9.4.1. Should the FG have a tariff structure in place to avoid the incentive for inefficient building of pipelines (to avoid the entry-exit system charges) described above?**

YES.

**9.4.2. How could this tariff structure be designed?**

See answer 9.4.1

**9.4.3. Should there, in order to address risk of cross-subsidies and discrimination - be a limitation on the capacities that can be “shorthaul capacities”? Based on expert advice on current EU-practices, following options are proposed:**

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<sup>8</sup> See summary under weblink: <http://www.eui.eu/Projects/THINK/Documents/Thinktopic/PB/PB201201.pdf>

- a. Maximum 50 km (only distances of maximum 50 km can be considered as shorthaul capacities)
- b. Max 20% of the average gas travelling distance in the E/E system
- c. Max 10% of the total capacities of a E/E system can be considered as “shorthaul”
- d. Other, namely:.....

Please give reasons for your answer, including any quantitative evidence, tables and examples. Please specifically address who should pay the difference between the shorthaul tariff and the overall tariffs.

**9.5 Specific treatment of LNG (if any) considered, in view of considering specific storage treatment (see questions under 2.4).**

LNG competes with the natural gas from other sources, like national production points or other entry points. It could therefore be argued that any discount on the entry and exit tariffs at points where CAP applies could produce a cross-subsidy, reducing cost reflectivity of system as a whole, and resulting in a discriminatory effect on the cross-border trade between LNG- and IP entry users. In addition, storage – contrary to LNG - is mostly considered as part of the system, as it uses gas, which has already ‘paid e/e fees’. Namely, gas injected into underground storages have flowed across the system, which means it has been charged entry/exit fees, this is not the case for LNG which is stored after it has been unloaded from LNG-ship cargoes, before any entry fee on the transmission system is charged.

On other hand, it could be argued that LNG and Storage are both valuable flexibility tools in some EU gas market systems (especially in systems where LNG is due to geology & geographical situation potentially the only source of flexible gas) for shippers that should be stimulated, and similar to storage special treatment could be envisaged (contrary to gas production entry points, which with very few exceptions in EU, deliver much less flexibility in comparison to LNG). It must be also considered that – with similar logic – special treatments might be required by any end-user with flexibility for the system (e.g. power plants). In any case, justification is sought, as any special treatment must be reasoned and justified for a category of e/e points, to ensure non-discrimination.

**9.5.1. Do you think that tariffs for entry and exit capacity from the LNG terminal could incorporate a discount relative to other entry and exit tariffs on the TSO, similar to the proposed option for underground gas storage?**

- a. Yes, because...
- b. No, because....
- c. No opinion, because....

Please give reasons for your answer, including any quantitative evidence, tables and examples. Please specifically address who should pay the difference between such a special tariff and the overall tariffs.

**10. Effects Entry-Exit Zone mergers & Virtual IPs (no explicit chapter in FG, implications at least to chapters 2/3 foreseen).**

In the CAM network code (art 5.1(10)) Virtual Interconnection points are addressed (see draft FG, chapter 5).

In EC letter ACER is invited to consider in IA if the effects of entry-exit zone mergers should be developed in the Network Code on transmission tariff structures. This could address, for instance, the topics of tariff alignment and the disappearance of interconnection points, and the corresponding cross-border tariffs, due to the zone merger’.

Both topics affect the setting of reserve prices at IPs and, more importantly, underlying cost allocation within and between entry-exit zones; as well as revenue recovery consequences.

**10.1. Please provide evidence of concrete problems with the current arrangements for mergers of entry-exit zones at national level.** Any quantitative evidence, tables and examples (if necessary, subject to confidentiality) are welcomed.

Merging entry-exit zones will result in interconnection capacity between these two zones no longer being treated as bundled capacity TSOs’ explicitly allocate. As such TSOs will no longer be able to recover allowed revenues from auctioning such capacity. Therefore a process will be required to adjust tariffs at the entry/exit points of the merged zone and a scheme will be needed to fairly compensate TSOs for lost revenue. Experience from implicit capacity auctioning in electricity suggest that agreeing these tariff changes and compensation schemes is likely to be difficult and time consuming.

**10.2. Please advise, if there are alternatives or additional requirements within Tarification setting harmonization steps, to accommodate ‘Effects Entry-Exit Zone mergers’ (once there). Please consider the Initial (draft) Impact assessment, when answering.**

Please give reasons for your answer, including any quantitative evidence, tables and examples.

**11. What additional tariff structure measures do you envisage could improve the network code?**

Please give reasons for your answer, including any quantitative evidence, tables and examples. Please also, if relevant, suggest and explain reasons why any of the proposed measures should rather have been left to voluntary exchange of best practices at national level (e.g. via Guidelines of Good Practice)<sup>9</sup>.

TFG should take into account costs

**12. Please share below any further comments concerning the draft Framework Guideline.**

**13. Please comment on any factual incorrectness of the attached Initial (draft) Impact Assessment, if possible with specific page references, including quantitative evidence, tables and examples from your experience in the gas market(s) (if necessary, subject to confidentiality).**

**Thank you very much for your contribution, and do not hesitate to contact ACER staff if you have any questions regarding the questions.**

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<sup>9</sup> Please e.g. specifically consider if the FG/NC should include an EU-wide provision providing for “incentives” for implementation of CMP measures, and or additional EU-wide provisions ensuring that transmission system operators do not experience detrimental effects as consequence of the roll-out of EU-wide implementation of the auctions under CAM NC and/or other NC.