



# **Draft Framework Guideline on Harmonised transmission tariff structures**

Enagás comments

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

**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 3rd Package objectives?

1. Enagás does not foresee any disproportionate effect if the draft FG applies to existing contracts, provided that it only applies to contracts subject to TPA.
2. Contracts not subject to TPA were signed under certain conditions. If the draft FG is to be applied to these capacity contracts, TSOs will have to renegotiate them. This could lead to high additional risk TSOs' cash-flow positions and enterprise value. This risk should be acknowledged and properly remunerated by NRAs.

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

3. -

**1.3.** Please suggest the top-5 core indicators for monitoring the future EU-wide implementation of the future tariff FG (NC)?

4. -

**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?

5. **No opinion.**
6. Enagás would like to note that in some countries TSOs are neither responsible nor even aware of the methodology used to calculate tariffs. Thus, in those cases no transparency obligations should be placed to TSOs but to NRAs.
7. Besides, TSOs are already subject to the transparency requirements included in Regulation, both in article 18 and in Chapter 3 of Annex I. Enagás is happy to provide useful information but there should be a balance between the cost of providing information and the usefulness of the information to network users.

**2.1.2** Would you support additional requirement(s) to ensure “reasonable and sufficiently” detailed tariff information? 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”.

8. **No.**

**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?

9. **Yes.**

10. Enagás agrees that the same methodology should be used to calculate the reference price regardless the type of network user.

11. Tariffs at IPs should result from the application of a general tariff methodology which is transparent and complies with the principles of the Third Package. No specific criteria should be applied to IPs, unless it can be technically justified (i.e. different criteria might be applied to different situations, but discrimination based on the use of gas is forbidden).

12. Enagás would like to claim for harmonisation within Europe. If the allocation of costs is decided on national level, NRAs could tend to attribute more or less costs at IPs according to particular interests, and this should be avoided.

13. It is worth noting that the recovery of certain costs through transmission tariffs, such as cost related to investments motivated for SoS reasons and which benefit all users, does not necessarily constitute a cross-subsidy, but the contrary is true.

**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?

14. **Yes.**

15. Other cost drivers, such as: diameter of the pipelines, compressor stations, etc., are also important and must be included as cost drivers.

16. Enagás would like to highlight that the enforcement of an entry-exit system with differential pricing could be hampered if long-term contract binding for the users are not in place, in particular in those systems where there is spare capacity. Users might change their location contracts to optimise their payments, which could defeat the provisions of revenue equivalence and from the operational point of view could lead a big change in flow patterns. Thus, it is a must to safeguard long-term contracts binding upon network users.
17. If the goal of the FG is to establish an Entry-Exit tariff system that reflects costs acceptably, the equalization approach applied to entries or exits imposes unnecessary constraints impeding the provision of its efficient usage and all investment signals.

**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?

18. **Yes.**

19. See question 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?

20. **Yes.**

21. Enagás acknowledges that 50/50 is an arbitrary rule, but when designing an E-E system a decision on some arbitrary parameters must be made and the proportion of revenues recovered through entry and exit points is one of them. Thus, if any default rule is to be set, then 50/50 is the least arbitrary and the most acceptable from a theoretical and ex-ante point of view.

**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)?

22. **Yes.**

23. Enagás would like to ask for clarification on the sentence: *"The above shall not preclude the harmonisation of methodologies for setting reference prices on both sides of an interconnection point, where agreed between NRAs."*

24. Cost allocation methodology has an impact on all entry and exit points of the system. Setting the tariff at one specific IP of the system differently (through

agreement with adjacent TSO) may create inconsistencies (and thus potential cross-subsidies) with other entry and exit points.

**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?

25. **Yes.**

26. ACER's IIA clearly demonstrates that the general rule in EU countries is to have discounts at entry and/or exit points from underground storages facilities.

27. There is a rationale for such discounts in different systems which should be further investigated by ACER.

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

28. **No.**

29. The reason why entry and exit points from underground storages have discounts in Europe might differ among countries.

30. Each system is different and storage facilities have been built to serve different purposes depending on the type of system and storage facility, not all storage facilities provide the same benefits or incur the same costs. Thus, before harmonising the discounts across the EU, the reasons why these discounts are applied should be further analysed.

31. Notwithstanding the above, Enagás believes harmonisation should not preclude some room for national action.

**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?

32. **No.**

33. As mentioned in previous questions, the reasons of the discount vary from country to country; thus, the level of discount should be established at national level.

**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)?

34. Enagás believes that harmonising tariff levels across all storages points in the EU is out of the scope of the framework guideline.

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

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

**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?

35. **No.**

36. See question 3.1.2.

**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?

37. **No.**

38. See questions at section 4.

#### **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?

39. **Yes.**

40. It is important to set reference prices to minimise the difference between allowed and collected revenues in order to reduce the likelihood of large over and under recoveries that could create significant tariff volatility. Tariff stability is important to the market and tariffs should thus be set to minimise the need for ex-post adjustments.

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

41. **Yes.**

**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?

42. **No.**

43. A full and automatic adjustment of the regulatory account, guaranteed through European regulation, would be preferable, to set a playing level field for all European TSOs. Thus, a default rule should be established in the FG on Tariffs; this default rule should include a quarterly automatic adjustment.

**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?

44. Over-recoveries should be first used to ensure tariff sufficiency in the whole system. It would be inconsistent to run a tariff deficit and, at the same time, to devote over-recoveries to other aims.

45. Significant, sustained premiums in certain IPs might signal structural congestion problems to be tackled through investments; however, the use of over-recoveries to solve congestions should be rather tackled at regional level.

### **3.3 Reconciliation of Regulatory accounts.**

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

46. **Option 1.**

47. When redistributing over recovery to system users via capacity tariffs, care has to be taken not to introduce perverse incentives. When a network user, in an auction for capacity at an IP, has a large market share and is sure to get back (part) of the auction premium he is bidding (through the reduction of later capacity prices at this IP through an over recovery mechanism), he can outbid any competitor at low risk.

48. A commodity charge should not be used to correct any systematic flaw in the ex-ante setting of reserve prices. There is a danger that such a usage acts as a tax on nominating gas flows and introduces tariff uncertainty and volatility. Capital costs should not be accounted for in a commodity tariff (if it is used at all). Such may better reflect the character of fixed (capital) and variable (operational) costs.



49. In any case, Enagás believes that keeping the principle of TSO's revenue safeguard and setting tariffs ex-ante in a way to minimise the need for any ex-post correction should be the priority.

**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?

50. Enagás seeks clarification on how this separate charge might work and the conditions under which it would apply. In any case Enagás advocates for a quarterly automatic adjustment

**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)?

51. **Yes.**

**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?

52. **No opinion.**

53. The effects (incentives caused) of such measure should be further investigated.

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

##### **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?

54. **Yes.**

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

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

55. **No.**

56. Enagás disagrees the proposed multipliers. See questions 4.2.2, 4.2.3 and 4.2.4

57. Enagás believes that if NRAs decide to establish auctions as a capacity allocation mechanism in other entry points to the gas transmission network, the reserve price in those points should be the regulated tariff.

**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?

58. **No.**

59. Enagás strongly agrees with the introduction of multipliers. It does not agree with the proposed multipliers.

60. The main problem, in Enagás view, is the potential introduction of multipliers lower than 1 (see above).

61. As regards the 1.5 limit, it might pose problems in countries where seasonality is significant (e.g. because of cold winters and a large proportion of residential consumption).

**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?

62. **No.**

63. It is worth to remind that the NC on CAM not only applies to interconnection points but also to points between adjacent entry-exit systems within the same Member State. Thus, the proposal should apply to connection points between adjacent entry-exit systems.

64. Besides, Enagás believes that the appropriate multipliers should be set for all the points subject to booking procedures.

**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?

65. Enagás fully endorses the revenue equivalence principle methodology of flat vs. profiled bookings defined by ENTSOG in the draft CAM Network Code. Enagás agrees the revenue equivalence principle to be the only pricing structure that complies with articles 13 and 14 (2) of Regulation 715/2009. It provides for the requirement that cross-subsidies shall be avoided, and that

shorter duration contracts than a standard annual contract shall not result in arbitrarily higher or lower tariffs that do not reflect the market value of the service.

66. *"The revenue equivalence principle is based on the following considerations:*

- *It is designed to be incentive neutral as to the time of capacity procurement considering the preferences of the network users to take or avoid risks of unavailability of certain capacity products at the time of the expected transport. It allows system users to procure capacity according to their identified need by minimising any undue incentives to book capacity before such a need is identified and minimising any undue incentives to wait for sub-annual capacity auctions after such a need is identified (enabling investment signals).*
- *The revenue equivalence principle seeks to avoid cross-subsidies between network users. That means that users who require highly variable gas flows, the levels of which are only known shortly before the actual gas flow, will be able to match capacity bookings to their requirements by building a highly variable product profile. They accordingly shall pay capacity unit prices reflecting the value that these sub-annual capacity products have to them. The unit prices need to be higher than for long term capacity products, in order to avoid cross-subsidies, because the users of sub-annual products procure less units of capacity to cover their peaks.*
- *The revenue equivalence principle is a tariff structure feature that allows for recovery of required capacity revenues ex-ante, in order not to create a systematic need for corrective mechanisms ex-post, which will have distortive effects."*

67. Enagás sees merit in including this methodology in a network code on tariff structures, and letting ENTSOG to work out design details for its implementation.

68. As regard the seasonal factors, Enagás shares ACER's views. They provide incentives to shippers to use capacity efficiently and reduce the negative impact profiled booking may have on revenue.

**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?

69. **Yes.**

70. Seasonal factors provide incentives to shippers to use capacity efficiently and reduce the negative impact profiled booking may have on revenue.

#### **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?

71. **Yes.**

72. This option is in line with article 14 of Regulation 715/2009 which sets that *the price of interruptible capacity shall reflect the probability of interruption.*

73. Pricing interruptible capacity at zero reserve price undermines firm capacity booking and risks massive distortions.

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

74. It is difficult to conceal a fixed discount with article 14(1)(b) of Regulation (EC) 715/2009, which states that the price of interruptible capacity shall reflect the probability of interruption.

**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?

75. **No.**

76. It is worth to remind that the NC on CAM not only applies to interconnection points but also to points between adjacent entry-exit systems within the same Member State. Thus, the proposal should at least apply to all connection points between adjacent entry-exit systems.

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

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

77. See 4.4.2.

**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)?

78. **No.**

79. A lower cost for non-physical backhaul flows should be reflected in the matrix of costs when designing entry-exit systems. This effect will already be reflected in the resulting entry-exit tariffs. Resulting tariffs should not be subject to further manipulation. In summary, there should not be “backhaul pricing”, but “backhaul costs”.
80. These costs should never be determined taking into account just marginal costs. If the cost for the non-physical backhaul capacity is calculated considering the marginal costs, it could lead to negative prices.
81. Note that the determination of the forward flow costs taking into account just marginal costs would also lead to very low prices.

**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?

82. **No.**
83. See 4.4.2.

## **5. Virtual IPs**

Do you support the proposed option for Reserve price in Virtual IPs as EU-wide standard?

84. **No.**
85. Enagás does not understand the principle that *the reserve price for virtual interconnection points shall be established based on the combination of the reserve prices set for the individual entry or exit points.*
86. The physical points that constitute the VIP should be aggregated ex-ante when designing the E-E system. Thus, the VIP should constitute one point in the matrix of the E-E system. The VIP case is similar to the aggregation of exit points by location in an E-E system.

## **6. Bundled capacity products**

### **6.1 Reserve price (Bundled)**

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

87. **No opinion.**
88. See questions 6.1.2 and 6.1.3

**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?

89. **Yes.**

90. The sum of the reserve prices for unbundled entry and exit capacity at cross border points should be used as the bundled reserve price. It is important that the individual reserve prices for cross border entry and exit capacity are aggregated to calculate the bundled reserve price to ensure revenue recovery of each TSO.

**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?

91. **No.**

92. It is worth to remind that the NC on CAM not only applies to interconnection points but also to points between adjacent entry-exit systems within the same Member State. Thus, the proposal should apply to connection points between adjacent entry-exit systems.

**6.2.** Do you support the proposed option for Reserve price (if unbundled) as the EU-wide standard?

93. **Yes.**

94. The reserve price for unbundled capacity at an interconnection point should reflect the reserve price of either the entry or exit capacity from which the unbundled capacity originates. Arbitrarily inflating or deflating the unbundled/bundled product price does not seem consistent with the cost reflectivity principle stated in the FG. Having different prices for bundled and unbundled capacity would seem discriminatory particularly if the intention is to price one product at a higher level to make the other product more attractive. If the market wants bundled capacity then there should be no need to price unbundled capacity at a higher level purely to incentivise the sale of bundled capacity.

**6.2** *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.*

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

95. **Yes.**

96. See questions 6.3.2 and 6.3.3.

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

97. **Yes.**

98. Enagás believes that in the event that there is no agreement between NRAs before the auction the splitting of the auction premium should be split equally between TSOs (50/50 rule).

99. Other option for splitting auction revenues would create distortions. For example is the auction premium is split in proportion to the reserve price, there might be a perverse incentive to increase reserve prices at interconnection points in order to get a higher share of the premium.

100. Due to the fact that, upon ACER's request, section 7.5 of the NC on CAM was changed, Enagás believes that further changes to the split of auction revenues would challenge ACER's and ENTSOG's credibility.

**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?

101. **No.**

102. It is worth to remind that the NC on CAM not only applies to interconnection points but also to points between adjacent entry-exit systems within the same Member State. Thus, the proposal should apply to connection points between adjacent entry-exit systems.

## **7. Payable price**

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

103. See questions 7.1.2 and 7.1.3.

**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?

104. **Yes.**

**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?

105. **No.**

106. It is worth to remind that the NC on CAM not only applies to interconnection points but also to points between adjacent entry-exit systems within the same Member State. Thus, the proposal should apply to connection points between adjacent entry-exit systems.

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

**8.1. Please provide evidence of concrete problems with the current arrangements for incremental capacities, whereas these problems affect tariff structures in EU.**

107. Enagás has participated in two Open Season projects in 2009 and 2010 to allocate new capacities between France and Spain. The experience problems were:

- The economic tests performed by regulators and/or operators involved should be clearly defined and known upfront by all market participants, and to a reasonable extent agreed between regulators and operators.
- The OS must include all relevant economic tests so there is no further approval procedures linked to economic conditions once the OS has finished.
- Funds/subsidies allocated to the project must be taken into account in the design of the economic test (ideally lowering the threshold to pass the test).
- The regulators involved should provide sufficient tariff visibility for the period shippers are willing to commit.
- Long-term contracts should include Ship-or-Pay obligations during the whole life of the contract, for commitments to be valid.
- CMPs must be harmonised to avoid inconsistencies (e.g. capacity is freed up under UIOLI provisions on one side but not on the other).

108. Open Seasons are useful to identify market demand but do not allow to assess other benefits that might not be taken into account by shippers (e.g. externalities which would be reflected in a CBA). However if a CBA is performed, these additional benefits can be taken into account through additional funds that would lower the threshold to pass the economic test in an Open Season.

109. In this sense, an Incremental Capacity approach does not introduce any additional advantage and in the case of the interconnection between Spain and France there would be no need to move away from them.



110. Note that a number of capacity allocation methodologies are compatible with an Open Season (pro-rata, auctions,...).

111. The situation between Portugal and Spain is different: given that there are no long-term contracts in Portugal, and long-term contracts in Spain can be cancelled with no penalty, both Open Seasons and Incremental Capacity approaches are impracticable. As long as this is not changed, only a central planning approach can deliver capacity increments.

**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?

112. Enagás firmly believes that incremental capacity should be developed as part of a FG/NC development process (perhaps Tariff or a later code) rather than informal development outside of the envisaged Third Package processes.

113. Having said this, overlapping between the ongoing developments in CEER should be avoided. Thus, Enagás claims for a clear guidance on this subject.

**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).

### **Time Gap: commercial and regulatory horizons**

114. The main issue regarding the stranded asset risk is the gap between the regulatory horizon of an asset (50+ years) and the time horizon in which market participants will commit to the usage of that asset, which could be called commercial horizon.

115. Addressing this gap leads to the choice to change the commercial time span or the regulatory lifetime. Besides that, there are only the alternatives of more risks for end consumers, if captive consumers are available (socialising risks) or more legislation to attribute the risk to other parties than the local end consumer (e.g. inter TSO compensation, taxpayer underwriting of PCI's).

116. The EU policy objective is more competition and this competition is accomplished by trade on exchanges and other short term markets. The logical consequence therefore would be adapting the regulatory lifetime and not the commercial time span. This would mean that a larger part of the stranded asset risk, a premium, will have to be taken into account in the short term costs compared to the current practice.

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

**9.1. Please provide evidence of concrete problems with the current arrangements for locational signals.**

117. In principle there is no reason to discriminate, but locational signals should be possible if appropriated motivated, in particular, in systems with an integrated management of the basic infrastructures (i.e. transmission, storage and LNG) and highly dependent on LNG. It is worth noting that due to technical reasons, LNG terminals need to have a minimum functioning.
118. In systems where basic infrastructures are operated on an integrated manner, locational signals provided by the entry-exit tariff methodology for transmission might not be consistent with the needs of the system.
119. The only publicly available simulation of entry-exit tariffs in the Spanish system, based on a simulation of network flows, was published in 2010<sup>1</sup> in a paper produced by three authors. Notably, two of them were and still are CNE personnel.
120. The article proposed an entry-exit tariff model and applied it to compute charges for the Spanish gas transport system in 2009. Results produced by the model were presented as coefficients which should multiply the transmission (and distribution) tariffs in force by then. The paper did not propose new tariff structures (e.g. the separation of transmission and distribution tariffs, the reconsideration of the capacity/commodity split, or a different proportion for the allocation of costs between entries and exits), and also took another assumptions which could be debatable. However, it was a notable contribution for the debate on tariffs in Spain which allows to identify potential problems for the implementation of entry-exit tariffs and allows to anticipate potential results from a more detailed and robust entry-exit tariffs simulations.
121. The map below shows the main results obtained. I was noted in the paper noted that, in those cases where demand exceeded available capacity, entry-exit tariffs could be supplemented by capacity charges at entry points resulting from auctions.

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<sup>1</sup> ALONSO SUÁREZ, A., OLMOS, L., SERRANO, M.: "Application of an entry-exit tariff model to the gas transport system in Spain", Energy Policy, Volume 38, Issue 9, September 2010, Pages 5133-5140.



the implementation of efficient tariff models.

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

124. Enagás believes that locational signals should only be allowed in very specific cases which cannot be subject to harmonisation.

**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.

125. No, Enagás does not believe that more options are needed in the draft chapter on 'Reference price' in regard to the use of location signals.

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

**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?

126. Given that shorthaul is a specific measure to encourage usage of the network at that particular location, its continued use should be determined by NRAs, taking due account of specific circumstances in local markets.

127. In any case, shorthaul tariffs should not discriminate by gas uses.

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

128. See question 9.4.1, Enagás believes that this matter will be best determined at national level.

**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"?

129. See question 9.4.1, Enagás believes that this matter will be best determined at national level.

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

**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?

130. See question 9.1.

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

**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.

131. -

**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).

132. There would be several options to merge the two balancing zones, but it is difficult to envisage the creation of a single, unrestricted entry-exit balancing zone if not through investments, by reducing the technical capacity at entry points, or a combination of both, and also with a number of market mechanisms. The latter, reduction of entry capacity, has obvious drawbacks, while the former should be evaluated based on the expected economic benefits and costs (Cost-Benefit Analysis proving that integration and increased competition benefits offset infrastructure costs).

133. However, as long as balancing zones are not merged, the cross-border tariffs should be maintained, and be a result of the general tariff methodology, not of a political decision.

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

**Comments on allowed revenues**

134. While Enagás agrees that the determination of allowed revenues is a different discipline than the determination of TPA tariffs, and that it is out of the scope of this FG, and of any other FG, it must be borne in mind that decisions on the former affect the latter, not only as regards tariff levels.

135. Differences between allowed revenues schemes might significantly affect tariff levels and structures at IPs (for example, the proportion of fixed and variable costs will be affected by the methodology on allowed revenues). Moreover, instability in the definition and level of allowed revenues (and not only, and not primarily, in tariff structures) might cause reluctance from shippers to commit in the long term. Thus, as perfect as the resulting FG on Tariffs might be, it will not be able to ensure by itself that no inefficiencies to cross-border trade are due to tariffs on IPs.

### **Need to harmonise simultaneously certain contractual conditions**

136. Enagás agrees that current national tariff rules and the introduction of auctions as standard capacity allocation mechanisms might result in undesired effects such as inefficient use of the system, undue discrimination, incompatible pricing of products, under- or over-recovery of allowed revenues and risk and uncertainty.
137. Enagás would like to address the importance of the existence of long-term contracts binding upon infrastructure users (and not only upon infrastructure operators, as is the case now) when dealing with tariff issues, and the need for harmonisation across Europe on this matter. Lack of common rules is resulting on inefficiencies.
138. Enagás would like to highlight that the enforcement of an entry-exit system with tariffs differentiated by location could be hampered if long-term contract binding for the users are not in place, in particular in those systems where there is spare capacity. Users might change the location of their existing capacity contracts to optimise their payments, which could defeat the provisions of revenue equivalence and from the operational point of view could lead a big change in flow patterns. Thus, it is a must to safeguard long-term contracts binding upon network users. In systems where there is no spare capacity, or contracts are binding, or both, tariffs give an efficient signal to shippers for locating their additional contracts, but neither tariff sufficiency nor network operation is put at risk through the incentive of a massive change in flow patterns, as would be the case in Spain.
139. It must be explained that in Spain there is an exceptional provision in the regulatory framework, when compared to the rest of Europe, which is the possibility for network users to reduce the capacity booked or even to terminate their long-term contracts at very low price during the first year of the contract, or one year after the starting date, while long-term contracts are binding for the counterparty, the TSOs.
140. This contractual flexibility, the lack of long-term contracts binding upon users, which has its origin in a very different context of scarcity of capacity at basic infrastructures, in which the entry of new players was encouraged, has today very negative consequences in our system, and these could be much worse if an entry-exit system with tariffs differentiated by location.
141. In the short-term, in Spain a required complementary measure to the harmonisation of tariff methodologies is the establishment long-term contracts binding upon infrastructure users, which can only be terminated through the payment of the corresponding Ship-or-Pay over the life of the contract, and involving the establishment of the relevant financial guarantees (of different

nature from those currently in force). This will not prevent the simultaneous offering of short-term capacity products.

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

142. -

**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).**

**Initial Impact Assessment**

**143. Page 30: Entry-exit systems and cost allocation.**

As regards the entry/exit costs split, Enagás would like to note that in the Spanish regulation there is not an explicit objective defined to recover certain proportion of costs at entries and at exits. It should be taken into account that the tariff includes both transmission and distribution and in most cases the exit tariff is billed in distribution so the exact split might not be known.

**144. Page 78: Gas storage. Tariff level harmonisation.**

It is not precise that 25% of the revenues from LNG terminals are recovered from transmission tariffs and that the reason is for "system stability".

In Spanish regulation there is no reference to cross-subsidies motivated by system stability reasons.

In any case, it could be argued that it is efficient to recover LNG costs through transmission tariffs if those costs are related to security of supply measures which benefit all system users. This should be considered in the Tariff FG, and in particular how to allocate this cost in an efficient manner.

**The Brattle Group "report on Impact Assessment for the Framework Guidelines on Harmonized transmission Tariff Structures.**

145. -