

Questionnaire for the Draft Framework Guideline on Harmonised transmission tariff structures

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

Name: Kees Bouwens

Position held: Regulatory Advisor, ExxonMobil Gas & Power Marketing

Phone number and e-mail: +31 76 529 2228; mobile: +31 653 947 927; kees.bouwens@exxonmobil.com

Name and address of the company you represent: ExxonMobil International Limited

Address: ExxonMobil House, Ermyn Way, Leatherhead, Surrey, KT22 8UX, United Kingdom

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:** ExxonMobil¹ is a longstanding participant in the European gas business involved across the supply value chain including upstream production, storage, processing, LNG receiving terminals and marketing.

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

¹ Nothing in this document is intended to override the corporate separateness of individual corporate entities. The terms "Corporation," "company", "affiliate", "ExxonMobil" "our" "we", and "its" and cognates thereof, as used in this document, may refer to Exxon Mobil Corporation, to one of its divisions, to the companies affiliated with Exxon Mobil Corporation, or to any one or more of the foregoing. The shorter terms are used merely for convenience and simplicity.

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.

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? Please give reasons for your answer, including any quantitative evidence, tables and examples (if required, under confidentiality).

Comments: Application of the Network Code on Tariffs to existing capacity contracts should exclude those contracts where the price is already predetermined by the contract. Existing contracts should be respected and network users that have acquired capacity in the past at a fixed price, should not be exposed to price risk (i.e. increased prices) from the provisions of this network code. Any such intervention in existing contracts would be disproportionate and may have detrimental effects on network users and TSOs.

With respect to existing capacity bookings for which regulated tariffs apply, any significant and rapid tariff change would cause disproportionate effects in relation to the following objectives:

- facilitating efficient gas trade and competition, and
- avoiding cross-subsidies amongst network users.

The following elements of the proposed draft Framework Guideline could lead to a significant and rapid tariff change, because the proposals modify existing trade-offs at the national level, which could – unintentionally – lead to changes in the gas supply routes:

- application of distance related tariffs instead of an equalisation approach;
- application of the 50% rule (TSO costs split 50:50 between entry and exit points);
- the method of reconciliation of the regulatory account (capacity or commodity charge);
- changes to the reserve price which could lead to significant under-recovery;
- tariff changes resulting from establishment of virtual interconnection points.

ExxonMobil believes the Framework Guidelines should be less prescriptive (e.g. FG should not dictate the 50% rule) and allow for the network code development process to evaluate the above elements and also consider national specificities that should be taken into account as well as the need for gradual implementation.

ExxonMobil further believes this Framework Guideline should also address the issue of cross-border investment projects and cover mechanisms for releasing incremental capacity using a harmonised EU wide investment test.

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

No comments.

1.3. Please suggest the top-5 core indicators 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).

We suggest to monitor how efficient the cross-border capacity is utilised, i.e. the within-day price differential between adjacent hubs versus available capacity.

Another indicator to monitor the NC implementation could be established by inviting network users to bring to ACER's attention any tariff decisions that they consider not to be in line with the 3rd Package objectives.

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?

- a. Yes, because.....;
- b. No, because the proposal does not secure that TSOs publish sufficient detail to allow users to understand how the prices at each entry and exit point are derived;
- c. No opinion, because.....

Please give reasons for your answer, including any quantitative evidence, tables and examples. Please specify if (and how) the proposed text in the draft FG should be further detailed and clarified.

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”.

- a. Yes, such as the requirement to publish sufficient detail to allow users to understand how the prices at each entry and exit point are derived. With respect to the example given by ACER above, we do not consider it sufficient that information is only provided in case of significant tariff fluctuations; information should be provided at all times.
- 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 or wording to that proposed?

2.2 Cost allocation and reference price setting methodology, general questions

Comments: Introduction of an entry-exit tariff system has clear benefits at the national level, since it facilitates trade at the virtual point. However, the accumulation of exit- plus entry-tariffs at interconnection points could act as a barrier to cross-border trade. According to the draft Framework Guidelines, 50% of TSO’s costs are allocated to entry points (50% rule) and the remaining 50% is split between domestic exits and cross-border exit points. This would effectively mean that most of TSO’s costs are allocated to cross-border points. ExxonMobil believes that the 50% rule should not be prescribed in the Framework Guidelines because there is no objective justification for this rule and moreover the existing cost split in Europe is more towards exit points (see THINK report of January 2012). ExxonMobil therefore asks ACER to allow for the network code process to evaluate the different cost allocation methods and also consider national specificities that should be taken into account (e.g. to avoid issues in transit countries).

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 (i) we do not support that the 50% rule is prescribed in the Framework Guidelines (as explained in the general comment under 2.2 above), and (ii) the proposed level of harmonisation could lead to significant and rapid tariff changes (as discussed in the comment under 1.1 above).
- 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?

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

Comments: In an entry-exit regime proper cost allocation based on distance is not possible. This has been demonstrated in the Brattle group report (pages 6 and 7 and figure1). For this reason distance should not be considered as the major cost driver. However there may be other cost-based approaches to tariff setting. We suggest that the network code development process considers using the long-run marginal cost approach for setting tariffs at individual entry and exit points. This approach could also be used to generate appropriate locational signals. The equalisation approach is mainly driven by a specific policy choice e.g. equal exit tariffs reduce the price difference between domestic consumers.

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 of the reasons given under 2.3 above.
- 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?

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 of the reasons given under 2.3 above.

- 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?

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 (i) we believe that the Framework Guidelines should not prescribe the 50% rule (or any other %), but allow the network code development process to evaluate different allocation methods and consider national specificities that should be taken into account e.g. in transit countries, and (ii) we do not support the 50:50 split for which there is no objective justification and believe there are valid reasons to allocate a smaller share of the TSO costs to entry points (e.g. entry tariffs act as a form of import tax on natural gas and establish barriers to entry) which is more in line with the existing cost split in Europe (see also the comment under 2.2 above).
- 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.

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 of the reasons provided under 2.2 and 2.3 above;
- 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?

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?

- a. Yes, because gas storage facilities help to manage the load on the system by shifting gas entry flows from peak demand periods to low demand periods. We support that the network code development process is to provide the reasoning and the methodology to determine an adequate discount;
- 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?

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 we believe that the entry-exit tariffs for gas storage sites should be established using a cost-based approach (see comment under 2.3 above) specific to the individual location;
- 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?

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, because we do not believe a harmonised discount % should be applied (see response to 2.4.2 above).

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?

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)?

We do not believe a harmonised tariff level should be applied across all storage points across the EU (see response to 2.4.2 above).

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.

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 the proposals appear too much focused on ensuring that the TSO recovers the allowed revenue while they should focus more on (i) removing those elements in existing tariff structures that have a detrimental effect on cross-border trade, (ii) avoiding cross-subsidisation and undue discrimination between network users and (iii) provide incentives for new efficient investments. The draft Framework Guidelines aim to promote short-term trade and competition, but the proposed tariff multipliers and seasonal factors may have a detrimental effect on cross-border trade and on market liquidity. The draft Framework Guidelines also lack guidance on providing signals for efficient investments, which may prevent ENTSOG from addressing this matter during the network code development process. We believe the network code should strike the right balance between facilitating short-term trading, avoiding cross-subsidisation and providing long-term investment signals. To this end the Framework Guidelines should explicitly address the issues concerning Incremental Capacity;
- c. No opinion, because.....

Please give a brief explanation for your answer, including the beneficial and detrimental interactions you see. Would you propose alternative combinations, and if so please reason why?

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 the current draft Framework Guidelines do not address the tariffication principles for Incremental Capacity. In order to strike the right balance between facilitating short-term gas trading and providing long-term investment signals the Framework Guidelines should explicitly address the issues concerning Incremental Capacity. Furthermore, careful consideration should be given to the incentives for longer term booking of capacity (required to underpin investments in infrastructure) against the pricing of short-term capacity. On balance we support the use of multipliers and seasonal factors for short-term capacity, but recognise the impact that this may have on discretionary cross-border trading. As such this should be a matter discussed and resolved in the development of the Network Code;
- c. No opinion, because.....;

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

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, due to the fact that the reference prices are set using forecast allowed revenues and forecast subscriptions there will inevitably be gaps between these forecasts and actuals, leading to over- or under-recovery. A regulatory account will always be need close the gap because forecasting will never be perfect;
- 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?

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

- a. Yes, because we support harmonisation of rules for dealing with over- and under-recovery of allowed revenues at EU level using the regulatory account. In our view commodity charges should not be used to recover revenues since a commodity charge would have a negative impact on cross-border trade. With these high-level principles being harmonized, we support that NRAs determine or approve at a national level which fraction of the under- or over-recovery will be logged on to the regulatory account and how often and how fast the regulatory account has to be reconciled;
- 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?

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?

- a. Yes, because we support that this is determined by NRAs on a national level as described under 3.2.1 above;
- 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?

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.

Comments: Although it appears attractive to use auction premiums for investments that solve congestion, this approach may not generate a stable cash flow to actually finance investments. Auction premiums are by their nature uncertain and investments would require a certain cash flow. Moreover by solving the congestion it is likely that auction premiums will disappear. Hence this approach for using over-recoveries may easily turn out to create under-recoveries in futures years. For these reasons we do not support this option. However, we do support that the tariffication principles for Incremental Capacity are explicitly addressed in the Framework Guidelines.

3.3. Reconciliation of Regulatory accounts.

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

- a. Option 1; because the regulatory account is aggregating over- and under-recovery of capacity charges the reconciliation should also be through adjustment of capacity charges. Commodity charges should be avoided as they will create cross-subsidies between network users and may have a detrimental effect on cross-border trade.
- b. Option 2; because
If preferred, what percentage of revenues should be recovered through capacity charges and why?
- 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?

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? This charge could be based either on gas flows (commodity) or capacity bookings (capacity). Then the regulatory account would be reconciled through the reserve or reference price. See chapter 3 of the draft FG.

We do not support a separate charge set at the start of the year to reduce the risk of TSO under-recovery because it would increase the likelihood of TSO over-recovery. In our view under- and over-recovery should be treated alike. When the reserve prices and regulated prices are set on the basis of best available forecast information, there should be equal chances of over- and under-recovery, and no reason for an additional charge.

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)?

- a. Yes, because.....
- b. No, because we prefer that the network code development also considers the option that certain charges in the regulatory account are reconciled to the entry and/or exit point(s) which caused the over- and under-recovery. For example revenue from non-physical backflow at a specific interconnection point could be used to adjust the tariffs for forward flow at this point. However in cases where under-recovery is caused by reduced interest at a specific point, it would not be appropriate to recover the shortfall from this interconnection point because that would only exacerbate the problem.
- 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?

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.

- a. Yes, because.....;
- b. No, because of the reasons given under 3.3.3 above. Please also refer to our comments on the cost allocation methodology under 2.2 and 2.3.

- c. No opinion, because....

In your explanations please include any quantitative evidence, tables and examples, where appropriate. Would you propose alternative application as to that proposed? Please explain (if relevant) the alternative proposals and reasons why.

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 it may be appropriate to also have specific rules for additional capacity that becomes available as result of congestion management procedures. In addition we would welcome that the FG/NC also address the tariffs for Incremental Capacity.
- 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?

4.2 Reserve prices (firm)

4.2.1 Do you agree with proposed level of harmonization?

- a. Yes, because.....;
- b. No, because we believe that NRAs should not only consult NRAs of adjacent Member States and relevant stakeholders before deciding on multipliers higher than one, but that such consultations should take place before each decision that affects tariffs at interconnection points (e.g. decision on seasonal factors).
- 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?

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 the current draft Framework Guidelines do not address the tariffication principles for Incremental Capacity. We believe the network code should strike the right balance between facilitating short-term trading, avoiding cross-subsidisation and providing long-term investment signals. To this end the Framework Guidelines should explicitly address the issues concerning Incremental Capacity.
- c. No opinion or other view, because.....

Please give reasons for your answer, including any quantitative evidence, tables and examples. Would you propose an alternative option to that proposed? Please specifically consider the time aspects: how, when and for how long this would apply. Please specifically address if maximum multiplier “1.5” should be set lower or higher, and if in time an EU-wide evaluation, leading to reset possibility of such a maximum multiplier, should be explicitly introduced, or should such a reset possibility only apply to interconnection points where no premia to reserve prices are offered during the auctions. Would you consider that a ‘reset’ possibility for multiplier-levels should be specified at EU-wide level. Also please specify with examples, what in your view to be considered as such a *significant* under-recovery? Please consider also specifically why you believe that risk of significant under-recovery could not be mitigated through use of appropriate seasonal factors.

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?

- a. Yes, because.....;
- b. No, because.....
- c. No opinion, because we understand and agree that the entire section 4 on Reserve price applies to all entry and exit points under the scope of the Network Code on CAM.

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

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?

Comments: We believe that the reserve price for short-term products at interconnection points should be set with the objectives described in section 1.2 of the draft FG in mind. The key criteria for us would be the promotion of cross-border trade and market liquidity, avoiding cross-subsidies and with due regard to the impact on efficient new investments.

Please give reasons for your answer, including any quantitative evidence, tables and examples. Please include in your answer your views on use of seasonal factors.

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 of the reasons described under 4.2.4.
- 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?

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?

- a. Yes, we agree to set the reserve price of the interruptible capacity product at a discount to the reserve price of the firm physical capacity product. The discount for the interruptible physical product should reflect the probability of interruption. This is consistent with the Gas Regulation which states that *“the price of interruptible capacity shall reflect the probability of interruption”*;
- 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?

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:.....

Comment: Presumably the risk of interruption will vary during the year and will not be the same for all interconnection points. Only TSOs can calculate or assess the risk of interruption and should be transparent to network users about their assessment and about the interruption procedure in case more network users have acquired interruptible capacity. We therefore cannot support a fixed discount.

Please give reasons for your answer, including how you would calculate the discount, risk of interruption and link the discount to risk of Interruption, including any quantitative evidence, tables and examples. Would you propose alternative measures as to those proposed?

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?

- a. Yes, because.....;
- b. No, because.....
- c. *No opinion, because we understand and agree that the entire section 4 on Reserve price applies to all entry and exit points under the scope of the Network Code on CAM.*

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

4.4. Reserve price (backhaul)

4.4.1 Do you agree with proposed level of harmonization?

- a. Yes, we agree with the proposed level of harmonisation for the pricing of non-physical backhaul products;
- 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?

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)?

- a. Yes, because.....;
- b. No, because non-physical backhaul capacity is an interruptible capacity product the reserve price for this product should reflect the probability of interruption. Where non-physical backflow leads to cost savings due to a reduced load on the system this should also be taken into account. We also refer to the example provided under 3.3.3.
- 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? Please also specifically address and propose mitigation of consequences of such a policy to existing forward flow shippers as well as positive contribution to potentially reduced need for additional capacity construction.

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?

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

- c. No opinion, because we understand and agree that the entire section 4 on Reserve price applies to all entry and exit points under the scope of the Network Code on CAM.

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

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.

- a. Yes, we support the proposal of an EU-wide standard provided this does not result in any significant and rapid tariff change for network users;
- 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?

6. Bundled capacity products

6.1 Reserve price (Bundled)

6.1.1 Do you agree with proposed level of harmonization?

- a. Yes, because the proposal sets an EU-wide standard, provided the reserve prices for entry and exit tariffs are also sufficiently harmonised;
- 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?

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?

- a. Yes, we agree with the proposed option;
- 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?

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?

- a. Yes, because bundling applies to interconnection points only;
- 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?

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.

- a. Yes, we agree with the proposed option. We do not support setting the unbundled reserve price at a higher level to support bundling;
- b. No, because.....
- c. No opinion, because.....

Would you propose alternative measures to those proposed?

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?

- a. Yes, we agree with the proposed level of harmonisation;
- 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?

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

- a. Yes, because....
- b. No, because we believe the choice between splitting the auction premium between TSOs pro rata or 50/50 should be made during the network code development process and not prescribed in the Framework Guidelines;
- 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?

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?

- a. Yes, because bundling applies to interconnection points only;
- 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?

7. Payable price

7.1.1 Do you agree with proposed level of harmonization?

- a. Yes, because.....;
- b. No, because the proposal specifies that the clearing price in an auction cannot be fixed. We believe this should not be prescribed in the Framework Guidelines. The network code development process should be allowed to also consider the option of a fixed clearing price for the duration of the capacity service. When a user commits to buying long term capacity there should be certainty about the price or at least forward transparency.
- 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, please also consider the link to question 3.1?

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?

- a. Yes, because...
- b. No, because of the reasons provided under 7.1.1. above.
- 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?

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?

- a. Yes, because interconnection points are subject to the auction process specified in the CAM Network Code.
- b. No, because...
- c. No opinion, because.....

Please reason which Option you prefer, including any quantitative evidence, tables and examples. Would you propose alternative measures as to those proposed?

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.

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.

No Comments.

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 ?

Comment: We support harmonisation at EU-level of the design of the integrated auction process and transparency requirements related to the economic test. The parameters that are used in the economic test can be set by the NRAs involved. Please refer to our response to the CEER consultation on incremental capacity which we have attached to this response.

Please give reasons for your answer, including any quantitative evidence, tables and examples. Please e.g. specifically address if FG/NC should set minimum and maximum thresholds for such a “market test”, whilst NRAs would set actual thresholds at national level. Please also address how such thresholds for a “market test” should take account of positive externalities (such as Security of Supply), as well as of the risk 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.

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).

We believe the FG/NC should explicitly address the issues concerning Incremental Capacity as discussed in our response to 3.1.1, 3.1.2 and 4.2.2 above.

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

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.

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

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

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.

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

We believe locational signals can play a role to resolve short term issues i.e. within-day imbalances in the system, but are not very well suited to signal investments for e.g. LNG terminals, storages and gas-fired power plants. Once these facilities are built at a specific location they are likely to stay there for more than 20 years. So in order to trigger the investment it should be possible for the investor to lock-in the locational signal for say 20-30 years, also because the investment is likely to remove the (need for the) locational signal. When a locational signal is only temporarily it should not be used to signal investment in facilities that are of a permanent nature.

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’.

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?

- a. Yes, because.....
- b. No, because the concept of an entry-exit system is that all users have equal access to the wholesale market where suppliers, consumers and traders meet. Shorthaul capacity assumes that entry and exit capacity are somehow connected, but the gas at the exit point could – in contractual terms – originate from a different entry point. Also the Gas Directive does not allow tariffs to be set based on contract paths. For shorthaul transportation where there is a direct relation between a producer and a consumer the Gas Directive requires Member States to support the construction of a Direct line (Article 38).
- c. No opinion, because.....

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

9.4.2. How could this tariff structure be designed?

Please propose wording for a policy option (if needed).

We do not support a specific tariff structure in the FG to deal with shorthaul capacity.

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:

- 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: we do not support a specific tariff structure in the FG to deal with shorthaul capacity.**

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, we do not support a tariff discount for LNG terminals similar to the proposed option for underground storage. We would support the same treatment of LNG terminals and production entry points and suggest that the long-run marginal cost approach is considered for setting tariffs at individual entry points (see response to question 2.3).
- 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.

No Comments

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.

No Comments

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).

No Comments

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

No Comments

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).

No Comments

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