

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

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

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Identification number 90947457424-20

Please indicate, if your company/organisation is:

- a. European association
- b. National association
- c. TSO **X**
- d. Shipper or energy trading entity **X**
- e. End-user **X** (*power plants*)
- f. Other (e.g. Power Exchanges, Storage Operator etc.), **X** *Storage operator, LNG Terminals operator*

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

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

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

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

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

Any strong and rapid change in the tariffs of already booked capacities via existing contracts would cause disproportionate effects in relation to the following objectives :

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

Indeed, if the tariffs of all Interconnection Points (IP) dramatically change upwards or downwards depending of the IP, the market will move from one or some supply route(s) to other ones.

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

The following aspects of the application of the draft FG can lead to a strong and rapid change in tariffication modifying the national trade-off :

- the application of distance related tariffication instead of an equalisation approach,
- the application of the 50% / 50% revenues rules (50% from the entry points and 50% from the exit points),
- a change in the reconciliation process (commodity charge versus adjustment of the regulated price),
- a change of reserve price which leads to massive under-recovery,
- an increase or decrease of an IP tariff due to the virtualisation of the IP,
- the forced bundling of booked capacity (the so-called sunset clause in the CAM NC) that could lead to the subscription of unwanted capacities at different prices.

It should be noted that the cross-border points are not the same as IP transmission/storage and transmission/LNG terminals. Specific attention must be paid to these specific points.

**Therefore, a transitory phase should be implemented in the network code to allow market participants to adapt to the changes resulting from evolution in tariffs.**

**GDF SUEZ wants to point out that the complexity of the tariff should not increase due to the FG.** But, on the other hand, some issues may increase the level of complexity. For instance, shall a change in tariff apply only to available capacity or to all the capacity (available and booked)?

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

No.

**1.3. Please suggest the top-5 *core indicators*<sup>3</sup> for monitoring the future EU-wide implementation of the future tariff FG (NC)?** ACER and ENTSO-G both have legal obligations to monitor NC

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

implementation (in accordance with Article 9 (1) and Article 8(8) of Regulation (EC) No 715/2009 respectively).

**Indeed, the relative size of the regulatory account in comparison to overall tariff revenues should be the main indicator** because under-recovery is our main fear (see answers to chapter 4).

**Monitoring the booking rates by IP and by auctioned products** (annual, quarterly, monthly, daily) before and after the tariff NC comes into force can also be interesting because it could reveal a change in supply routes and/or booking strategy (Long Term versus Short Term).

**An efficiency indicator, a stability indicator and a distortion indicator based on the cost of accessing a hub could be interesting.** Stakeholders have to brainstorm how these indicators could be built (which parameters to monitor, ...).

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

### **2.1. Transparency provisions**

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

**a. Yes, because it may be helpful for any stakeholders (and for competition) to have comparison points in this area for all networks in Europe;** the public consultations should contain some minimal information for all stakeholders.

**b. No, because.....;**

**c. No opinion, because.....**

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<sup>4</sup> Article 18(2) of Regulation 715/2009 states that: "In order to ensure transparent [...] tariffs [...], transmission system operators or relevant national authorities shall publish reasonably and sufficiently detailed information on tariff derivation, methodology and structure". The proposed text in the draft FG seeks to ensure such reasonable and sufficient detailed information.

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<sup>5</sup>? For example, one could consider including a provision such as: “the transmission system operators or relevant national authorities shall provide additional information if a significant tariff fluctuation is expected on a specific or on all entry- and exit points”.**

**a. Yes, such addition will be welcomed.** Systematic translation in English would also be interesting. Shippers would like to have access to TSO’s flow patterns and forecasts to be able to make their own assumptions on reserve prices evolutions.

Furthermore, the currently foreseen transparency requirements are not precise enough.

~~b. No, because.....~~<sup>6</sup>

~~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.**

**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**

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<sup>5</sup> Article 18(2) of Regulation 715/2009 states that: “In order to ensure transparent [...] tariffs [...], transmission system operators or relevant national authorities shall publish reasonably and sufficiently detailed information on tariff derivation, methodology and structure”.

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

**b. No. We disagree with the 50/50 entry-exit rule and with the distance as the major only cost driver. In any case a transitory phase should be implemented in the network code to allow market participants to adapt to the changes resulting from evolution in tariffs.**

~~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.

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, the major cost drivers should be, for the entry capacity the long term incremental cost and the distance.

Such a cost-reflective methodology will give a good economic signal (e.g. to build additional capacity the closest to the bulk of the consumption, i.e. at the cheapest cost).

Nevertheless, if there are massive changes in the tariff of some IP, some supply routes may suddenly become more expensive than others. It will be very difficult to forecast the market evolution. This is why smooth transitions should be put in place

~~b. No~~

~~c. No opinion~~

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,

Same analysis as in 2.3.1

~~b. No, because.....~~

~~c. No opinion, because ...~~

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

**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 such a simple rule cannot be used for harmonisation purpose.**

**What is the rationale behind this percentage ?**

**First, it is neither cost reflective nor avoiding cross-subsidies.** Indeed, the split between entry and exit points is not relevant if one wants to apportion revenues between national end-customers and transit flows (which would have been more cost reflective and would have avoided cross-subsidies). Indeed, exit points include points out of the entry-exit system into another entry-exit system.

The FG allows deviation from the rule but NRA will have to demonstrate that the deviation has no detrimental effect on cross-border trade.

Cost reflectivity and non-discrimination between cross-border flow and national consumption should be the main drivers of cost allocation principle between entry and exit points.

**The Framework Guidelines should not set any rule on this point, the network code should deal with it after a detailed analysis.**

~~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.....

c. The question is unclear.

Anyhow, we need to analyse first the impacts on the interconnection points before trying to implement the same mechanism for domestic points.

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,

- As a preliminary remark, we would like to recall that the "Third Package process" was established to tackle cross-border inter-TSO issues rather than establishing new rules for other infrastructures. Nevertheless, in an Entry/Exit system, any change of rules for cross-border points may likely have an impact on adjacent infrastructures, such as storage and LNG terminals. It is thus vital that this impact is not detrimental to such infrastructures and that their attractiveness is preserved.
- In this context, and in line with the ACER proposal, we would like to stress that transmission tariffs for entry and exit capacity to and from storage facilities should be treated differently. We therefore agree with the proposal to base these transmission tariffs at a "discount". We would like to note, however, that the word "discount" as used in the draft Framework Guidelines should not imply a temporary or a one-off solution. Rather, it should be a regular approach ensuring that an appropriate tariff is established, reflecting the underlying economics as well as the benefits and the support function of storage.
- The aim is to avoid a double tariffication for gas flows which have been already charged at an entry point and will be charged at an exit point. Such double billing would lead to cross subsidization between storage users and other shippers.
- **Consequently it is justified that the transmission-storage points have a lower tariff than other points due to the specific role that storage plays in the network. As stated**



**in the ACER impact assessment (p 77), “gas storages have an effect on required network investments and therefore the costs of networks as storages lower the peak load that networks have to be able to deal with”.**

- **At last, storage has a significant support function for the network as it provides the system with flexibility, which is important for the integrity of the network** Finally, storage plays an important role for security of supply, which is paramount in the case of physical shortage of gas.

**This explains why a discount to and from gas storages should be appropriate.**

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, we do not agree on harmonising the discount itself. Rather, principles should be established regarding the underlying methodology (“cost benefit analysis”) for the calculation of the discount.** Such methodology should be flexible enough to take into account, in particular, the flexibility and network support provided by the storage to the transmission systems (for instance, fast-cycle or seasonal storage<sup>7</sup>), and the “accessibility” to storage from the transmission network<sup>8</sup>. These principles should furthermore consider the avoided investment costs thanks to storage.

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?

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<sup>7</sup> The flexibility of fast cycle storage is typically greater than that supplied by seasonal storage

<sup>8</sup> The effective access to storage will depend on the service guaranteed by the adjacent TSO, i.e on whether fully firm or interruptible transmission capacity is offered by the TSO at an interface with storage.

**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....~~

No see answer 2.4.2

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)?**

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.

**There should be no harmonization of tariff levels** (We are in favour of a discount for transmission tariffs to and from storage but without harmonising it : see answer 2.4.1).

**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 is

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, there is some level of consistency but we do not agree on some principles. For instance, lower reserve prices for short term products will lead to huge under-recovery for the TSO as can be seen in the GB system. In this case, the TSO gets its “missing” revenue from a commodity charge that changes each six months. There are also cross-subsidies amongst network users since shippers that are buying long term products (which are more expensive) must also pay the commodity charge.**

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 lower reserve prices for short term products will prevent long term investments.** Indeed, all the network users would like, then, to be free riders. Moreover, the efficiency of the multiplier proposed in the draft FG (<1) to promote short term trade is not confirmed by facts : the TTF, one of the most liquid continental hubs, with low spreads with neighbouring hubs, has one of the highest multipliers between short and long term capacity tariff (especially when taking into account seasonal factors).

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**, if by reference prices, one means the fact that reserve price will be adjusted periodically to minimise the difference between allowed and collected revenues. Booked capacities during auctions at a reference price (with or without a premium in addition) will be paid at a reserve price set later, taking into account the potential tariff evolutions.. It seems the fairest solution compared to a commodity charge or to a change in the reserve price only for the following auctions / bookings.

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?

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

a. **Yes**

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**

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.**

**Yes this could be done by dedicating over-recoveries to a specific reserve account;** the related savings would allow the financing of additional investments.

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

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

a. **Option 1; because under and over transmission revenues are linked to capacity subscriptions (they are not linked to the commodity).**

Moreover, it seems to be the best solution to avoid discrimination and cross-subsidies between shippers. Indeed, with option 1, there is no discrimination based on the time you've booked your capacity since the adjustment of the regulated price will apply when shippers will use their capacity (and not when they have booked their capacity as it is the case in the GB system) if section 7 of the draft of framework guidelines applies. Option 2 has been experimented in GB (see 3.1.1) ; the commodity charge creates cross-subsidies to the benefit of short term bookings.

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.

**GDF SUEZ does not favour such an approach.** First, TSO should provide good forecast in term of capacity bookings to try to minimise the regulatory account (e.g. short term bookings will lead to less booked capacity since shippers will be able to profile their needs). Secondly, having an ex-ante separate charge is just another way to recover revenues

equivalent to the use of the regulatory account. It would unnecessarily increase the complexity of revenue recovery but it would neither minimise the cross-subsidies nor provide visibility on tariff evolution.

**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. **No.** The revenues from exit points towards end-customers are quite stable unless imprevisible hazards because capacity is subscribed on forecast peak level, regardless of whether this peak demand occurs or not. Since, exit points towards end-customers should not create huge under or over recovery, **the regulatory account should not be reconciled on those points but only on entry points and exit points towards adjacent balancing zones.**

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. no; we should aim first at reducing the difference between the allowed and the actual revenue. Once this is done, the residual difference should be tackled with by having a simple and flexible system respecting the tariff structure.

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, it should be sufficient.** However, in some entry/exit systems it is more and more difficult to distinguish between firm and interruptible capacities because they are firm towards an exit point but interruptible towards the Virtual Trading Point for instance.
- 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?

## 4.2 Reserve prices (firm)

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

- a. ~~Yes, because.....;~~
- b. **No. We disagree with this default rule stated by ACER (“lower than or equal to ..”).**

**GDF SUEZ suggests a rule with a multiplier higher than one otherwise this would have a detrimental effect on new investment and would lead to cross subsidies between shippers booking on the short term and on the long term.**

**Furthermore, one should not wait until significant under-recovery is expected to change the tariffs.**

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, globally, the multiplier should be higher than one to favour long term subscriptions and thus preserve investment signals.**  
Moreover, the risk described above will become reality if there is a discount for short term products as it is the case nowadays in the GB system.(Cf. 3.1.2).
- b. ~~No, because.....~~
- c. ~~No opinion or other view, because.....~~

**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
- 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?

**4.2.4. 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?**

The reserve price for short term capacities should be higher than the prorated price of an annual product (e.g. reserve price for a one month product higher than one twelfth of the yearly product ). A criterium to set the relevant monthly or daily capacity prices could be the revenue equivalence principle, i.e. the revenue of the TSO should be the same if one shipper is booking an annual product at the level of the peak demand or if it is booking just the capacity needed to profile its demand by purchasing quarterly, monthly or daily capacity products. In this last case, the booked capacity will be lower but since the reserve price will be higher for those shorter capacity products, it should be equivalent in term of cost to the yearly product.

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.....;see answer at 4.2.4
- b. ~~No, because.....~~
- c. ~~I don't know:—~~

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



### 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, it should be cost reflective
- ~~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:.....

**The discount should be higher than the risk of interruption to have interruptible capacity competitive with firm capacity** : an interruptible capacity, even for one day every year as an average, that gives access to a hub with a limited liquidity, prevents from selling firm yearly or seasonal products. A capacity that could be interrupted for more than a third of the time in each quarter has practically no value to supply a customer, or to use storage capacities from another hub. Moreover, interruptions periods correspond in most cases to the highest spreads in the year.

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,
- ~~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. Reserve price (backhaul)**

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

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

See 4.4.2.

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.** Backhaul prices should be low since it is an interruptible and “non-physical” reverse flow/capacity ; the reverse flow will only decrease the forward flow, then, allowing savings in the variable transmission cost. Backhaul prices may also apportion a small part of fixed costs (to minimise cross-subsidisation among network users) or not (because then the forward capacity price should evolve adequately to reflect the change in the backhaul price).

Nevertheless, GDF SUEZ can state that the backhaul prices should be low and lower than the interruptible capacity prices.

~~b. 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,

~~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?

**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.**

b. No, because virtual IPs will be very difficult to implement. Indeed, there remains a tariff issue if two different tariffs relating to two pipelines arriving at the same IP from the same side of the border are average. Some shippers will face an increase in their invoices some will have a decrease. We'd rather like to maintain the system with two different tariffs.

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
- ~~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, because it seems the only practical way to do. The TSO must recover their related costs.
- ~~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 bundled products as set in the draft NC on CAM apply only at IPs. So, in order to be consistent with this code, the draft FG on tariffs should only deal with those IPs. However, decisions on tariffs may have strong impacts on storage and LNG businesses, so it is essential to analyze these impacts before designing a tariff.
- ~~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,~~

b. No, because..... **The FG states that “the reserve price of the unbundled capacity shall equal the reserve price of either the entry or exit capacity from which the unbundled capacity originates”. GDF SUEZ agrees on this principle but considers that there is no reason why there would be a higher price for unbundled capacities.**

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. No.....please see our answers to 6.3.2 and 6.3.3

b. ~~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 one must not mix up harmonisation and “one size fits all”. What is the rationale of an unique option for splitting auction revenues (i.e. 50%/50% by TSOs). There is no reason for an equal split; the split should be made in proportion to the costs, or even better in proportion to the reserve prices.**

**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 see answer to 6.1.3.
- ~~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
- ~~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, 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 it seems to be the only solution to be non-discriminatory and to avoid cross-subsidies amongst network users. Otherwise, booked capacity will have a fixed price whereas each year auctioned capacity reserve prices may change. It is also fair that all the shippers, whatever their booking strategies are – short term or long term for instance- , will support tariff variations due to under- or over-recovery or changes in the allowed TSO revenue.
- ~~b. No, because.....~~
- ~~c. I don't know.~~

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

### 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, since auctions only apply to those points.

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

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

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

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

We note that in CEER-roundtable 2012 discussions on Incremental capacity experts have noted that harmonization of the specific parameters in the market test might not be needed, but rather a consistent approach to the principle of having a market test to trigger Incremental capacity may be needed at the EU level<sup>9</sup>.

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

**As for the incremental capacities to be developed, there should be an economic test performed by the NRAs.** For long term investments, there should be reasonable assurance that the shippers and the regulators make long term commitments.

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<sup>9</sup> Please consider the ongoing consultation on Incremental capacity issues by CEER, available via [http://www.energy-regulators.eu/portal/page/portal/EER\\_HOME/EER\\_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/Investment%20Procedures%20for%20Gas%20Infrastructure](http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/Investment%20Procedures%20for%20Gas%20Infrastructure) . Please also note that ACER will work with CEER during 2012 to further analyze the issues in this area.

**The tariffs should reflect the long term incremental costs.**

**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 ?**

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.

**See our public answer to the CEER’s consultation on incremental capacity** which indicates that the level of cost coverage which the subscriptions need to reach in order to trigger the investment decision, should be set to strike a balance between stimulating capacity development and avoiding stranded capacity and so socialization of costs.

**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).**

No.

Please give reasons for your answer, including any quantitative evidence, tables and examples<sup>10</sup>.

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10 Please specify per below option, if your answer differs, if the approach to Incremental capacity identification (and, where applicable, allocation) would be based on 1 of the following options:

- Open Seasons (according to 2007 GGPOS),
- Coordinated Open Seasons (in light of the experience gained in the years since 2007)
- Identification via TYNDP, GRIPs and/or national TYNDPs,
- Regular integrated capacity auction for incremental and existing capacity,
- Incremental capacity auction if demand is identified in a regular process, and
- One time integrated auctions.



**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.

**Locational signals are cost reflective and minimise costs for the gas system. However, if one wants to keep an Entry / Exit system, such signals must be actually limited to some large and specific end-customers or gas infrastructures.**

**A CBA analysis will showcase the appropriate locational signals on some specific points.** For instance, and as noted in our responses in the section 2.4, the locational signals for storage require the consideration of a number of aspects, including, among others, the physical location of storage with respect to the core of the network and demand centres, as well as the resulting contribution of storage to network integrity and avoided investment costs.

Similarly the possible locational signals for LNG terminals should be analysed carefully so as to evaluate the benefits provided by LNG terminals to the transmission network. Indeed as mentioned in section 5.11 of the impact assessment, LNG terminals (as a whole, not only on their storage capacity) may, depending on their respective position compared to the consumption area and the IP entry points, provide benefits to the transmission network in terms of decongestion and/or flexibility.

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

No

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.**

GDF SUEZ does not think than the chapter on “Reference price” should have additional options. Please give reasons for your answer, including any quantitative evidence, tables and examples.

**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 tarification to ensure that the breakdown of costs among grid users and among entry- and exit points respects the principle of cost-reflectiveness as much as possible. Adequate discounts on short-haul transports should be encouraged’<sup>11</sup>.

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

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<sup>11</sup> See summary under weblink: <http://www.eui.eu/Projects/THINK/Documents/Thinktopic/PB/PB201201.pdf>

**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, but it should be limited to some specific E/E points to avoid distortion in comparison with other points.
- b. ~~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).

The tariff to avoid inefficient building of pipelines should be designed in coordination with the related NRA of the concerned area.

As already stated, it is an intra-balancing zone issue and it should not affect the cross-border capacity (except if incremental capacity is needed). Furthermore, it should have no effect on the IP capacity prices since the shorthaul will only apply to the exit tariff of the nearby industrial customers.

**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. ~~Max 20% of the average gas travelling distance in the E/E system~~
- b. ~~Max 10% of the total capacities of a E/E system can be considered as “shorthaul”~~
- c. Other, namely:.....

Since each E/E system being different, the NRAs should design this tariff. There is little sense to define a default option that would equally apply to large zones such as Italy or France and to small ones such as Luxembourg.

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?**

This option should be considered , in any case a CBA study should be performed in order to check which potential benefits the related LNG terminal brings to the network (flexibility, flow regularity...).

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.

**The mergers of entry-exit zones can lead to a significant change on the competition landscape**, since the TSOs lose in this case some marketable points and the corresponding costs have to be allocated to the remaining network points . **It should be reminded that the impact of each forecasted merger should be carefully analysed to avoid any detrimental impact on existing storage and terminal operators.**

Regarding IPs, there will be a huge price problem because some shippers will face an increase in the price of their booked capacity due to the following principle “the reserve price for virtual interconnection points shall be established based on the combination of the reserve prices for the individual entry or exit points”.

It is the same legal issue as for the sunset clause ; **a shipper will face a dramatic change in his contract, this time, on the price of its booked capacity because the former price will be averaged with the price of others IP(s).**

Shippers have wondered, during the drafting of the CAM NC, what was the attended net benefit of this measure and how many IP are potentially subject to this measure? We had no answers until yet.

Moreover, great care should be taken to ensure that zone mergers do not have a negative impact on storage, in particular in terms of their accessibility. The experience gained so far shows that zone mergers may reveal internal bottlenecks, the consequence of which may lead to a degradation of the transmission service at IPs with storage. **This highlights the need for a proper cost-benefit analysis to be carried out before any zone merger, so as to assess the potential investments needed as well as the impact on adjacent infrastructures.**

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

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

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

Please give reasons for your answer, including any quantitative evidence, tables and examples. Please also, if relevant, suggest and explain reasons why any of the proposed measures should rather have been left to voluntary exchange of best practices at national level (e.g. via Guidelines of Good Practice)<sup>12</sup>.

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

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

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

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<sup>12</sup> Please e.g. specifically consider if the FG/NC should include an EU-wide provision providing for “incentives” for implementation of CMP measures, and or additional EU-wide provisions ensuring that transmission system operators do not experience detrimental effects as consequence of the roll-out of EU-wide implementation of the auctions under CAM NC and/or other NC.