05 November 2012

Ref: 12GIE118

GIE Response to Questionnaire for the Draft Framework Guideline on Harmonised transmission tariff structures

Gas Infrastructure Europe (GIE) is an association representing the sole interest of the infrastructure industry in the natural gas business such as Transmission System Operators, Storage System Operators and LNG Terminal Operators. GIE has currently 70 members in 25 European countries.

One of the objectives of GIE is to voice the views of its members vis-à-vis the European Commission, the regulators and other stakeholders. Its mission is to actively contribute to the construction of a single, sustainable and competitive gas market in Europe underpinned by a stable and predictable regulatory framework as well as by a sound investment climate.

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

The overall concept of cost recovery for the respective TSO and, in general, the tariff-setting methodology will have important implicit effects on the tariff setting of the other downstream connection points to storage facilities, large users or distribution grids (non-IPs). These effects require a careful analysis of any rules applicable at IPs with respect to the impact on non-IPs. Any detrimental effect has to be avoided.

Furthermore, it is important to state that any harmonisation of transmission tariff structures in Europe as foreseen by the Third Package process should not trigger an artificial and undue overall increase of tariffs as this would affect the competitiveness of natural gas as a cleanest fossil fuel available. Neither should it trigger an artificial and undue overall decrease of tariffs as TSO's should be able to effectively recover their costs.

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

GIE agrees with the general principle that transparency in relation to tariff-setting methodologies is needed. Such transparency, which will increase confidence of market participants and network users, should enable sufficient stakeholder involvement and help avoid rules beneficial for only a few network users while being detrimental to others.

Av. de Cortenbergh 100
B – 1000 Brussels
Tel +32 2 209 05 00
Fax +32 2 209 05 01
gie@gie.eu.com
www.gie.eu.com

However, the assumptions on capacity utilisation, subscriptions and costs, constitute an information whose usefulness to network users is not evident at all and that should be possibly disclosed only to NRAs on a confidential basis. It is not clear that the transparency requirements outlined will help to achieve the objectives of the Regulation. In general, the benefits of providing additional information must outweigh the additional costs.

European infrastructure operators are increasingly investing outside their home country. In parallel the ownership of infrastructure operators is changing with an increasing number of financial investors. Transparency and predictability are key drivers when investment opportunities are evaluated. There are two aspects to transparency related to this: TSOs require transparency on tariff setting for their services outside the home market, while SSOs and LSOs need to value their services based on their full costs to their existing and prospective customers.

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".

As stated above, predictability of tariff development is important for all network users and infrastructure operators, including SSOs and LSOs. In any case such predictability can sufficiently be ensured by the understanding of transparent tariff methodology, formulas and impact of their related parameters.

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 reasonable level playing field for all network users is needed and harmonisation may therefore be useful to avoid possible protection of individual market zones from competition by setting, for example, excessive tariffs for entry or exit. But on the other hand harmonization should not go too far and create cross-subsidies or undermine flexible solutions. Such flexible solutions may be needed to deliver adequate regional or national issues.

Moreover, the text in footnote 7 of the Draft Tariff FG let the door open for flexible solutions explaining that the '*application of the same methodology does not rule out the possibility of different, but still consistent, tariff structures for entry and exit points, as long as these are based on the same or consistent modelling assumptions (i.e. on the requirement for a single calculation methodology, including the same underlying assumptions in terms of cost, demand projections, capital expenditure etc.)*'.

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

GIE is of the opinion that reference price setting methodology shall be settled based on cost drivers. GIE understood that this is a more complex target in an Entry/Exit-System compared to point-to-point. But best efforts are required to set tariffs as much cost reflective as possible for example based on long run

marginal costs, average costs, distance, effective (not contractual) gas flows and expected use of capacity. In principle network users have to be charged based on the costs they cause at specific entry/exit points, otherwise cross-subsidies will occur.

Furthermore cost reflectiveness might be required since in some systems forecasted tariff levels are determined also in order to set signals for investments. In any case, artificial (i.e. not cost-reflective) high/low tariffs to entry/exit points must be avoided since they lead to a wrong allocation of resources between users and, potentially, also systems.

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?

GIE welcomes ACER's idea of setting transmission tariffs at storage points at a lower level. In the context of the above mentioned cost reflectiveness such lower level should be reasoned based on the underlying economics and the network Code will be the right place to provide such reasoning. In this sense, we are of the opinion that the word *discount* used in this context may be misleading to the extent that it seems to imply temporariness and does not fully reflect the continuous and inherent value that storage could represent to the network and the shipper community at large. As a result, the Framework Guideline should consider exit tariffs from transmission to storage or entry tariffs into transmission from storage comparatively lower with respect to the average transmission charges for a number of reasons:

- As noted by both ACER and the Brattle Group, storage differs from other entry/exit points in that it is not a net source of supply or a demand outlet but it merely shifts consumption overtime. Storage users have already paid at entry points to the given market zone and at domestic exit points. A reduced tariff at storage points would thus mitigate or eliminate double billing of network users who utilize storage facilities (principle of cost reflectiveness). Taking these aspects into consideration there are already several gas systems in Europe where reduced tariffs at storage points are applied. Moreover the Czech Republic and Denmark has recognized storage as a part of the gas market by charging storage users zero for transporting gas to and from storage facilities.

- Storage can contribute to the avoidance of investment costs as storage meets a part of peak demand thus lowering the effective peak load factor necessary in the pipeline network and consequently reducing the network investment needs (an analysis on national level may be required). Storage could provide additional pressure to the network thus allowing the adjacent TSO to lower compression costs. These two sources of cost savings represent a benefit for the entire shipper community as they allow TSOs to set lower entry/exit tariffs at IPs.

- In fact, storage is a flexibility tool and enjoys benefit from its physical location within the system, supporting the network by providing the flexibility necessary to maintain system integrity and to help manage network congestion. Also, storage plays a crucial role in safeguarding security of supply, which is particularly important in periods of peak demand or supply interruptions.

Recognising the above mentioned benefits, there are already several gas systems in Europe where reduced tariffs at storage points are applied.

GIE also want to highlight that accessibility to storage is a crucial point as there are situations where transmission capacity is reduced or subject to certain conditions (temperature etc.) which impacts the ability of storage users to make use of their storage contracts. These aspects also should be taken into account when deciding on the level of transmission tariff to/from storage.

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

GIE is not in favour of harmonizing the proposed tariffs at storage points because a number of different factors need to be taken into account in each case, including the availability of storage capacity and other sources of flexibility, etc.

However, harmonization of principles could be an adequate step forward as that would potentially boost the confidence of market participants as well as investors into storage facilities and increase the predictability of tariffs.

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?

Please refer to answers given above (2.4.1 and 2.4.2)

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

As stated above, common principles could be established which would serve as a basis for the establishment of transmission tariffs at storage points, but such harmonisation of principles should not automatically lead to a harmonisation of tariff levels. Transmission tariffs or reserve prices should be cost reflective.

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

Reserve prices shall in any case cover the allowed revenues in a cost-reflective way. In this view, neither cross-border trade, nor other connection points (mainly downstream) will result discriminated avoiding any detrimental cross subsidy.

GIE does not see any need to distinguish between interruptible and backhaul capacities when it comes to tariff setting. In both cases only the risk of being interrupted shall be taken into account. A marginal approach for backhaul capacity would mean that forward flow shipper making the investment possible will subsidize backhaul shippers without economic or market based justification. It is true that backhaul flow would even reduce the operational costs for the TSO, but such saved costs should be in the benefit of all shippers.

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

GIE considers that the Tariff FG and the future Tariff NC are not the right tools to establish a new framework for incremental capacity processes. This topic is currently being under investigation by other specific work-streams (such as CEER's "Consultation on Market Based Investment Procedures for Gas Infrastructure") and is therefore interdependent with other issues apart from tariffs (e.g. CAM, CMP, security of supply etc.). Therefore, GIE clearly considers that the evaluation of possible positive externalities, need to be addressed elsewhere in the political sphere and in connection with the above mentioned initiatives or in other more appropriate tables.

In general, when addressing this issue GIE considers crucial to take into account the fundamental economic principles associated with the long term character of infrastructure businesses. In the gas industry, investments require a favourable regulatory environment which allows recovery of all costs including a reasonable return on the invested capital. Thus stability and attractiveness of the regulatory environment is essential to guarantee infrastructure operators ability to invest.

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

Regarding locational signals for storage, please refer to our answer under 2.4.

In addition, there may be the need for some locational signals for LNG terminals; these signals will depend on the benefits that LNG terminals provide to the transmission network. A detailed analysis will be needed in order to evaluate the potential locational signals for LNG terminals.

10. Zone mergers

While GIE considers that the Tariff FG and the future Tariff NC are probably not the best tools to deal with zone mergers, it would like to point out the following:

The merger of market zones may enhance the possibilities to trade across borders by reducing administrative burdens. However, zones should be merged only when such merger does not have a detrimental impact on adjacent infrastructures, with in some member states being a case in point as firm transmission capacity to storage there is being reduced, becoming less and less "firm". It is important to stress that lost revenues from former IPs have to be re-allocated to the remaining entry and exit points in an efficient way for the networks. Thus, when zones are to be merged, a thorough cost-benefit analysis must be always performed because any merge entails additional costs ultimately to be covered by the network users as well as potential risks for security of supply to end customers in the merged zones. Furthermore it is unwise to tariff setting fix rules for something which has effectively not been tried in practice sufficiently, and at a time when not even the basic preconditions for this have been created or even sufficiently analyzed or tested.

As a consequence access to and from storage facilities must to be ring-fenced against financial, commercial and competitive distortions caused by the fundamental changes such as unbalanced merger of zones.