Questionnaire for the Draft Framework Guideline on Harmonised transmission tariff structures[1]

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

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Please indicate, if your company/organisation is: Shipper or energy trading entity

Please provide, if relevant, reasoned indication if you wish to consider (part of) your response as confidential[2].

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

2 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.

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?

GasTerra welcomes the fact that, as far as appropriate, these Framework Guidelines apply to the transmission services offered at all entry and exit points of TSO's, which is consistent with one of the most important goals of the Framework Guidelines, namely non-discriminatory methodology for the calculation of tariffs. GasTerra favours a gradual implementation of tariff changes resulting from the Network Code on Tariffs, when the impact of the applied methodology for determining transmission tariffs is high.

The scope and timing of this gradual introduction may differ per entry-exit zone and per country. There should be an overall goal for achieving a new harmonized tariffication structure on the one hand, and an appropriate transition period, on the other hand, which should be determined per entry exit-zone by the NRA.

Only those aspects which are necessary in order to avoid discrimination and detrimental effects on cross-border trades shall be harmonized.

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

A definition of "reserve price" should be added.

Under "Scope and Objectives" we propose to add the criterion that tariff structures shall not be unduly complex.

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

- The relative size of the regulatory account compared to overall tariff revenues
- Development of auction premiums
- Balance between short and long term booked transmission capacity per IP
- Balance between revenues from entry and exit points
- Usage of locational signals

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?

Yes, GasTerra agrees with the level of harmonization proposed for the transparency in relation to tariffication methodologies. Involvement of stakeholders, as well as providing sufficient information to network users, is very important in order to create support for (changes in) the tariff structure. Not only the methodology itself should be published, but also the reasoning behind the methodology and choices the TSO will make or has made.

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".

Yes, GasTerra supports such additions, which increase the transparency and help shippers to make well-informed decisions.

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?

Yes, GasTerra does not see any reason, which would justify discriminating between different types of network users.

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?**

Yes, because in our opinion cost reflectivity shall be one of the main criteria for determining the methodologies for calculating of the transmission tariffs. Therefore, the principle of basing reference prices on the major cost driver(s) is the best way to achieve cost reflectivity.

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?

Yes. Please, refer to GasTerra's remarks to Question 2.3.1., In addition, we support the option of a volume related fee for covering certain operational expenses as described in Chapter 2 of the Draft Framework Guidelines "Cost allocation and determination of the reference price".

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?

No, because cost reflectivity should be the main principle for allocating revenues to entry and exit points. One of the possible outcomes might be a 50-50 split of revenues, but this will differ per entry-exit zone. Generally one would expect to see a somewhat greater part of total system costs at the exit side, since pipeline diameters tend to be smaller here, particularly pipelines serving (groups of) regional end consumers, and thus benefit less from economies of scale. We propose to delete the relevant sentence currently included in the Draft Framework Guidelines that "The expected revenues from the sale of transmission services at all entry points shall equal 50% of the overall revenues…"

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)?

Yes, because in this way the chance of discriminating tariff structures is limited.

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?

The tariffication of entry/exit capacity from/to storages should be left to local NRA discretion. The tariffication of storage entry/exit points should be considered from the perspective of cost reflectivity, as with any other entry/exit points. Whether this leads to lower tariffs, will depend on the local situation. The word "discount" is in our opinion not the right word, as it suggests a discount on top of the transmission tariffs for storage determined by the TSO, which should by themselves already be cost reflective (Please, refer to our answer to Question 2.3.2). An additional discount is therefore not necessary and might lead to cross-subsidization and an unnecessary complex tarification structure.

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

No. Please, refer to our answer to Question 2.4.1.

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 our answer to Question 2.4.1.

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)?

Gasterra does not support harmonization of transmission tariff levels across all storage points in the EU. Please refer to our answer to Question 2.4.1.

3. Revenue recovery <u>(Chapter 3 of the draft Framework Guideline)</u>

3.1. General – interdependency questions.

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

Yes, GasTerra agrees. We would however like to point out that the NRA should find the right balance between efficient short term cross-border trading on the one hand, and ensuring cost recovery and long term incentives for efficient investments on the other.

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?

Yes, the current draft FG proposals leave sufficient space for the NRA's to strike this balance.

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?

Yes, GasTerra agrees with this principle, because this limits the post-delivery exposure of current and future network users best.

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

Yes, GasTerra agrees with the proposed level of harmonization of using the regulatory account. We support the possibility for NRA's to determine which part of the under- or over-recovery will be allocated to network users, and which part to the TSO. It is fair to attribute costs and revenues to the TSO, as far as these costs/revenues can be attributed to the behaviour of the TSO. In this way the TSO is incentivised to minimize costs and maximize revenues.

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

Yes, GasTerra agrees.

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.

GasTerra supports including the option to use the Regulatory Account (including the potential over-recoveries from auction premium) to contribute to solving congestion. However, the decision to apply this option or not should be left to the NRA's. An analysis of the source of over-recoveries and whether they relate to the congestion to be solved should be obligatory.

3.3. Reconciliation of Regulatory accounts.

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

GasTerra does not fully understand the question. We would like to ask for clarification as to whether via Option 2 the reconciliation is applied to the subsequent period, as explicitly mentioned under Option 1. If this is not the case, GasTerra does not support Option 2.

However, if and as long as the reconciliation is applied to (the) subsequent period(s), GasTerra does not have a preference for one of the two reconciliation options. We support revenue recovery for fixed costs through cost reflective entry and exit tariffs, and (as an option) revenue recovery for certain variable (operational) costs through a separate volume related charge. Depending on whether this option is used, reconciliation option 1 or 2 may be appropriate. Full reconciliation of the regulatory account by means of a (uniform) commodity charge, however, should not be allowed.

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?

GasTerra does not fully understand the concept of a separate charge at the start of the gas year with the aim of minimising the regulatory account. According to the FG, the NRA will have the competency to determine that the regulatory account has to be reconciled every year, if it would consider such frequency appropriate with a view to allowing timely cost recovery.

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)?

Yes, because this the most cost reflective and non-discriminatory approach.

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?

Yes, because this the most cost reflective and non-discriminatory approach. However, regarding the example, please, refer to GasTerra's comment to Question 2.3.3.

4. Reserve prices <u>(Chapter 4 of the Framework Guideline)</u>

5.

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?

Shorthaul is missing in the FG and shall be explicitly mentioned in order to avoid any doubt whether shorthaul is allowed. However, the particular rules regarding shorthaul should be left to the discretion of NRA's, where appropriate in consultation with NRA's of adjacent entry-exit zones. Please, refer also to our answer to Question 9.4.

4.2 Reserve prices (firm)

4.2.1 Do you agree with proposed level of harmonization?

Yes, GasTerra agrees with proposed level of harmonization.

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?

Yes, GasTerra agrees. A reserve price with a multiplier higher than one should also be allowed as a mechanism that promotes longer term bookings over short term bookings when the challenge to deliver long term investment is urgent. A maximum of 1.5, in combination with the option to apply seasonal factors, seems reasonable.

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

Yes, GasTerra agrees, although it seems reasonable that the NRA's consider the logic of applying similar methodologies for other entry and exit points, where appropriate.

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?

GasTerra believes that there shall be general criteria, which the NRAs have to take into account. However, these criteria should not constitute an exhaustive list and the discretion shall be left to the NRAs to refer to other issue of importance to the particular transmission system. Such criteria could be underrecovery of longer term transmission capacity, development of congestion per period and per interconnection point, auction premiums. Please, refer also to our answer to Question 4.2.2.

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?

Yes, GasTerra agrees.

4.3 Reserve prices (interruptible)

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

Yes, because this is a fair approach which could also improve the usage of the transmission system.

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

GasTerra does not prefer a fixed discount, since this would be incompatible with the option of setting a discount based on the likelihood of interruption, which will vary over time and between entry and exit points.

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

Yes, GasTerra agrees, although it seems reasonable that the NRA's consider the logic of applying similar methodologies for other entry and exit points, where appropriate

4.4. Reserve price (backhaul)

4.4.1 Do you agree with proposed level of harmonization?

Yes, GasTerra agrees with the proposed level of harmonization.

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)?

Yes, because this is the most cost reflective approach.

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

Yes, GasTerra agrees, since non-physical backhaul is likely to be relevant for interconnection points only.

5. Virtual IPs

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

Yes, we support the proposed option for the reserve price for Virtual Interconnection Points to be based on the reserve prices set for the individual entry or exit points. This is the most straightforward and cost reflective approach. Please, refer however our answer to Question 9.1.

6. Bundled capacity products

6.1 Reserve price (Bundled)

6.1.1 Do you agree with proposed level of harmonization?

Yes, GasTerra agrees.

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

Yes, GasTerra agrees, as this is the most cost reflective and least complex way of determining the bundled reserve price.

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

Yes, GasTerra agrees.

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.

Yes, the reserve price of unbundled capacity should be equal to the reserve price as determined by the NRA having jurisdiction over the entry or exit point at which the unbundled capacity is offered. GasTerra does not see any reason why the bundling of products should be supported by artificially increasing the reserve price of unbundled capacity products. This would conflict with the principles of cost-reflectivity and minimising regulatory accounts.

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

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

Yes, GasTerra agrees.

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

Yes, because this is the most fair and cost/revenue reflective method.

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

Yes, GasTerra agrees, since splitting revenues is likely to be relevant for interconnection points only.

7. Payable price

7.1.1 Do you agree with proposed level of harmonization?

Please refer to our answer to Question 7.1.2.

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?

GasTerra agrees that this option might be used as the default method to set the payable price. The consequence is that all shippers, whatever their booking strategies are, will be exposed to tariff variations due to under- or over-recovery or changes in the allowed TSO revenue. However, if this would be the only option, shippers' opportunities to conclude long term commodity contracts could be undermined, since they might not be able to manage their margin risk due to changing transmission tariffs.

Therefore GasTerra feels that there should be an option for network users to book longer term capacity against a fixed tariff (i.e. a tariff that will not change after the contract has been concluded because of dealing with under/over recovery or changes in the allowed TSO revenue). It would be fair if such fixed price would include a moderate risk premium and therefore be (a little) higher than the regular floating tariffs resulting from auctions (i.e. fixed reserve price + auction premium + risk premium instead of floating reserve price + auction premium). The costs and profits from under/over recovery or changes in the allowed TSO revenue will then have to be redistributed to the network users who did not pay the risk premium. An alternative can be to let the TSO bear the risk for under/over recovery or changes in the allowed TSO revenue for the part of the TSO's capacity which is booked against a fixed price, because the TSO receives a risk premium for this capacity.

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

Yes, GasTerra agrees.

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

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

In our response to the CEER consultation on market-based investment procedures for gas infrastructure we expressed our opinion that open seasons in full accordance with the Guidelines for Good Practice on Open Season Procedures should remain the standard methodology to evoke investment decisions for new or incremental cross-border capacity. We also noted that we generally prefer separate allocation of existing capacity (by auctioning) and incremental/new capacity (by open seasons) in order to avoid undue complexity. We believe that under these circumstances (also taking into account our remarks under 7.1.2) incremental capacity does not pose specific problems that should be addressed in these Framework Guidelines.

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 ?

In our response to the CEER consultation we stated that only the general principles of the market test should be harmonised, in order to take account of the peculiarities of and the different needs at each interconnection point. The general principles for the test could include: a minimum frequency for open seasons (every 2 – 3 years, for example), an option for more frequent open seasons if certain indicators suggest an urgent need for investments at particular cross-border points (these indicators to be determined at local level), the parameters upon which the threshold for investment shall be based (for example: a certain DCF cost coverage percentage by the open season bookings, WACC reflecting an appropriate risk balance between shipper and TSO). ACER may want to include the obligation to use certain threshold parameters (but not their numbers) in these Framework Guidelines.

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).

GasTerra does not think that incremental capacity requires further issues to be elaborated on in these Framework Guidelines. Please, refer also to our answer to Question 8.1.

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

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

The draft Network Code on CAM (Article 5.1.9)) sets out an obligation, if certain conditions are met, to integrate the services at all interconnection points connecting the same two adjacent entry-exit systems within a five-year-period into one single capacity service representing one virtual interconnection point,. Such integration may however be detrimental to the economic and efficient use of the systems, as is recognised in one of the conditions of the draft CAM Code ("Virtual Interconnection Points shall only be established, if they facilitate the economic and efficient use of the system [...]"). In our interpretation this condition should allow TSO's to apply locational signals, if necessary, by maintaining tariff differences for multiple physical interconnection points connecting the same entry-exit systems. These tariff differences then need to signal opportunities for shippers to use the system in a way which minimises system costs as well as their own tariff payments. A specific need for locational signals could arise in case of interconnection points with different gas quality requirements.

GasTerra therefore feels that the Framework Guidelines should allow for locational signals and that ACER's current draft actually does so. However, in GasTerra's opinion the actual use of locational signals should be duly motivated by the TSO and approved by the NRA on a case-by-case basis.

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

No.

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

In our view the reference price setting methodology as described in these Framework Guidelines provides TSO/NRAs with sufficient freedom to establish individual entry and exit point tariffs in a cost-reflective manner and thereby to develop locational signals, where appropriate. With regard to storage and LNG see also our answers under 2.4.1 en 9.5 respectively.

9.4. Short haul as a form of 'locational signal' in e/e systems.

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

The FG should explicitly allow the application of shorthaul tariffs, if considered appropriate by the NRA.

9.4.2. How could this tariff structure be designed?

This should be left to the discretion of the NRA.

9.4.3. **Should there, in order to address risk of cross-subsidies and discrimination - be a limitation on the capacities that can be "short haul capacities"?**

This should be left to the discretion of the NRA.

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

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

No, because the principle for setting tariffs for entry and exit capacity from LNG terminals should be cost reflectivity, as with any other entry/exit points. Whether this leads to a lower tariff, will depend on the local situation. Therefore we do not support an additional discount to the tariffs. Please, refer also to our answer to Question 2.4.1).

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

10.1. Please provide evidence of concrete problems with the current arrangements for mergers of entry-exit zones at national level.

GasTerra has no experience with such mergers.

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

As already stated in our answer to Question 1.1 GasTerra is in general in favour of a gradual implementation of tariff burden changes.This is also true when these changes result from an entry-exit zone merger, in case the impact of the changes is high.

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

Please, refer to our answer to Question 7.1.2.

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.