

Public Consultation on day-ahead and within-day multipliers

Based on Article 13(3) of the Network Code on Harmonised Transmission Tariff Structures for Gas

PC_2020_G_19

1. Objective

Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas ('NC TAR') entered into force in 2017 and it has introduced a number of provisions on multipliers that are applicable for the calculation of short-term capacity products (quarterly, monthly, daily and within-day).

The NC TAR provides the possibility for the Agency to issue a recommendation to cap the multipliers used to calculate the reserve prices of day-ahead ('DA') and within-day ('WD') capacity products to 1.5.

The objective of this consultation is to gather views and information from stakeholders on the impact of DA and WD multipliers in order to assess the possibility of issuing a recommendation to limit the level of these multipliers

The provision foreseeing this possibility is laid out in Article 13(3) of the NC TAR:

"By 1 April 2023, the maximum level of multipliers for daily standard capacity products and for within-day standard capacity products shall be no more than 1,5, if by 1 April 2021 the Agency issues a recommendation in accordance with Regulation (EC) No 713/2009 that the maximum level of multipliers should be reduced to this level. This recommendation shall take into account the following aspects related to the use of multipliers and seasonal factors before and as from 31 May 2019:

- *changes in booking behaviour;*
- *impact on the transmission services revenue and its recovery;*
- *differences between the level of transmission tariffs applicable for two consecutive tariff periods;*
- *cross-subsidisation between network users having contracted yearly and non-yearly standard capacity products;*
- *impact on cross-border flows."*

The Agency invites stakeholders to express their views on the points referred to in Article 13(3) of the NC TAR.

2. Target group

This consultation is addressed to European associations, national associations, TSOs, shippers or energy trading entities, end-users and others.

3. Deadline

Please provide your response by **9 December 2020**, 23:59 hrs (CET).

4. Identification data and confidential information

Please indicate the following data:

Name:

Position held:

Phone number and contact e-mail:

Name and address of the company you represent:

Your country:

Other country, if not in the list above:

Please indicate, if your company/organisation is:

- European association
- National association

- TSO
- Shipper or energy trading entity
- End-user
- Other (e.g. Power Exchanges, Storage Operator etc.).

If other, please specify below:

Any confidential information should be marked clearly as such, including the word 'CONFIDENTIAL' in the subject of the e-mail, as ACER will not treat e-mails which contain only a general disclaimer (usually automatically added) as containing confidential information. If respondents want to claim confidentiality, they should provide an explanation of their confidentiality interests and a non-confidential version of their response for publication. For more details on this, please see the Rules of Procedure of the Agency (Article 9 of Decision No 19/2019 of the administrative board of the European Union Agency for the Cooperation of Energy Regulators of 11 December 2019)

Is your input into this consultation confidential?

- Yes
- No

5. Publication of responses and privacy

The Agency will publish all non-confidential responses, and it will process personal data of the respondents in accordance with Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, taking into account that this processing is necessary for performing the Agency's consultation task. For more details on how the contributions and the personal data of the respondents will be dealt with, please see the Agency's Guidance Note on Consultations and the specific privacy statement attached to this consultation.

6. Related documents

- [Regulation \(EU\) 2019/942](#) of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators.
- [Commission Regulation \(EU\) 2017/460](#) of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas.
- ACER [Guidance Note on Consultations](#)
- Commission [Regulation \(EU\) 2017/460](#) of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas

7. Background

Multipliers are used to set tariffs for short-term gas transmission capacity products in comparison with the reference prices applied to yearly capacity products. Article 13 of the NC TAR sets out that the level for DA and WD multipliers for standard capacity products shall be *no less than 1 and no more than 3. In duly justified cases, the level of the respective multipliers may be less than 1, but higher than 0, or higher than 3.*

Overall, shippers use different capacity booking strategies taking into account their supply and demand portfolios, market dynamics and gas transmission tariffs both on yearly and short-term capacity products. For example, shippers may secure a certain amount of capacity with yearly capacity products while they cover the seasonal and short-term variations with short-term capacity products.

Multipliers can impact the gas market in various ways, depending on the balance between the short-term and the long-term:

On the first hand, relatively high multipliers on short-term products can deter network users from booking short-term capacity for trading or balancing purposes. On the other hand, high multipliers incentivises yearly bookings which are deemed favourable to TSOs revenue recovery and which allow shippers to flow gas across hubs even when spot market spreads are below the capacity reference price.

From a competition perspective, multipliers can also lead to different outcomes. They have a distributional effect, through the share of revenue recovered from users holding short-term or long-term capacity products. Multipliers can be set with the primary objective of avoiding cross-subsidisation between network users and enhancing the cost-reflectivity of reserve prices. In contrast, low short-term multipliers can be considered as a way to foster competition and to incentivise more dynamic booking strategies.

When setting multipliers, NRAs should consider these different interactions, as required by Article 28 of the NC TAR, to avoid a potential welfare loss for EU consumers.

8. Consultation topics and questions

For all the questions, **please provide supporting evidence**, which can include the identification of IPs where a referred event is relevant and/or a time period for the phenomena observed (how, when and for how long it applies). Supportive evidence can include data, tables and it can be accompanied by examples.

Factual evidence on the effects of the current provisions is highly relevant to evaluate their effectiveness and to assess whether a recommendation could lead to an improvement.

Topic 1: Changes in booking behaviour

1. What role do short-term capacity products (DA and WD) play in your capacity booking strategy (balancing activities, market arbitrage, supply profiling...)?

At the moment, emerging hubs have higher multipliers for DA and it is a good alternative to add competition to highly efficient legacy long-term capacity contracts.

In liquid and competitive gas markets the booking of DA capacity contracts at IP's forms the basis. Capacity bookings on a monthly, quarterly or annual basis should only be made if market participants are sure that

they could use them on enough days. WD Bookings are only made to react to new information arising after the DA capacity auction, for example unexpected developments in electricity or gas market as a result of unexpected weather changes.

2. Have you observed that DA and WD multipliers impact booking behaviour and booking strategies (could be your own booking strategy or those of other market players)? For instance, have you observed that low DA and WD multipliers can shift contracted capacity from yearly capacity products to shorter-term capacity products?

- Yes
- No
- Other

2.1 Please explain your reasoning:

All established and advanced gas markets in Europe except for the Netherlands have multipliers of less than 1.5 for DA bookings. The Netherlands is only slightly above this value at 1.75. It cannot be denied that a shift from long-term to short-term bookings has already taken place and will continue to take place at many border points. From our point of view, the increased competition that has resulted from this is both the consequence of lower multipliers and the cause for a further shift. However, this does theoretically not apply to the WD multipliers. As we have daily balancing in Europe due to the NC BAL, there are no different prices for the individual hours of a gas day. If the booking of DA capacities is in the money for one hour of the gas day, this also applies to all other hours. The only reason for booking WD capacities is the availability of new information that was not known the day before. This includes new measured or forecasted values for WDM Load or within-day updates of NDM Loads which require a rebalancing of the own portfolio, but also significant changes (e.g. force majeure messages). Some TSOs determined that the volume of WD-contracts increased in 2020 after the implementation of hourly tariffs for such contracts.

Topic 2: Impact on the transmission services revenue and its recovery

3. Have you observed that DA and WD multipliers impact transmission services revenue and its recovery? In particular, could low DA and WD multipliers induce under-recoveries of TSOs' revenues on a transitory basis (in most systems such under-recoveries are systematically rolled to next years by revenue reconciliation mechanisms)?

- Yes
- No
- Other

3.1 Please explain your reasoning:

Limiting the multipliers to 1.5 would lead to a necessary reduction of the WD multiplier in Germany, which is 2.0 at the moment. The DA multiplier could be kept at the current level of 1.4. According to the German TSO's report on the consequences of the introduction of WD capacity dated 25.10.2019, no impact on the level of the specific transmission tariffs has been identified. But this was before the TAR NC was fully implemented and WD-capacities had a daily tariff. The time frame in which Germany had a WD multiplier of 2 and WD capacities had hourly tariffs accounts almost a year to this day and the data sources still have to be evaluated.

As long as volumes of DA- and WD-capacity are forecasted correctly, there is no impact on recovery of transmission service revenues. However, the shift to more short-term capacity bookings makes it harder to forecast capacity bookings and so increase the risk of over- or under-recoveries.

Topic 3: Differences between the level of transmission tariffs applicable for two consecutive tariff periods

4. Have you observed significant changes in DA and WD multipliers in the 2016-20 period?

- Yes
- No
- Other

4.1 Please explain your reasoning:

In Germany the WD multiplier was increased from 1.4 (for the day) to 2.0 (rest of the day) with effect from 01.01.2020.

5. Have you observed that changes in multipliers have led to changes in the tariffs applicable for other capacity products (e.g. yearly capacity product)?

- Yes
- No
- Other

5.1 Please explain your reasoning:

It is difficult to attribute a changed tariff level to exactly one cause. In our view, there are always concurrent effects e.g. new infrastructure, expiring contracts, storage discounts or the methodology of network charge.

Topic 4: Cross-subsidisation between network users having contracted yearly and non-yearly standard capacity products

6. Have you observed that DA and WD multipliers have placed or could place in the coming years excessive costs on short-term capacity compared to the costs recovered through yearly capacity products?

- Yes
- No
- Other

6.1 In the affirmative, how could it affect competition and market integration?

In our view, multipliers of 2 to 3 cement old structures, where no competitive market is in place and do not provide for more competition and for more liquid markets.

Multipliers on tariffs for short-term transmission capacity bookings may increase the short-run marginal price of transportation beyond short-run marginal costs faced by the TSOs. This means that cross-border trades that would make the overall system more efficient may not take place. As a result, liquidity at the trading hubs is reduced, price convergence between neighboring hubs is inhibited and a loss of social welfare occurs. At the same time, too low tariffs for short-term capacity may lead to cross-subsidization as long-term capacity had to bear more long-term costs of investments.

6.2 Please explain how you evaluate if costs for short-term bookings are excessive compared to yearly bookings and on what criteria you base your argument.

Please see our answer above (6.1.).

Topic 5: Impact on cross-border flows

7. Have you observed that DA and WD multipliers have impacted or could impact in the coming years cross-border flows? Consider, in particular, situations where high DA and WD multipliers may prevent the use of available cross-border capacity or where high multipliers for DA and WD capacity product may negatively affect the correlation between gas prices in neighbouring hubs.

- Yes
- No
- Other

7.1 Please explain your reasoning:

Differing levels of multipliers harm cross-border trading. In the future, this becomes even more relevant than today: With an energy system increasingly in need of flexibility and the gas sector being an important flexibility provider, diversification becomes an important pillar to balance the entire European energy system. Differing levels of multipliers have a distorting effect and are likely to undermine the effectiveness of cross-border trading. Low and harmonized levels of multipliers allow for exploiting even small price differentials between EU member states and through that, for making full use of the existing transport capacity.

Some short-term arbitrage deals are remained undone or could only be made by a small number of participants.

However currently in Germany no distortive effects of currently established levels of DA multipliers on cross-border flows and trading, or price differentials to neighbouring markets could be observed. More WD bookings are observed on interconnection points.

8. Have you observed that DA and WD multipliers can be a market barrier (for instance by granting an advantage to holders of long-term bookings)?

- Yes
- No

Other

8.1 Please explain your reasoning:

The higher the DA multiplier, the higher the price spread must be between two markets for a profitable short-term transport. Therefore, new entrants tend to become less active in markets with higher multipliers, which in turn allows long-term capacity holders to maintain a greater influence on prices. Overall, there is a major barrier for the development of liquid markets.

Conclusion

9. From your perspective, what would be the advantages and disadvantages of capping DA and WD multipliers at 1.5 across Europe?

Limiting the DA and WD multiplier could, in our view, enhance market entry to emerging hubs and provide more competition and liquidity for short term trading across Europe.

A limitation of the WD multiplier would facilitate the balancing out of new within-day information in electricity and gas markets. Therefore, it would optimize the system, support sector integration and lead to more efficiency.

On the other hand, WD multipliers guarantees cost recovery also from short-term capacity-bookers for long-term investments. The current multipliers of 1.4 for DA and 2.0 for WD products in Germany are a good example of keeping the balance of cost recovery between short-term buyers and long-term buyers.

Thank you for your reply!

Contact

[Contact Form](#)