

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

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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...)?

TSO does not have capacity booking strategy.

From the network users' perspective, there is a trade-off between booking short term (ST) and long term (LT), based on multipliers. Adjusting multipliers will change the optimal booking pattern, therefore during the assessment of ST multipliers shall take into consideration the whole complex regulatory environment.

Given the fact that the Hungarian natural gas system is based on daily logic line, it is not suitable in any way (from technical, commercial and economic viewpoint) to promote the WD capacities. In case of a low WD multiplier the TSO could be forced to stretch its technical capabilities to fulfill the fluctuating market needs with significant costs instead of serving it in an optimized way.

The Hungarian transmission system has a strong domestic exit profile, which requires higher level flexibility for the NRA to set the regulatory regime. This scheme is not independent from the interconnection points, therefore the regulation shall assess the whole picture, before changing drastically some elements of it.

Regarding the fact that the majority of end-user points are profiled, any breakdown of daily estimated profiles into an hourly set-up can bring several anomalies. This means that a within-day allocation cannot be as reliable as daily allocation. That is a key point why it is not worth pushing the system from a daily logic to an hourly one, it would cause more uncertainties for all participants (TSO, shippers, etc). This is an endowment of the system which cannot be circumvented.

The TSO can only observe the booking behavior of network users, however the more prominent DA and WD capacity setting is, the higher is the capacity overrun risk for the shippers. The WD capacities are available after a 4-hours delay, on a rest-of-the-day basis. In an unbalanced situation, the shipper cannot utilize instantly the WD capacity, because of the constraints of mainly physical players (such as DSOs), which increases the trader's exposure.

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:

No clear evidence from the past 10 years, due to the changes in the regulation (changes in: E/E split, seasonality, pricing of interruptible capacity products, separate MP for WD capacity product from 01.10.2019).

At this point the ramping up of the ST capacities are represented by the increasing share of the quarterly and monthly capacities. The DA capacities are small but significant during the last 5 years, however WD did not play an important role. In light of the aforementioned facts, the fluctuation in weather conditions and the changes in supply routes (significant shorter term capacity bookings in case of HR, SK, UA, RO) in HUN, we cannot give a conclusive answer for the question regarding the DA, WD. However, in case of Q, M we observed some significant development.

Regarding short term capacity multipliers, we consider the current regulation appropriate, which provides the necessary flexibility for the NRA.

FGSZ recommends maintaining the status quo in the DA, WD capacity multipliers.

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:

NRA's current methodology includes the revenue reconciliation mechanisms, it has a 2-year lag. Having this in mind, rapid changes in the capacity multipliers could cause a disturbance in the tariff setting processes (over- or underestimation of the forecasted capacity, as taken into account during the tariff setting procedure), which could have a strong impact on the yearly capacity fees as well. This could lead to a 2-year financial risk for TSOs in case of capacities' overestimation.

The uncertainty regarding the estimation of the forecasted capacities could lead to an under recovery of the allowed revenue. The 2-year lag in the reconciliation of this under-recovery through regulatory account can lead to temporary cross-subsidisation between network users, that use the system in consecutive years. The aforementioned results would not ensure the fulfillment of the principles determined in NC TAR Article 17. (1) b) and c):

“(b) the level of transmission tariffs shall ensure that the transmission services revenue is recovered by the transmission system operator in a timely manner;
(c) significant differences between the levels of transmission tariffs applicable for two consecutive tariff periods shall be avoided to the extent possible.”

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:

There were some changes in DA, WD multipliers. In October 2016 the common multiplier dropped from 3.1 to 2.0. The separate WD multiplier was introduced in October 2019, the value was set according to the role of the capacity.

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:

Only theoretical answer can be given due to the complexity of the tariff regulation. The decrease of the ST multipliers could lead increase of the ST booking against the mid-term capacities (M/Q/Y) via different capacity portfolio settings. This could lead to the decrease of the aggregated capacity level. After a sudden and material change of the regulation a significant amount of nominal capacity could virtually vanish if the shippers change their booking behavior, which could cause significant nominal tariff increase. In our view, a negative spiral caused by the constantly rising nominal tariff is one of the highest dangers to the liquidity of the Hungarian wholesale market. This could easily offset all the supposed positive effects of a lower multiplier.

To analyze the values, the followings shall be taken into consideration. Key events in the short term capacity product during the current regulatory period:

- 1st October 2017: switching from winter/summer to monthly seasonality on entry and exit points
- En/Ex split change in 2019 from 50/50 to 40/60
- From 1st October 2019: 1) changes in seasonality 2) 1st time separate multiplier for WD capacity product

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, two objectives should be followed when setting multipliers: 1) in a price-cap regime to ensure revenue recovery and 2) in a non-price cap regime to minimise cross-subsidies between ST users ad LT users. In the majority of cases, the current multipliers do not affect competition and market integration. The NC TAR tries to tackle the issue of market integration since NRAs need to consult on multipliers (Article 28).

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.

For WD transmission, these multipliers can cause additional costs related to the linepack, for example if users increasingly book within-day products. Operational costs related to dispatching, contract management, invoicing and customer support could be impacted by the lower level of multipliers indirectly. Also, additional investments could be made necessary by a change in the multipliers related to the increased technical and operational requirements. For non-price cap regimes, an excess in short-term booking could harm the stability of the tariff which is also often seen as a relevant criterion by the NRA.

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:

The marketing of the capacity bookings is in line with ENTSOG auction calendar, therefore the available mid- and short- term capacities are booked accordingly.

In our case, hubs' availability is not constrained by the short-term multipliers. On the main supply routes, mid-term capacities are dominant.

Cross-border transmission demand dominantly utilizes yearly capacities when comparing routes. The ultra-high frequency trading based on DA or WD capacities is far less dominant in our region due to the available storage capacities.

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:

There is no market barrier, plus the regulation set the long- and short-term use-it-or-loose-it mechanism to improve the utilization of the congested points.

Conclusion

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

FGSZ sees only disadvantages. To sum up the aforementioned arguments we recommend keeping the currently applied 3 cap for DA and WD products, because

1) there are many differences in system characteristics. In case of a system providing mainly domestic users, a significant decrease in ST multipliers could result in more remarkable changes in reference prices because of

- the uncertainties in forecasted contracted capacity following from shippers' portfolio optimisation, and
- a shift to ST bookings which is expected to result in higher reference prices.

2) a 1.5 cap for multipliers is very low, and would not allow taking into account local circumstances and situations, we believe that for fair and balanced pricing of all the capacity products the cap of 3 is appropriate and required.

Thank you for your reply!

Contact

[Contact Form](#)