



European Union Agency for the Cooperation  
of Energy Regulators

## Agency Report

# Analysis of the Consultation Document on the Gas Transmission Tariff Structure for Slovenia

NRA: Agencija za Energijo  
TSO: Plinovodi

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## 1. ACER conclusion

- (1) Plinovodi, the Slovenian Transmission System Operator ('TSO'), proposes to use a matrix reference price methodology ('RPM') which is based on forecasted booked capacity and unit costs as cost drivers. The unit costs are determined based on 3 parameters: peak load<sup>1</sup>, replacement costs<sup>2</sup> and the allowed revenue of the TSO, and are defined for five different sections into which the Slovenian network is divided. The methodology results in an ex-post entry-exit split of 16/84. A benchmarking adjustment is proposed for the exit IP to Italy with the aim of making the AT-SI-IT route competitive with the AT-IT route. Finally, a rescaling adjustment is applied to tariffs to compensate for the capacity forecast, which converts short-term products to yearly capacity, taking into account the relative duration of these products, but not its economic value resulting from the application of multipliers and seasonal factors<sup>3</sup>.
- (2) The Agency notes that there are regional branches in the Slovene transmission network. Plinovodi calculates these segments as amounting to 739.58km compared to the total 1,177km of the network. The Agency considers that a matrix methodology can, in theory, allocate the costs of these network branches to domestic consumers. However, the insufficient transparency provided on the RPM and the cost allocation assessment ('CAA') results do not allow concluding that the approach proposed by Plinovodi is compliant with the NC TAR requirements of preventing cross-subsidisation between the intra-system and cross-system use of the network.
- (3) The RPM does not set a tariff for the entry points from Italy and Croatia and for the exit point to Austria as flows at these IPs only happen in one direction<sup>4</sup>. The matrix methodology uses peak flows as an input to calculate the unit costs that are used as a cost driver. As a result, it cannot allocate revenues to the entry and the exit side of an IP where flows only happen in one direction (physical flows in the opposite direction are then zero). The Agency notes that even if flows only happen in one direction, capacity is still contracted at these points in both directions. Plinovodi proposes to set tariffs equal to 90% of the tariff applicable in the opposite direction. This 10% tariff reduction is effectively a discount. In some of these IPs, the relevant capacity is contracted as interruptible (virtual backhaul capacity). The Agency notes that this discount, when applied to interruptible capacity, is not calculated based on the provisions of the NC TAR. In addition, it adds up to a second ex-post discount that is already granted to all interruptible capacity. Overall, the proposed 90% tariff applicable at these points is not compliant with Article 6(3) of the NC TAR, which requires that the RPM is applied to all entry and exit points in a given entry-exit system

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<sup>1</sup> The peak load parameter is set for each section of the network based on the historical load factor of individual parts of the transmission system at the time of the peak load of the transmission system.

<sup>2</sup> See footnote 10.

<sup>3</sup> See footnote 13

<sup>4</sup> In addition, the RPM does not set a tariff either for domestic entry points, as explained in Section 3.1.4. Plinovodi explains that there are currently no injection points in the Slovene transmission network. This is analysed in Section 3.1.4.

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- (4) Plinovodi proposes a variable tariff scheme applicable to domestic exits. The previous ACER Report<sup>5</sup> on the Slovene national consultation already flagged the incompliance of this proposal. Plinovodi now proposes a phase out plan by 2024 with which the Agency agrees. At the same time, the Agency notes that, based on the calculations provided in the consultation document, these variable tariffs increase the revenue recovered at domestic exit points compared to the revenue that the RPM allocates to these points. The consultation document does not mention this effect nor its impact on the CAA.
- (5) The allocation of revenue to be recovered by the TSO is based on two mechanisms. First, a reconciliation mechanism for a past under-recovery amounting to EUR 18.8 million (EUR 4.8 million are planned to be recovered in the regulatory period finishing in 2024 for which tariffs are proposed). Second, a part of the allowed revenue for the year 2022 (EUR 5.4 million) is not recovered, with the aim of preserving the stability of tariffs. Both mechanisms partially net each other out and result in a net increase of the TSO revenue to be recovered in 2022 of EUR +0.8 million. These mechanisms are not described in the consultation and are adjusted for each tariff year.
- (6) Commodity tariffs are proposed, covering 4% of the allowed revenue, in addition to non-transmission services for metering (covering 0.9% of the allowed revenue). A number of non-transmission services accounting for a relatively small amount of EUR 0.25 million are not described in the consultation document.
- (7) The Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a Network Code on Harmonised Transmission Tariff Structures for Gas ('NC TAR') foresees a CAA and the comparison of the proposed RPM with the capacity-weighted distance ('CWD') methodology. The CAA results provided in the calculation, which are based on the cost drivers of capacity and distance, are 48% pre-benchmarking and 74% post-benchmarking. In addition, Plinovodi provided to the Agency a CAA calculation with the same cost drivers as the proposed matrix RPM<sup>6</sup>, which result in a CAA of 37% pre-benchmarking and 64% post-benchmarking. The Agency notes that these results are amongst the highest of any national consultation on the RPM across the EU. Article 5 of the NC TAR requires that results above 10% are justified. The Agency considers that the justification provided by Plinovodi<sup>7</sup> is not adequate as it does not identify the factors leading to the high CAA results and does not rule out, nor identify, potential cross-subsidies between the cross-system and intra-system use of the network.

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<sup>5</sup> [https://documents.acer.europa.eu/Official\\_documents/Acts\\_of\\_the\\_Agency/Publication/Agency%20Report%20-%20Analysis%20of%20the%20consultation%20document%20for%20Slovenia.pdf](https://documents.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/Agency%20Report%20-%20Analysis%20of%20the%20consultation%20document%20for%20Slovenia.pdf)

<sup>6</sup> Article 5(1)(a) of the NC TAR sets the cost drivers to use in the CAA calculation. These can be capacity or capacity and distance. Given that the matrix methodology is based on different cost drivers, the Agency requested Plinovodi a calculation of the CAA based on the same cost drivers used in the matrix RPM. It was appropriate for the Agency to check whether the high CAA result could be the result of different cost drivers being used for the derivation of tariffs and for the CAA. With a view to ensuring the appropriateness of the CAA, this calculation should be based on the same cost drivers as the RPM. The CAA results provided by Plinovodi partially improve, but are not within the 10% threshold laid out in Article 5(6) of the NC TAR. For this reason, they still require a justification.

<sup>7</sup> According to Article 5(6) of TAR NC, justification for CAA results above 10% should be provided by the NRA in the motivated decision referred to in Article 27(4) of the NC TAR.

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- (8) The CWD calculated by Plinovodi does not allow a meaningful comparison between both methodologies. The entry-exit split of the CWD methodology is 50/50, leading to higher tariffs at entry points and lower tariffs at domestic exits. In addition, the benchmarking calculation applied to the CWD does not serve the purpose that this adjustment is intended for<sup>8</sup>, and renders the comparison between both methodologies of limited use. The CAA calculated for the CWD methodology results in 54% pre-benchmarking and 53% post-benchmarking.
- (9) Overall, the Agency finds that a full analysis of the methodology with a view to assessing its compliance with the requirements under Article 7 of the NC TAR is not possible in view of the following elements:
- The proposed matrix RPM has a high degree of complexity and the transparency provided is not sufficient to establish a clear cause-effect relationship between the parameters and values used as an input to the RPM, and the cost reflectivity and potential cross-subsidisation effects on tariffs.
  - The high results of the CAA are not properly justified and suggest a strong cross-subsidisation effect of the cross-system use of the network by the intra-system use of the network.
  - Regional networks are part of the transmission network, however it is not possible to validate the RPM calculation in the absence of sufficient transparency.
  - It is not clear how the variable transmission tariffs proposed for domestic exit points are taken into account in the RPM. Their impact on the CAA calculation is not clear either as it is not described in the consultation document.
  - The RPM is not applied to the IPs where Plinovodi proposes to set a proxy tariff (90% of the tariff in the reverse direction). The Agency can neither assess how this approach impacts the CAA.
  - The CWD calculation only allows a limited comparability with the proposed RPM.
- (10) The Agency, after having completed the analysis of the consultation document pursuant to Article 27(2) of the NC TAR, concludes that:
- The consultation document does not include all the required information pursuant to Article 26(1). Table 5 below lists the elements that are missing in the consultation document.
  - The RPM is compliant with the requirements on non-discrimination and volume risk. At the same time, based on the information available to the Agency, the proposed RPM is not compliant with the requirements on cost-reflectivity, cross-subsidisation and cross-border trade.
  - On transparency, the Agency notes that the information provided in the consultation document allows to partially reproduce and forecast tariffs. However, the visibility over the calculation steps is insufficient. The RPM is therefore not fully compliant with the transparency requirement.
  - The use of commodity tariffs is compliant with the requirement of Article 27(2)(b)(3).
  - The use of non-transmission tariffs is compliant with the requirement of Article 27(2)(b)(4) in relation to the metering service that is described in the consultation. At the same time, a number of non-transmission services amounting to EUR 0.25 million are not assessed in the consultation document.

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<sup>8</sup> Plinovodi replicates the benchmarking calculation applied to the proposed matrix on the CWD methodology. The factors applied for the reduction of the Italian exit point, as derived using the CWD RPM, is the same as the one proposed for the matrix RPM. However, given that the CWD results in a different tariff at this point, the end tariffs for the AT-SI-AT route are different, hence, the overall objective of making the route competitive is not achieved.

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- (11) The Agency recommends that the Agencija za Energijo, the National Regulatory Authority ('NRA'), reconsider the choice of a matrix methodology in the motivated decision referred to in Article 27(4) of the NC TAR, which seems overly complex for a relatively small transmission system such as the Slovenian one. Should the NRA choose to apply a matrix methodology, it should:
- Detail each of the steps of the calculations that are part of the RPM for the derivation of all tariffs and provide additional transparency on the parameters and the unit costs that are an input to the RPM, as described in paragraphs (29) and (30). This is a requirement pursuant to Article 26(1)(a)(i) of the NC TAR. The Agency, in paragraph (31), refers to the 2018 Portuguese consultation, carried out by ERSE, as a good practice for the transparency required for a complex methodology such as the matrix proposed by Plinovodi.
  - Provide transparency on the assumptions and steps used for the calculation of the capacity forecast that is an input to the RPM, as described in paragraph (46). This is a requirement pursuant to Article 26(1)(a)(i) of the NC TAR. The NRA should refer to this parameter to clarify the factors leading to the need to rescale tariffs.
  - Improve the consistency between the RPM and the different parameters that are part of the calculation to avoid contradictory objectives, as described in paragraphs (45) and (46).
  - Use input parameters to the RPM, including for the calculation of cost drivers, which allow deriving tariffs for every entry and exit point in the system. According to Article 6(3) of the NC TAR, the RPM shall be applied to derive the tariffs applicable to all entry and exit points in a given network. This is relevant to the points where a tariff equal to 90% of the tariff in the reverse direction is proposed. The discount applied to these points should be compliant with the NC TAR requirements, as explained in paragraphs (35) to (36)
  - Review the proxy tariff applied to domestic entry points in light of the recommendation provided in paragraph (40).
  - Provide a justification for the result of the CAA. This assessment should include a quantitative analysis identifying the factors leading to a result beyond 10%. The NRA should assess whether the CAA result is indicative of a cross-subsidisation effect. This justification is a requirement pursuant to Article 5(6) of the NC TAR.
  - Clarify how the variable tariffs to domestic exit points impact revenue recovery at these points. This scheme should be taken into account when calculating the CAA and the various capacity splits listed under Article 26(1)(b).
  - Repeat the comparison with the CWD methodology, taking into account the recommendations made in paragraphs (56) and (57).
- (12) Should compliance with the above points not be attainable, the Agency recommends that the NRA consider a simpler and more transparent methodology capable of deriving tariffs for a simple network such as the Slovene transmission system. A postage stamp, the CWD, and the distance to a virtual trading point RPM are all methodologies that the NRA should consider. The latter, as implemented in Austria, is relevant given the similarities of that network with the Slovene network.
- (13) The fact that not a single reaction was received to the consultation document is a worrying indicator. The Agency suggests that the NRA looks into the reasons why no shipper reacted, and take these reasons into account in its final decision.
- (14) In addition, the Agency recommends that the NRA take into account the following points when taking a motivated decision as referred to in Article 27(4) of the NC TAR:

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- (15) First, provide an assessment based on quantitative evidence on the TSO's revenue to be recovered through tariffs and on the reconciliation of past under-recoveries as described in paragraph (93). This is a requirement pursuant to Article 26(1)(a) of the NC TAR.
- (16) Second, list and assess as transmission or non-transmission services all services that are provided by the TSO yet are not referred to in the consultation. This is a requirement pursuant to Article 4 of the NC TAR.
- (17) Third, include in the motivated decision all elements required by Article 26(1) that are missing or are only partly published in the consultation as detailed in Table 5.
- (18) Fourth, improve the simplified tariff model by including the various adjustments foreseen for setting the revenue to be recovered, and the benchmarked tariff at the exit IP to Italy.
- (19) A number of bilateral exchanges to collect additional information took place between the Agency and Plinovody. A more extensive version of several calculations, including the CAA and the proposed RPM, were provided by Plinovodi to the Agency. The Agency appreciates the readiness and the openness of the TSO during this process, as it supported the analysis.

## 2. Introduction

- (20) Commission Regulation (EU) 2017/460 of 16 March 2017 establishes a Network Code on harmonised transmission tariff structures for gas (NC TAR).
- (21) Article 27 of the NC TAR requires the Agency to analyse the consultation documents on the reference price methodologies for all entry-exit systems<sup>9</sup>. This Report presents the analysis of the Agency for the transmission system of Slovenia.
- (22) On 9 August 2021, Agencija za Energijo forwarded the consultation documents to the Agency. The consultation was launched by Plinovodi on 23 July 2021 and remained open until 23 September 2021. No consultation responses were received. Within five months following the end of the final consultation, and pursuant to Article 27(4) of the NC TAR, Agencija za Energijo shall take and publish a motivated decision on all the items set out in Article 26(1).

### *Reading guide*

- (23) In Chapter 3, this document first presents an analysis on the proposed RPM. Chapter 4 presents an analysis on the completeness, namely if all the information in Article 26(1) has been published. Chapter 5 focusses on the compliance, namely if the RPM complies with the requirements set out in Article 7 of the code, if the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met and if the criteria for setting non-transmission tariffs as set out in Article 4(4) are met. Chapter 6 includes other comments. This document contains two annexes, respectively the legal framework and a list of abbreviations.

## 3. Assessment of the proposed reference price methodology

### 3.1 Description of the proposed RPM

- (24) The proposed RPM is a matrix methodology that uses forecasted booked capacity and unit costs as cost drivers. The RPM does not use distance as a cost driver, which is a proxy proposed in the NC TAR to calculate tariffs. Plinovodi proposes to use unit costs instead, that are calculated for each of the five sections into which the network is divided. The methodology is complex and requires a large amount of data to be used as an input. In comparison, the network has a simple structure with predictable flows (see Figure 1 below). Gas enters mostly through Austria to supply domestic consumers and to transport marginal quantities to the IP exits with both Italy and Croatia.
- (25) In the view of the Agency, the transparency provided by Plinovodi, is not sufficient to rule out any incompliant allocation of revenue, nor to ensure full compliance with the requirements with Article 7 of the NC TAR. Complex methodologies require transparency on a greater number of elements compared to simpler methodologies. In the absence of full visibility over the RPM calculation, a number of proposals cannot be fully assessed and non-compliance concerns cannot be ruled out.

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<sup>9</sup>With the exception of Article 10(2)(b), when different RPMs may be applied by the TSOs within an entry-exit zone.



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### 3.1.1 Cost drivers

- (26) The proposed matrix RPM calculates the unit costs based on the following parameters, which are also detailed in Table 1 below:
- The allowed revenue of the TSO;
  - The replacement costs of the network, which is set to the values of the infrastructure as of December 2020<sup>10</sup>;
  - The peak load flows per network section.

Table 1: Data on individual sections of the transmission system

Section	Length [km]	Direction of gas flow	Peak load ** [kWh / day]	Replacement value of assets [EUR million]	Eligible costs [EUR]
A-B	116.30	A->B	74,254,609	149.7	7,790,353.43
B-C	3.70	B->C	25,125,837	10.8	560,011.62
B-D	217.20	B->D	49,128,772	192.7	10,023,751.08
D-E	739.58*	D->E	44,547,535	232.0	12,067,450.92
D-F	100.30	D->F	4,916,431	172.5	8,975,759.63
<b>Total</b>	<b>1,177</b>			<b>757.7</b>	<b>39,417,326.69</b>

\* The distance between Point D and E represents the length of all pipelines intended only for the transmission of gas to domestic exit points.

\*\* On 8 January 2020

- (27) Plinovodi proposes to divide the transmission network into five sections as shown in Figure 1 below.
- Sections A-B, B-C, B-D, D-F are used to allocate the network costs that are caused when using entry and exits IPs.
  - Section D-E are used to allocate the network costs related to the delivery of natural gas to domestic exits.
  - Section C-B are used to allocate the networks costs related to the transport of gas between the IPs with Italy and Austria/Croatia and to the supply of domestic users from Italy or Croatia.

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<sup>10</sup> Plinovodi proposes to use replacement costs to build a model of the network which allows identifying the costs of the infrastructure per network section. This model is not subject to depreciation, as if would have been the case should Plinovodi had built this cost distribution based on the actual infrastructure of the network, which assets are depreciated to different degrees. In a second step, Plinovodi allocates the allowed revenue of the TSO proportionally to the replacement costs per network section. The Agency considers this approach compliant with the NC TAR.

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Figure 1: Scheme of the Slovene transmission system.



- (28) The resulting entry-exit split is 22%-78% prior to applying the benchmarking adjustment and 14%-86% after the application of benchmarking.
- (29) In the view of the Agency, the use of unit costs on the basis of the proposed network sections is a valid approach to allocate costs to the different network points. At the same time, this approach requires more transparency than simpler methodologies such as a postage stamp RPM. A methodology based on a distance cost driver allows validating the allocation of revenue to, for example, regional networks. The distance assigned to these points should be equal to the total length of regional network. However, under the current proposal, verifying this calculation requires transparency on peak load values (provided on Plinovodi's website), replacement costs (the information is not provided in the consultation), and allowed revenue (included in the consultation document). A complete assessment of the RPM requires all the information used for the calculation of the cost drivers in addition to other information referred to in this Report related to the rescaling of tariffs, the calculation of the capacity forecast and the application of variable capacity tariffs at domestic exit points.
- (30) The Agency recommends that the NRA provide additional transparency on the parameters and the unit costs that are an input to the RPM, including the details of the underlying parameters and assumptions used. This information should provide sufficient transparency to allow understanding how each of the input parameters to the RPM are calculated and how they impact tariffs. The transparency provided should allow sufficient visibility to rule out any incompliant allocation of revenue in each of the steps in the calculation of tariffs.
- (31) As a good practice, the Agency refers to the information provided by ERSE in the 2018 RPM consultation for the Portuguese network<sup>11</sup>. The level of detail provided allowed verifying all the parameters and values used as an input to the proposed methodology. Such is the level of transparency that the Agency finds appropriate for a complex methodology such as the matrix RPM proposed by Plinovodi. In its consultation, ERSE provided transparency on the following information:
- Pipeline diameters across assets.

<sup>11</sup> See <https://www.erse.pt/atividade/consultas-publicas/consulta-p%c3%bablica-n-%c2%ba-66/abertura-public-consultation-opening/>

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- Pipeline distances for each network segment.
- Depreciation amounts per asset.
- CAPEX and OPEX values per asset.
- Gas flows.
- Technical and booked capacities.
- Unit costs.
- Criteria for grouping assets into network sections and aggregated cost driver values.

### 3.1.2 Regional networks.

- (32) Plinovodi explains in the consultation document that the Slovene network was originally designed for supplying large industrial customers. The Agency points that there are a number of pipeline segments that seem to be exclusively dedicated to the supply of domestic users. This point has been confirmed by the TSO. In the 2020 Report *The internal gas market in Europe: The role of transmission tariffs*<sup>12</sup>, the Agency referred to such infrastructure as 'regional networks' and notes that the cost allocation of these regional networks, together with the rest of costs associated to the access to networks, could be an important factor leading to cross-subsidisation between cross-system and intra-system users. Such concern can be raised on the RPM consulted by Plinovodi.
- (33) The division of the network into sections allows Plinovodi to cluster all exits to domestic points in a single section. Clustering these points allows allocating these costs to domestic points, thus avoiding that they are allocated to other points of the network, such as cross-border IPs. The Agency considers this approach appropriate for the allocation of the revenue associated with domestic points that can potentially be part of regional networks. At the same time, the Agency refers to the need of improving transparency as detailed in paragraph (30) above.

### 3.1.3 Tariffs and interruptible discounts proposed for IPs with no gas flows

- (34) There are a number of points in the system that have booked capacity in both directions but where flows only happen in one of the two directions (entry or exit). As a result, a tariff cannot be derived using the proposed RPM. Peak flows is one of the parameters used to determine unit costs and flows only happen in one direction while flows in the opposite direction are zero. Mathematically, the matrix cannot be solved with a zero value set for this parameter. These points are:
- Exit IP to Austria.
  - Entry IP from Croatia.
  - Entry IP from Italy.
- (35) Plinovodi proposes to set a tariff to these points equivalent to the 90% of the tariff in the flow direction. According to Plinovodi, the proposed 10% reduction compared to the full tariff is applied as these points are rarely booked. Some of the capacity at these points is interruptible (virtual backhaul capacity) and Plinovodi also justifies the 10% discount on the basis of the interruptibility of the offered capacity. The Agency notes that the approach proposed by Plinovodi to set tariffs at these points is not compliant with Article 6(3) of the NC TAR, which requires that the RPM is applied

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<sup>12</sup>

[https://documents.acer.europa.eu/Official\\_documents/Acts\\_of\\_the\\_Agency/Publication/The%20internal%20gas%20market%20in%20Europe\\_The%20role%20of%20transmission%20tariffs.pdf](https://documents.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/The%20internal%20gas%20market%20in%20Europe_The%20role%20of%20transmission%20tariffs.pdf)

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to all entry and exit points in a given entry-exit system. Regarding the discount offered on the basis of the interruptibility of the booked capacity, the Agency notes that this discount is not justified on the basis of the provisions of the NC TAR as laid out in Article 16. Interruptible discounts should be consulted by the NRA pursuant to Article 28 of the NC TAR together with multipliers, seasonal factors and other discounts. Given that an interruptible ex-post discount is already applied, the application of a 10% reduction results in a twofold discount for interruptible capacity.

- (36) The Agency recommends that the NRA chose an RPM, including its cost drivers, that allows setting tariffs for all points of the network. Should the matrix RPM be set by the NRA, the Agency recommends that the cost drivers used allow setting tariffs at all points of the network.

### 3.1.4 Tariffs proposed for domestic entry points

- (37) Plinovodi proposes to apply a tariff for domestic entry points that is not derived using the RPM. The consultation document states that there are currently no domestic entry points to the network. For this reason, Plinovodi proposes to set a tariff that is equal to the average tariff for all entry points to the network.
- (38) The Agency remarks that, pursuant to Article 6(3) of the NC TAR, the RPM should be used for the derivation of all point of the network. The consultation document notes that, currently, no facilities for injecting gas into the network exist. A tariff for such points can only be derived using a postage stamp RPM, but not with a methodology that uses as an input the specific capacity booked at each point of the network.
- (39) The solution proposed by Plinovodi aims at preserving the level playing field for competition by setting a tariff to these points that is an average of the tariffs applicable to all entry points.
- (40) Should the NRA use a matrix RPM, the Agency considers that the approach proposed by Plinovodi is a provisional solution until injection starts taking place at domestic entry points. Should domestic entry points start to be used, the applicable tariff should be derived using the RPM. The Agency recommends that the NRA:
- Consider weighting tariffs to the capacity booked at each entry point for the calculation of an average tariff to be used as a proxy for domestic entry points. The proposal made in the consultation calculates an average tariff without taking into account the relative weight that each entry point has according to the associated booked capacity.
  - Clarify how all the tariffs that are used for the calculation of the average have been derived. Under the current proposal, the entries from Croatia and Italy are not calculated based on the RPM and are applicable for interruptible products. This limits the validity of the average tariff proposed by Plinovodi. Should this tariff be calculated as an average, the tariffs used for this average should all be calculated using the RPM.

### 3.1.5 Benchmarking

- (41) Plinovodi proposes to apply a rescaling adjustment to the tariffs derived using the RPM. The TSO argues that the route AT-SI-IT is in competition with the route AT-IT. The tariffs derived using the proposed RPM amount to EUR 2.5663/kWh/day, while the tariffs applicable for the AT-IT route amount to EUR 0.49671528/kWh/day (as of 1 October 2021). Plinovodi proposes to reduce the exit

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tariff to Italy at the Šempeter IP from EUR 2.31589/kWh/day to EUR 0.09772/kWh/day. This results in total costs of EUR 0.54021064 /kWh/day for the AT-SI-IT route compared to EUR 0.49671528 /kWh/day for the AT-IT route. Table 2 below provides the detailed tariffs for both of these two routes based on the Plinovodi's proposed benchmarked tariff.

Table 2: Tariffs applicable for the routes AT-IT and AT-SI-IT as of 1 October 2021 8 EUR/(kWh/day) and as proposed in the consultation document.

	AT – IT (EUR/(kWh/day))
Tarvisio IP exit Austria (as of 10 October 2021)	0.286032
Tarvisio IP entry Italy (as of 10 October 2021)	0.21068328
<b>Total</b>	<b>0.49671528</b>

  

	AT – SI – IT EUR/(kWh/day)
Ceršak IP exit Austria (as of 10 October 2021)	0.12492
Ceršak IP entry Slovenia (proposed in the consultation)	0.11937
Šempeter pri Gorici IP exit Slovenia (proposed benchmarked tariff in the consultation)	0.09772
Šempeter pri Gorici IP entry Italy (as of 10 October 2021)	0.19820064
<b>Total</b>	<b>0.54021064</b>

Tariffs applicable for the Italian and Austrian networks are based on the information available at the ENTSOG TP (<https://transparency.entso.eu/>) as of 9 November 2021.

- (42) The Agency notes that the application of the benchmarking adjustment is compliant with Article 6(4)(a) of the NC TAR.

### 3.1.6 Rescaling

- (43) The TSO proposes to apply two rescaling adjustments. First, a rescaling factor of 1.14 is applied to all points of the network to recover the allowed revenue of the TSO following the derivation of tariffs using the proposed RPM. Second, a rescaling factor is applied following the application of the benchmarking adjustment to recover the missing revenue resulting from the reduction in the exit tariff to Italy. This rescaling factor is applied to all points of the network.
- (44) Regarding the first factor, it is not clear to the Agency why a rescaling adjustment is applied following the application of the RPM as there are no steps in the calculation, such as the application of discount, which would result in missing revenue requiring a subsequent rescaling adjustment. Plinovodi clarified to the Agency in bilateral exchanges that this rescaling adjustment is applied as a compensation for the capacity forecast that is an input to the RPM. Plinovodi argues that this capacity input does not accurately convert the short term bookings into yearly capacity bookings as it does not take into account the economic value of short term multipliers<sup>13</sup>. For this reason, there is a need to rescale tariffs.

<sup>13</sup> Plinovodi explained to the Agency in bilateral exchanges that short-term capacity products are converted to yearly capacity products on the basis of their duration (e.g. 365 capacity bookings for a daily product are converted to 1 yearly capacity product). This assumes that the recovered revenue from short-term capacity products and long-term capacity products is proportional to the relative duration (i.e. the revenue recovered from 1 daily capacity

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- (45) The Agency notes that the intent of a matrix methodology is achieving a high degree of cost reflectivity. Plinovodi proposes to recover the missing revenue resulting from the capacity forecast through the application of a rescaling adjustment. In the view of the Agency, an accurate capacity forecast to be used as part of a matrix methodology has an impact on tariffs which is specific and different at each point. Instead, the proposed rescaling adjustment results in an increase of all tariffs by the same factor. The logic of this adjustment is that of a postage stamp, as an increase of tariffs is proportional at all points of the network regardless of where short term products are booked. The Agency notes that the efficiency that the matrix methodology achieves in terms of cost allocation is limited when combining this RPM with the proposed rescaling adjustment.
- (46) The Agency recommends that the NRA explain the exact causes leading to the need of rescaling tariffs, including the details on the booked capacity forecast calculation. In addition, the Agency recommends that the NRA improve the internal consistency of the RPM. Should the RPM aim at increasing the cost reflectivity of tariffs, the subsequent adjustments applied should be consistent with this objective.

### 3.1.7 Cost allocation assessment

- (47) Article 26(1)(a)(iv) of the NC TAR requires that the cost allocation assessment be calculated for the proposed RPM. Plinovodi provides this information in the consultation document. The result of the CAA is 48% pre-benchmarking and 74% after the application of the benchmarking adjustment. Both results are significantly above the 10% threshold laid out in Article 5(6) of the NC TAR and therefore require a justification.
- (48) The Agency notes that the CAA calculation is performed on the basis of the cost drivers of capacity and distance, which are different to the cost drivers of capacity and unit costs that are used in the proposed RPM. For this reason, the Agency requested Plinovodi a calculation of the CAA based on the costs drivers used in the RPM, that is, capacity and unit costs. Plinovodi provided the Agency this calculation, which results in CAA of 37% pre-benchmarking and 64% post-benchmarking.
- (49) The CAA results for the CWD methodology, which is based on a 50/50 entry-exit split, are 54% pre-benchmarking and 53% post-benchmarking.
- (50) The results provided by Plinovodi can be interpreted as a cross-subsidisation effect between the cross-system and the intra-system use of the network, where the tariffs applicable to the latter are used to subsidise the former.
- (51) Plinovodi has discussed with the Agency possible reasons justifying this result:

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product is 1/365 of the revenue recovered from a yearly capacity product). However, short-term capacity products are subject to multipliers and seasonal factors that can increase the relative revenue they recover compared to their duration (e.g. if a tariff multiplier of 2x is applied to daily capacity product, the revenue recovered from 1 yearly capacity product would equal to the revenue recovered from just 182 bookings for a daily capacity product). As Plinovodi does not take into account the value of the multipliers and seasonal factors actually applied to short term capacity products, there is a need to rescale tariffs after the application of the RPM.

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- First, the Slovene network was primarily designed to supply domestic users and not to transport gas to other systems. A larger share of the costs serve the purpose of intra-system use.
  - Second, there is a large difference between the capacity booked at entry points and at exit points. The TSO referred to the possibility of calculating the CAA based on hypothetical values that would narrow the gap between the forecasted capacity at entries and at exits. The results of such calculation, as mentioned by Plinovodi, would be within a 10% threshold. The Agency has not analysed this calculation.
- (52) The Agency considers that neither of these explanations fully justify the high results of the CAA.
- First, should domestic points amount for a greater share of the costs, the RPM should allocate a greater share of the revenue to these points with a view to avoiding cross-subsidisation.
  - \* Second, the difference between capacity bookings at entries and exits is common in most networks and results from the different bookings profiles at IPs and domestic points. Theoretically, the RPM should allocate revenue on the basis of the cost drivers. Higher or lower capacity values at IPs or domestic points should result in proportional revenue being allocated to these points. On the basis of the information received, the Agency does consider this argument as a valid justification for the high CAA results.
- (53) The Agency recommends, that:
- First, should the NRA opt to apply a matrix methodology, it should provide a justification for the CAA results. This task should include a quantitative assessment identifying the factors leading to a result above 10%. This analysis should include elements that the consultation document does not discuss, such as the asymmetry between cost drivers and revenue for the points where a 90% tariff is set, or the impact of variable tariffs proposed to domestic exit points. The NRA should provide a conclusive assessment on the extent to which the CAA result is indicative of a cross-subsidisation effect. This justification is a requirement pursuant to Article 5(6) of the NC TAR.
  - Second, the NRA should assess the CAA results for a CWD based on an entry-exit split that is similar to that of the proposed matrix methodology. Should the results be within the 10% threshold, the Agency considers this methodology, or a simpler methodology such as a postage stamp RPM, to be preferable in view of the limited cross-subsidisation effect and the additional transparency it would allow compared to the proposed matrix RPM.

### 3.1.8 Comparison with the CWD methodology

- (54) Plinovodi provides an extensive comparison between the proposed matrix RPM and the CWD as required by Article 26(1)(a)(vi) of the NC TAR. The difference in tariffs are summarised in Table 3 below:



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Table 3: Comparison of tariffs derived using the proposed matrix methodology and the CWD methodology.

	EUR/(kWh/day)	Matrix RPM	CWD RPM	Difference (%)
Entries	AT	0.11937	0.4075	241%
	IT	0.08795	0.01281	-85%
	HR	0.02906	0.31373	980%
	Domestic entry points	0.07674	0.492	541%
Exits	AT	0.10743	0.28333	164%
	IT	0.09772	0.02108	-78%
	HR	0.03228	0.12815	297%
	Domestic exit points	0.53176	0.30535	-43%

- (55) The Agency notes that the CWD methodology, which is based on a 50/50 entry-exit split, results in higher tariffs applicable to entry points and lower tariffs applicable to domestic exit points. The CAA results of the CWD methodology are 54% (pre-benchmarking) and 53% (post-benchmarking). The Agency considers that the CAA results of the CWD methodology do not improve the results compared to the proposed matrix methodology.
- (56) At the same time, Plinovodi proposes to apply a benchmark to the exit point to Italy, as it does in the proposed matrix RPM. Plinovodi proposes to apply the same benchmarking factor which is followed by a rescaling adjustment. Given that the tariffs derived with each methodology are different, the application of the same benchmarking factor to both methodologies does not lead to the same end tariffs. The objective of making tariffs for the AT-SI-IT route is achieved to a different extent in the tariffs derived using the CWD methodology. For this reason, the comparison between both methodologies is of limited use.
- (57) The Agency recommends that the comparison with the CWD methodology is repeated with a view to making the comparison more meaningful. The CWD should be calculated with a similar entry-exit split to that of the proposed matrix RPM, and should include a benchmarking adjustment that achieves similar aggregated tariffs for the AT-SI-IT route. The CAA calculation should be repeated for this calculation of the CWD.

### 3.2 Variable capacity tariffs to domestic exit points

- (58) Plinovodi proposes tariffs to domestic points that are variable, based on the amount of capacity booked by users. The proposed thresholds are represented in Table 4 below. This scheme was also proposed in the consultation carried out by the TSO in 2018. The Agency already pointed out the incompliance of the scheme with the NC TAR and recommended the NRA to remove this scheme<sup>14</sup>.

<sup>14</sup> See

[https://documents.acer.europa.eu/Official\\_documents/Acts\\_of\\_the\\_Agency/Publication/Agency%20Report%20-%20Analysis%20of%20the%20consultation%20document%20for%20Slovenia.pdf](https://documents.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/Agency%20Report%20-%20Analysis%20of%20the%20consultation%20document%20for%20Slovenia.pdf)



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Table 4: Proposed exit tariff item levels by customer groups according to the total capacity of the exit points in for the year 2022

Total exit capacity of exit points in the Republic of Slovenia in kWh/day	Exit tariff item level "k" (2018 consultation)	Exit tariff item level "k" (2021 consultation)	Difference (%)
<b>0 ≤ PK &lt; 50,000</b>	1.63000	1.25200	-23%
<b>50,000 ≤ PK &lt; 100,000</b>	1.37000	1.14800	-16%
<b>100,000 ≤ PK &lt; 250,000</b>	1.20000	1.08000	-10%
<b>250,000 ≤ PK &lt; 500,000</b>	1.14000	1.05600	-7%
<b>500,000 ≤ PK &lt; 1,000,000</b>	1.07000	1.02800	-4%
<b>1,000,000 ≤ PK &lt; 2,000,000</b>	1.03000	1.01200	-2%
<b>2,000,000 ≤ PK</b>	1.00000	1.00000	0%
<b>Distribution</b>	1.00000	1.00000	0%

- (59) The Agency notes that the scheme is gradually being phased out as the variable factor applied to domestic tariffs is reduced (see changes between 2018 and 2021 in Table 4 above). Plinovodi proposes to completely phase out the scheme by 2024 to limit the impact on end users. While pointing out the incompliance of the current scheme, the Agency finds the approach appropriate.
- (60) In addition, the Agency recommends that the NRA take into account this tariff scheme when calculating the CAA. The proposed variable tariffs increase the revenue allocated to domestic exit points compared to the allocation resulting from the application of the RPM.

## 4. Completeness

### 4.1 Has all the information referred to in Article 26(1) been published?

- (61) Article 27(2)(a) of the NC TAR requires the Agency to analyse whether all the information referred to in Article 26(1) of the NC TAR has been published.
- (62) Article 26(1) of the NC TAR requires that the consultation document should be published in the English language, to the extent possible. The Agency remarks that the consultation document has been published in English.
- (63) Overall, the information in Article 26(1) of the NC TAR has been partially published as shown in Table 5 below.
- (64) The Agency recommends that the NRA include the missing information in the motivated decision as required by Article 27(4) of the NC TAR.

Table 5: Checklist information Article 26(1)

Article	Information	Published: Y/N/NA
<b>26(1)(a)</b>	the description of the proposed reference price methodology	Yes
<b>26(1)(a)(i)</b> <b>26(1)(a)(i)(1)</b>	the indicative information set out in Article 30(1)(a), including:	Partially.

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<b>26(1)(a)(i)(2)</b>	<ul style="list-style-type: none"> <li>the justification of the parameters used that are related to the technical characteristics of the system</li> <li>the corresponding information on the respective values of such parameters and the assumptions applied</li> </ul>	<ul style="list-style-type: none"> <li>The transparency on the calculation of the cost drivers is not sufficient.</li> <li>The allowed revenue input is not explained.</li> <li>The methodology to calculate the capacity input is not explained.</li> </ul>
<b>26(1)(a)(ii)</b>	the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9	<p style="text-align: center;">Partially.</p> <ul style="list-style-type: none"> <li>Insufficient transparency on the rescaling adjustment.</li> </ul>
<b>26(1)(a)(iii)</b>	the indicative reference prices subject to consultation	Yes
<b>26(1)(a)(iv)</b>	the results, the components and the details of these components for the cost allocation assessments set out in Article 5	Partially. A valid justification for the CAA results is not provided.
<b>26(1)(a)(v)</b>	the assessment of the proposed reference price methodology in accordance with Article 7	Partially. The complexity of the RPM does not allow assessing the effect of tariffs on the requirements in Article 7.
<b>26(1)(a)(vi)</b>	where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii)	Partially. The CWD calculation does not allow an appropriate comparison with the proposed matrix RPM.
<b>26(1)(b)</b>	the indicative information set out in Article 30(1)(b)(i), (iv), (v)	Yes
<b>26(1)(c)(i)</b> <b>26(1)(c)(i)(1)</b> <b>26(1)(c)(i)(2)</b> <b>26(1)(c)(i)(3)</b>	<p>where commodity-based transmission tariffs referred to in Article 4(3) are proposed</p> <ul style="list-style-type: none"> <li>the manner in which they are set</li> <li>the share of the allowed or target revenue forecasted to be recovered from such tariffs</li> <li>the indicative commodity-based transmission tariffs</li> </ul>	Yes
<b>26(1)(c)(ii)</b> <b>26(1)(c)(ii)(1)</b> <b>26(1)(c)(ii)(2)</b> ) ) <b>26(1)(c)(ii)(3)</b> ) ) <b>26(1)(c)(ii)(4)</b> ) )	<p>where non-transmission services provided to network users are proposed:</p> <ul style="list-style-type: none"> <li>the non-transmission service tariff methodology therefor</li> <li>the share of the allowed or target revenue forecasted to be recovered from such tariffs</li> <li>the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3)</li> <li>the indicative non-transmission tariffs for non-transmission services provided to network users</li> </ul>	Partially. A number of non-transmission services are not covered.
<b>26(1)(d)</b>	the indicative information set out in Article 30(2);	Yes
<b>26(1)(e)</b> <b>26(1)(e)(i)</b> <b>26(1)(e)(ii)</b> <b>26(1)(e)(iii)</b> <b>26(1)(e)(iv)</b>	<p>where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity:</p> <ul style="list-style-type: none"> <li>the proposed index;</li> <li>the proposed calculation and how the revenue derived from the risk premium is used</li> </ul>	N.A.

	<ul style="list-style-type: none"><li>• at which interconnection point(s) and for which tariff period(s) such approach is proposed</li><li>• the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed</li></ul>	
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## 5. Compliance

### 5.1 Does the RPM comply with the requirements set out in Article 7?

- (65) Article 27(2)(b)(1) of the NC TAR requires the Agency to analyse whether the proposed reference price methodology complies with the requirements set out in Article 7 of the NC TAR. This article refers to Article 13 of Regulation (EC) 715/2009 and lists a number of requirements to take into account when setting the RPM. As these overlap, in the remainder of this chapter, the Agency will take a closer look at the five elements listed in Article 7 of the NC TAR.
- (66) As the concepts of transparency, cost reflectivity, non-discrimination, cross-subsidisation and cross border trade are closely related the Agency concludes with an overall assessment. Special attention is paid to the allocation of revenues between domestic and transit routes.

#### 5.1.1 Transparency

- (67) **Article 7(a)** of the NC TAR requires that the RPM aims at ensuring that network users can reproduce the calculation of reference prices and their accurate forecast. The Agency finds the simplified tariff model, as required by Article 30(2)(b) of the NC TAR, allows network users to partially reproduce the calculation of reference prices. The Agency further considers that network users would only partially be able to forecast the reference prices. The Agency notes that the simplified model does not include the proposed benchmarking adjustment nor the reconciliation mechanisms that are proposed for setting the allowed revenue of the TSO that can be recovered through tariffs (the latter is assessed under Section 6.1 of this Report).
- (68) The Agency recommends that the NRA include the benchmarking adjustment and the details on the revenue recovery and reconciliation as part of the simplified model.

#### 5.1.2 Cost-reflectivity

- (69) **Article 7(b)** of the NC TAR requires the RPM to take into account the actual costs incurred for the provision of transmission services, considering the level of complexity of the transmission network. The transmission system network in Slovenia cannot be considered a meshed network. The network flows follow a rather simple pattern with supply entering the network through Austria mostly for the purpose of supplying domestic points and marginally for transporting gas to Italy. Usually the physical reality is reflected in the choice of the cost drivers, yet the proposed RPM is designed with a high degree of complexity compared to the rather simple structure of the network.
- (70) The Agency considers that the cost reflectivity of the proposed RPM is not supported by the results of the CAA.

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- (71) In addition, the following elements do not allow concluding on the cost reflectivity of the proposed matrix RPM:
- Lack of clarity on the calculation of the capacity forecast;
  - Application of the rescaling adjustment;
  - Tariffs proposed at specific points equal to 90% of the tariff in the reverse direction;
  - Impact of the proposed variable tariffs at domestic exit points on the overall revenue recovered from these points compared to the allocation resulting from the RPM.
- (72) In view of the above points, the Agency considers the proposed RPM incompliant with the requirement on cost reflectivity.

### 5.1.3 Cross-subsidisation and non-discrimination

- (73) **Article 7(c)** of the NC TAR requires the RPM to ensure non-discrimination and prevent undue cross-subsidisation.
- (74) The Agency has not identified discrimination resulting from the application of the RPM. For this analysis, the Agency defines 'discrimination' as 'applying different rules to comparable situations or the same rule to different situations'. The allocation of all transmission costs via a single RPM to all entry-exit points minimises the possibility of discrimination by the NC TAR.
- (75) Regarding the assessment on cross-subsidisation, the Agency refers to the conclusions provided in relation to cost reflectivity in Section 5.1.2 above. Based on the CAA results, and in the absence of an appropriate justification, the Agency considers the proposed RPM incompliant with the requirement on preventing undue cross-subsidisation.
- (76) In addition, the two mechanism applied to adjust the allowed revenue to be recovered by the TSO (one of them being based on an under-recovery that is reconciled beyond the regulatory period for which tariff are set, which ends in 2024), potentially introduce a cross-subsidisation effect between past and future users of the network.

### 5.1.4 Volume risk

- (77) **Article 7(d)** of the NC TAR requires that the RPM ensures that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system. In Slovenia, the gas is mostly transported for local consumption. Therefore, the Agency considers the consultation document compliant with the requirement to shelter captive customers from the risks related to large transit flows.

### 5.1.5 Cross-border trade

- (78) **Article 7(e)** of the NC TAR requires that the RPM ensures that the resulting reference prices do not distort cross-border trade.
- (79) Following the conclusions on cost-reflectivity and on cross-subsidisation, the Agency concludes that the proposed RPM is not compliant with the requirement of not distort cross-border trade.

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### 5.2 Are the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) met?

- (80) Article 27(2)(b)(2) of the NC TAR requires the Agency to analyse whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met.
- (81) Plinovodi proposes to apply commodity-based transmission tariffs covering 4% of the transmission services revenue for the year 2022. The Agency considers this an appropriate use of the commodity charge.
- (82) The NC TAR allows for two types of commodity-based transmission tariffs: a flow-based charge and a complementary revenue charge. Plinovodi proposes to apply a flow based charge.
- (83) The proposed flow-based charge meets the criteria set in Article 4(3) as reviewed in Table 6 below.

Table 6: Criteria Article 4(3a)

Criteria	Y/N?
levied for the purpose of covering the costs mainly driven by the quantity of the gas flow	Yes
calculated on the basis of forecasted or historical flows, or both	Yes
set in such a way that it is the same at all entry points and the same at all exit points	
expressed in monetary terms or in kind	Yes

### 5.3 Are the criteria for setting non-transmission tariffs as set out in Article 4(4) met?

- (84) Article 27(2)(b)(3) of the NC TAR requires the Agency to analyse whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.
- (85) In the consultation document non-transmission tariffs for metering services are proposed. These services should qualify as non-transmission services: the costs for these services are not driven by capacity and distance.
- (86) The non-transmission services revenue equals EUR 0.39 million whereas the transmission services revenue equals EUR 41.5 million (non-transmission services represents 0.9% of the allowed revenue of the TSO).
- (87) The non-transmission tariffs shall be cost-reflective, non-discriminatory, objective and transparent and shall be charged to the beneficiaries of the non-transmission service. Plinovodi proposes to determine the tariff for metering services on the basis of the estimated costs of such services and the specifications of each meter. Tariffs take into account the technical characteristics of each connection. The Agency finds the non-transmission tariffs for metering services compliant with the requirements under Article 27(2)(b)(3) of the NC TAR.
- (88) The Agency notes that during bilateral exchanges, Plinovodi referred to tariffs for additional services such as marking pipeline terrains. These services amount to approximately EUR 0.25 million. The Agency notes that pursuant to Article 4.4 of the NC TAR, the revenue from non-transmission revenue shall be recovered by non-transmission tariffs. The Agency recommends that the NRA

include all non-transmission services in the motivated decision and review their compliance with the requirements listed under Article 4(a)-(b) of the NC TAR.

## 6. Other comments

### 6.1 Regulatory account

- (89) The Agency notes that two mechanisms are applied to the revenue to be allocated through the RPM. As informed by the NRA and the TSO, a first reconciliation mechanism serves the purpose of recovering past transmission deficits that result from the re-routing of gas transport through Slovenia. Gas volumes that were initially transported to Croatia via Slovenia, changed in October 2017 to be rerouted to Croatia from Hungary. According to both the TSO and the NRA, this deficit accounts for approximately EUR 18 million. The reconciliation of this revenue extends beyond the regulatory period for which tariffs are consulted, with approximately EUR 4.8 million to be recovered until 2024.
- (90) A second reconciliation mechanism is used to limit the allowed revenue that can be recovered using the RPM. This second mechanism is intended, according to the NRA and the TSO, to avoid increases in the final tariffs and it has an opposite effect to the first mechanism described above. The net effect of both mechanisms is an increase of + EUR 0.8 million for the year 2022 in the revenue to be recovered by the TSO. The sums are adjusted for each tariff year.
- (91) The Agency notes that neither of these two mechanisms is described in the consultation document, while they play an important role in the tariff setting.
- (92) Recital 7 of the NC TAR refers to the objective of promoting tariff stability. In addition, Article 17 of the NC TAR on the general provisions for the reconciliation of revenue refers to the objective of avoiding significant tariff difference between transmission tariffs for two consecutive tariff periods. The Agency is aware that significant under-recoveries can threaten the stability of tariffs and, as a consequence, the sustainability of gas sector. For this reason, the Agency considers sensible the objective of smoothing the reconciliation of tariffs.
- (93) At the same time, the Agency acknowledges that neither the amount of revenue to be recovered, nor the reconciliation of past under-recoveries, are part of the consultation. The Agency recommends that the NRA justify the conditions, the objectives and the values for such reconciliation in the motivated decision. This assessment should be based on quantitative evidence supporting the carry-over of past recovery deficits and the under-recovery of TSO allowed revenue as a necessary measure for ensuring the sustainability of the sector. This information should provide transparency on the revenue to be recovered by the TSO and predictability on the calculation of future tariffs. In addition, the Agency recommends that the reconciliation of revenue take place, to the extent possible, within the regulatory period during which the under- or over-recovery takes place, with the aim of limiting cross-subsidisation between past and future network users. This input should be also made part of the simplified tariff model.

## Annex 1: Legal framework

(94) Article 27 of the NC TAR reads:

1. *Upon launching the final consultation pursuant to Article 26 prior to the decision referred to in Article 27(4), the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority, shall forward the consultation documents to the Agency.*

2. *The Agency shall analyse the following aspects of the consultation document:*

(a) *whether all the information referred to in Article 26(1) has been published;*

(b) *whether the elements consulted on in accordance with Article 26 comply with the following requirements:*

(1) *whether the proposed reference price methodology complies with the requirements set out in Article 7;*

(2) *whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met;*

(3) *whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.*

3. *Within two months following the end of the consultation referred to in paragraph 1, the Agency shall publish and send to the national regulatory authority or transmission system operator, depending on which entity published the consultation document, and the Commission the conclusion of its analysis in accordance with paragraph 2 in English.*

*The Agency shall preserve the confidentiality of any commercially sensitive information.*

4. *Within five months following the end of the final consultation, the national regulatory authority, acting in accordance with Article 41(6)(a) of Directive 2009/73/EC, shall take and publish a motivated decision on all items set out in Article 26(1). Upon publication, the national regulatory authority shall send to the Agency and the Commission its decision.*

5. *The procedure consisting of the final consultation on the reference price methodology in accordance with Article 26, the decision by the national regulatory authority in accordance with paragraph 4, the calculation of tariffs on the basis of this decision, and the publication of the tariffs in accordance with Chapter VIII may be initiated as from the entry into force of this Regulation and shall be concluded no later than 31 May 2019. The requirements set out in Chapters II, III and IV shall be taken into account in this procedure. The tariffs applicable for the prevailing tariff period at 31 May 2019 will be applicable until the end thereof. This procedure shall be repeated at least every five years starting from 31 May 2019.*

(95) Article 26(1) of the NC TAR reads:

1. *One or more consultations shall be carried out by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority. To the extent possible and in order to render more effective the consultation process, the consultation document should be published in the English language. The final consultation prior to the decision referred to in Article 27(4) shall comply with the requirements set out in this Article and Article 27, and shall include the following information:*

(a) *the description of the proposed reference price methodology as well as the following items:*

(i) *the indicative information set out in Article 30(1)(a), including:*



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- (1) *the justification of the parameters used that are related to the technical characteristics of the system;*
  - (2) *the corresponding information on the respective values of such parameters and the assumptions applied.*
- (ii) *the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9;*
- (iii) *the indicative reference prices subject to consultation;*
- (iv) *the results, the components and the details of these components for the cost allocation assessments set out in Article 5;*
- (v) *the assessment of the proposed reference price methodology in accordance with Article 7;*
- (vi) *where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii);*
- (b) *the indicative information set out in Article 30(1)(b)(i), (iv), (v);*
- (c) *the following information on transmission and non-transmission tariffs:*
  - (i) *where commodity-based transmission tariffs referred to in Article 4(3) are proposed:*
    - (1) *the manner in which they are set;*
    - (2) *the share of the allowed or target revenue forecasted to be recovered from such tariffs;*
    - (3) *the indicative commodity-based transmission tariffs;*
  - (ii) *where non-transmission services provided to network users are proposed:*
    - (1) *the non-transmission service tariff methodology therefor;*
    - (2) *the share of the allowed or target revenue forecasted to be recovered from such tariffs;*
    - (3) *the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3);*
    - (4) *the indicative non-transmission tariffs for non-transmission services provided to network users;*
- (d) *the indicative information set out in Article 30(2);*
- (e) *where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity:*
  - (i) *the proposed index;*
  - (ii) *the proposed calculation and how the revenue derived from the risk premium is used;*
  - (iii) *at which interconnection point(s) and for which tariff period(s) such approach is proposed;*
  - (iv) *the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed.*

- (96) Article 7 of the NC TAR reads:  
*The reference price methodology shall comply with Article 13 of Regulation (EC) No 715/2009 and with the following requirements. It shall aim at:*
- a) *enabling network users to reproduce the calculation of reference prices and their accurate forecast;*
  - (b) *taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;*
  - (c) *ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;*



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- (d) ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;*
- (e) ensuring that the resulting reference prices do not distort cross-border trade.*

(97) Article 13 of Regulation (EC) No 715/2009 reads:

*1. Tariffs, or the methodologies used to calculate them, applied by the transmission system operators and approved by the regulatory authorities pursuant to Article 41(6) of Directive 2009/73/EC, as well as tariffs published pursuant to Article 32(1) of that Directive, shall be transparent, take into account the need for system integrity and its improvement and reflect the actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator and are transparent, whilst including an appropriate return on investments, and, where appropriate, taking account of the benchmarking of tariffs by the regulatory authorities. Tariffs, or the methodologies used to calculate them, shall be applied in a nondiscriminatory manner.*

*Member States may decide that tariffs may also be determined through market-based arrangements, such as auctions, provided that such arrangements and the revenues arising therefrom are approved by the regulatory authority.*

*Tariffs, or the methodologies used to calculate them, shall facilitate efficient gas trade and competition, while at the same time avoiding cross-subsidies between network users and providing incentives for investment and maintaining or creating interoperability for transmission networks.*

*Tariffs for network users shall be non-discriminatory and set separately for every entry point into or exit point out of the transmission system. Cost-allocation mechanisms and rate setting methodology regarding entry points and exit points shall be approved by the national regulatory authorities. By 3 September 2011, the Member States shall ensure that, after a transitional period, network charges shall not be calculated on the basis of contract paths.*

*2. Tariffs for network access shall neither restrict market liquidity nor distort trade across borders of different transmission systems. Where differences in tariff structures or balancing mechanisms would hamper trade across transmission systems, and notwithstanding Article 41(6) of Directive 2009/73/EC, transmission system operators shall, in close cooperation with the relevant national authorities, actively pursue convergence of tariff structures and charging principles, including in relation to balancing.*

(98) Article 4(3) of the NC TAR reads:

*3. The transmission services revenue shall be recovered by capacity-based transmission tariffs.*

*As an exception, subject to the approval of the national regulatory authority, a part of the transmission services revenue may be recovered only by the following commodity-based transmission tariffs which are set separately from each other:*

*(a) a flow-based charge, which shall comply with all of the following criteria:*

- (i) levied for the purpose of covering the costs mainly driven by the quantity of the gas flow;*
- (ii) calculated on the basis of forecasted or historical flows, or both, and set in such a way that it is the same at all entry points and the same at all exit points;*
- (iii) expressed in monetary terms or in kind.*

*(b) a complementary revenue recovery charge, which shall comply with all of the following criteria:*

- (i) levied for the purpose of managing revenue under- and over-recovery;*
- (ii) calculated on the basis of forecasted or historical capacity allocations and flows, or both;*

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*(iii) applied at points other than interconnection points;*

*(iv) applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points.*

(99) Article 4(4) of the NC TAR reads:

*4. The non-transmission services revenue shall be recovered by non-transmission tariffs applicable for a given nontransmission service. Such tariffs shall be as follows:*

*(a) cost-reflective, non-discriminatory, objective and transparent;*

*(b) charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both.*

*Where according to the national regulatory authority a given non-transmission service benefits all network users, the costs for such service shall be recovered from all network users.*

## Annex 2: List of abbreviations

Acronym	Definition
<b>ACER</b>	Agency for the Cooperation of Energy Regulators
<b>ENTSOG</b>	European Network of Transmission System Operators for Gas
<b>NRA</b>	National Regulatory Authority
<b>TSO</b>	Transmission System Operator
<b>EC</b>	European Commission
<b>EU</b>	European Union
<b>MS</b>	Member State
<b>NC TAR</b>	Network code on harmonised transmission tariff structures for gas
<b>IP</b>	Interconnection Point
<b>VIP</b>	Virtual Interconnection Point
<b>RPM</b>	Reference Price Methodology
<b>CWD</b>	Capacity Weighted Distance
<b>CAA</b>	Cost Allocation Assessment
<b>RAB</b>	Regulated Asset Base
<b>OPEX</b>	Operational Expenditures
<b>CAPEX</b>	Capital Expenditures