



Development of the TAR NC: Refinement Workshop

Introduction and Meeting Objectives

Jan Ingwersen

ENTSO-G

TAR NC Refinement WS – 24 September 2014

TAR NC Refinement Workshop Approach

- Refinement Workshop is in the middle of refinement period
 - The refined draft TAR NC and Analysis of Decisions document to be sent to the ENTSOG Board at the end of October for the launch of Stakeholder Support Process

- Today ENTSOG intends to make an overview of the key issues raised by the stakeholders within the consultation on the initial draft TAR NC
 - Not all issues will be covered
 - The idea is to indicate initial thinking on how to go proceed to the refined draft TAR NC from the initial draft TAR NC
 - For discussion purposes only – not a commitment on change to the legal text at this stage



Development of the TAR NC: Refinement Workshop

Agenda and Process Update

Malcolm Arthur

ENTSO-G

TAR NC Refinement WS – 24 September 2014

Agenda

Introduction and Meeting Objectives



Process Update: Consultation Results, Implementation Timescale



Transmission Services Definition



Publication of Tariff Information Before Annual Auctions



Payable Price: Mechanism for Fixed Price



Multipliers: Ranges, Safeguard > 1.5



Benchmarking



One-Off Capacity Reset

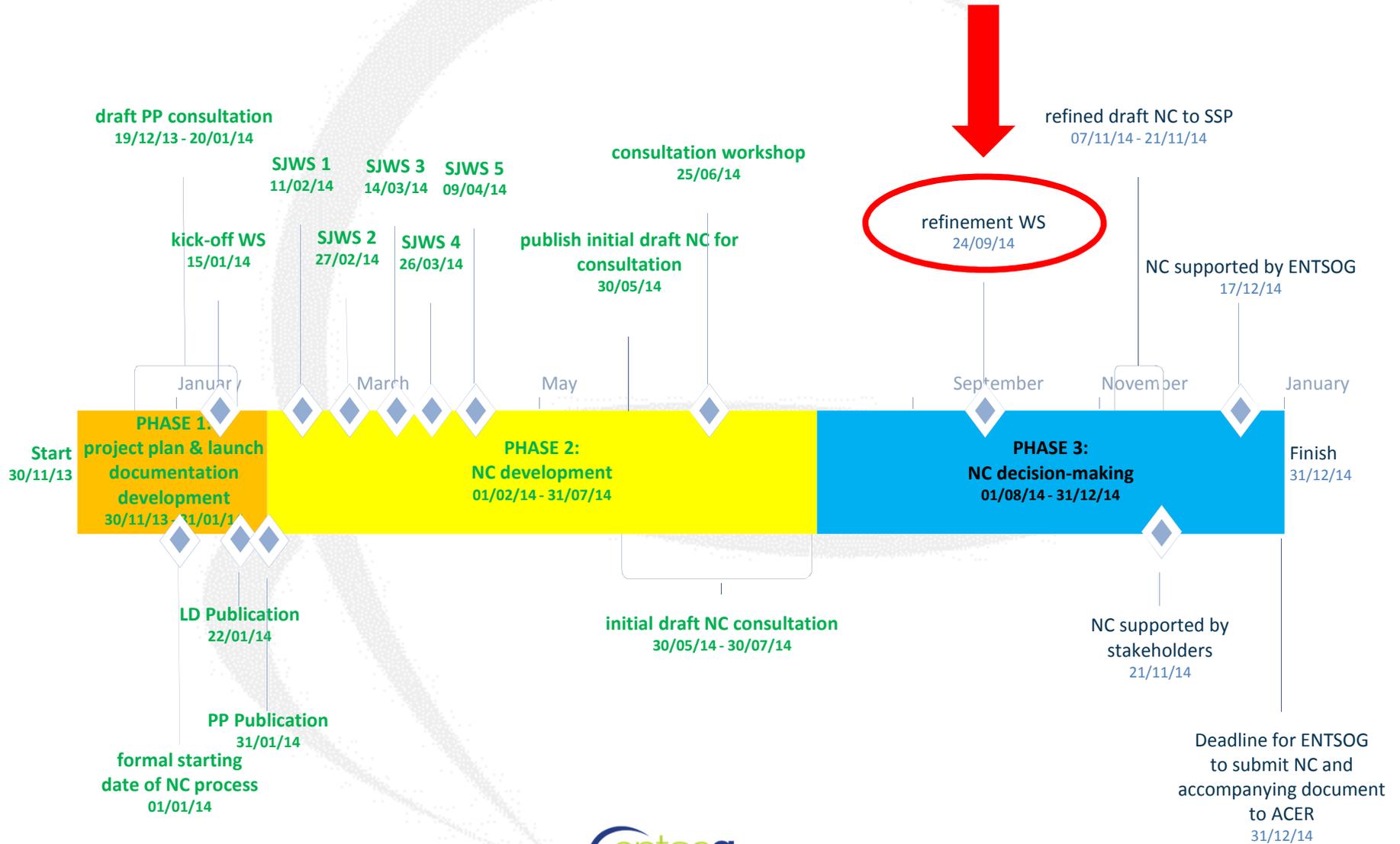


Stakeholder Views

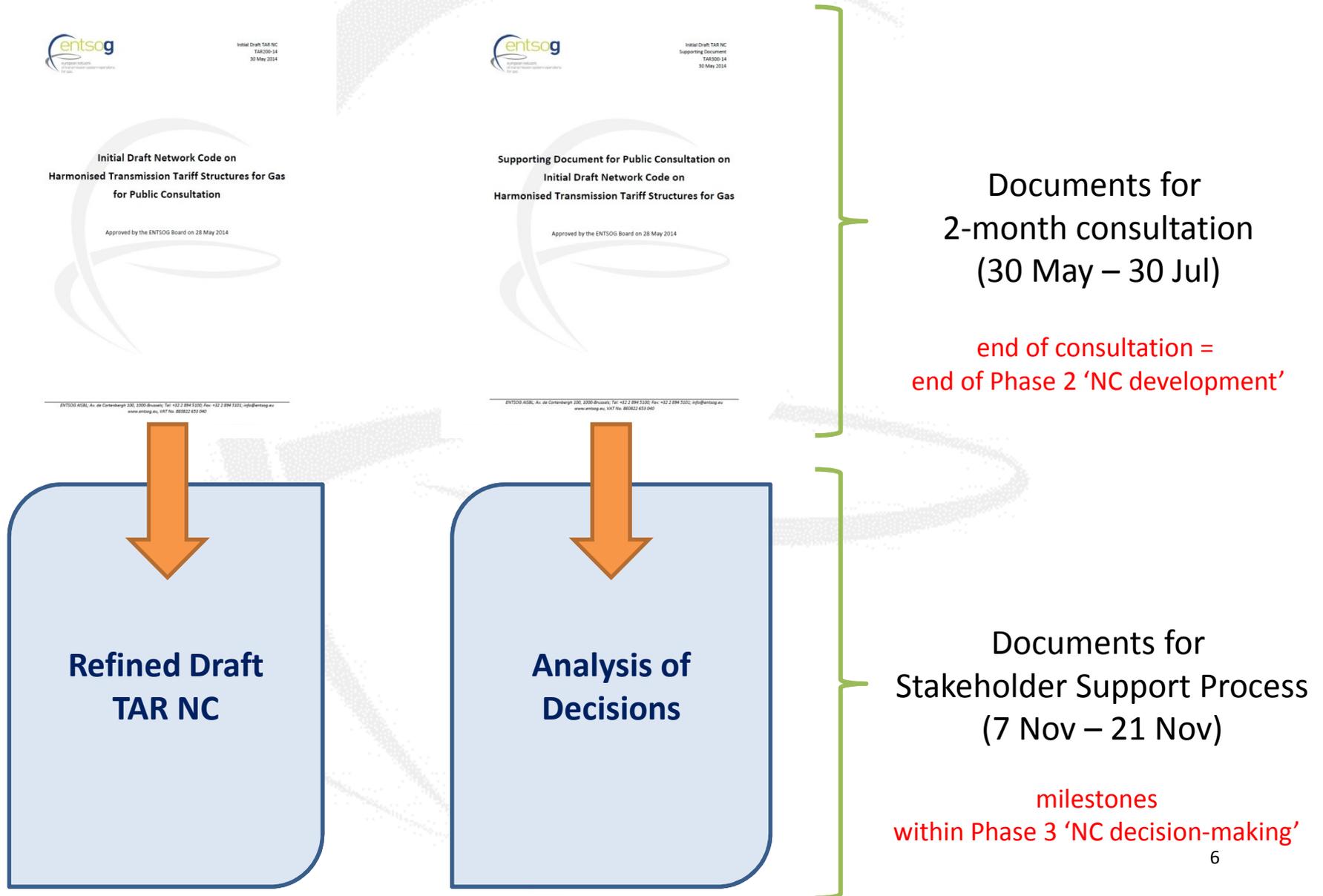


Summing Up and Closing Remarks

TAR NC Timeline

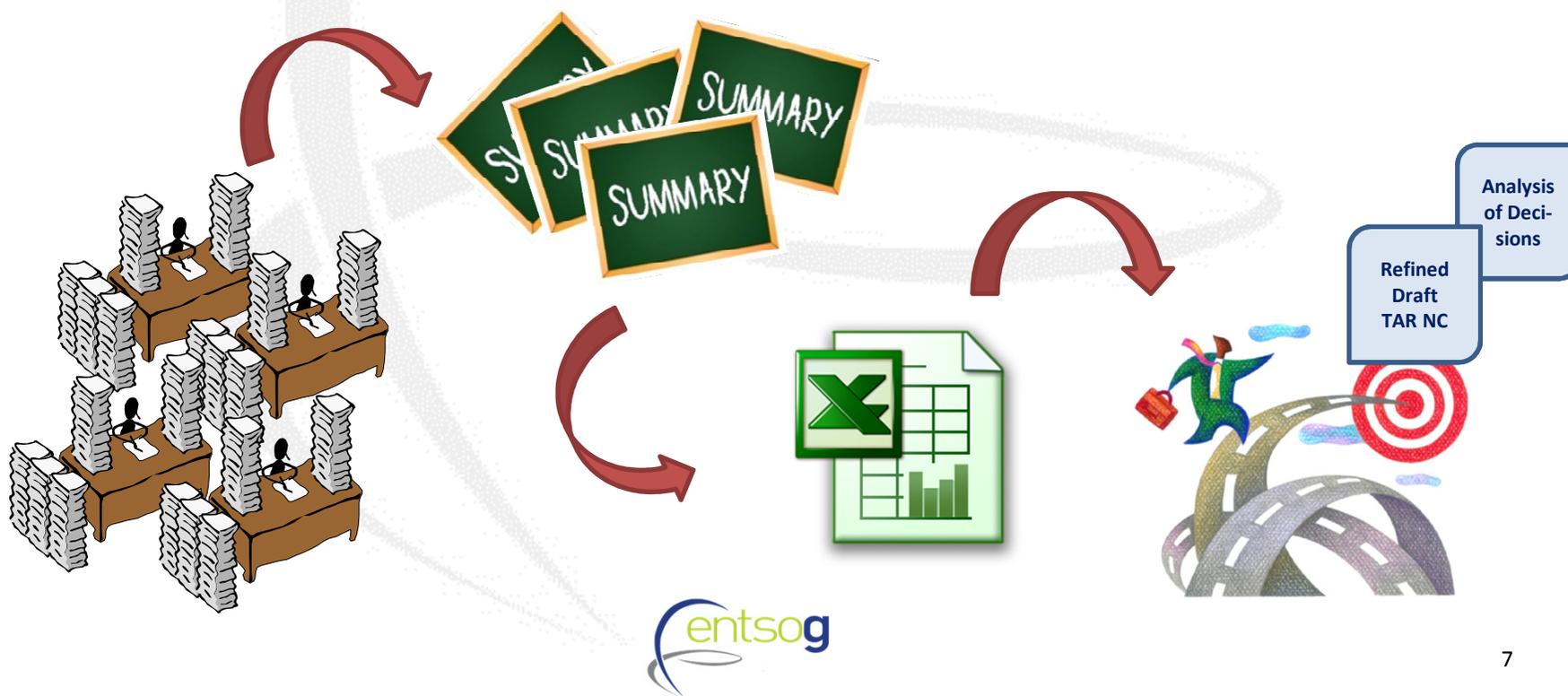


Initial Draft TAR NC & Refined Draft TAR NC



Consultation Results: Some Numbers

- 46 respondents (1 response marked as confidential) on 58 questions
- File 'per respondent' published on ENTSOG's website [489 pages]
- 'Consultation Responses Report' (summary of themes identified within answers 'per question') published on ENTSOG's website [117 pages]
- Stakeholders raised 300+ issues which are currently under consideration



Where To Find?



Summary

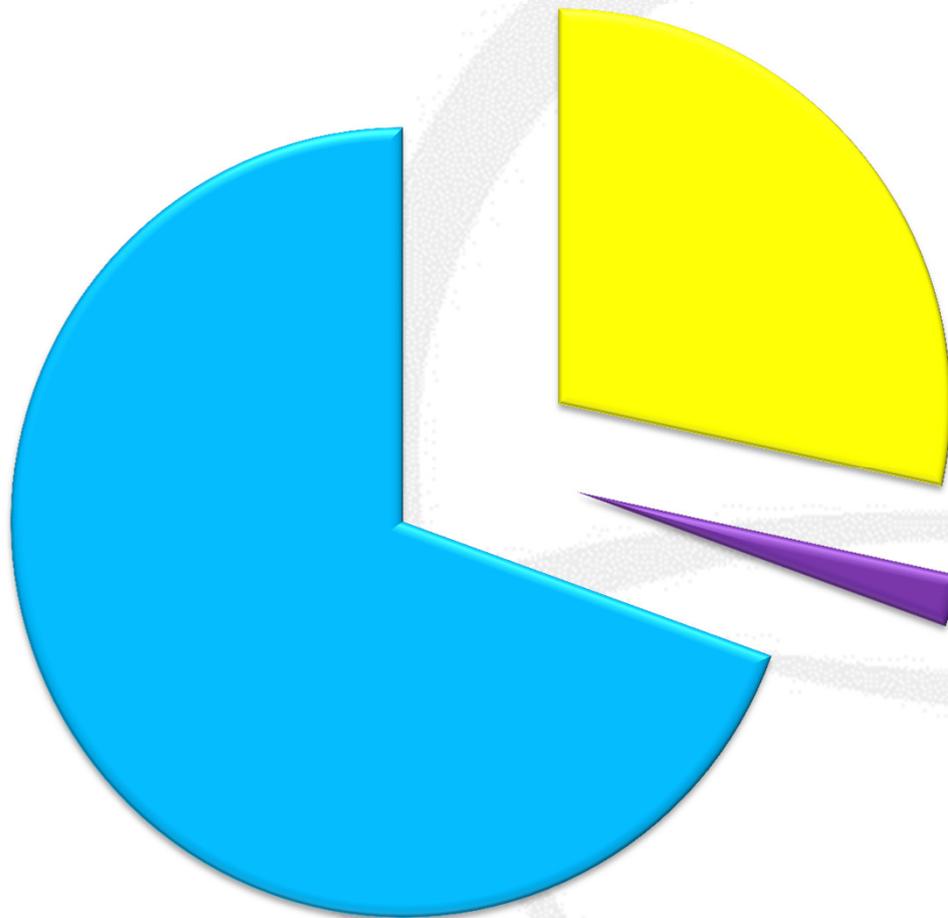
All per Respondent



The screenshot shows the ENTSOG Transparency Platform interface. At the top, the ENTSOG logo is displayed with the text 'european network of transmission system operators for gas'. To the right, there are links for 'Transparency Platform' and 'Secure Area' with a lock icon. Below the header, there is a search bar and a 'Search' button. The main content area is titled '- Tariffs' and contains a list of consultation documents under the heading 'TAR NC CONSULTATION DOCUMENTATION'. Each document entry includes a title, a date, and a link to the document.

Document Title	Date
TAR NC CONSULTATION DOCUMENTATION	
Consultation Responses report - Summary (TAR0335-14)	11 Sep 2014
Initial Draft TAR NC - Non-Confidential Responses to Consultation (TAR334-14)	7 Aug 2014
Initial Draft TAR NC - For Consultation (TAR200-14)	28 May 2014
Initial Draft TAR NC Supporting Document - For Consultation (TAR300-14)	28 May 2014
Initial Draft TAR NC Online Consultation (external link)	28 May 2014
* Press Release * ENTSOG launches two consultations (PR066-14)	30 May 2014

Stakeholder Involvement



- Almost 1/3 of the whole time dedicated to NC development, we are in the process of consulting the market
- Numerous multi- and bilateral meetings with Prime Movers, the EC, ACER and other stakeholders
- 1st NC for which the written feedback was asked 'on the business rules or on any of the topics discussed during SJWSs' straight after the last SJWS

- public consultations (draft Project Plan, initial draft TAR NC, SSP)
- public meetings (Kick-Off, 5 SJWS, Consultation WS, Refinement WS)
- other

What Is the Added Value of the TAR NC?

- Limited number of primary cost allocation methodologies and secondary adjustments
- Transparency of cost allocation approach via consultation
- Increased transparency requirements
- Standardised format of publishing information
- Limited ranges for the level of multipliers for short-term products
- Harmonised formulas for calculation of reserve prices:
 - for short-term firm capacity products
 - for interruptible capacity products
 - at VIPs
 - for fixed price approach
- Obligation to publish a detailed report on the probability of interruption



Development of the TAR NC: Refinement Workshop

TAR NC Implementation Timescale

Malcolm Arthur
ENTSOG

TAR NC Refinement WS – 24 September 2014

Previous NCs: Approach for Application Date

- TAR NC is the first NC for which the FG specifically envisaged the particular date for its application
- All the previous NCs (re-)submitted to ACER did not indicate a specific application date

Article 26

Entry into force

1. This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.
2. It shall apply as from its entry into force.

INT NC

BAL NC

Article 56. Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.
It shall apply as from its entry into force.

11. Entry into force

This Network Code shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

CAM NC

*Specific application date should be placed **within the Comitology Procedure***

Previous NCs: Implementation Timescale

action	CAM NC	calculation of timings	BAL NC	calculation of timings
Gas Committee Opinion	15-Apr-13	81 day after 1 st comitology mtg	02-Oct-13	83 days after 1 st comitology mtg
Adoption	14-Oct-13	182 days after opinion	26-Mar-14	175 days after opinion
Publication in OJ L	15-Oct-13	183 days after opinion	27-Mar-14	176 days after opinion
Entry into Force	04-Nov-13	20 days after publication	16-Apr-14	20 days after publication
Application Date	01-Nov-15	24 months to implement	01-Oct-15	17,5 months to implement

*Using the 'drop-dead' date of 1 Oct 2017 and the similar timings for different stages of the process for the previous NCs, the timing for the TAR NC implementation can be calculated as **16 months***

Stakeholder Comments [1]

Two specific questions were asked in the Supporting Document:

Question 53			
Do you agree that a minimum implementation period of 18 months after entry into force, as set out in Article 49 of the initial draft TAR NC, is necessary to ensure the proper implementation of the TAR NC?			
Number of respondents: 33	Yes 26	No 5	Unclear 2

Question 54			
Do you agree with the text that ENTSOG has included in Article 49 on the timing of implementation?			
Number of respondents: 33	Yes 27	No 5	Unclear 1

Stakeholders indicated significant support for the approach taken in the initial draft TAR NC towards ascertaining of the application date

Stakeholder Comments [2]

...the current text... gives the market sufficient time to adapt in case of late adoption of the TAR NC...

*...**24 months** extra lead time should also be considered to provide extra time for stakeholders to comply where system developments are needed...*

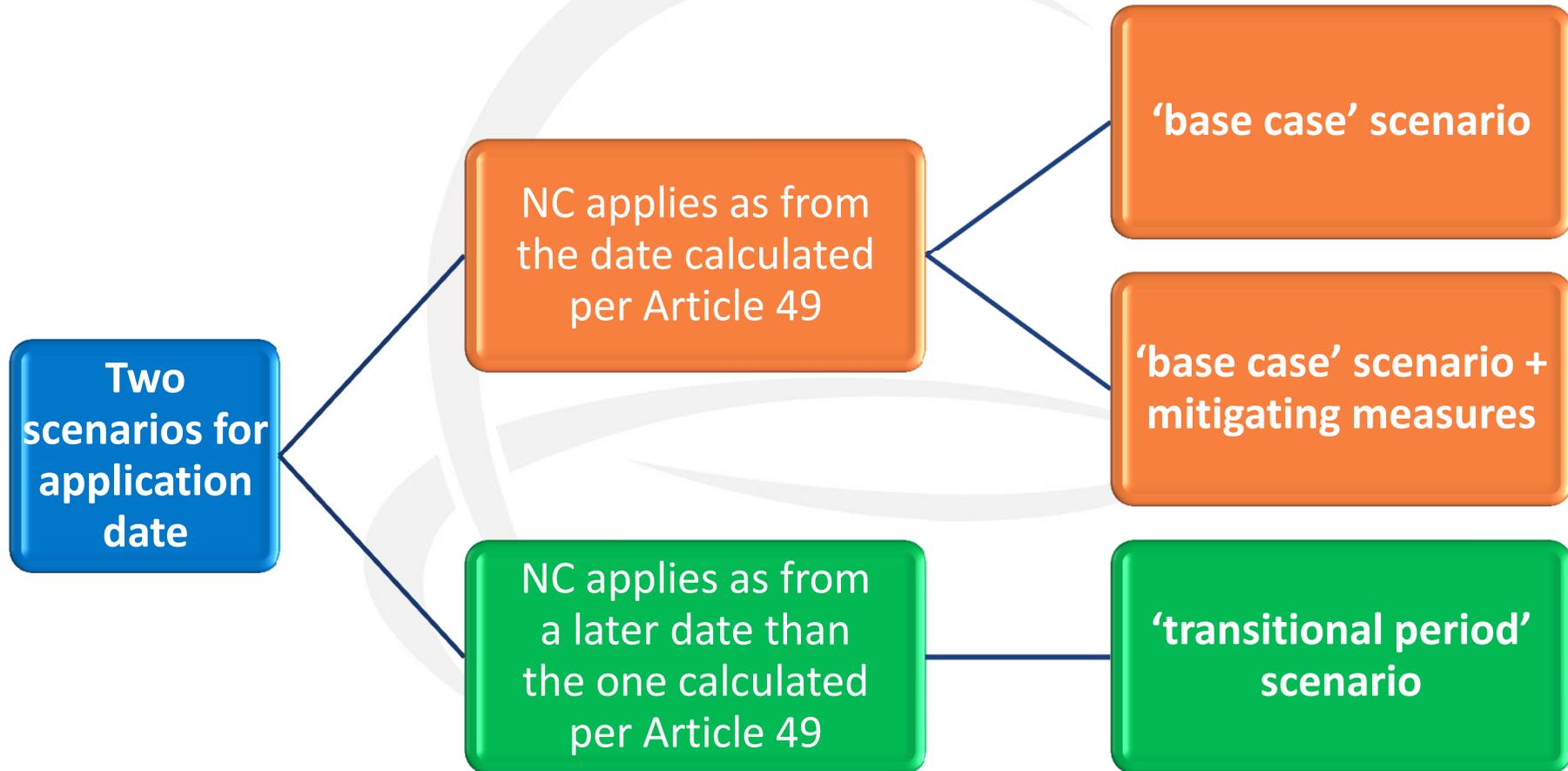
...NRAs and TSOs will need at least 18 months from the entry into force of the code to have proper consultations with shippers about the implementation of the code...

...a minimum implementation period of 18 months after entry into force...due to the more complicated nature of the subject...

*...**24 months** would however give more time for changes to national arrangements and the associated systems development...*

Sufficient time for implementation is not only TSOs' concern

TAR NC: Approach for Application Date



TAR NC: Mitigating Measures Timescale

- * demonstrate that result of 'base case' application: undue negative impacts
- * deadline for request: up to Jun '18

Consider deleting since it is a redundant option of applying for mitigating measures

- * demonstrate that result of 'base case' application: increase tariffs applicable for the next tariff period at an individual entry/exit point by >20% vs. the current tariff period
- * deadline for request: no later than Jun '18





european network
of transmission system operators
for gas

DISCUSSION

TAR NC Refinement WS – 24 September 2014



Development of the TAR NC: Refinement Workshop

Transmission Services Definition

Irina Oshchepkova

ENTSO-G

TAR NC Refinement WS – 24 September 2014

Initial Draft TAR NC wording

‘transmission’ means the transport of natural gas through a network, which mainly contains high-pressure pipelines, other than an upstream pipeline network and other than the part of high-pressure pipelines primarily used in the context of local distribution of natural gas, with a view to its delivery to customers, but not including supply. **[Art. 2(3) of the Gas Directive, Art. 2(1)(1) of the Gas Regulation]**

‘transmission services’ means the services provided by the transmission system operator for the purpose of transmission, excluding the activities defined under the applicable national rules, such as regional and local transmission activities, balancing, provision of flexibility services, metering, depressurisation, ballasting, quality conversion, biogas related services, odourisation, system operation services for third parties and any other dedicated services or infrastructure. **[Art. 3(11) of the initial draft TAR NC]**

Stakeholder Comments [1]

Specific question is asked in the Supporting Document:

Question 5			
Do you agree with ENTSOG's proposal for the definition of transmission services as set out in Article 3.11 of the initial draft TAR NC?			
Number of respondents: 38	Yes 9	No 28	Unclear 1

...open-ended...

...opens the door to exclude tariffs charged to network users from the TAR NC scope...

...leaving the door wide open to potentially discriminatory charges and situations of cross-subsidisation...

...serious potential distortions to cross-border trade...

...so vague and so much open to national rules...

...lack of clarity...



Stakeholder Comments [2]

Portion preceding the specific list of the exclusions ‘the activities defined under the applicable national rules’ raised a lot of concerns:

(11) ‘transmission services’ means the services provided by the transmission system operator for the purpose of transmission, **excluding the activities defined under the applicable national rules**, such as regional and local transmission activities, balancing, provision of flexibility services, metering, depressurisation, ballasting, quality conversion, biogas related services, odourisation, system operation services for third parties and any other dedicated services or infrastructure;

...this would contradict the concept and purpose of an EU NC...

...leaves the definition of transmission services entirely up to national rules...

...undue scope for national interpretation and discretion...

...leaves space to different national interpretations which could lead to an inefficient implementation of TAR NC...

...allows for a lot of leeway for individual markets and NRAs to decide...

TAR NC and TAR FG approaches

Both follow the same approach:

‘whatever’ a TSO does for the purpose of transmission [purple box, clear boundaries] **minus** non-exhaustive list of some other services [grey cloud, no clear boundaries] = the result corresponds to ‘transmission services’ [blue cloud, boundaries not clear due to the grey cloud]

→ the attention is concentrated on the purple box and the grey cloud

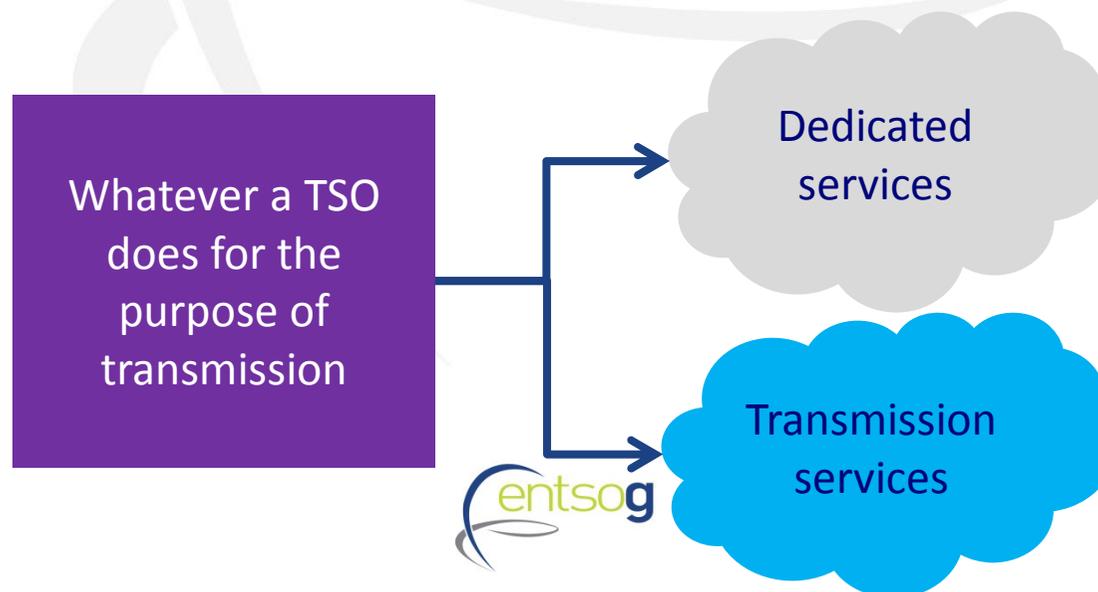


Suggested Stakeholder Approach

Stakeholders propose alternative approach ensuring ‘a clear distinction / boundaries between transmission and non-transmission services in order to avoid any possible cross-subsidy’:

Instead of defining the transmission services as the difference between ‘whatever’ and ‘other services’, we should divide this ‘whatever’ into ‘transmission services’ and what they call ‘dedicated services’

→ the attention is concentrated on the grey cloud and the blue cloud



What Is the Difference then?

Whatever a TSO does for the purpose of transmission



Some other dedicated services / infra-structures



Transmission services

Whatever a TSO does for the purpose of transmission



Dedicated services



Transmission services

Is it true that the only difference is the mathematical operation (subtraction vs. division)?

No, because the unclear boundary between 2 components of the purple box will be clarified – namely, by **'qualifying'** these components



Stakeholder Proposal for Separation

TRANSMISSION SERVICES → TRANSMISSION TARIFFS	DEDICATED SERVICES → CHARGES FOR DEDICATED SERVICES
<p>1. <u>scope</u>: ‘more general definition’, ‘focus on the mere transportation of gas’, ‘only transport-related charges could be billed at transport points’</p>	<p>1. <u>scope</u>: exclude only services that can be easily and exclusively attributed to local costs and to dedicated services</p>
<p>2. <u>beneficiary of the service</u>: all users</p>	<p>2. <u>beneficiary of the service</u>: dedicated group of users / at dedicated location</p>
<p>3. <u>calculation</u>: via cost allocation methodology</p>	<p>3. <u>calculation</u>: per NRA determination</p>
<p>4. <u>revenue reconciliation</u>: one pot for transmission services only</p>	<p>4. <u>revenue reconciliation</u>: not to be mixed with one pot</p>
<p>5. <u>transparency</u>: parameters of cost allocation methodology, allowed revenue, under-/over-recovery, resulting tariffs</p>	<p>5. <u>transparency</u>: charges themselves and their description</p>
	<p>6. <u>additional burden</u>: (i) avoiding cross-subsidies between network users / different groups of points, ACER supervisory role; (ii) subject to consultation</p>

Development of Text

- **‘transmission services’** – redrafting definition, incorporating stakeholder comments → the aim is to provide further clarity
- **‘dedicated services’** – the approach is to define clear criteria rather than have an exhaustive list of inclusions → the aim is to reflect the need to be flexible for potential future changes





european network
of transmission system operators
for gas

DISCUSSION

TAR NC Refinement WS – 24 September 2014



Development of the TAR NC: Refinement Workshop

Harmonisation of tariff setting year and Publication of Tariff Information

Áine Spillane

ENTSO-G

TAR NC Refinement WS – 24 September 2014

ENTSOG's Task

Framework Guidelines

'ENTSOG shall carry out an impact assessment on harmonising the transmission tariff setting year, including downstream impacts, across all member states. The Network Code on Tariffs may also include provisions to harmonise the tariff setting year across the EU'

Stakeholder Feedback

Are you concerned by the fact that tariffs are set / applied at different times of the year?			
Number of respondents: 33	Yes 31	No 1	Unclear 1

Is the issue of knowing the tariffs for the relevant gas year before the auctions start very important to you?			
Number of respondents: 34	Yes 32	No 2 (indicated that the question was not applicable to them)	Unclear n/a
Positions and rationale	Theme 1: Knowledge of reserve prices, multipliers and seasonal factors before the CAM NC yearly capacity auction in March		

Are there any other issues or aspects that are more important than the issue specified in Question 26?			
Number of respondents: 29	Yes 10	No 19	Unclear n/a

Stakeholder Consultation Feedback

Knowing with certainty what the reserve prices, multipliers and seasonal factors are for the first capacity year before the CAM NC yearly capacity auction in March, is essential to enable shippers to develop commercial booking strategies

Providing a forecast of reserve prices for future years, based on the best information available...will help shippers assess the implications of longer term capacity bookings

The annual auction should be moved from March to September

The price is a factor in determining portfolio mix, as fuel purchasing strategy considers LNG imports, NBP trading, production and IP imports. The price then needs to be known to determine bidding tactics

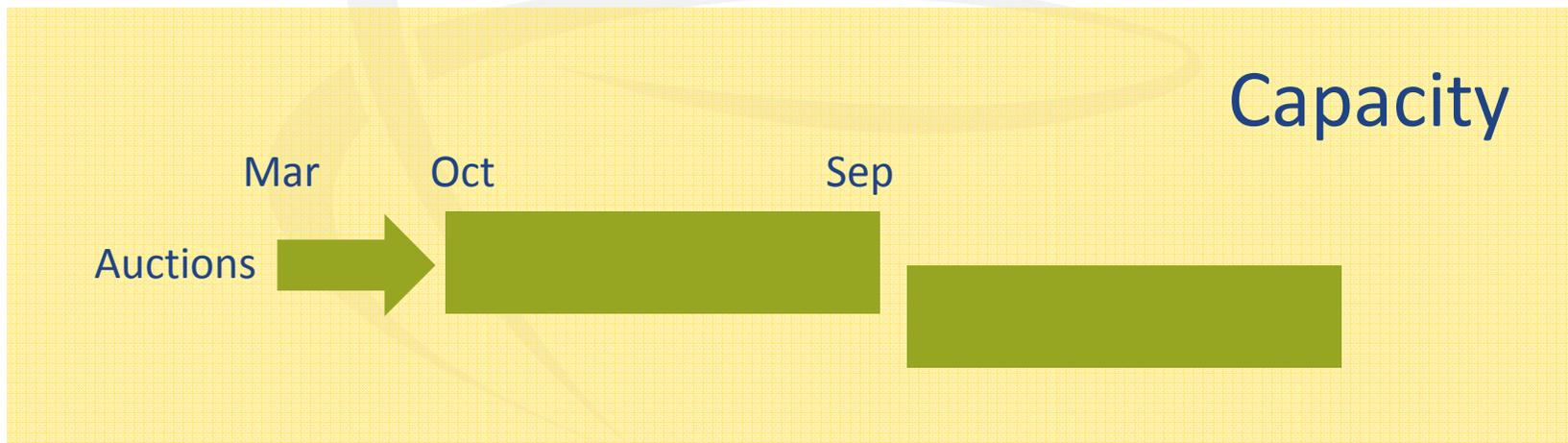
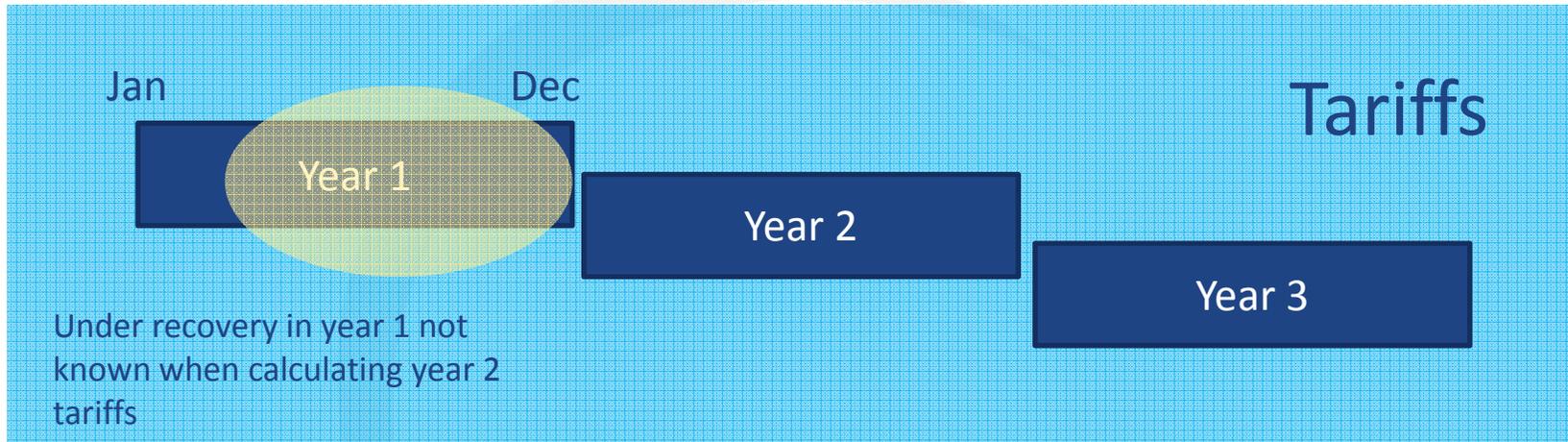
Impact Assessment



- The impact assessment is on-going
- no final position yet

Can we do anything else to assist shippers with their booking decisions ?

Issue of providing binding tariffs



Compromise options to address concerns

1. Publish indicative reference prices for the next gas year prior to auction
2. Publish binding multipliers and seasonal factors prior to auctions
3. Move the annual auctions from March to later in the calendar
4. Publish tariff trends for all remaining years in the current regulatory period



european network
of transmission system operators
for gas

DISCUSSION

TAR NC Refinement WS – 24 September 2014



Development of the TAR NC: Refinement Workshop

Payable Price: Fixed Price Mechanism

**Colin Hamilton
(on behalf of ENTSO-G)**

TAR NC Refinement WS – 24 September 2014

Fixed Price – Stakeholder Comments

Question 48

Do you agree with ENTSOG's proposal for the inclusion of different mechanisms for fixed capacity prices in the refined draft TAR NC, as outlined in the Supporting Document?

Number of
respondents: 38

Yes
24

No
12

Unclear
2

...concept of fixed price brings certainty to the market...

...fixed tariff to allow network users to book long-term capacity ...

...need for a transparent mechanism ...

...allowed for too many variations...

...further discussion is required on the various options available...

Fixed Price Mechanisms – Updated Proposal

- TSO will be obligated to provide floating price tariffs
- TSO has the option to provide a fixed price mechanism
- Proposal for fixed price mechanisms:

$(\text{Fixed price} + \text{Premium}) * \text{Indexation}$

- Premium and index consulted upon and agreed by the NRA



Fixed Price Mechanism – how this would work



If you buy capacity for year 4, in the year 1 auctions, the price would be:

(Reference Price in year 1 + premium) * index

PREMIUM



Fixed Price Mechanism – example



Example:

Reference price for year 1 = 0.5

Premium = 0.05

Index = realised inflation (assumed to be 2%)

Price paid in year 4 = $0.55 * 1.02 * 1.02 * 1.02 = 0.584$

Fixed Price Mechanism

Additional considerations:

How is the premium utilised?



The impact on network users that hold capacity in a entry / exit zone that is to be merged needs further consideration?

What happens if neighbouring TSOs do not offer the same option?



european network
of transmission system operators
for gas

DISCUSSION

TAR NC Refinement WS – 24 September 2014



Development of the TAR NC: Refinement Workshop

Multipliers

Violeta Bescós
ENTSO-G

TAR NC Refinement WS – 24 September 2014

Multipliers ranges

TAR Framework Guidelines:

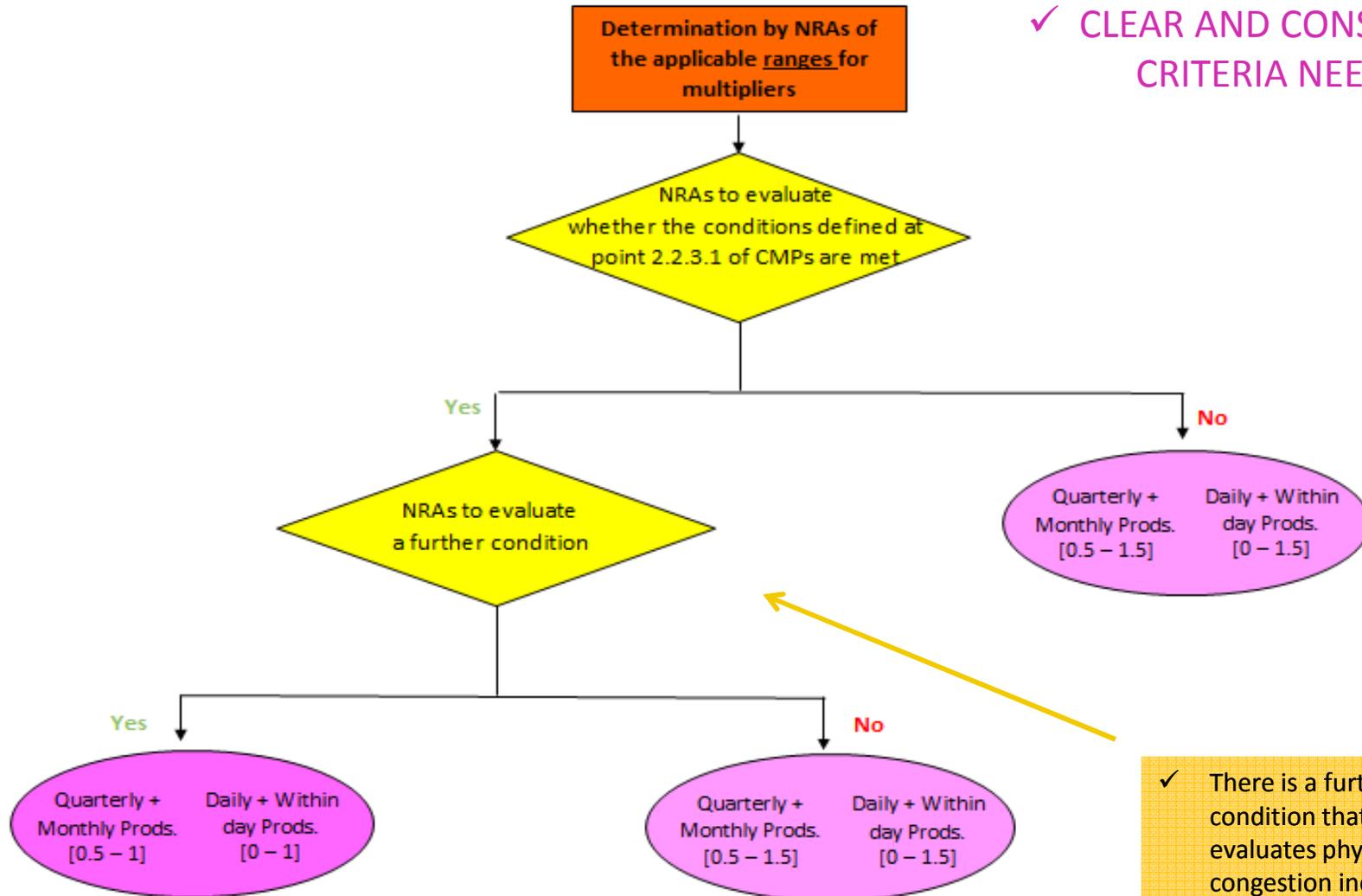
The TAR NC shall set out that, in determining multipliers the following conditions apply:

Duration of the short term product	Multiplier range <u>without</u> congestion	Multiplier range <u>with</u> congestion
Quarterly and monthly	0.5 – 1.5	0.5 – 1
Daily and within day	0 – 1.5	0 – 1

Congestion shall be defined as in point 2.2.3.1 of Annex I to Gas Regulation.

Multipliers ranges

Initial Draft TAR NC Proposal



✓ CLEAR AND CONSISTENT CRITERIA NEEDED

✓ There is a further condition that evaluates physical congestion included as a safeguard – clear indicator of physical congestion

Multipliers ranges

Public Consultation Responses

... congestion should be taken in consideration but **shouldn't be an automatic** determinant and shouldn't be the only consideration.

25 resp. incl most associations

The competent **NRA shall decide the appropriate threshold**, according to the criteria of Article 28(5) and after consultation.

Congestion can be an automatic determinant to consider the range applicable but these respondents are **questioning the definition of congestion** and the conclusions of ACER's report.

3 respondents

The TAR NC **should eliminate the ranges** and allow multipliers for monthly and quarterly products to be set anywhere between 0.5 and 1.5 and multipliers for daily and within day products to be set anywhere between 0 and 1.5.

The definition of congestion in CMPs needs to be further discussed.

15 resp.

Big opposition from the stakeholders on the use of the definition of congestion as set out in CMPs

Multipliers ranges

Proposal for the Refined Draft NC

- The higher/lower multiplier ranges depending on contractual congestion are eliminated.
- This means that multipliers for M and Q products are to be set anywhere between 0.5 and 1.5 and multipliers for D and WD to be set anywhere between 0 and 1.5.
- No direct link to CMPs included, contractual congestion and physical congestion, previously evaluated to determine the allowed ranges, are now criteria to be evaluated by the NRA when setting the level of multipliers.

Safeguard for Multipliers

Initial Draft TAR NC Proposal

“Subject to the decision of the NRA, the level of the multipliers may be more than 1.5 where the TSO or the NRA, as relevant, justifies that the resulting reserve prices better correspond to Article 28(5).”

Public Consultation Responses

...some respondents think that multipliers higher than 1.5 are not acceptable.

... some respondents believe that higher multipliers are acceptable if the process is transparent, NRAs agree and they are adopted after a consultation process with the market

Majority of the above consider appropriate to leave up to the NRA the determination of a higher level of multipliers

Minority of the above consider appropriate the inclusion in the TAR NC of a cap higher than 1.5

ACER: proposal in the initial draft TAR NC is less harmonised than FG approach. ENTSOG to prepare a proper characterisation of situations, when the FG’s policy leads to undesired outcomes. If the analysis shows that the majority of IPs are concerned, a harmonised proposition shall be put forward by ENTSOG. In case the situations are rather exceptional in nature, ACER considers that those shall be solved by an adjustment to the reference price.

Safeguard for Multipliers

Refined Draft TAR NC Proposal

Unreasonable increases in the reference prices might occur due to the cap of 1.5

Cross subsidies

Tariff volatility

Develop safe guard option. Include in the NC more detailed criteria when it can be used.

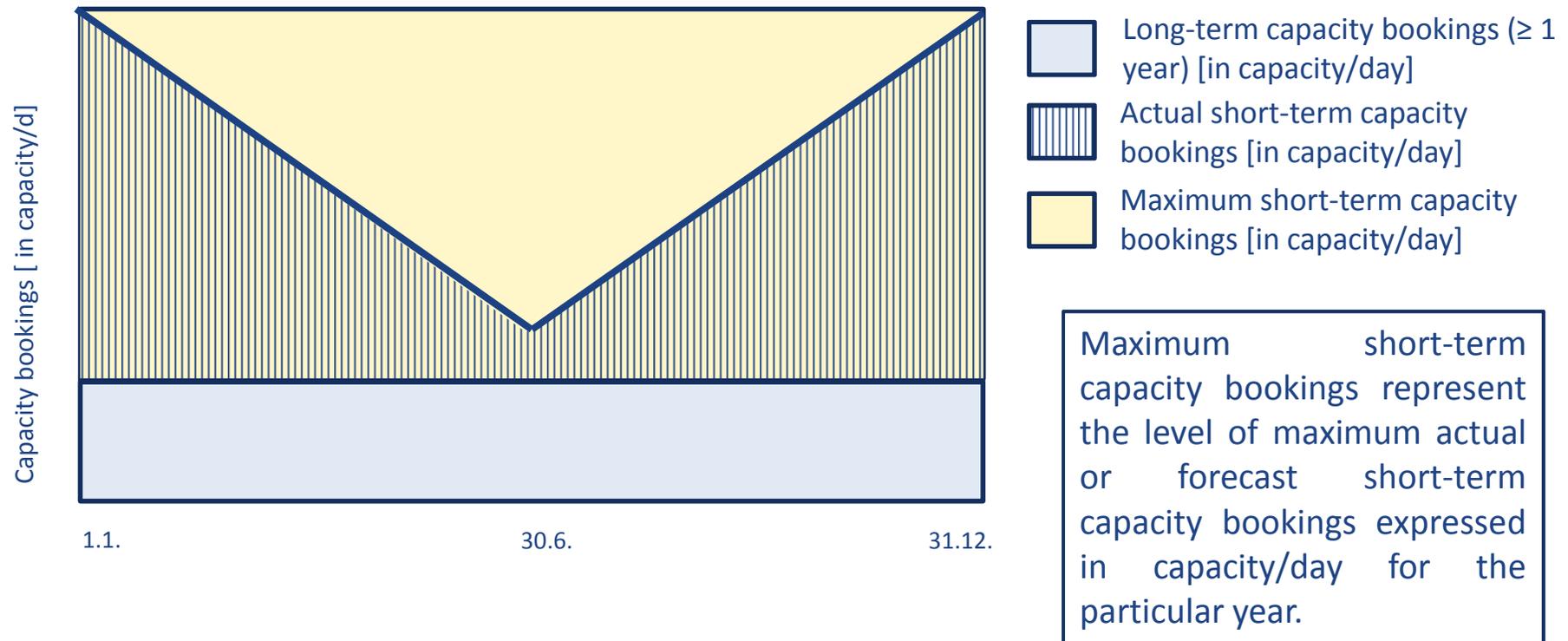
UNDER DISCUSSION

CRITERIA ON WHEN THE SAFEGUARD COULD BE APPLIED

The level of the multipliers may be more than 1.5 where the transmission system operator or the national regulatory authority, as relevant, justifies the following:

- The resulting reserve prices better correspond to Article 28(5); or
- Certain pre-conditions are met, using booking patterns as indicator (see next slide)

Initial thinking on possible conditions for multipliers above 1.5



Proposal of the pre-condition

If the ratio of the of maximum short-term capacity bookings expressed in capacity per day multiplied by calendar days of the given year and the yearly sum of actual or forecast short-term capacity bookings expressed in capacity per day is higher than 1.5 at least in one of the last 3 years or in the projection of the booking tendency for the upcoming year \rightarrow multipliers higher than 1.5 may be used

$$\text{Formula : } \frac{\text{Maximum short-term capacity bookings [capacity per day]} \times 365}{\sum \text{Actual short-term capacity bookings [capacity per day]}} > 1.5$$



european network
of transmission system operators
for gas

DISCUSSION

TAR NC Refinement WS – 24 September 2014



Development of the TAR NC: Refinement Workshop

Benchmarking

**Michal L'alik, Eustream
(on behalf of ENTSOG)**

TAR NC Refinement WS – 24 September 2014

Issues to Be Addressed

Addressing public consultation

- Circumstances for the use of benchmarking clearly defined
- Impact of the benchmarking to the other E/E points (not facing competition)

Issues being discussed

- Considerations of TSO's with high transit proportion (Benchmarking as bi-directional secondary adjustment)

Circumstances on the use of benchmarking

Refined Draft NC proposal:

Article 18

Secondary adjustment: benchmarking

1. The conditions for the application of benchmarking on a case-by-case basis shall include all of the following:
 - (a) where there is effective pipeline-to-pipeline competition between the transmission system operators;
 - (b) where the result of the application of the primary cost allocation methodology is not sufficient for meeting the competitive level of transmission tariffs;
 - (c) in order to increase the revenue to be obtained at a given entry or exit point;
 - (d) where the result of its application better meets the objectives set out in Article 1 of Regulation (EC) No 715/2009.

Impact on Other Points

Article 3.3.2.3. of the TAR FG:

- First para: ‘Higher capacity sales at this point would be expected to offset the need for increased tariffs at other points in order to collect allowed revenues.’
- Last para: ‘The proposal for reducing a tariff based on benchmarking, as well as the corresponding tariff increases along with the NRA’s reasoning, shall be publicly consulted before the tariffs are set.’

Article 18 of the draft NC:

- Last para: ‘Where the forecasted capacity sales at the points at which the benchmarking is carried out are not expected to ensure obtaining the allowed revenue, the transmission system operator or the national regulatory authority, as relevant, may increase the transmission tariffs at other entry or exit points.’

Impact on Other Points – Entry / Exit Split

Benchmarking and its impact on Entry / Exit split:

- 1) Cost allocation approach applied in order to arrive to tariffs for each point of the system (may include a fix entry exit split)
- 2) If as a result, a tariff at a particular point is disproportionately high → potential under recoveries and distortions on the entry exit split
- 3) Benchmarking is applied at that point decreasing its tariff
- 4) Change of tariff at that point will imply changes on the Entry/Exit split

The possibility to change a pre-fixed entry/exit split is needed

Potential cross-subsidies could be created

Key High Transit TSOs* Attributes

Considerations leading to proposal of NC adjustment

High Transit TSOs (“Hi-TSOs”) exhibit several major differences in comparison to the operators in countries of final gas destination:

- have monopoly position only in minor part of their activity
- face effective competition
- are not able to recover revenues in case of significant drop of transit flow
- require lower asset base and transit cost per transmitted molecule

No possibility of bi-directional benchmarking can, in case of pure cost+, only have negative impact on such Hi-TSOs and network users:

- 1. efficiency of the system may create upper cap on revenues during favorable flow conditions (incentive elimination) and**
- 2. on the contrary, no stability protection is offered in case of drop of transit flows, as the domestic transmission cannot substitute such massive drop (no protection)**

*TSO with high proportion of transit on overall transmission

Introduction of Bidirectional Secondary Adjustment by Means of Benchmarking

Supporting arguments for possible tariff increase are, that possible tariff increase:

- retains incentive for part of Hi-TSOs' business facing competition
- is allowed by the primary legislative source: Regulation (EU) 715/2009
- is without impact to the final consumer prices
- avoids discrimination of users with no access to all competing routes
- allows Hi-TSOs to retain their comparative advantage of having a concentrated and very efficient grid
- avoids a pressure on significant cross-subsidy.

Should such approach not be permitted, the TAR NC shall not respect the specifics of High transit TSOs who facilitate primary inflow of natural gas to Europe and exhibited stable tariff structure in the past. Introducing only one sided benchmarking adjustment in TAR NC does not fully address Reg. (EU) 715/2009, takes away comparative advantage of the High transit TSO's, while no revenues loss protection is offered.



european network
of transmission system operators
for gas

DISCUSSION

TAR NC Refinement WS – 24 September 2014



Development of the TAR NC: Refinement Workshop

One-Off Capacity Reset

Malcolm Arthur

TAR NC Refinement WS – 24 September 2014

Stakeholder issues



Risk of price increases



Limited ability to manage risk via capacity contract



Proposed measures not enough to reflect the substantial changes introduced by EU legislative

Stakeholder proposed solution



One off opportunity to hand
back capacity

ENTSOG Position

- Mitigation measures only considered tariff risk
- Should measures consider other risks?
- Need to further consider interaction with other NC, such as CMP
- May have disproportional impact on specific TSOs

Process points

- Transfer of risk and costs to the TSO and the market
- Greater impact on parties that are unable to move to short term capacity bookings
- Generate additional tariff instability immediately post implementation
- Could lead to TSOs under-recovering their allowed revenue

Economic consequences

Tariff NC Mitigation Measures

Transitional and mitigating measures in the Tariff NC:

- Measures can be applied prior to implementation, but should not last longer than 24 months. They
 - *affect the execution of specific contracts;*
 - *not coincide with the commencement of the gas year, tariff setting cycle or regulatory period; or*
 - *where tariffs at individual entry or exit points would increase by more than 20% from one year to the next due to the application of the provisions in the Network Code on Tariffs.*
- The detailed design of mitigating measures shall be defined by the TSO or the NRA and approved by the NRA

Are there other measures that can mitigate the risk of tariff changes?



european network
of transmission system operators
for gas

DISCUSSION

TAR NC Refinement WS – 24 September 2014

ENTSOG Refinement Workshop

24th September 2014



European Federation of Energy
Traders

EU Tariff Network Code

Where do we go from here?

Gunnar Steck

EFET Tariff Group



EFET has actively participated in the TAR NC development process since Mar 2012



- Responded to 4 separate ACER consultations
- Presented views at Madrid Forums, ACER Workshops, ENTSOG Stakeholder Joint Workshops
- Bilateral discussions with ENTSOG and the Commission
- Submitted a 30 page detailed response to ENTSOG's consultation recommending 46 specific changes
- Proposed draft legal text for each of these 46 changes

A “FIT FOR PURPOSE” TAR NC IS OF CRUCIAL IMPORTANCE TO OUR MEMBERS AND TO THE EFFICIENT FUNCTIONING OF COMPETITIVE EU GAS MARKETS

TAR NC must be “fit for purpose” – transparency, predictability and certainty



- **To understand what we are paying for and to mitigate/quantify risk**
 - NC should specify data/inputs to be published, including price control data
 - Tariff changes must be fully explained before they apply, with no delays in publication
 - TSOs should publish working tariff models pre-loaded with relevant input and regularly updated
 - Postage stamp should be harmonised as the methodology counterfactual
 - No surprise tariffs and levies for dedicated services which are non-transmission related
 - Reserve prices, multipliers and seasonal factors known before the March annual CAM auctions
 - Reserve prices, multipliers and seasonal factors fixed for the first capacity year
 - Ex-ante interruptible discounts, not ex-post
 - Ability to fix the payable price of capacity

**DESPITE A FEW POSITIVE SIGNS THERE IS STILL A
LONG WAY TO GO**

TAR NC must reflect reality & provide a sustainable basis for transmission charging in future



▪ One-off capacity reset mechanism

- Market rules and competition have fundamentally changed as a result of the 3rd package
- Numerous LT capacity contracts pre-date this, placing LT capacity holders at a disadvantage
- Reset is an effective mitigation against the risk of substantial TAR NC price increases
- **Capacity reset helps realise the benefits of CAM, CMP & bundling - could help integration**
- **Without a reset LT contracts will act as a drag on competition - tariff instability will persist each time a LT contract expires**
- **Reset should not prevent TSOs being able to recover allowed revenues – aggregate transportation bills won't decrease but unit capacity costs will change**
- **Sustainable EU gas markets require capacity costs to be properly reflected in hub prices**

**ENTSOG APPEARS UNWILLING TO ADDRESS SUSTAINABILITY
DESPITE STRONG CONCERNS FROM MULTIPLE STAKEHOLDERS**

Where do we go from here



- **May still be time to make TAR NC “fit for purpose” but**
 - ENTSOG cannot ignore stakeholder feedback just to further its members perceived interests
 - ACER must be prepared to reconsider preconceptions in the Framework Guideline
 - Recognition that the TAR NC must be a sustainable basis for transmission charging in future
- **EFET is prepared to work with ENTSOG/ACER to**
 - Make sure the reset mechanism does not adversely impact TSOs revenues
 - Develop a more complete solution to problems caused by stranded assets
- **An extra few months to do this thoroughly is nothing in the overall timeframe**
- **If ENTSOG don't address these failings we question what real benefits it will provide and are concerned it could make matters worse**

**TAR NC MUST NOT BE A HOTCH-POTCH OF CONFLICTING OBLIGATIONS,
ACCOMMODATING THE CONCERNS OF EVERYONE EXCEPT SHIPPERS**

PAYING THE BILL

Listening is appreciated but action is essential



European Federation of Energy Traders

**Amstelveenseweg 998
1081 JS Amsterdam**

**Tel: +31 (0)20 5207970
Email: secretariat@efet.org
www.efet.org**

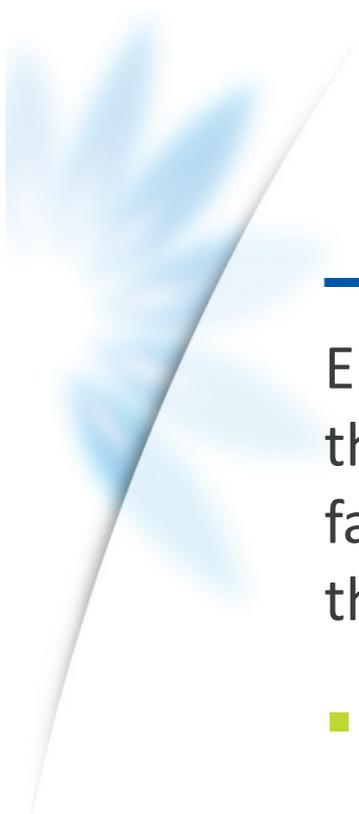
Views of Eurogas on the proposed tariffs code

Refinement Workshop for the Tariff Network Code development
Brussels, 24 September 2014

Margot A. Loudon
Deputy Secretary General

Eurogas recalls key objectives of code development

- A liquid competitive internal market
- Vigorous primary and secondary capacity market, benefiting from efficient booking strategies
- Efficiently operating TSOs, who provide non-discriminatory services shippers ask for and have the revenues to maintain and invest in the system
 - transparency
 - predictability and stability
 - evolution



Eurogas would like to see the following improvements to the code. Main concern remains that shippers could be faced with fast increasing tariffs, as TSOs seek to cover their asset bases.

- A capacity reset mechanism
- Fixed tariffs
- Harmonisation of the tariff year, and the tariffs for the relevant gas year should be known before the auctions
- An obligation on TSOs to use ex-ante discount for capacity products for interruptible capacity

Capacity reset option

- Without this mechanism, there will be economic problems for long-term shippers-ultimately detrimental to market interests.
- To minimise the uncertainties and concerns of TSOs and guard stability, shippers would indicate with an appropriate notice period (to be negotiated).
- There should be an European wide option, but discussions may be necessary to accommodate problems of particular TSOs, but an in-depth analysis and consultation with shippers would be necessary.

Fixed tariffs

- Obligations on TSOs to offer the opportunity to shippers to fix the payable price of capacity bookings (current and future).
- The payable price for capacity products on IPs would be guaranteed, and shippers with different booking strategies would be able to reduce the exposure to tariff fluctuation.

Timing and transparency issues

Eurogas wants to be able to lend strong support to in the November stakeholder support consultation, and therefore ENTSOG needs to meet our requests on the reset option and other improvements.

Thank you for your attention!

Contact details

**Av. de Cortenbergh 172
1000 Brussels
BELGIUM**

Phone:

+32 2 894 48 48

eurogas@eurogas.org

www.eurogas.org



Tariff NC - What's next ?

Disclaimer:

Draft for discussion only; this not an agreed OGP position

ENTSOG Refinement workshop on Tariff NC
Brussels, 24 September 2014

Kees Bouwens, ExxonMobil

- **Appreciate ENTSOGs work to develop Initial draft NC**
 - Project plan was tested and successful at previous NCs
 - Active Stakeholder participation at workshops
 - Initial draft NC was delivered on time, despite:
 - Missing or unclear problem definition
 - Mixed signals on level of harmonisation
 - Very tight time schedule, set to deliver NC within 12 months
 - Stakeholders' questioning Framework Guidelines

- **Initial draft cannot hide that real issues are not resolved**
 - When the current text would be adopted, this might be worse than having no code at all
 - Most systems seem to comply already
 - 'Faults' remain and even are sanctioned under EU law
 - No clear guidance on pricing of CAM NC products
- **How did we get to this point?**
 - Possibly, due to missing agreement on problem definition

- **ENTSOG continues with NC refinement,**
- **or Consider scope reduction,**
 - Limit task to Article 8.7 of the Gas Regulation
 - Cross-border network issues and market integration issues (e.g. tariff rules related to CAM NC implementation)
- **or Request more time to address real problems**
 - Capacity reset mechanism and issue of stranded assets
 - Stability and transparency/predictability of regulatory regime

Thank you for your attention !



Development of the TAR NC: Refinement Workshop

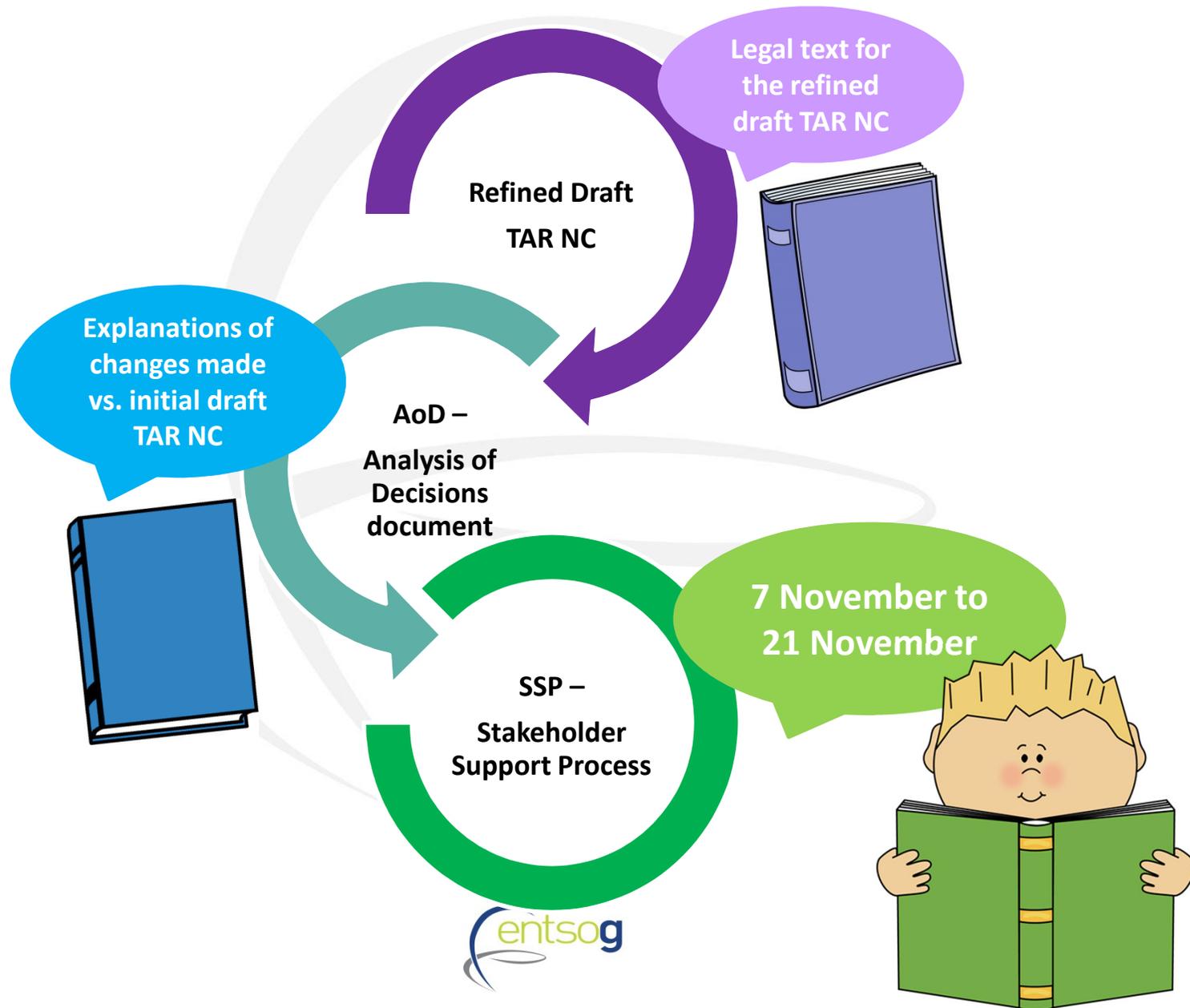
Summing Up and Closing Remarks

Malcolm Arthur

ENTSOOG

TAR NC Refinement WS – 24 September 2014

Documents for Stakeholder Support Process



Next Steps

What is AoD?

- Before adopting [...] the network codes [...] the ENTSO for Gas shall indicate how the observations received during the consultation have been taken into consideration. It shall provide reasons where observations have not been taken into account. (Article 10.3 of the Gas Regulation)

What is SSP?

- A consultation in form of a Stakeholder Support Process shall give the stakeholders the opportunity to express their support of or their disapproval with a *[refined]* draft Network Code (Article 26(4) of ENTSG's Rules of Procedure)

What is next?

- The Board shall submit the draft Network Code to the General Assembly for approval accompanied by a report on the results of the Stakeholder Support Process. After approval by the General Assembly the General Manager shall submit the Network Code to the Agency for its opinion. (Article 28.7 of ENTSG's Rules of Procedure)



european network
of transmission system operators
for gas

THANK YOU

TAR NC Refinement WS – 24 September 2014