

MINUTES

Network Code on Harmonised Transmission Tariff Structures for Gas ENTSOG Refinement Workshop

24 September 2014 from 10:00 – to 17:00

At ENTSO-E Conference Centre, Av. de Cortenbergh 100, Brussels

Company	Name	Company	Name
ENTSOG (chair)	Malcolm Arthur	Fluxys	Laurent De Wolf
ENTSOG	Jan Ingwersen	GDF Suez	Laurent Hamou
ENTSOG	Áine Spillane	Gasunie Deutschland	Ksenia Berezina
ENTSOG	Irina Oshchepkova	GDF Suez Infrastructures	Laurent Percebois
ENTSOG	Violeta Bescós Roy	Autorita per l'Energia Elettrica, il Gas e il Sistema idrico	Marco La Cognata
Alliander	Joost Gottmer	ENI SpA	Marta Mrowetz
Snam	Alessandro Gussetti	Gasunie Deutschland	Matthias Krohne
Gazprom M&T	Alex Barnes	E.ON Gas Storage GmbH	Michael Schmoltzer
Shell Energy	Amrik Bal	Edison SpA	Monica Immovilli
EDF Trading	Andrea Bonzanni	Enagas	Paloma Izquierdo Fernandez
BP Gas Marketing	Andrew Pearce	TAQA Energy B.V.	Robert Jan Maaskant
Ukrtransgaz	Anton Kolisnyk	Centrica Storage Ltd.	Roddy Monroe
Net4Gas	Borek Kubatzky	Gascade	Rolf Wagner
EDF	Claire Gall	EoRoPol GAZ	Slawomir Lizak
National Grid	Colin Hamilton	VNG-Verbundnetz Gas AG	Stefanie Gunst
EFET	Colin Lyle	RWE Supply & Trading GmbH	Stephen Rose
Commission for Energy Regulation	Colm Ó Gormáin	GDF Suez Infrastructures	Sylvie Denoble- Mayer
Statoil	Davide Rubini	DG Energy	Tanja Held

TIGF	Emmanuel Bouquillion	DEPA S.A.	Throdoros Mantoukas
Enagas	Francisco de la Flor	ACER	Thomas Querrioux
CRE	Francois Leveille	GasTerra B.V.	Warner ten Kate
GRTgaz Deutschland	Gregor Scholze	Hungarian Gas Tranzit	Zsolt Eles
Energie-Nederland	Hein-Bert Schurink	Ontras	Niels Krap
Vattenfall	Helga Norrby	Bayernets	Thassilo Breuer
Regulatory Authority for Energy	Irene Lacovides	Eustream	Michal L'alik
IFIEC Europe	Jacques van de Worp	GIE	Philipp Palada
Net4Gas	Jana Krejcova	Eurogas	Margot Laudon
Gastransport Nord GmbH	Jann Keller	ACER	Lewis Hodgart
CREG	Johan Allonsius	IUK	Pavanjik Dheso
GDF Suez	Julien Quainon	Ofgem	Nathan Macuhinnie
Exxonmobil/OGP	Kees Bowens	Storengy	Isabelle Diversy
ACM	Kirsten Bowens		

ENTSOG also provided a webcast facility on the day of the meeting for those unable to attend in person.

1. OPENING

Jan Ingwersen welcomed the participants to the TAR NC Refinement Workshop and outlined the intention of ENTSOG for the day. He noted that not all issues would be covered and that the idea was to indicate initial thinking on how to proceed to the refined draft TAR NC from the initial draft TAR NC

2. ENTSOG PROCESS UPDATE

2.1. Overview

Malcolm Arthur provided an overview of the process and outlined that we are now in the third phase of the Network Code process – that of the decision making phase. He provided a brief overview of the consultation responses and of the opportunity for stakeholder involvement to date. A brief overview of the expected added value of the network code was also provided.

Mr. Arthur then outlined the expected TAR NC implementation timescale and also some of the feedback received from stakeholders in their consultation responses. For the most part, stakeholder concerns echoed that of the TSO's main concerns, that there may not be sufficient time for implementation of the code.

2.2. Discussion

Q: If there is a delay in the implementation period, what actually happens during the transitional period referred to?

A: The intention is that you would discuss that with your NRA as to what the transitional period means and whether you would do a phased implementation or whether you would do something else.

Q: What was the logic behind pushing back the full code implementations date to 2020?

A: This was something that was already in the code

Q: Why not introduced transparency early?

A: Transparency rules are linked to everything else in the code and therefore it would not be possible to have different timescales for different elements of the code as everything is interlinked

The following issues were also discussed:

- > There is no urgency with the code as there are no improvements in this draft
- > People are uncomfortable with the code and people have a lot of concern, 'what we want is a good code'
- > Under all scenarios presented, it is foreseen that the full code and full tariffs will be implemented by 2020.

3. TRANSMISSION SERVICES DEFINITION

3.1. Overview

Ms. Irina Oshchepkova presented ENTSOG's current views on the Transmission Services definition. She provided an overview of the initial draft TAR NC wording and outlined some of the stakeholder feedback received during the consultation process. Stakeholders proposed an alternative approach ensuring 'clear distinction/boundaries'. 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'.

This suggestion is being taken on board and ENTSOG are currently redrafting on this basis with the aim of providing further clarity for 'transmission services' and defining clear criteria for 'dedicated services' rather than having an exhaustive list of inclusions. This element will need to be flexible in order to provide for potential future changes.

3.2. Discussion

Q: You talk about clear criteria, why not come up with an exhaustive list for dedicated services.

A: That could be seen to be contradictory with the process on consultation and also providing such a list would prohibit future dedicated services that might be applicable later on. An alternative could be to provide examples of what we expect dedicated services to be in the Analysis of Decisions document.

Q: Would the German conversion levy be a dedicated service? If so, then not much has changed.

A: Yes it would be an example of a dedicated service, however it would be first subject to NRA approval.

Q: Are we going to get complete transparency regarding dedicated services?

A: This is currently under discussion and we are considering the boundaries.

Q: What are the boundaries?

A: We can provide a description of the services and also the charges themselves

The following issues were also discussed:

- > ACER should have a supervisory role with regard to the consultation on deciding whether a service is deemed a dedicated service or not.
- > If you want to address the issue of deciding what services are dedicated in the code then certain rules would need to be put in place as to how you can measure dedicated services
- > Dedicated services should also consist of those services that have nothing to do with the structural nature of the transmission network, e.g. storages
- > We need to adhere to existing rules and regulation and consider cost reflectivity for transmission services
- > These services are a part of the revenue cap which TSPs are allowed to recover. Isn't it better that these are recovered only by a specific set of users
- > Dedicated services in some circumstances could be greater than 50%, therefore transparency, being able to replicate and forecast tariffs is key. There needs to be a clear articulation of how charges are derived for dedicated services.
- > The ability of users to calculate how dedicated services charges evolve over time

4. HARMONISATION OF TARIFF SETTING YEAR AND PUBLICATION OF TARIFF INFORMATION

4.1. Overview

Ms. Áine Spillane presented ENTSOG's considerations with regard to the harmonisation of the tariff setting year and publication of tariff information. It was emphasised that the impact assessment is on-going and that there was no final position yet. Referring to stakeholder feedback and comments however, and regardless of whether or not a decision will be taken to harmonise the tariff setting year, ENTSOG have said that they would be in a position to:

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, and
4. Publish tariff trends for all remaining years in the current regulatory period

Stakeholders were then asked to consider these options and provide their feedback

4.2. Discussion

Q: How does this issue relate to fixed payable price? It will only be floating that you will have an issue regarding publishing tariffs prior to auction

A: How you fix prices needs to be bottomed out still

Q: Assuming floating tariffs, we expect a move to short-term products and therefore we need to know actual tariffs prior to auction. Comparing costs of this with the administrative costs of harmonisation of tariff setting year that would lead to a clear market benefit, you are making a mistake not harmonising

A1: What we are saying is that changing the tariff setting year will still not provide tariffs for your entire capacity year. Providing binding tariffs create a revenue recovery risk for TSOs. As a company, it would lead to significant risks if we don't have stable revenue flows

A2: The risk only materialises if the deferred cash flow doesn't take this under-recovery into account. Then that risk doesn't occur. This is an issue between the TSOs and NRAs. Yes it is an issue but it is wrong to say it can't be fixed.

Q: Is the issue a cash-flow issue for allowed revenue TSOs only?

A: No, it also created more volatile tariffs

Q: If you move the annual auction to July, would it make it any easier to come up with binding tariffs? This is no point in doing that if you are not going to harmonise.

A: The idea was that you could provide more accurate indicative tariffs.

Q: Is there a benefit to moving the auctions, if it is just going to be indicative anyway?

A1: If you don't know the price, then clearly you don't know how much profit you will make

A2: If you know the multipliers and seasonal factors then clearly it helps, but you still don't know what your bill is going to be but on its own it is not going to solve the problem.

Q: Will it be possible to harmonise just for IPs?

A: As the tariffs from other points are dependent from revenue/tariffs for IPs, what you would end up doing is having a fixed price for IPs and then a floating price for all other points

The following issues were also discussed:

- > It should be a good thing for TSOs to provide binding tariffs as it will only encourage and incentivise longer term bookings.
- > If regulators can provide certainty with less risk on under-recovery, then it should be less of an issue to publish binding tariffs
- > The Code also foresees a regulatory account, e.g. what to recover and when and what period of time. The issue of not recovering your allowed revenue in a timely manner may be resolved here
- > This is not a new issue, it has always been the case that there's revenue uncertainty
- > Why not use the mechanism of a premium to solve this issue
- > It's not just an issue for the TSOs but also the NRAs.

5. PAYABLE PRICE

5.1. Overview

Mr. Colin Hamilton presented ENTSG's approach on Payable Price - Fixed Price Mechanism. An overview was provided on the consultation responses as was an updated proposal from ENTSG: TSO will be obligated to provide floating price tariffs and has the option to provide a fixed price mechanism. The formula will be: $(\text{Fixed price} + \text{Premium}) * \text{Indexation}$, with the premium and index being consulted upon and agreed by the NRA. Additional considerations were also discussed, namely: how will the premium be utilised, the need to consider the impact on network users that hold capacity in an entry / exit zone that is to be merged and what will the consequences be if neighbouring TSOs do not offer the same option?

5.2. Discussion

Q: Why is the merging of IPs an issue?

A: If a TSO is missing revenues due to the loss of revenues at an IP that is subsumed within the new entry / exit zone, then why should users of a merged IP pay for the fixed price contract?

Q: Is the premium effectively to get rid of over/under recovery?

A: Yes, that is one of the uses to mitigate against under recovery

The following issues were also discussed:

- > If the TSOs have an obligation, especially for the next tariff year to provide a fixed tariff then you may have solved the issue discussed in the previous section on providing a fixed price for the annual auction.
- > If a TSO is being paid a premium on fixed price for say a period of 10 years, then the TSO will pay tax on this revenue and therefore this would also have to be taken into account when setting the fixed price – it may end up becoming very expensive
- > It can be acknowledged that having a fixed price product with an index has the potential to minimise the risks but we have not seen a methodology on how to calculate these ranges. It still appears to be very subjective
- > There are practical issues that need to be fully thought through, e.g. the choice of indexation and premium. What would the consequences be if the premium was set too high, would those users purchasing floating products end up paying nothing?
- > Why the risk premium is indexed (raised via webex). Only the reference price should be indexed.

6. MULTIPLIERS

6.1. Overview

Ms. Violeta Bescós Roy presented ENTSOG's current thinking on Multipliers. An overview of the consultation responses was given as was the proposal for the Refined Draft NC. The suggested refined drafting would be on the basis of

- > 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.

The safeguard for multipliers was also discussed in addition to the criteria on when the safeguard could be applied. Currently under discussion with ENTSOG members is the fact that it should be permissible for the level of the multipliers to 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

Initial thoughts for revised drafting on this issue are:

'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 → multipliers higher than 1.5 may be used'

6.2. Discussion

Q: Could you sum up why you think multipliers higher than 1.5 are needed to recover your allowed revenue?

A: We have shown in the past why for some IPs, multipliers higher than 1.5 are not enough and are essentially creating cross-subsidies between long and short-term capacity users

Q: Have you considered using annual bookings versus short term bookings in your calculation in the formula on when to implement the safeguard?

A: We think the correct approach is to take into account short-term bookings but we will take your feedback into account and discuss this as a potential option.

Q: Why are you trying to achieve an arbitrary balance? Why do you not let the market decide what mix they might prefer?

A: Where there is no congestion, having a cap on multipliers of 1.5 will not be enough to recover revenues for some IPs.

Q: Isn't the solution then to increase the reference price in year 2?

A: We believe that would lead to creating cross-subsidies between long and short-term capacity users.

Q: If you have high multipliers, then doesn't this lead to cross-subsidies anyway?

A: What the right balance is, is the question and we need to address this issue.

Q: Is there any statistical evidence proving that a multiplier higher than 1.5 is needed to avoid a flight to short-term?

A: In a previous SJWS, we presented real data from an IP and provided the impact of this cap on the reference prices.

The following issues were also discussed:

- > When ACER set the cap of 1.5 in the Framework Guidelines, they felt that this was the right balance, what the 'safeguard' is saying is that this can be increased, only if it is felt that it is leading to a flight to short-term and following review from the NRA.
- > TSOs seem to assume that there cross-subsidies when there is a large amount of short-term bookings versus long-term. If there is a pipe that is not fully utilised today, anyone who books additional short-term capacity on a day to gain an arbitrage won't book any more at the point if the short-term tariffs are too high
- > It was agreed that short-term bookings are good for the market, but it is also important for TSOs to have sufficient long-term bookings for investment reasons.

- > It was pointed out that the only purpose of the code was not just to encourage short-term trading but also to provide stability of tariffs, avoiding cross-subsidies and promoting fair price. Therefore all these elements need to be considered when implementing a network code of tariffs

7. BENCHMARKING

7.1. Overview

Mr. Michal L'alik presented on the issue of Benchmarking, most notably on the circumstances for the use of benchmarking, the impact of benchmarking on other E/E points not facing competition and the considerations for TSOs with a high transit proportion. Supporting arguments for using benchmarking to introduce a possible tariff increase were outlined:

- 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 TSOs to retain their comparative advantage of having a concentrated and very efficient grid
- avoids a pressure on significant cross-subsidy.

It was outlined that 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.

7.2. Discussion

Q: What is meant by bi-directional benchmarking?

A: The current draft only allows benchmarking resulting in reducing tariffs. What would also be beneficial is if tariffs could also be increased in some circumstances, most notably if a TSO knows that they will definitely face a future significant drop in flows, leading to a significant tariff increase. This is what we are trying to avoid.

Q: This seems to be a specific issue. Would it not be easier to introduce a revenue cap regime for Eustream to resolve this issue?

A: No, as it would cause a significant tariff increase which we want to avoid.

The following issues were also discussed

- > The extension of benchmarking to storage points
- > The use of benchmarking as a primary methodology is surprising. It would need to be clarified in more detail how this will work and how this would be seen to be cost-reflective.
- > Benchmarking may lead others to benchmark which will only lead to having no tariff predictability
- > It is hard to understand how this proposed alternative form of benchmarking will work if you don't have a Regulated Asset Base.

8. ONE-OFF CAPACITY RESET

8.1. Overview

Malcolm Arthur introduced ENTSOGs position on the One-Off capacity reset option request from stakeholders. Namely the issues ENTSOG envisage comprise of Process points and Economic consequences.

Process Points

- 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

Economic Consequences

- 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

Mitigation measures will however be provided in the code which should lessen the urgency of this issue for stakeholders.

8.2. Discussion

Q: Why should the tariff code need to deal with mitigation measures for items that have nothing to do with tariffs?

A1: We are talking about EU gas regulation, so it doesn't matter what code it is in as all the codes are part of this regulation unless we start creating another 'mitigating' network code.

A2: We are told that this code applies to existing contracts and therefore this is why there should be a reset option.

A3: The Tariff Code is a big game changer in the overall regulation and it is not correcting the problems that have been created by the other codes.

A4: Some of the holders of existing contracts may challenge users who do not like the tariff increases they will be faced with, therefore isn't it better that they are solved within the code.

A5: Some shippers have contracts that pre-date the implementation of this code and because of the way the code has been constructed, there is only a possibility for one party to these contracts i.e. the TSOs to implement a unilateral change to the contract price. The shipper has not option to change the price.

Q: If fixed price contracts were to be implemented, would this solve the issue?

A1: It might do but users would need to know what exactly is being proposed with regard to fixed price.

A2: No, it does not solve the issue

The following issues were also discussed

- > Stakeholders wouldn't be unduly concerned if this issue was dealt with in the CAM code as it may be more appropriate to do so in this code
- > Stakeholders call for a constant right to an on-going reset option if tariffs increase by a certain percentage
- > It should be noted that we are not writing a code on private contractual law and therefore should not be required to solve issues created by individual private contracts between shippers and other parties.

9. STAKEHOLDER VIEWS

9.1. Overview

Gunner Steck presented EFET's views on the TAR NC, in particular on their opinion that the TAR NC must be "fit for purpose" – transparency, predictability and certainty, in order to understand what we are paying for and to mitigate/quantify risk. EFET also believe that the TAR NC must reflect reality & provide a sustainable basis for transmission charging in future (by means of introducing a One-off capacity reset mechanism). They feel that there may still be time to make TAR NC "fit for purpose" but that ENTSOG cannot ignore stakeholder

feedback just to further its members' perceived interests. ACER must be prepared to reconsider preconceptions in the Framework Guideline and there needs to be recognition that the TAR NC must be a sustainable basis for transmission charging in future.

Margot Laudon presented Eurogas's views on the TAR NC. The main concern remaining for Eurogas is that of the fact that shippers could be faced with fast increasing tariffs, as TSOs seek to cover their asset bases. Other concerns also include

- A capacity reset mechanism - 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.
- 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

Eurogas wants to be able to lend strong support to in the November stakeholder support consultation, but currently does not feel they are in the position to do so and therefore advocate that ENTSG needs to meet their requests on the reset option and other improvements.

Kees Bouwens presented views on behalf of OGP on the refined TAR NC progress to date. The main messages were that OGP appreciates ENTSGs work to develop Initial draft NC but that the initial draft cannot hide that real issues are not resolved. It was felt that when the current text would be adopted, this might be worse than having no code at all.

It was suggested instead that ENTSG should perhaps consider scope reduction and limit task to Article 8.7 of the Gas Regulation or request more time to address real problems. A capacity reset mechanism and the issue of stranded assets it quite important to OGP as is stability and transparency/predictability of regulatory regime `

9.2. Discussion

Q: Do you want a capacity reset even if the price is decreasing?

A: Yes, but we would probably not take up the offer. What we want is twofold, a one-off capacity reset option with entry into force and an on-going right to termination if the tariffs increase above a certain level.

Q: I do not agree that shippers would be worse off with the implementation of the code as there are several improvements, e.g. shippers will know all the inputs and outputs of the cost allocation methodology, there will be higher transparency, there are limited cost allocation methodologies and there will be formulas to calculate reserve prices and multipliers,

A1: Transparency will help but it is not sufficient and as regards to the cost allocation methodologies – these merely reflect what is already in place.

A2: Transparency should be in place already today as it is in law already and with this code and an implementation date of 2020 you are sanctioning a further delay in transparency

The following issues were also discussed

- > With regard to stakeholder presentations, there was a request for fairness. It was felt that even if, with the exception of the capacity reset, that all stakeholder requests were met, that there would still be no support for the code during the SSP.
- > Stakeholders however felt that on this point, today's other discussions were not entirely encouraging either and maybe that it was a question of taking more time to sit down and discuss the issues in more detail.
- > The EC have always stated why they felt this code was needed, however following stakeholder comments that it may not be needed, the ECD will reflect upon this and consider the code's future
- > There is no legal basis in the establishment of the network code for ENTSOG to request more time, so this is not an option
- > It was also emphasised that we are in the middle of the refinement process and that we are listening to stakeholders views and considering changes and that there is still time for improvements to be made.
- > Stakeholders questioned the balance of risk and felt that the risk for TSOs was a lot less due to the fact that TSOs are regulated while shippers are not.
- > If there was a reset option, then bookings would be more in line with physical flows and this would be better for the TSOs, as it would be easier to forecast physical flows and therefore more accurate and stable tariffs.

10. CONCLUSIONS

> Summing Up; Closing Remarks

Malcolm Arthur closed up the meeting by thanking the participants for their contribution to the discussions. He also outlined the next steps for ENTSOG in this process. He explained how ENTSOG will present a refined code along with an analysis of decisions document in early November and that this will follow with a consultation in form of a Stakeholder

Support Process which shall give the stakeholders the opportunity to express their support of or their disapproval for the Network Code.

The Board shall then 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 ENTSOG's Rules of Procedure)

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ALL DOCUMENTS RELATING TO THIS MEETING CAN BE FOUND ON THE ENTSOG WEBSITE AT
<http://www.entsog.eu/events/tariff>