



# Network code on harmonised transmission tariff structures for gas (NC TAR)

## Implementation of NC TAR in the Netherlands

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# Agenda

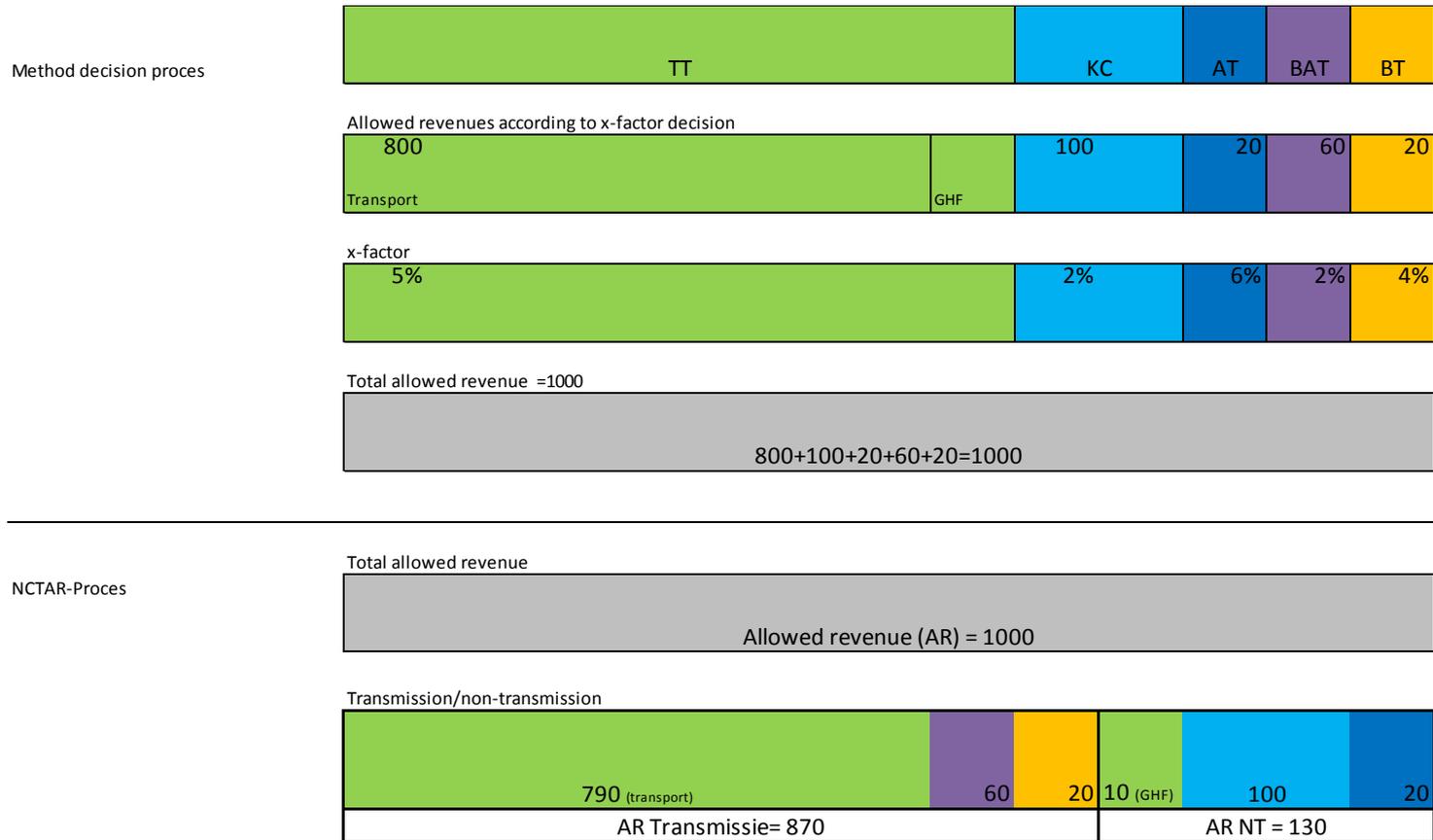
- Defining services
- Dividing services into transmission services and non-transmission services
- Reference price methodologies
- Possible adjustments
- Cost allocation assessment
- Tariff period

# What does NC TAR (not) do?

- Method decision:
  - The ACM sets the allowed revenue in the method decision and the x-factor decision
  - At the moment ACM only sets the allowed revenues for 5 legal tasks. Whether WQA and peak supply are also part of the scope of NC TAR is as of yet undecided. For the rest of the presentation we assume WQA and Peak are part of the scope.
- NC TAR proces:
  - The NC TAR determines transmission tariff structures and the preconditions for non-transmission tariff structures
  - Therefore the allowed revenue needs to be divided into transmission services revenue and non-transmission services revenue
  - So the split of the allowed revenue into transmission and non-transmission services revenue will be part of the NC TAR-decision
- This is illustrated on the next slide

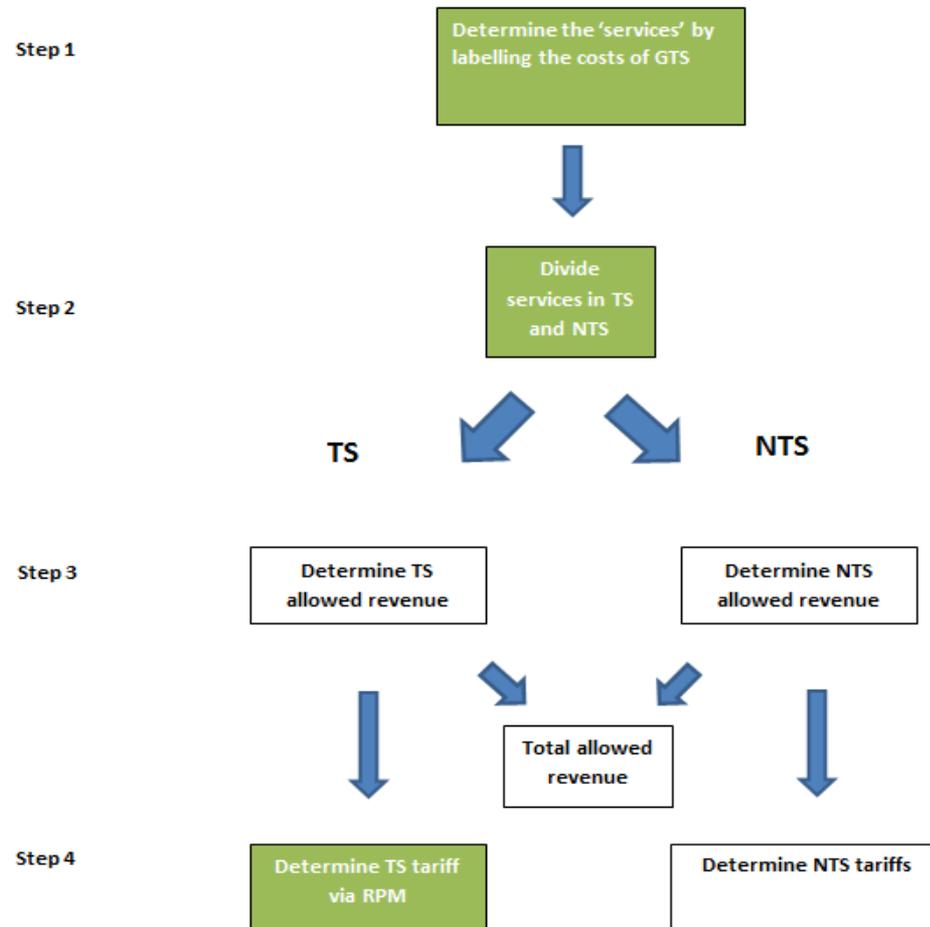
# What does NC TAR (not) do?

Illustration of link between allowed revenues in method decision and NC TAR



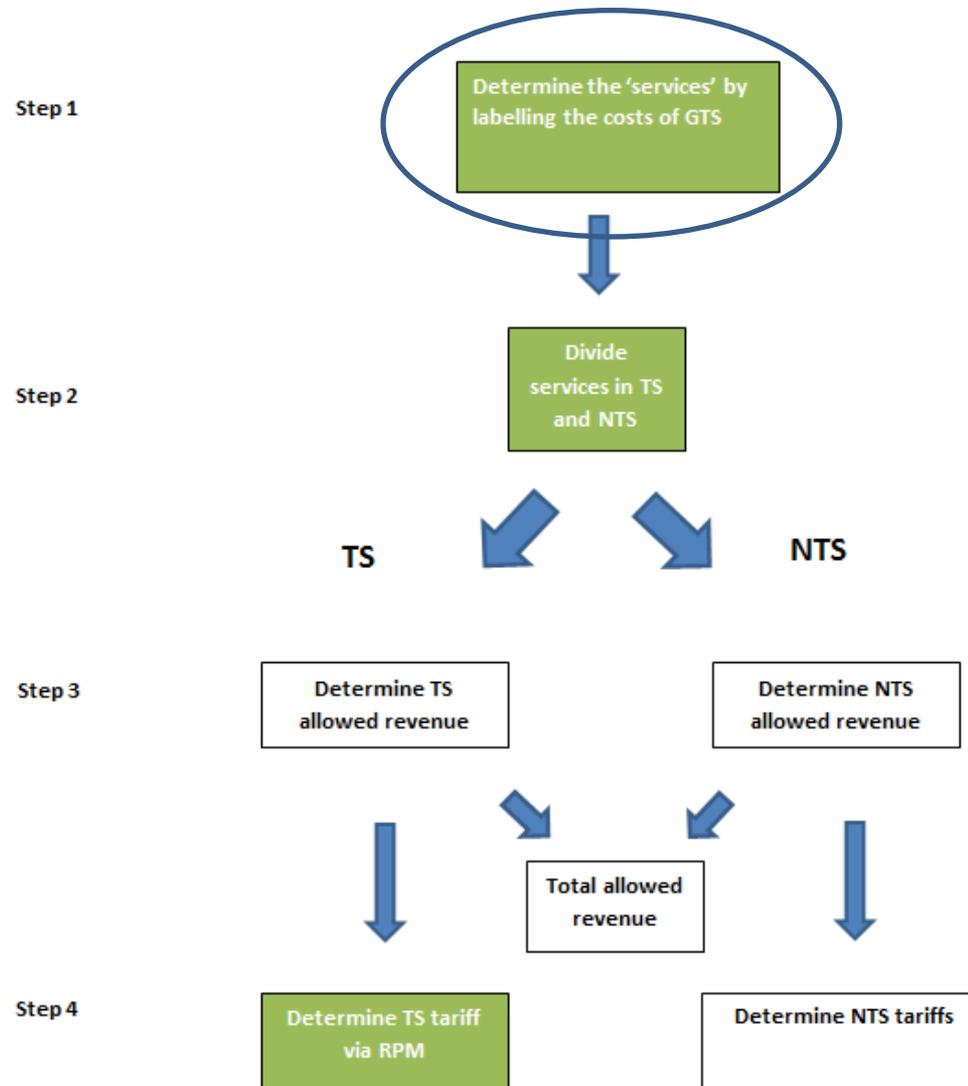
# Implementation flow chart

The green labelled boxes are boxes for which implementation options are discussed today



# Defining services

# Implementation flow chart



# What is required by NC TAR?

- Artikel 4: Transmission and non-transmission services and tariffs

1. *A given service shall be considered a transmission services where both of the following criteria are met:*

*(a) the costs of such service are caused by the cost drivers of both technical or forecasted contracted capacity and distance;*

*(b) the costs of such service are related to the investment in and operation of the infrastructure which is part of the regulated asset base for the provision of transmission services.*

*Where any of the criteria set out in points (a) and (b) are not complied with, a given service may be attributed to either transmission or non-transmission services subject to the findings of the periodic consultation by the transmission system operator(s) or the national regulatory authority and decision by the national regulatory authority, as set out in Articles 26 and 27.*

# What is required by NC TAR?

- Artikel 4: Transmission and non-transmission services and tariffs

2. *Transmission tariffs may be set in a manner as to take into account the conditions for firm capacity products.*

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 (...)*

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

# What is required by NC TAR?

- Artikel 4: Transmission and non-transmission services and tariffs

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

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

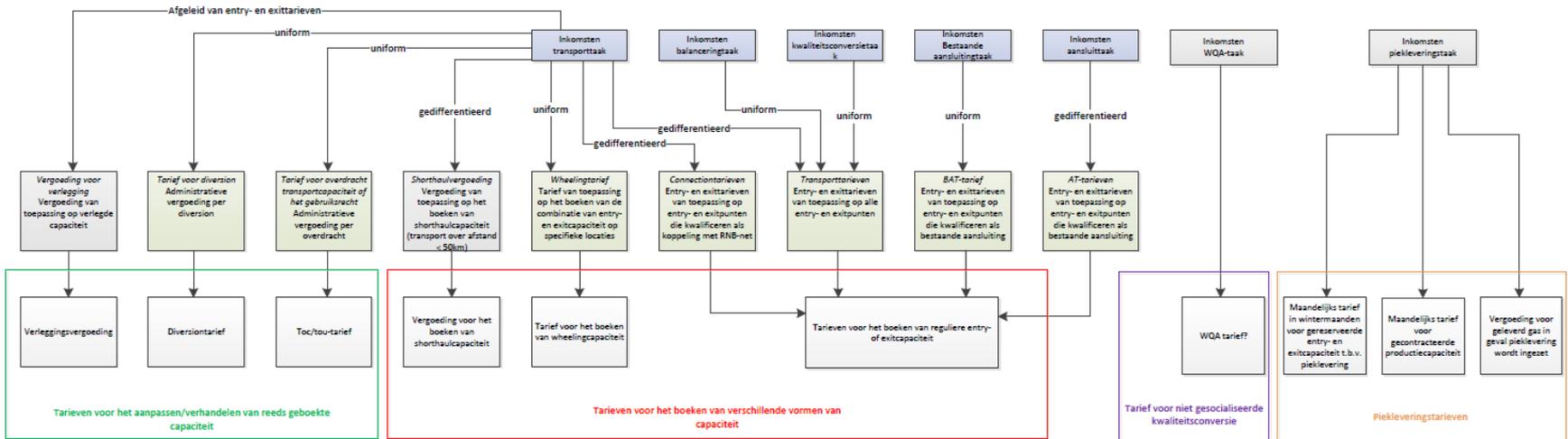
*(b) charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both.*

*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.*

# Current situation

- Currently, there is no clear list of activities which qualify as 'service' within the meaning of NC TAR
- The ACM sets the allowed revenue for five regulated tasks, and there are two tasks for which ACM does not set the allowed revenue
- These allowed revenues for each task are then translated into separate tariffs. However, there is no direct link between the regulated tasks and the separate tariffs. This is illustrated on the next slide

# Overview of current situation



This does not aim to provide an exhaustive overview of current tariffs, but illustrates the complexity of the current structure.

# Current tariffs

- Two categories:
  1. Tariff to be paid when booking capacity
  2. Any tariff or fee for other types of products ('other tariffs')

# 1: Current tariff for standard capacity products

- Currently a shipper pays an ‘all-in tariff’ for yearly capacity products
- This ‘all-in tariff’ is the sum of different tariffs and tariff components. This is illustrated with the table below

Entry tariff 2017 in €/kWh/hour/year	Balancing tariff 2017 in €/kWh/hour/year	QC tariff 2017 in €/kWh/hour/year	Entry tariff 2017 including balancing and QC in €/kWh/hour/year	Tariff 2017 for existing connections in €/kWh/hour/year	Tariff 2017 for connection points in €/kWh/hour/year	All-in tariff 2017 in EUR/kWh/h/y
0,925	0,038	0,293	1,256	0,003	0,000	1,259

# 1: Current tariff for booking capacity

- Current tariffs for selling entry- and exit capacity are equal to the sum of the following components:

Tariff component	Tariff structure
Transport task component (TT)	Differentiated on basis of capacity and distance
Balancing task component (BT)	Postage stamp
Quality conversion component (QC)	Postage stamp
Existing connection component (BAT)	Postage stamp (only applicable to points that qualify as an existing connection)
New connection component (AT)	Component applicable to new connection. Tariff is determined by connection costs
LDC-component*	lump sum per LDC-exit, that is translated to capacity tariff and then becomes part of the reference price applied to LDC-exits

\*connection point TSO-DSO

## 2: Current 'other tariffs and fees'

- Different types of capacity products:
  - Shorthaul-capacity fee
  - Wheeling-capacity tariff
- Changes to previously booked capacity:
  - Transfer of capacity or transfer of usage rights tariff
  - Diversion tariff
  - Capacity shift fee
- Balancing fees:
  - Balancing action fee
  - Linepack-flexibility service fee
- Peak supply fees:
  - Peak-capacity fee
  - Peak-usage fee
- WQA-fees:
  - WQA-capacity fee
  - WQA-usage fee
- Other:
  - Gas heating fee

# Consequences of requirements NC TAR – Choice of services

- The services will be qualified as transmission or non-transmission
- Services that have both distance and capacity as cost drivers have to be qualified as a transmission service.
  - This means that the aggregation level of defining separate services has consequences for the division of transmission and non-transmission. If costs of a service that are not driven by distance are part of the same service that does have distance as a cost driver then the service will be qualified as a transmission service by definition.
- Depending on the qualification as either a transmission or a non-transmission service separate tariffs will result. (Transmission services will have one tariff and non-transmission services have a tariff per service)

# How to determine services?

- There is no clear definition of ‘service’
  - It might be interpreted in a broad sense, e.g. ‘transport service’ or more zoomed in, e.g. ‘gas heating fee’
- NC TAR aims to divide the allowed revenue into tariffs. Therefore, the main question is how to recover the allowed revenue
  - We should take this into account when determining what is transmission service and non-transmission service

# Proposed list of services

- We have a proposal for a list of services.
- This list of services serves as a starting point for determining services within the meaning of NC TAR.

# Methodology applied to derive the proposed list of services

- We have looked at the current activities for which GTS invoices
- We have determined for which activities separate tariffs or tariff components are currently applied, these are considered separate services
- Some activities are considered to be a condition rather than a service with a corresponding tariff or fee. Activities that can only be requested once the transmission capacity is booked, will be considered a condition.
  - Activities that do not qualify as a service will be part of the TSC or the Dutch national codes

# Proposed list of services

Part		Services
Capacity based	1	Transport Entry/exit (Firm, Interruptible, backhaul, storage)
	2	Shorthaul
	3	Wheeling
	4	Quality conversion (QC)
	5	Balancing (BT)
	6	Existing Connection (BAT)
	7	Connection point (AT)
	8	Connection (DSO)
	9	WQA (capacity part)
	10	Peak (capacity part)
	11	Gas heating fee
Commodity based	9	WQA (usage part)
	10	Peak (usage part)
	12	Balancing action
	13	Line pack flexibility service (LFS)

# Activities that are not considered a service

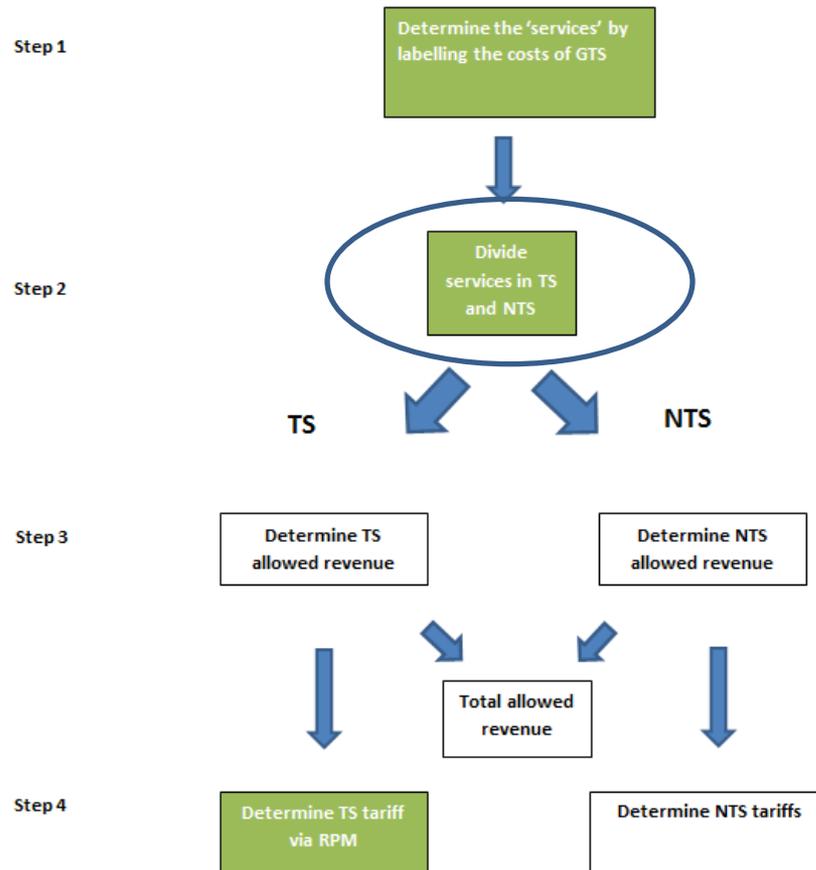
		Condition	Where will it be regulated?
Capacity-based	1	Diversion	Code/TSC condition
	2	Transfer of Capacity/Usage (TOC/TOU)	Code/TSC condition
	3	Capacity shift	Code/TSC condition
	4	Over subscription and buy back (OBB) & reverse auction	NC CAM
	5	Auction premium	NC CAM
	6	Surrender of Capacity (SOC )	NC CAM
	7	Capacity conversion	NC CAM
	8	Capacity exceeding	Code/TSC condition,
	9	Cancellation	Code/TSC condition
	10	Overshoot agreement	Code/TSC condition
	11	Capacity decrease	Code/TSC condition
Commodity based	12	Reconciliation LDC	Code/TSC condition
	13	Metering/allocation correction	Code/TSC condition

# Proposed list of services

- Do you see other options to come to a list of services?

# Dividing services into transmission and non- transmission

# Implementation flow chart



# Division of transmission and non-transmission service

- Two-step approach:
  1. Determine which 'services' have capacity and distance as cost driver → these are transmission service by definition
  2. Determine how services that are not by definition transmission service should be classified

# Division TS/NTS - Step 1

- Step 1 has no implementation options

Part		Option 1	Distance	Capacity	Obligatory TS?	Result after step 1
Capacity based	1	Transport Entry/exit (Firm, Interruptible, backhaul, storage)	Yes	Yes	Yes	TS
	2	Shorthaul	Yes	Yes	Yes	TS
	3	Wheeling	No	Yes	No	Choice
	4	Quality conversion (QC)	No	Yes	No	Choice
	5	Balancing (BT)*	Yes	Yes	Yes	TS
	6	Existing Connection (BAT)	Yes	Yes	Yes	TS
	7	Connection point (AT)	No	Yes	No	Choice
	8	Connection (DSO)	No	Yes	No	Choice
	9	WQA (capacity part)	No	Yes	No	Choice
	10	Peak (capacity part)	No	Yes	No	Choice
	11	Gas heating fee	No	Yes	No	Choice
Commodity based	9	WQA (usage part)	No	No	No	Choice
	10	Peak (usage part)	No	No	No	Choice
	12	Balancing action	No	No	No	Out of scope (NC BAL)
	13	Line pack flexibility service (LFS)	No	No	No	Out of scope (NC BAL)

\* GTS does not see distance as a cost driver for balancing

# Division TS/NTS – Step 1

## Potential problem

- The existing connections contain both a connecting pipe and a gas receiving station (GRS). Because the pipeline has both capacity and distance as a cost driver, the service is by definition a transmission service.
- This may lead to cross-subsidisation because other connections (DSO-connections and new connections) do not have distance as a cost driver, since the connecting pipe is not considered part of the connection but part of the grid. This means that a GRS of a DSO-connection is part of a non-transmission service, whereas the GRS of an existing connection becomes part of the transmission service.
- An option would be to separate the existing connection service into two parts. This would change the previously defined list of services. Therefore we will present two service packs for the division in transmissions service and non-transmission service.

# Proposed service packs

Part		Service pack 1	Service pack 2
Capacity based	1	Transport Entry/exit (Firm, Interruptible, backhaul, storage)	Transport Entry/exit (Firm, Interruptible, backhaul, storage + <b><u>BAT pipeline part</u></b> )
	2	Shorthaul (part of 1)	Shorthaul
	3	Wheeling	Wheeling
	4	Quality conversion (QC)	Quality conversion (QC)
	5	Balancing (BT)	Balancing (BT)
	6	Existing Connection (BAT)	Existing Connection (BAT) <b><u>station part</u></b>
	7	Connection point (AT)	Connection point (AT)
	8	Connection (DSO)	Connection (DSO)
	9	WQA (capacity part)	WQA (capacity part)
	10	Peak (capacity part)	Peak (capacity part)
	11	Gas heating fee	Gas heating fee
Commodity based	9	WQA (usage part)	WQA (usage part)
	10	Peak (usage part)	Peak (usage part)

# Division TS/NTS - Step 1 (again)

- We now determine which services have capacity and distance as a cost driver for both service packs

# Division TS/NTS - Step 1 (again)

## Obligatory TS for service pack 1

Part		Service pack 1	Distance	Capacity	Obligatory TS?	Result after step 1
Capacity based	1	Transport Entry/exit (Firm, Interruptible, backhaul, storage)	Yes	Yes	Yes	TS
	2	Shorthaul	Yes	Yes	Yes	TS
	3	Wheeling	No	Yes	No	Choice
	4	Quality conversion (QC)	No	Yes	No	Choice
	5	Balancing (BT)*	Yes	Yes	Yes	TS
	6	Existing Connection (BAT)	Yes	Yes	Yes	TS
	7	Connection point (AT)	No	Yes	No	Choice
	8	Connection (DSO)	No	Yes	No	Choice
	9	WQA (capacity part)	No	Yes	No	Choice
	10	Peak (capacity part)	No	Yes	No	Choice
	11	Gas heating fee	No	Yes	No	Choice
Commodity based	9	WQA (usage part)	No	No	No	Choice
	10	Peak (usage part)	No	No	No	Choice

\* GTS does not see distance as a cost driver for balancing

# Division TS/NTS - Step 1 (again)

## Obligatory TS for service pack 2

Part		Service pack 2	Distance	Capacity	Obligatory TS?	Result after step 1
Capacity based	1	Transport Entry/exit (Firm, Interruptible, backhaul, storage + <b><u>BAT pipeline part</u></b> )	Yes	Yes	Yes	TS
	2	Shorthaul	Yes	Yes	Yes	TS
	3	Wheeling	No	Yes	No	Choice
	4	Quality conversion (QC)	No	Yes	No	Choice
	5	Balancing (BT)*	Yes	Yes	Yes	TS
	6	Existing Connection (BAT) <b><u>station part</u></b>	No	Yes	No	Choice
	7	Connection point (AT)	No	Yes	No	Choice
	8	Connection (DSO)	No	Yes	No	Choice
	9	WQA (capacity part)	No	Yes	No	Choice
	10	Peak (capacity part)	No	Yes	No	Choice
	11	Gas heating fee	No	Yes	No	Choice
Commodity based	9	WQA (usage part)	No	No	No	Choice
	10	Peak (usage part)	No	No	No	Choice

\* GTS does not see distance as a cost driver for balancing

## Division TS/NTS - Step 2

- For step 2, we present three implementation options:
  1. Any service that is not transmission by definition is defined as non-transmission service.
  2. All activities for which costs are currently recovered through selling entry- and exit capacity should be classified as transmission, irrespective of cost drivers
  3. All services that are sold on IP's will be considered a transmission service
- In service pack 1, option 1 and 3 lead to the situation we want to avoid with respect to treating connections equally and for which we introduce service pack option 2.

*In these options we do not discuss wheeling and shorthaul. These services are 'transport over a short distance with a discount'. Whether the NC TAR allows for such discounts is still under review.*

# Division TS/NTS-Step 2

## Results for service pack 1

Part		Service	Result after TS/NTS step 1	Results after TS/NTS step 2: option 1	Results after TS/NTS step 2: option 2	Results after TS/NTS step 2: option 3
Capacity based	1	Transport Entry/exit (Firm, Interruptible, backhaul, storage)	TS	TS	TS	TS
	2	Shorthaul				
	3	Wheeling				
	4	Quality conversion (QC)	Choice	NTS	TS	TS
	5	Balancing (BT)*	TS	TS	TS	TS
	6	Existing Connection (BAT)	TS	TS	TS	TS
	7	Connection point (AT)	Choice	NTS	TS	NTS
	8	Connection (DSO)	Choice	NTS	TS	NTS
	9	WQA (capacity part)	Choice	NTS	NTS	NTS
	10	Peak (capacity part)	Choice	NTS	NTS	NTS
	11	Gas heating fee	Choice	NTS	NTS	NTS
Commodity based	9	WQA (usage part)	Choice	NTS	NTS	NTS
	10	Peak (usage part)	Choice	NTS	NTS	NTS

The Hague, 28 June 2017  
 \* GTS does not see distance as a cost driver for balancing

# Division TS/NTS-Step 2

## Results for service pack 2

Part		Service	Result after TS/NTS step 1	Results after TS/NTS step 2: option 1	Results after TS/NTS step 2: option 2	Results after TS/NTS step 2: option 3
Capacity based	1	Transport Entry/exit (Firm, Interruptible, backhaul, storage + <b>BAT pipeline part</b> )	TS	TS	TS	TS
	2	Shorthaul				
	3	Wheeling				
	4	Quality conversion (QC)	Choice	NTS	TS	TS
	5	Balancing (BT)*	TS	TS	TS	TS
	6	Existing Connection (BAT) <b>station part</b>	Choice	NTS	TS	NTS
	7	Connection point (AT)	Choice	NTS	TS	NTS
	8	Connection (DSO)	Choice	NTS	TS	NTS
	9	WQA (capacity part)	Choice	NTS	NTS	NTS
	10	Peak (capacity part)	Choice	NTS	NTS	NTS
	11	Gas heating fee	Choice	NTS	NTS	NTS
Commodity based	9	WQA (usage part)	Choice	NTS	NTS	NTS
	10	Peak (usage part)	Choice	NTS	NTS	NTS

\* GTS does not see distance as a cost driver for balancing

# Division TS/NTS – Step 2, option 1 (only service pack 2)

- **Characteristics:**
  - Only costs that have distance and capacity as cost driver are part of the transmission service → transmission tariff covers only TT and BT
  - All connection points are treated equal, and you only have to pay for the connection that you have
- **Consequences:**
  - Cross-subsidisation for connection points is minimised
  - It is more difficult to link allowed revenue from the method decisions with the revenues in the NC TAR decision
  - Leads to the situation that QC is not part of the reserve price on the auction, but has to be invoiced to all points, including IP's.

# Division TS/NTS - Step 2, option 2 (same result in service pack 1 and 2)

- All activities for which costs are currently recovered through selling entry- and exit capacity should be classified as transmission, irrespective of cost drivers
- Characteristics:
  - All costs that are currently recovered through selling entry- and exit capacity (i.e. 'all-in tariff'), are recovered through the transmission tariffs → TT, BAT, BT, AT, connection and QC
- Consequences:
  - Reserve price may have to recover costs that are not related to capacity and distance such as the costs of QC. It depends on the chosen RPM whether this may be desirable.
  - Very few non-transmission services

# Division TS/NTS – Step 2, option 3 (only service pack 2)

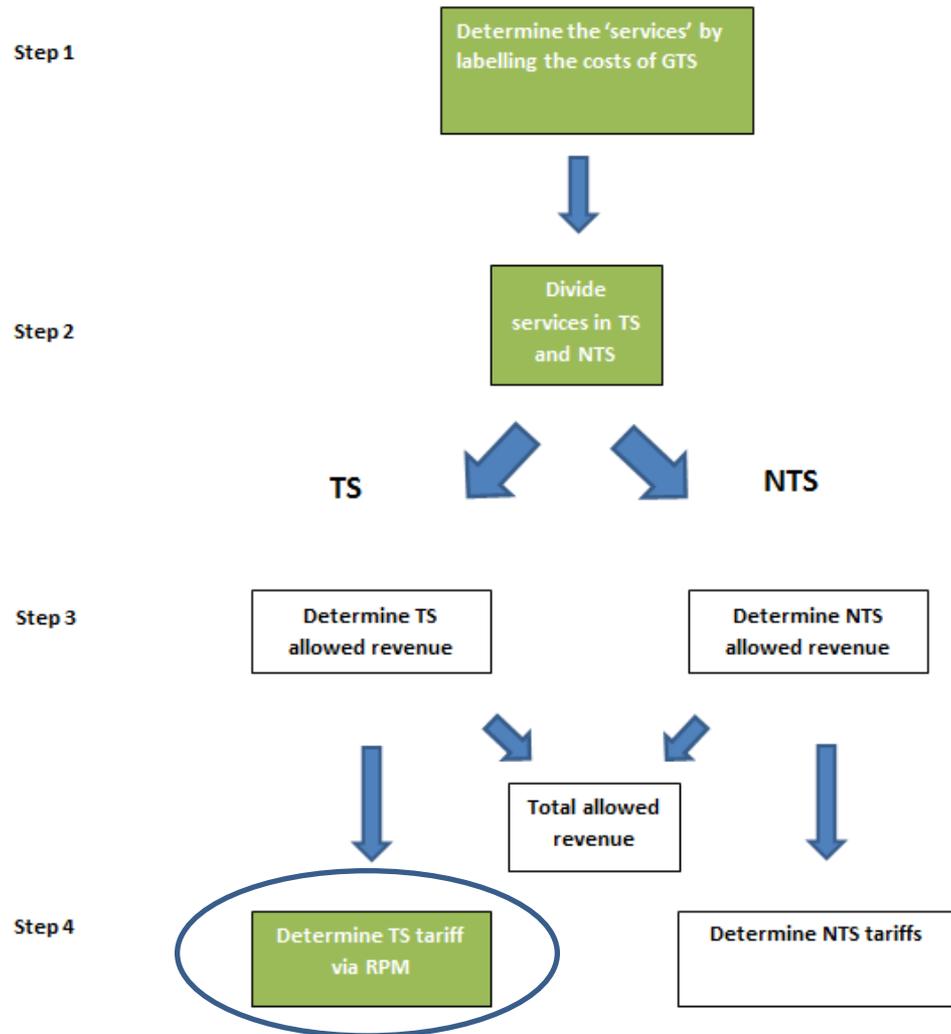
- **Characteristics:**
  - All connection points are treated equal, and you only have to pay for the connection that you have
  - Services which benefit all network users are all part of transmission service
- **Consequences:**
  - Reserve price may have to recover costs that are not related to capacity and distance such as the costs of QC. It depends on the chosen RPM whether this may be desirable.
  - Cross-subsidisation for connection points is minimised
  - It is more difficult to link allowed revenue from the method decisions with the revenues in the NC TAR decision
  - Leads to the situation that QC is not part of the reserve price on the auction, but has to be invoiced to all points, including IP's.

# Tentative preferences

- Which option do you prefer, option 1, option 2 or option 3?
- Do you see any other options?

# Reference price methodologies

# Implementation flow chart



# What is required by NC TAR?

- Article 6: Reference price methodology application
  1. *The reference price methodology shall be set or approved by the national regulatory authority as set out in Article 27. The reference price methodology to be applied shall be subject to the findings of the periodic consultations carried out in accordance with Article 26 by the transmission system operator(s) or the national regulatory authority, as decided by the national regulatory authority.*
  2. *The application of the reference price methodology shall provide a reference price.*
  3. *The same reference price methodology shall be applied to all entry and exit points in a given entry-exit system subject to the exceptions set out in Articles 10 and 11.*
  4. *[ Adjustments]*

# What is required by NC TAR?

- Article 7: Choice of a reference price methodology

*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;*
- 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.*

# What is required by NC TAR?

- Article 8: Capacity weighted distance reference price methodology (counterfactual)
  1. *The parameters for the capacity weighted distance reference price methodology shall be as follows:*
    - a) *the part of the transmission services revenue to be recovered from capacity-based transmission tariffs;*
    - b) *the forecasted contracted capacity at each entry point or a cluster of entry points and at each exit point or a cluster of exit points;*
    - c) *where entry points and exit points can be combined in a relevant flow scenario, the shortest distance of the pipeline routes between an entry point or a cluster of entry points and an exit point or a cluster of exit points;*
    - d) *the combinations of entry points and exit points, where some entry points and some exit points can be combined in a relevant flow scenario;*
    - e) *the entry-exit split referred to in Article 30(1)(b)(v)(2) shall be 50/50.*

*Where entry points and exit points cannot be combined in a flow scenario, this combination of entry and exit points shall not be taken into account.*
  2. *[calculation steps]*

# Consequences of requirements NC TAR - RPM

- The RPM is only applied to the part of the transmission services revenue recovered from capacity-based transmission tariffs (art. 8).
  - This will result in one reference price (per entry and exit point), which is used as the reserve price for yearly standard capacity products (art. 12)
  - The reserve price is without non-transmission tariffs or commodity based transmission tariffs (art. 14)

# Discretion

- Any RPM can be chosen as long as it complies with article 6 and 7

# Current situation

- A methodology related to capacity and distance. However, the methodology stems from 2005.
- Some characteristics are:
  - Entry-exit split is approximately 35/65
  - Some distances are limited
  - Different tariffs for H-gas and L-gas
- Discounts on certain IP's (through use of bandwidth of 5%)

# Longlist from the market

- From the previous sessions we distracted the following wish list:
  - Transparency
  - Predictability
  - Facilitate a liquid market
  - Minimal cross-subsidiation

# Implementation options

- According to us there is a limited number of main possibilities
- Three main options: capacity weighted distance or a postage stamp, or a hybrid model
  - Other options are variations of the capacity weighted distance

# Option 1: Capacity weighted distance (CWD)

- Tariffs are based on the distance between and capacity of entry and exit points
  - The higher the capacity-weighted distance between an entry- and exitpoint, the higher the tariff
- Characteristics
  - More complex model than postage stamp
- Consequences:
  - If the costs of a service are not distance and capacity related and this service is qualified as a transmission service, the costs are still treated as if they are related to distance and capacity

# Option 1: Capacity Weighted distance (CWD)

- Numerous options to implement this
  - How to determine distance?
  - How to determine capacity?
  - What entry-exit split?
- We present three possible ways to implement a CWD
  - a) Counterfactual (art.8)
  - b) Capacity weighted distance, but slightly different compared to the counterfactual. E.g. other parameters, or other formulas to calculate the weight
  - c) Methodology based on the current system

# 1a: adopt the counterfactual

- Based on forecasted contracted capacity
- Distance based on shortest distance between entry and exit points along the pipeline
- Entry-exit split = 50/50

# 1b: Capacity weighted distance, but slightly different

- Possible variations (not exhaustive):
  - Different entry/exit split, or no pre-determined entry/exit split
  - Technical capacity instead of forecasted contracted capacity
  - Cluster points in a flow scenario
  - Determined weight for capacity and distance
  - Network constraints

# 1c: CWD based on the current system

- Entry-exit split 35/65
- Limited distances
- Aim would be to maintain current tariff ratios. However, there are limitations in NC TAR that change the current ratios in any case:
  - no distinction between H- gas and L-gas;
  - different storage discount (currently 25%)
  - discount on certain IP's is not possible within the RPM. Whether discounts for IP's can remain, depends on whether this fits within the prescribed adjustments of article 6.4

# Option 1: Capacity Weighted distance (CWD)

- Within the capacity weighted distance methodology, which of the options a, b, or c would you prefer? Do you see other options that need to be considered?

# Option 2: Postage stamp

- Postage stamp; for example
  - One tariff for all entries and exits  
(tariff = revenue/Forecasted Contracted Capacity (FCC))
  - One tariff for all entries and one tariff for all exits (tariff entry = revenue entry/FCC entry; tariff exit = revenue exit/FCC exit)
- Characteristics:
  - Simple
  - Tariffs are less cost-related
- Consequences
  - Everybody (within the entry/exit group) pays the same tariff except for adjustments

## Option 2: Postage stamp

- Ideas on how to set entry-exit split?
- Preference for one or two postage stamps?
  - One tariff for all entries and exits or one tariff for all entries and one tariff for all exits
- Advantages?
- Disadvantages?

## Option 3: hybrid RPM

- Within the RPM, distinguish services which are distance and capacity related from the other services.
  - For the services with costs that are distance and capacity related → CWD
  - For the services with costs that are not distance and capacity related, the revenues will be divided equally → Postage stamp
- Characteristics:
  - Cost reflective
  - Two ways to divide costs within one methodology
- Consequences
  - QC is part of the reserve price on the auction and is invoiced to all points, including IP's

# Tentative preferences

- Do you have a preference for option 1, 2 or 3?

# Possible adjustments

# What is stated in NC TAR?

- Article 6.4

*Adjustments to the application of the reference price methodology to all entry and exit points may only be made in accordance with Article 9 or as a result of one or more of the following:*

- a) benchmarking by the national regulatory authority, whereby reference prices at a given entry or exit point are adjusted so that the resulting values meet the competitive level of reference prices;*
- b) equalisation by the transmission system operator(s) or the national regulatory authority, as decided by the national regulatory authority, whereby the same reference price is applied to some or all points within a homogeneous group of points;*
- c) rescaling by the transmission system operator(s) or the national regulatory authority, as decided by the national regulatory authority, whereby the reference prices at all entry or all exit points, or both, are adjusted either by multiplying their values by a constant or by adding to or subtracting from their values a constant.*

# What is stated in NC TAR?

- Article 9

*Adjustments of tariffs at entry points from and exit points to storage facilities and at entry points from LNG facilities and infrastructure ending isolation*

1. *A discount of at least 50% shall be applied to capacity-based transmission tariffs at entry points from and exit points to storage facilities, unless and to the extent a storage facility which is connected to more than one transmission or distribution network is used to compete with an interconnection point.*
2. *At entry points from LNG facilities, and at entry points from and exit points to infrastructure developed with the purpose of ending the isolation of Member States in respect of their gas transmission systems, a discount may be applied to the respective capacity-based transmission tariffs for the purposes of increasing security of supply.*

# Benchmarking

- Article is about *tariff* benchmarking
- According to ACM tariff benchmarking should be done in accordance with the Commission staff working document\*
- According to GTS NC TAR benchmarking is about adjusting a reference price at a given entry / exit point to meet a competitive level of references prices and should be seen broader than the Commission staff working document.
- Do you see any options for benchmarking?

\* [Commission staff working document on tariffs for access to the natural gas transmission networks regulated under Article 3 of Regulation 1775/2005, SEC\(2007\) 535:](#)

# Equalisation

- Only the following points can be considered as homogeneous group:
  - entry interconnection points,
  - exit interconnection points,
  - domestic entry points,
  - domestic exit points (*postage stamp tariff on LDC points has been mentioned in previous session*),
  - entry points from storage facilities,
  - exit points to storage facilities,
  - entry points from LNG facilities
  - exit points to LNG facilities
  - entry points from production facilities;

# Equalisation

- There are several options for equalisation
- We would like to discuss one option:
  - equalise the tariffs on LDC-points
    - LDC is a subset of the homogeneous group ‘Domestic Exit’.
    - This would decrease the risk for retailers
    - This would not necessarily affect the reference price on other points

# Equalisation

- What do you think of this option?
- Do you see any other options?

# Rescaling

- This adjustment will have to be used to divide the revenues that are not recovered, due to e.g. adjustments

*(Please note that within rescaling, the reference prices of all entry-points and all exit points, or both, are adjusted. I.e. if the rescaling is used to recover revenue that cannot be recovered due to the gas storage discount, then also references prices on the entry- and exit points of gas storages are rescaled)*

# Storage discount

- NC TAR prescribes a discount for storages between 50% and 100%
- We will present 2 options with clear characteristics and consequences: a discount of 50%; a discount of 100%
- Every percentage above 50% is possible, but has to have a clear rationale

# Storage discount

- Option 1: a discount of 50%
- Characteristics
  - This is the minimum requirement by NC TAR
  - Revenues not recovered from these points, will have to be recovered by rescaling the reference prices
  - Rationale taken from the preamble: Avoid double charging for transmission to and from storage facilities
- Consequences
  - Minimum discount, discount in other Member States may be higher

# Storage discount

- Option 2: a discount of 100%
- Characteristics:
  - Gas storages use the network for free (If rescaling by multiplying with a factor)
  - All costs of transmission to gas storages are paid by other entry and exit points (If rescaling by multiplying with a factor)
- Consequences:
  - The reference price for the other points will be less cost reflective

# Storage discount

- If and to the extent that storages compete with an IP there is no obligation to have a discount of at least 50%
- Do gas storages compete with IP's?
  - How to demonstrate whether this is the case?
- If yes, what should this mean for the discount for these storages?

# Storage discount

- Do you prefer another percentage? And if so, why?

# Discount on LNG

- The discount on entry- and exit points for LNG terminals can be anywhere between 0% to 100%
- How would you interpret “*for the purposes of increasing security of supply*”?
  - To what extent does the LNG terminal in the Netherlands enhance security of supply?

# Cost Allocation Assessment

# What is stated in NC TAR?

- Article 5 Cost allocation assesment
  1. *[list of cost drivers]*
  2. *The cost allocation assessments shall indicate the degree of cross-subsidisation between intra-system and cross-system network use based on the proposed reference price methodology.*
  3. *[Exact calculation steps]*
  4. *[Exact calculation steps]*
  5. *[Exact calculation steps]*
  6. *Justify if outcome above 10%*
- There are no implementation options to discuss. We will discuss an example

# Further explanation CAA

Total exit: 220

Cross-system network use	Intra-system network use
Exit cross-border	Exit industry
	Exit local distribution companies
	Exit storage
120 (can be calculated unambiguously)	100 (can be calculated unambiguously)

**Rationale: in = out**

Total entry: 200

Cross-system network use	Intra-system network use
Entry Dutch production	Entry Dutch production
Entry Import	Entry Import
Entry Storage	Entry Storage
120 (ref. article 5.5a)	200 – 120 = 80

# Tariff period

# What is stated in NC TAR?

- NC TAR does not prescribe what the tariff period should be
- Article 12(2) provides rules on tariffs when tariff period and gas year do not coincide
- However, implementation of NC TAR could be occasion to reconsider the tariff period
- Options:
  - Tariff period = calendar year (current situation)
  - Tariff period = gas year

# Tariff period equal to gas year?

- The tariff period will then be from 1 October to 30 September
- Advantages
  - Moment of decision is closer to the start of the tariff year
  - The reserve price is the result of one price instead of a combination of the prices of two calendar years
- Disadvantages
  - Industry and retail companies book capacity for a calendar year
  - The tariff period of neighbouring countries is equal to the calendar year. This is not likely to change
  - For GTS, this would introduce mismatch between accounting year and tariff year
  - The Dutch law has to be changed, as it leaves no room for a tariff period that is equal to the gas year

# Tariff period

- Should we consider any other options for the tariff year?
- What arguments did we not consider?
- What is your opinion?