



A study on the implementation status of TAR NC in six northwest European countries

A study for Gasunie Transport Services

Presentation outline

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Introduction DNV GL

Introduction to DNV GL

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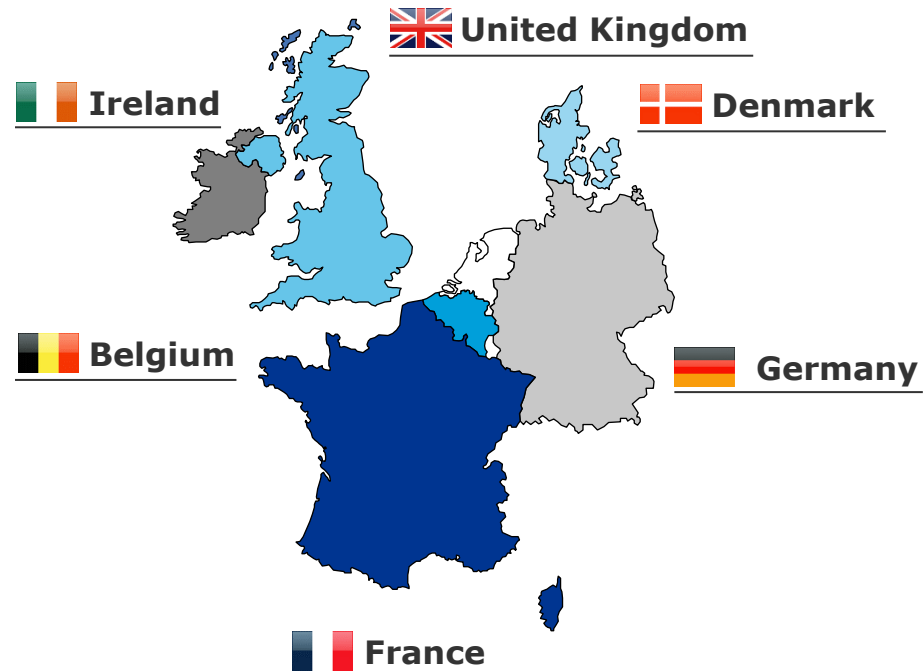


Introduction and study approach

Introduction and background to the study

- GTS is preparing for the TAR NC implementation in the Netherlands
 - Market parties requested an overview of the implementation process
 - GTS is interested in the process and choices made for TAR NC in neighboring countries
 - Should provide input to the implementation process in the Netherlands
- Objectives of the study:
 - To provide an overview of the current tariff regimes in six neighboring countries
 - To map the process for implementing TAR NC
 - Uncover any particular choices already made (re. tariff structure)

Scope



Approach



Desk Research

- Existing tariff regime, and
- Envisaged TAR NC implementation



Interviews





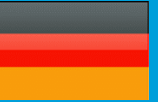


- Overview of plans
- Specific and envisaged choices
- Clarify desk research 'unclearities'

Organization	Country	Date
OGE	Germany	11-08-2017
Confidential	Germany	15-08-2017
Fluxys	Belgium	11-08-2017
CREG	Belgium	21-08-2017
Energinet	Denmark	23-08-2017
GNI	Ireland	30-08-2017
Gasunie D.	Germany	04-09-2017
National Grid	UK	05-09-2017
BNetzA	Germany	12-09-2017
GRTgaz	France	12-09-2017
Ofgem	UK	By email

Current tariff regime








Status quo

Major elements of existing gas transmission tariff structure

							
Methodology	Distance related	CWD variant	Postage stamp w/ adjustments	CWD	Uniform entries and exits per TSO	Matrix method	LRMC distance to reference
Locational / uniform tariffs	Locational	Locational	Locational	Locational	See above.	Locational entry, uniform exit	Locational
Entry-exit split	35-65	30-70	Not applied	35-65	No predefined split.*	33-67	50-50
Capacity-commodity split	100-0	Not specified	~50-50	100-0	100-0	90-10	Not specified

Status quo

Major elements of existing gas transmission tariff structure

							
Price adjustments and discounts	Discounts: UGS 25%	UGS and LNG only system entry paid	UGS entry and exit free of charge	Discounts: UGS 85% LNG 5%	UGS 50% discount on entry and exit	No capacity fee for exit to UGS. ~66% discount on entry capacity fee	100% discount on commodity fee on UGS.
Multipliers and seasonal factors	Monthly factors.	5 for exit cap. to end consumers < 1 month	Same as in Germany	Multiplier when no congestion	Q: 1.10 M: 1.25 D: 1.4	M: ≤ 4.24 D: ≤ 8.59	Discounts up to 100% on ST products
	Include a seasonal component	Seasonal factors	No seasonal factors	Seasonal factors on dom. exits	No seasonal factors	Seasonal component included	No seasonal factors
Specials / other	Yes, e.g. differences in L-gas and H-gas transport tariffs	Yes, fix/flex tariff.	No	Yes, e.g. equalization of LNG entry tariffs	No	Yes, VRF product	No

Overview of implementation by country



Implementation in Belgium

Responsibility	Fluxys (TSO)
Decision on tariffs	Beginning of 2019
New tariffs as per	1 January 2020
Time schedule	Final consultation probably in Q4 2018
Key topic	Current methodology aligned with CWD

Specifics

- Current tariffs and tariff methodology already mostly compliant with TAR NC. Methodology similar to CWD is being used today.
- Details still to be checked for compliancy and consulted on:
 - Levels of multipliers and seasonal factors
 - Current entry-exit split of 30/70
- Specific topics have not been raised yet by the market and stakeholders



Implementation in Denmark

Responsibility	Energinet (TSO)
Decision on tariffs	Fall-winter 2018
New tariffs as per	1 October 2019
Time schedule	Consultation in spring 2018; final decision fall-winter 2018
Key topic	Certainty required due to Baltic Pipe project

Specifics

- Current method is “postage stamp with twist” → Investment costs of Ellund-Egtved allocated to certain points.
- Plans to move to a full postage stamp model, with 100% discount on storage points, and ~50/50 capacity-commodity split. No predefined entry-exit split.
- Multipliers aligned with Germany last year. Seasonal factors were abandoned. No expectations that these will change.
- No other adjustments expected.
- High commodity share may be challenged by regulators.
- Nevertheless, initial support by DERA provided.



Implementation in France

Responsibility CRE (Regulator)

Decision on tariffs N/A

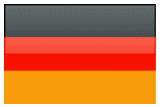
New tariffs as per N/A

Time schedule N/A

Key topic Amalgamation of market zones in 2018

Specifics

- Nothing specifically will be done in France. Most is already in line with TAR NC.
- Enhancement of cost-reflectivity
 - Costs recovered by 'main' network and 'regional' network more equally divided.
- Avoidance of cross-subsidization
 - Check on costs for transit route and domestic consumption → adjustment made to make changes disappear. Based on capacity charge per distance.
- Pricing of storage and LNG terminals: discounts presently applied are in line with TAR NC.
- Inter-TSO compensation mechanism: to be in place after merging zones in 2018. No specifics known yet.



Implementation in Germany

Responsibility	Bundesnetzagentur (NRA)
Decision on tariffs	End 2018
New tariffs as per	1 January 2020
Time schedule	Consultation Q1 2018; BNetzA decision Q4 2018; final tariffs 06-2019
Key topic	Continue on basis laid by previous rulings of BNetzA

Specifics

- TSOs to deliver results of the application of the CWD
 - Individually → more autonomy with TSOs (likely preferred by transit-oriented TSOs)
 - Jointly per market area → postage stamp (likely preferred by large, meshed grid TSOs)
- INKA ruling proposes postage stamp as RPM
- HoKoWä ruling on cost allocation still challenged in court
- BEATE ruling, setting multipliers for short-term products and discounts for interruptible, may need to change



Implementation in Ireland

Responsibility	CER (NRA)
Decision on tariffs	Unknown
New tariffs as per	1 October 2019
Time schedule	Follows milestones in TAR NC
Key topic	Continue on basis laid during recent reform (2015)

Specifics

- 2012: existing tariff regime not viable anymore. Need for a new regime.
- 2015: Implementation of new tariff regime, after two years of work.
- Resulted in application of Matrix Methodology, 33-67 entry-exit split was retained.
- After two years: matrix methodology fulfils objectives as determined earlier

- Process for implementing TAR NC not really started. CER decided it will lead the process.
- Open process with consultations and publication of various papers.
- Existing tariff regime is 90% compliant already.
- Multipliers and pricing of Virtual Reverse Flow product not compliant.



Implementation in the United Kingdom

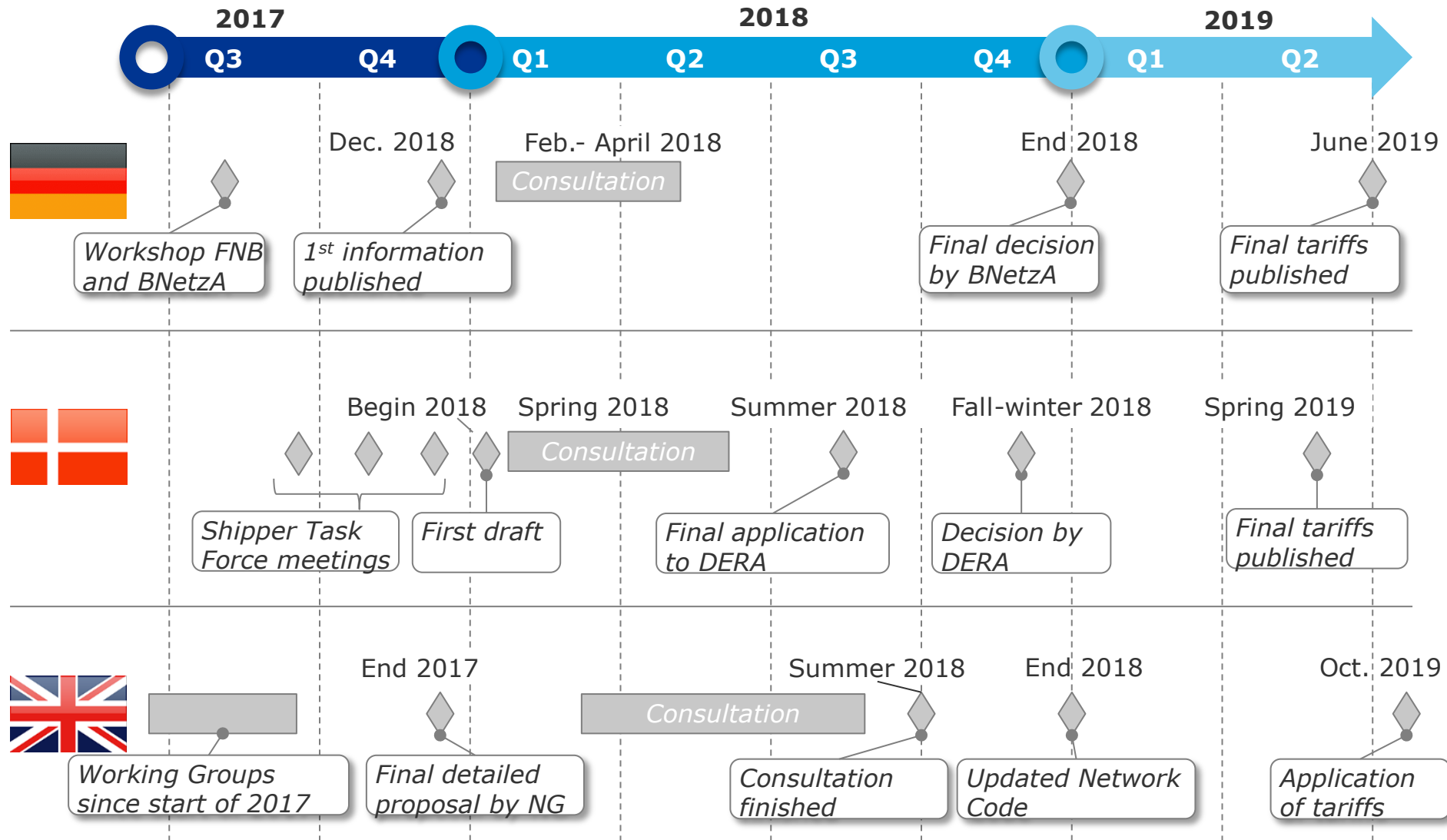
Responsibility	National Grid (TSO)
Decision on tariffs	End 2018
New tariffs as per	1 October 2019
Time schedule	Draft proposal Oct. '17; Consultations summer '18; updated NC end of '18
Key topic	Replacement of current unsuitable LRMC methodology

Specifics

- Current method is better for expanding networks than mature markets.
- LRMC method delivers volatile prices year-on-year.
- Changed booking behavior – increased short term capacity at zero prices – resulted in under-recovery of revenue and thus an increase in commodity charges
- Shift towards CWD method expected; entry-exit split to stay 50-50
- Cessation of commodity charges for purpose of managing over/under recovery of revenue
- Setting price of interruptible capacity according to probability of interruption (now zero reserve price)

Synthesis

Envisaged, indicative planning and milestones



Synthesis







Envisaged, indicative planning and milestones

- No uniform approach
- The choice is mostly dependent on the country's situation.
- E.g. Germany, the NRA took on all responsibility as there are multiple TSOs, while in Belgium the TSO was given the responsibility as similar exercises were done in the past and has most information available

Country	Responsible	Remarks
Belgium	Fluxys	The CREG decided to assign the responsibilities to Fluxys. Fluxys normally conducts consultations. Also, Fluxys has most information available.
Denmark	Energinet	DERA has decided that Energinet will conduct all the consultations.
France	CRE	--
Germany	BNetzA	BNetzA decided to take on the responsibilities themselves. This was motivated by the fact that coordination between multiple TSOs is required.
Ireland	CER	The CER leads the process, but considerable input is required from Gas Networks Ireland to provide the required information.
UK	National Grid	National Grid was assigned by Ofgem to conduct the consultations. The Joint Office of Gas Transporters will have a facilitating role.

Expected implementation







Major elements of tariff structure after TAR NC implementation

						
Expected RPM	Similar as current. Resembles CWD methodology.	Move to full postage stamp model.	Remains the same (CWD).	Move to full postage stamp model.	No changes are foreseen to matrix methodology.	Move to CWD. Current LRMC method seen as too volatile and unstable
Entry-exit split	30-70 split. No plans to adjust this split.	No changes expected (no predefined entry-exit split)	35-65 split to stay in place.	50-50 split	33-67 split from previous tariff reform. No indications this changes.	No changes expected. Current target is 50-50
Capacity-commodity split	Presently not prespecified; no plans to change.	50-50 split, but may be challenged by DERA or ACER.	100% capacity charge.	100% capacity is proposed to stay in place.	90-10 split expected to remain.	Move towards higher share of capacity

Interpretation: Limited changes expected to current regime. UK expected to change due to discontent with current methodology

Expected implementation

Major elements of tariff structure after TAR NC implementation

						
Price adjustments and discounts		100% discount on storage to stay	85% discount on storage 5% on LNG terminals	No changes are publicly discussed. Changes are not expected	Treatment of potential LNG terminal unknown.	No decisions in place yet. Still open for discussion and consultation.
Multipliers and seasonal factors	Multipliers and SFs to be consulted. No clear view yet.	No changes to ST multipliers. SFs are not reintroduced.	Remains the same (SF only in regional network)	No changes to ST multipliers (BEATE consultation in Q2 2018)	ST multipliers too high, change required. Level unknown.	Only daily; discussion around level No intention to use SFs
Specials / other		No other adjustments are foreseen.	Interruptible at 50% needs review.	Discounts for interruptible capacity to be adjusted slightly	Pricing of VRF product needs to change to capacity charge.	No discount proposed for LNG by Nat. Grid.

Interpretation: Multipliers and SFs subject to consultations. No 'advanced' concepts planned to be implemented.

Conclusions

- Interview process: open, transparent and willingness to cooperate
- A country's specific situation largely determines the approach to implementing TAR NC, e.g.:
 - A history of earlier tariff regime changes (IE, DE)
 - Current alignment with TAR NC requirements (BE, FR)
 - Discontent with current regime (UK)
- Application of multipliers and seasonal factors still subject to consultations. No 'advanced' concepts or major changes foreseen. Similar for other adjustments or discounts.
- Although some countries already started the process, the remaining timelines from now on are fairly similar.
- Limited non-compliance issues identified at the moment.

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