

2nd Consultation report regarding GTS's proposed implementation of Virtual Interconnection Points

Report
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Points

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1 Introduction

Gasunie Transport Services (GTS) plans to implement virtual interconnection points (VIPs) between the TTF market area and the neighbouring market areas in Germany and Belgium. The aim of VIPs is to merge multiple connections between two market areas with the purpose of facilitating flexible hub-to-hub trading for shippers.

VIPs will contribute to the further expansion of TTF as the most liquid gas trading hub in Europe. GTS strives to lower barriers in order to facilitate market parties and new market participants. In this regard, GTS recognises the potential value of VIPs in making hub-to-hub trading easier. As a result, VIPs are expected to increase competition on the trading hubs. This will lead to higher liquidity, thus enhancing fair price-forming on the hub.

The first market consultation on the implementation of Virtual Interconnection Points (VIPs) in Q3 2017 showed that the general concept of a VIP is widely supported by shippers. In the course of the implementation it became clear that the wording of the NC CAM left too much room for interpretation. At the end of 2017 there were still ongoing discussions in Germany between TSOs and NRA regarding the wording of NC CAM. In order to put an end to the discussions the German NRA asked the European Commission to clarify the text of article 19.9 NC CAM.

The letter of the Commission unfortunately did not provide the clarity that the TSOs needed to proceed with the implementation of VIPs. The commission stated that:

1. To be compliant with the intention of article 19.9 of NC CAM it is to be recommended that the existing contracts will be transferred from the underlying IPs to the VIP;
2. the text of the NC CAM article 19.9 requires a TSO to offer available capacity at the VIP and does not explicitly exclude the transfer of existing contracts from an underlying IP to the VIP.

The Commissions advice to the TSOs was to act in accordance with conclusion 1, knowing that their advice was not sanctioned by the NC CAM (see conclusion 2). By following this advice market parties (TSOs and shippers) would be placed in a difficult position which could even result in legal and commercial disputes.

ACM and GTS both concluded that, given the letter from the Commission, the VIP implementation as proposed by GTS could not proceed and it was therefore decided to put the implementation on hold, waiting for the Commission, ACER and ENTSOG to provide a clear legal and regulatory framework for implementation of VIPs.

NRAs and TSOs all have their (own differing) views on how to proceed with the implementation of VIPs. Creating clarity on the legal and regulatory framework will take several months if not longer meaning that VIPs will not be in place by 1 November 2018.

A number of options to move forward have been discussed with other TSOs within ENTSOG and a few seem to have wider support. Before deciding we wanted to consult the market parties on their views and preferences regarding the options that were discussed by the TSOs. In the meeting of 13 April, we asked your views on the following options:

1. Implement VIPs as originally proposed on the starting date of NC TAR based uniform tariffs, assuming the postage stamp RPM is selected (expected 1/1/2020);
2. Wait for a clear legal and regulatory framework;
3. Implement VIPs, transfer the existing contracts to the VIP, keep the IP tariffs in place for the existing contracts and apply the VIP tariff to new contracts only;
4. Implement VIPs for available capacity only and leave existing contracts on the IPs¹;
5. Implement VIPs on 1/11/2018, activate a VIP on the date the longest existing contract ends.

¹ Option 4 and 5 are proposals made by FNB-gas in Germany.

2 Responses

GTS wishes to thank parties for their highly appreciated questions and responses.

GTS received responses from 9 market parties. One market party requested us to treat its response as confidential and therefore its input is mentioned on an anonymous basis. Below you will find a summary of the reactions we received while a more detailed overview of the replies can be found in appendix 1.

The general picture that arises shows a variety of opinions and preferences and some shared positions and can be summarized as follows:

- ENBW urges GTS to proceed with the implementation of VIPs by 1 November 2018 and prefers option 4 with option 3 as a second best;
- OMV also is in favour of an implementation by 1 November 2018 but concludes that the only way for GTS to meet that implementation date is to allow shippers to terminate their long-term capacity contracts they hold with GTS;
- ENGIE is of the opinion that GTS has not been able to demonstrate that the implementation of VIPs complies with the provisions of article 19.9 NC CAM. ENGIE does not hold a preference for any of the options but concludes that regardless of the option that will be chosen to proceed ENGIE strongly rejects a tariff increase or any other negative consequence stemming from the implementation of VIPs which will result in additional losses for the shippers and will, according to ENGIE, make the existing long-term gas transport contracts even more uneconomic to the shippers;
- Gazprom Export concludes that a tariff increase for existing long-term capacity is not in line with article 19 NC CAM as it does not contribute to economic and efficient use of the system. In addition, Gazprom believes any limitation of diversion/conversion possibilities conflicts with Article 16 Regulation (EC) 715/2009;
- One market party (confidential reply) prefers option 1 (wait until NC TAR is in place);
- RWE feels that the implementation of VIPs will not make a big difference for market parties. TSO's on both sides of the border will have to agree how to split the nominations at VIP into physical flows at IPs without any guidance from the market;
- Shell, BGTL and GasTerra prefer option 2, wait for a clear legal and regulatory framework. Moreover, Shell supports waiting until NC TAR is implemented to avoid having to adapt to changing tariffs twice (due to VIPs and NC TAR).
- GasTerra pleads for an opportunity to adjust the amount of booked capacity. Network users have in many cases booked capacity at various IPs to facilitate the delivery or take of gas at different/multiple IPs. The sum of booked capacity at separate IPs will then be higher than the actual needed capacity at the VIP into which these IPs are merged.

There is no majority for any of the options on how to proceed. GTS will, based on other arguments, decide on how to proceed. In doing so we will take the remarks that were made by the market parties into account.

3 Conclusion and proposed way forward

Since there is no clear preference as a result of the consultation it is up to GTS to decide on the way forward considering the remarks that were brought forward in the consultation.

In the meantime, we learned that the German and Austrian TSOs have decided on the dual model (option 4).

In the opinion of GTS, a choice for a dual model, option 3 or 4, has a number of drawbacks:

- As the German TSOs already communicated to the market, capacity conversion cannot be applied anymore on the existing long-term capacity contracts that remain at the IPs;
- A dual model will result in additional IT complexity and costs for GTS where it concerns the processing of diversion requests and the operational handling of nominations, confirmations and allocations. Last but not least it will require complex adjustments of our IT systems to remain compliant with the transparency requirements;
- During the workshop it became clear that the majority of shippers do not support the implementation of a dual model (option 3,4 and 5).

Model 5 was proposed by FNB-gas in Germany, but in the end, they decided to implement option 4. Since there are no shippers who favour this model, GTS sees no support for implementing this model.

Based on the arguments above we see no advantages in implementing option 3,4 or 5 and therefore we will focus on options 1 and 2.

Recently we were informed that the Commission will not aim for changing NC CAM in 2018. EC might add any change of the CAM NC to the Gas 2020 package that will be introduced earliest in mid 2020. The Commission may publish a non-binding guidance note on VIPs within the coming weeks similar to what they did at the time of the implementation of the Congestion Management Procedures (CMP). While market parties seek clarity from GTS regarding the implementation of VIPs GTS will no longer pursue option 2 (wait for a clear legal and regulatory framework from the Commission).

Considering the input we received from market parties during the workshop and the reactions on the consultation document as well as the outcome of the discussion of the Commission on the 20th of June, GTS decided to implement the VIP-only model (model 1) in Q1 2020 under the conditions that the NC TAR with a postage stamp tariff mechanism as RPM is implemented by then. Since NC CAM does not provide a sufficient legal basis to transfer existing contracts to the VIP, GTS will prepare an amendment to the TSC to facilitate the implementation of the VIP-only model.

Following arguments support our decision to implement the VIP only model:

1. It is the Commissions interpretation of the NC CAM that the VIP only model is the efficient model that meets the intention of the NC CAM²;
2. The VIP-only model allows us to continue to offer all the services including capacity conversion and diversion;

² The letter of EC states: *"Im Sinne der praktischen Wirksamkeit des Artikels 19 Absatz 9 empfiehlt es sich daher, sowohl die verfügbare als auch die kontrahierte Kapazität in den virtuellen Kopplungspunkt zu überführen und die verfügbare Kapazität in diesem Wege anzubieten"*

3. The VIP-only model is the least complex to build, and therefore the model with the lowest cost for the market;
4. When the conditions regarding the NC TAR are met, the tariffs on the IPs that contribute to the VIP are uniform, making sure that there will be no tariff impact stemming from implementation of VIPs.

GTS will continue to monitor the process in which ENTSOG and ACER have advised the European Commission to change NC CAM in a way that ambiguity in the regulatory framework is solved. As we [informed you through a news-item recently](#), in this advice models 1 (VIP-only), and model 4 (the dual system where existing contracts remain on the IP) are still potential outcomes of that process.

GTS obviously strives for the VIP-only model to be the model that will be selected by the Commission. Once there is a clear signal that the European process converges to the other model we will re-evaluate our decision and communicate our findings.

Appendix 1: Consultation reactions and detailed responses GTS

GasTerra Statement consultation	Remark shipper	Reaction GTS
VIPs are an improvement for shippers from an operational perspective	No clear benefit from the implementation of VIPs. Operational advantages can be outweighed by the operational burden and costs of implementation for network users	
The VIP implementation as initially proposed by GTS has one major disadvantage: negative financial consequences for existing contracts	Implementation in accordance with option 2; wait for clear legal and regulatory framework. Avoid additional operational burden and unnecessary costs.	
Option 1. wait for NC TAR, will resolve this issue for the shippers (who face a tariff increase for their existing contracts)	<p>The introduction of VIPs has far reaching consequences for holders of existing capacity contracts, not only regarding the applicable tariff, but also regarding their needed capacity.</p> <p>Network users have in many cases booked capacity at various IPs in order to facilitate the delivery or take of gas at different/multiple IPs. The sum of booked capacity at separate IPs will then be higher than the actual needed capacity at the VIP into which these IPs are merged. GasTerra therefore pleads for an opportunity to adjust the amount of booked capacity to the actual needed capacity at the VIP.</p>	<p>We appreciate your concerns regarding the booked capacities. We can understand the reasoning that the capacity needed by a shipper to fulfil his contractual commitments may indeed decrease with the introduction of VIPs. Having said that we also want to point out that the capacity needed by the end users (actual capacity usage in the TSO grid) does not change because of the introduction of VIPs. From that perspective the overcapacity problem (booked versus used capacity) remains the same. When we abstract from tariff increases, the financial impact of the capacity contracts does not change with the implementation of VIPs.</p>
GTS should implement option 3 or 4 without delay despite the higher costs and the limited added value in view of the pending implementation of NC TAR	<p>GasTerra does not support any kind of dual system. VIPs should be implemented in the same way and at the same time on both sides of the border, under a clear legal and regulatory framework. Different systems could lead to capacity mismatch issues and unfair differences between applicable rights and tariffs. Moreover, the introduction of additional tariffs or a dual model would clearly further increase operational/IT costs and risks. Therefore, different systems at one (V)IP should be avoided.</p>	
The best way to move forward is to wait for the Commission to provide a proper legal and regulatory framework	GasTerra Agrees	
Additional remark 1	<p>Currently there is still a mismatch between booked, unbundled and technical capacity (particularly at the IPs at the German border). Although there is a conversion mechanism to correct this mismatch to a certain extent, the merging of IPs into one VIP is an appropriate moment to align the (technical) capacity on both sides of the border. The introduction of VIPs is also an appropriate moment for the relevant TSOs on both sides of the border to align their applicable terms and conditions.</p>	<p>The capacity mismatch issue was for a considerable extent caused by shippers cancelling capacity contracts on the German side of the border. As a consequence, a number of German TSOs made the freed-up capacity available at other network points. The German TSOs still allow cancellation of capacity contracts, meaning that the capacity mismatch issue can also occur after an alignment as proposed by GasTerra. The only sensible alignment would require the German TSOs to increase the capacity at their side and keep it aligned with GTS. This will be a point of attention for GTS in the discussions with the NNOs.</p>
Additional remark 2	<p>Once there is a clear legal and regulatory framework and the implementation of VIPs can proceed, network users should be allowed sufficient time to make the necessary operational and contractual adjustments.</p>	

RWE Supply & Trading		
Statement consultation	Remark shipper	Reaction GTS
VIPs are an improvement for shippers from an operational perspective	Implementation VIPs does not make a big difference for market parties	
Additional remark 1	TSO's on both sides of the border will have to agree how to split the nominations at VIP into physical flows at IPs without any guidance from the market.	Our neighbouring TSOs and GTS understand the importance of this issue and address(ed) this point in the discussions about operational aspects of VIP implementation.

ENGIE		
Statement consultation	Remark shipper	Reaction GTS
Additional remark 1	The implementation of the VIPs pursuant to NC CAM is only possible if the conditions of article 19 NC CAM are met. GTS has not been able up to now to demonstrate that this is currently the case (i.e. more efficient and economic use of the system).	<p>I. Article 19 (9) of the NC CAM implementation of a VIP, in our view, does not require a more efficient and economic use of the system but a VIP shall "... facilitate the economic and efficient use of the system including but not limited to rules set out in Article 16 of Regulation (EC) No 715/2009.". We will monitor the regulatory developments.</p> <p>II. Article 16 of Regulation (EC) No 715/2009 deals with capacity allocation mechanisms and congestion-management procedures (CMP). Implementation of a VIP does not change the capacity allocation mechanisms and certainly does not decrease the amount of available capacity to be offered to the shippers via PRISMA. The same applies to the congestion-management procedures. The second remark of ENGIE concerning the overcapacity underlines the absence of physical congestion at the cross-border IPs in the GTS grid. Any contractual congestion will be solved by shippers offering secondary capacity (capacity transfer) and Surrender of capacity or as last CMP measure the offering of overbook capacity by the TSO.</p> <p>III. The efficient and economic use is not limited to the rules set out in article 16 of Regulation (EC) No 715/2009. We are not aware of breaching any rules concerning efficient and economic use, but if ENGIE has any reasons to think otherwise we invite them to hand them to us.</p>

Additional remark 2

Moreover, as GTS is aware, due to the changes to the regulatory framework and gas market, the shippers with long-term gas transport contracts are currently faced with a substantial quantity of overcapacity without being granted the possibility by GTS to terminate the long-term gas transport contracts or reduce bookings. It should be noted that the shippers with long-term gas transport contracts have contributed significantly to the current functioning and liquidity of the Dutch gas market. Regardless of the option chosen for the way forward on the VIPs (if any, see also our comment above), ENGIE strongly rejects any resulting tariff increase or any other negative consequence, which will result in additional losses for the shippers and will make the existing long-term gas transport contracts even more uneconomic to the shippers.

I. GTS notes the point addressed by ENGIE. We want to emphasize that GTS does not aim to increase tariffs or to negatively impact the position of our customers with the obligatory implementation of European regulations. It is for this reason that GTS consulted with the market parties on the VIP implementation in order to discuss the best way forward and has decided, subject to regulatory developments, to wait with implementing VIPs until the tariffs on the underlying IPs are uniform. This approach of GTS engaging with their customers however does not guarantee that the obligatory implementation of European regulations can avoid negative consequences for shippers. We can understand the reasoning that the capacity needed by a shipper to fulfil his contractual commitments may indeed decrease with the introduction of VIPs. Having said that we also want to point out that the capacity needed by the end users (actual capacity usage in the TSO grid) does not change with the introduction of VIPs. From that perspective the overcapacity problem (booked versus used capacity) remains the same. When we abstract from tariff increases, the financial impact of the capacity contracts does not change with the implementation of VIPs.

SEEL		
Statement consultation	Remark shipper	Reaction GTS
VIPs are an improvement for shippers from an operational perspective	Should the current European wide issues of information transparency and certainty be resolved and where harmonised rules and regulations are adhered to when implementing VIPs, we envisage an improvement for shippers from an operational perspective.	
The VIP implementation as initially proposed by GTS has one major disadvantage: negative financial consequences for existing contracts	Agree. Transferring existing IP contracts to the VIP could lead to an increase in tariffs for some existing capacity bookings. Conversely, it could lower tariffs at other IPs. Waiting until NC TAR implementation could mitigate this concern.	
Option 1. wait for NC TAR, will resolve this issue for the shippers (who face a tariff increase for their existing contracts)	Agree.	
GTS should implement option 3 or 4 without delay despite the higher costs and the limited added value in view of the pending implementation of NC TAR	Disagree.	
The best way to move forward is to wait for the Commission to provide a proper legal and regulatory framework	Agree.	

Additional remark 1

First and foremost, SEEL supports waiting to implement VIPs until there is a clear legal and regulatory framework in Europe to ensure harmonised implementation of VIPs in all markets and avoid the risk of capacity mismatches and the operational and administrative burden of trying to manage differences in implementation across borders, which would be both costly and time consuming. Coordinating the timing of VIP implementation once the relevant EU framework is clarified will further facilitate this objective.

Moreover, SEEL supports waiting until NC TAR is implemented to avoid changing tariffs, first for VIP implementation and then again for NC TAR implementation, which would create unnecessary uncertainty for shippers.

Additional remark 2

Transferring existing contracts to the VIP could resolve the risk of a capacity mismatch by ensuring that capacity on one side of an IP isn't stranded by a mismatch of available capacity on the corresponding side, which could limit available VIP capacity. For example, where a shipper holds IP exit capacity with no corresponding IP entry capacity, this could mean that the VIP capacity is unavailable to book until the IP exit capacity contract expires.

Additional remark 3

It follows that a difference in interpretation of the CAM Network Code, the definition of capacity products and timing of VIP implementation would contribute to increased operational risk and costs to shippers, which runs contrary to the rationale of VIP implementation, which is to simplify hub-to-hub trading.

We would encourage GTS and neighbouring TSOs to work on an implementation path and rules as soon as possible. Should neighbouring TSOs decide to implement VIPs without waiting for EU clarification, this will at least facilitate a workable solution in the interim and in any case, it will ensure transparency for shippers and facilitate the efficient set-up and operation of the VIPs on both sides of the border.

OMV		
Statement consultation	Remark shipper	Reaction GTS
VIPs are an improvement for shippers from an operational perspective	Not addressed by OMV	We would very much like to learn whether OMV sees advantages that the implementation of VIPs would offer them.
The VIP implementation as initially proposed by GTS has one major disadvantage: negative financial consequences for existing contracts	Not addressed by OMV	

Option 1. wait for NC TAR, will resolve this issue for the shippers (who face a tariff increase for their existing contracts)

Option 1: NC CAM provides TSOs with a legally binding deadline to establish VIPs, which is the 1 Nov 2018. Given this fact, the option suggested by GTS (“implementation as initially proposed once NC TAR is in place”) is irrelevant. NC TAR and its effective date Jan 2020 has no direct impact on the 1 Nov 2018 deadline set in NC CAM and therefore this approach is at the moment certainly non-compliant with European legislation. In addition, we cannot follow the overall GTS logic stating NC CAM currently provides legal uncertainty but this would disappear by 2020.

The commission stated that 1) to be compliant with the intention of article 19.9 of NC CAM it is to be recommended that the existing contracts will be transferred from the underlying IPs to the VIP, and b) the text of the NC CAM article 19.9 requires a TSO to offer available capacity at the VIP and does not explicitly exclude the transfer of existing contracts from an underlying IP to the VIP
Given this ambiguity in the NC CAM it is not clear what a TSO is required to do before the 1 November 2018 implementation date expires. This makes the implementation date that is stated in the NC CAM in our opinion less relevant. It is not our position that the implementation of NC TAR will provide the clear legal en regulatory framework that we asked for in our discussions with ENTSOG and ACER. We can however conclude that implementation of NC TAR indeed resolves the major disadvantage of our initial VIP implementation proposal.

GTS should implement option 3 or 4 without delay despite the higher costs and the limited added value in view of the pending implementation of NC TAR

Option 3 proposed by GTS is potentially discriminating legacy contract holders because it will result in existing contracts at an IP being differently charged than “new VIPcontracts”. This option is only feasible if provided in such a way as recently presented by the Austrian regulator E-Control: Existing contract holders should have the one-time option to voluntarily transfer their existing IP contracts, with all consequences, to the VIP. This would, most of all, include paying the VIP tariff instead of an IP tariff. Furthermore, GTS has indicated that under Option 3 an establishment of VIPs could be possible in the course of 2019. We expect, under the current legal framework, a compliant implementation until 1 Nov 2018. Both proposals by BnetzA (Option 4 and 5) have significant weaknesses. Option 4 creates a parallel world which makes the operational handling of crossborder flows more complex instead of the desired reduction in complexity. Existing customers would have to take significant investments to operate the same network point in parallel modes (IP set-up for “old contracts” and VIP set-up for “additional bookings”). Furthermore we do not see a legal basis as to how unbundled IP contracts can be used in a capacity conversion if the bundled product auctioned is VIP capacity.

We took note of your position.

The best way to move forward is to wait for the Commission to provide a proper legal and regulatory framework

Option 2: "Waiting for legal certainty" means the market would be left in a prolonged period of uncertainty with an unknown outcome both in respect of timing and the eventual result of the envisaged increase in "certainty". Furthermore, for TSOs in other countries (FRA/BEL) NC CAM apparently reads clearly enough to implement VIPs and therefore confronting ENTSOG to provide "more clarification" is solely irritating the market.

Goal of this consultation is to decide on the best way forward with implementation of VIPs from a broad perspective that includes our customers point of view. It is clear that not only GTS but also several of our customers as well as several German TSOs believe that there is a need for a clear legal and regulatory framework that gives clarity on how to deal with existing contracts with the VIP implementation. They are obviously of the opinion that confronting ENTSOG and ACER is not "solely irritating the market". We would very much like to learn whether OMV is of the opinion that the implementation of VIPs does offer advantages for OMV as it may help us to understand why our decision irritates OMV. We have not made an in-depth analysis of the French or Belgian legal systems and how these impact the decision of the TSOs in France and Belgium to proceed with the implementation of VIPs. We can however judge the working of the Dutch legal system in combination with the regulatory framework and therefore made the decision to put the implementation on hold, and continue once the main issue (tariffs) is resolved.

Additional remark 1

Consequently, the only compliant approach how to solve this problem and allowing GTS to smoothly establish VIPs by 1 Nov 2018 is to offer existing IP customers a termination right to their contracts.

We are very well aware of shippers' position on long-term capacity contracts but do not agree that termination of long term capacity contracts is the solution for the problems concerning the implementation of VIPs. From the perspective of the overcapacity due to long-term capacity contracts, the implementation of VIPs does not hold consequences for long term capacity contracts when we abstract from tariff consequences (as will be the case with a postage stamp tariff). We agree that the consultation period was short and it will be a point of attention for future consultations.

Additional remark 2

As a general remark, we would like to stress that the consultation period was very tight for such important and commercially sensitive topic like as the implementation of VIPs. Shippers and other market parties should have at least one month time to respond.

ENBW AG Statement consultation	Remark shipper	Reaction GTS
<p>VIPs are an improvement for shippers from an operational perspective</p>	<p>We believe VIPs display a number of operational and commercial benefits that outweigh the costs of operating in a dual IP/VIP regime. The incremental costs of the latter (especially at borders where the shipper already operates across the multiple physical IPs) would be negligible in our view. We also think that for efficient network operation, the decision on which physical points between two market areas the gas should flow is better with the TSOs. Otherwise, with the introduction of postage stamps in the Netherlands and Germany (NC TAR) we expect an at random distribution of bookings to different TSO and points.</p>	
<p>The VIP implementation as initially proposed by GTS has one major disadvantage: negative financial consequences for existing contracts</p>	<p>It depends on whether an existing contract at an individual IP is below or above the roughly average tariff VIP, whether this is a disadvantage or advantage from the view of the shipper. But there might be more aspects to be observed like interruption risks or renomination restrictions. There should also be mentioned that tariffs are already being adjusted annually and are therefore considered insecure for shippers who have booked them on a long-term basis. The VIP implementation does not change this. By implementing a voluntary transfer of existing capacities to the VIP, we also believe that it is in the hands of every shipper, whether he transfers his already booked capacities immediately or only after the introduction of the postage stamp in the Netherlands and Germany. This would also provide the network operator with certainty that no one would have the right to surrender their booked capacities. We believe this is the best way to comply with the Code.</p>	<p>Restriction of renomination rights is currently not an issue in the GTS grid and therefore not to be taken into consideration. The risk of interruption depends on the amount of booked capacity and the actual usage of booked capacity. This will not change as a result of implementing VIPs. The uncertainty regarding what happens with the tariffs will indeed not change due to the implementation of VIPs. So, these are elements that do not change our position. That does indeed leave the higher tariff as the major disadvantage of the VIP implementation as initially proposed by GTS. Your suggestion to implement a dual system is not the preferred way for GTS and ACM and also not for some other respondents.</p>
<p>Option 1. wait for NC TAR, will resolve this issue for the shippers (who face a tariff increase for their existing contracts)</p>	<p>Option 1 does not comply with the requirements of the Code, as the deadline of 1 November 2018 will not be met. The legal consequence of non-compliance with the Code are uncertain for us. In any case, it would be a loss of image for Europe's leading gas market TTF. Additionally the NC TAR will not come with a legal or regulatory requirement to force existing contracts to move to the VIP. If one party, any shipper or the TSO, has the right to remain with the contract at the IP, even if the tariffs have become uniform, the implementation of the VIP will still remain blocked if there is no automatic transfer to the VIP. From our point of view this option should be rejected.</p>	<p>The implementation date is not the primary issue in the discussion on the implementation of VIPs and neither is the loss of image GTS may suffer. Our primary concern is whether we can find a solution which is acceptable to all market parties for the problems that are the result of a European Network Code that does not provide sufficient legal clarity to market parties. That is the challenge we as Europe's leading gas market face.</p>

GTS should implement option 3 or 4 without delay despite the higher costs and the limited added value in view of the pending implementation of NC TAR

We believe it is particularly important that Europe's leading gas market TTF sets a good example by implementing the code for available capacity by 1 November to deliver the benefits to the market. However, in order to provide legal certainty at the same time, it makes sense not to exclude existing capacity holders from using the VIP. For this reason, we believe that only an implementation of the Austrian concept can be considered. This consists of option 4 with a voluntary transfer for existing capacities. Option 3 would also be possible for us. We would like to see these higher costs quantified and justified. The implementation of VIP is a European obligation that is to be done anyhow and later by 1.1.2020 according to option 1, thus the saving would only be the avoidance of the parallel operation during the overlap of the two systems, while this to our understanding would basically only be the implementation of an additional point.

It was our intention from the onset to set a good example by aiming for an implementation before the implementation date mentioned in the NC CAM and thereby delivering the benefits to the market. So far market parties have expressed limited support for option 3 and 4.

The best way to move forward is to wait for the Commission to provide a proper legal and regulatory framework

In principle, the handling with existing capacities should be clarified. However, we fear that there is no guarantee that an amendment of the Network Code is agreed under the current Commission - then a further delay until new priorities have been set is to be assumed, which could even lead to a far later implementation of VIPs than under the proposed option 1. We therefore reject this option because it does not meet the requirements of the Code that VIP should be implemented for available capacity by November 1. In our understanding the Code is clear in respect to the available capacities.

Like ENBW most other market parties agree that there is a need for a clear legal and regulatory framework that gives clarity on how to deal with existing contracts with the VIP implementation. While the process to decide on such a framework might indeed threaten to lead to a far later implementation date we had to consider alternatives. This should be alternatives that do not result in the major negative consequences that have been identified so far. GTS therefore chose to wait until the tariffs on the underlying IPs are uniform.

BGTL
Statement consultation **Remark shipper** **Reaction GTS**

The best way to move forward is to wait for the Commission to provide a proper legal and regulatory framework

We continue to be generally supportive of the principle to develop virtual interconnection points for the benefit of operational and capacity management processes and we are pleased that GTS is continuing to drive forwards with these changes. We welcome and appreciate the efforts of GTS in consulting with its Shippers in its assessment/determination of an appropriate way forward. We believe the only viable outcome is to wait for clarity in terms of the legal and regulatory framework such that there is an effective and uniform cross border implementation of VIP's with certainty from day one for market participants i.e. your option 2. We look forward to the development of VIP's.

Confidential
Statement consultation **Remark shipper** **Reaction GTS**

Option 1. wait for NC TAR, will resolve this issue for the shippers (who face a tariff increase for their existing contracts)

Within the VIPS consultation framework, we inform you that option 1 is our favourite option. We agree with the advantages presented during the consultation session (April 13th), and consider that the expected deadline is reasonable.

Option 3 could be a good option as well, yet it seems quite non cost effective.

Gazprom Export Statement consultation	Remark shipper	Reaction GTS
Additional remark 1	<p>Gazprom does not agree with the implementation of VIPs as originally proposed by GTS for the following reasons: The current diversion/conversion possibilities will be limited which results in inefficient use of booked capacities and thereby conflicts with Article 16 of Regulation (EC) NO 715/2009</p>	<p>After the first consultation in October 2017 GTS prepared a code change proposal with the aim to solve the mentioned diversion issue. Now we have established a new way forward we will bring this proposal further to ACM to decide on it.</p>
Additional remark 2	<p>The Proposed implementation can result in a substantial tariff increase for existing contracts. This increase is the result of an inappropriate interpretation of NC CAM provisions by GTS. The VIP implementation as originally proposed by GTS therefore is not in line with provisions of Article 19 NC CAM since it will not contribute to economic and efficient use of the system.</p>	<p>The fact that the current wording of the NC CAM leaves too much room for interpretation is exactly the reason why GTS put the implementation process on hold. GTS organised the second consultation round to involve shippers in determining the best way forward and in that respect, we proposed 5 options to continue with the implementation of VIPs. Gazprom does not indicate a preference for any of the options proposed by GTS in the 2nd consultation round. Gazproms main objection (tariff increase) will be eliminated with option 1 (wait for implementation of NC TAR). We are not aware of breaching any rules concerning efficient and economic use, but if Gazprom Export has any reasons to think otherwise we invite them to hand them to us.</p>

Appendix 2: Questions and answers

Q1. *What is the status of the GASNCFUNC PLATFORM process?*

The information on the FUNC process until now is indeed limited and we informed ENTSOG that in our view the document should be available for market parties, either by publication on the ENTSOG website or on the website of the respective TSOs. We will keep you informed about the outcome.

Q2. *How can this consultation on implementation of VIPs eliminate uncertainty?*

The second consultation was not aimed at eliminating the uncertainty concerning the NC CAM as experienced by GTS and other TSOs as well as the Commission. Such lack of clarity of the NC CAM is reflected in the letter of the Commission from 14 February 2018, see our website, <https://www.gasunietransportservices.nl/nieuws/uitstel-implementatie-vips>.

Given the lack of clarity it is to a large extent up to the TSOs to make choices on how to implement VIPs. The choices that we make with respect to the implementation of VIPs will have consequences for us, the neighbouring TSOs and for our customers. In our view the interests of our customers should be considered while making these choices. Therefore, we think it is important to present and discuss the possible implementation scenarios as we did during the workshop last April. Input from our customers will help us to decide on the best way forward and where possible considering the interests of our customers.

Q3. *Why didn't GTS propose VIP tariffs to be applied in 2019?*

The NC TAR article 22 prescribes how to calculate a VIP tariff based on the tariff of the underlying IPs. ACM has decided to [adapt the National Codes](#) based on this article. The 2019 IP tariffs have been proposed by GTS and established by the ACM.

Q4. *Which "Legal certainty/uncertainty" can there be while we have a binding NC?*

The NC CAM is a legal binding document but regarding the implementation of VIPs it unfortunately does not provide enough guidance on what the right method is to implement VIPs.

As stated before the NC CAM leaves room for interpretation as a result of which the TSOs should make choices on how to implement VIPs. Such choices may have legal consequences for TSOs and/or adverse consequences for our customers. This would also be the case if we would only offer available capacity on VIPs as proposed by others. To facilitate this choice, we would need to implement a so called dual VIP model. The German TSOs will implement such a dual model and they have already stated that as a result they will not be able anymore to offer capacity conversion for the long-term capacity that remains at the IPs.

GTS and several our customers see this as a major disadvantage. Equally important for GTS and their customers however is the fact that it would have as a consequence that we would be in breach of article 21 sub 3 of the same NC CAM.

Not only is it left to the TSOs to make their own choices but the lack of clarity in the NC CAM results in contradicting requirements for a TSO.

According to article 19,9 NC CAM a transmission system operator should offer the available capacities at the interconnection points at one virtual interconnection point. At the same time this article says that a VIP can only be established if the following conditions are met:

- a) the total technical capacity at the virtual interconnection points shall be equal to or higher than the sum of the technical capacities at each of the interconnection points contributing to the virtual interconnection points;
- b) they facilitate the economic and efficient use of the system including but not limited to rules set out in Article 16 of Regulation (EC) No 715/2009.

By offering only the available capacity at a VIP we cannot meet the first condition and therefore we would not be allowed to implement VIPs. This makes the implementation date that is stated in the NC CAM less relevant. It recently became apparent that the requirements probably remain unclear until at least 2020 and that it is up to each TSO to decide on how to proceed. Different TSOs make different choices to comply as much as possible with contradicting requirements in the NC CAM. GTS will obviously monitor the regulatory developments but in the meantime, subject to such regulatory developments, will have to decide on how to proceed. We intend to do so, considering the remarks made by market parties in the context of the consultation.

Q5: Why does GTS expect that postage stamp will be the RPM, and why wait for that?
We indeed expect the postage stamp RPM to be the outcome of the NC TAR discussions and consultation. GTS proposed this method and ACM confirmed the same position in their [draft decision](#). As far as we know, this method is not challenged by market parties. The VIP implementation we initially proposed is conditional to this RPM becoming effective. The postage stamp RPM will not eliminate the legal uncertainty concerning the NC CAM as experienced by GTS and other TSOs as well as the Commission.

As we explained in the workshop there are two ways to approach the uncertainty concerning the NC ACM. One way is to wait for a clear legal and regulatory framework to be provided by the Commission. However, as we already stated above we recently learned that this clarification will probably not be provided within a reasonable period of time. Another way is to take up the implementation of VIPs and if possible try to prevent potential negative consequences.

The postage stamp RPM does remove a potential increase in tariffs for existing contracts in the VIP only model which is one of the five proposed models we discussed in the workshop. Therefore, it now is the preferred model by GTS.