



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

Implementation of the NC TAR in the Netherlands

Second session

17 May 2017

Opening

**Today's
agenda**

- 1. Introduction**
- 2. Stakeholders' visions and impact on tariffs**
- 3. In-depth explanation of NC TAR**
- 4. Next steps**

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NC TAR in depth

- Transmission services, non transmission services
- Price methodologies, cost allocation assessment
- Price adjustments
- Publication requirements
- Consultation requirements

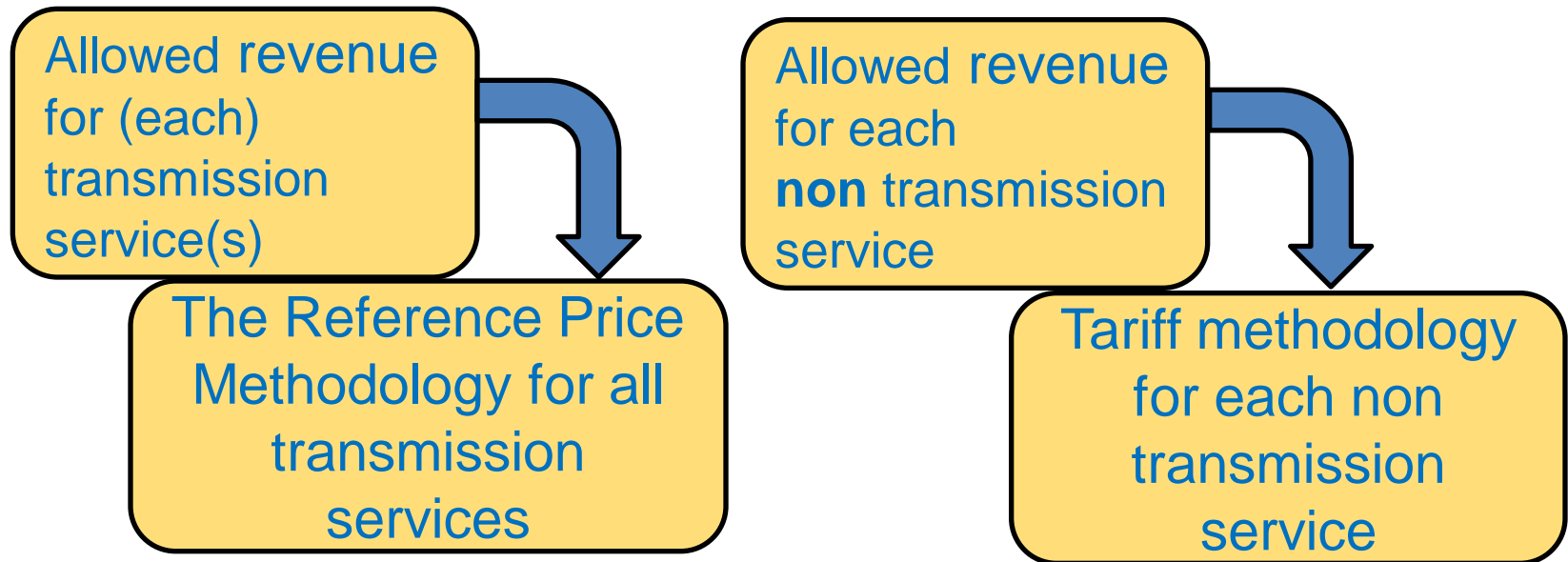
Transmission service or non-transmission service: Criteria

Transmission Service (TS)	Non Transmission Service (NTS)
<p>A service is obligatory TS: If costs of service are caused by (a) cost drivers capacity and distance AND (b) the related infrastructure is part of the regulated asset base</p> <ul style="list-style-type: none">• Ref. article 4.1	
<p>Option TS or NTS: If one of the criteria (a) or (b) is not met</p> <ul style="list-style-type: none">• Ref. article 4.1• NRA will decide whether a service is T or NT service after consultation.	

Non-transmission service

- 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:
 - cost-reflective, non-discriminatory, objective and transparent;
 - 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.
 - Ref. Article 4.4

Price methodologies to calculate reference prices



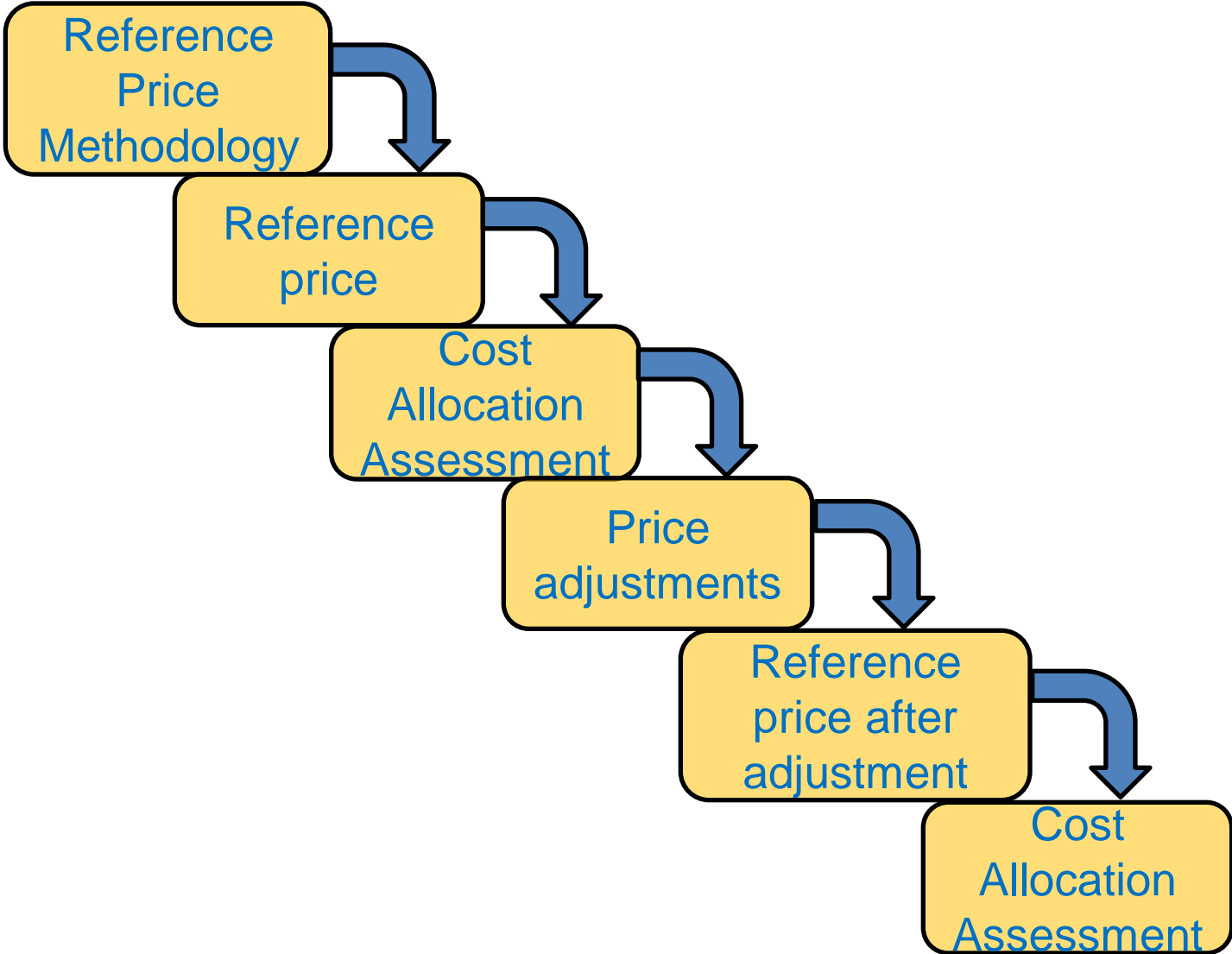
Reference Price Methodology (RPM) for Transmission Services and Tariff Methodologies for Non Transmission Services (1/2)

GTS Services	Transmission Service (TS)	Non Transmission Service (NTS)
Capacity based	<ul style="list-style-type: none"> • One RPM for all capacity based TS • RPM will calculate a reference price (tariff for yearly product) for each entry and exit point. • Ref. article 6, 7, 8, 9 	<ul style="list-style-type: none"> • A tariff methodology for each NTS • Tariff methodology calculates the tariff for the relevant entry and exit points. • Ref. article 4.4
Commodity based	<ul style="list-style-type: none"> • Flow based charge • Complementary revenue recovery charge • Ref. article 4.3ab 	See above

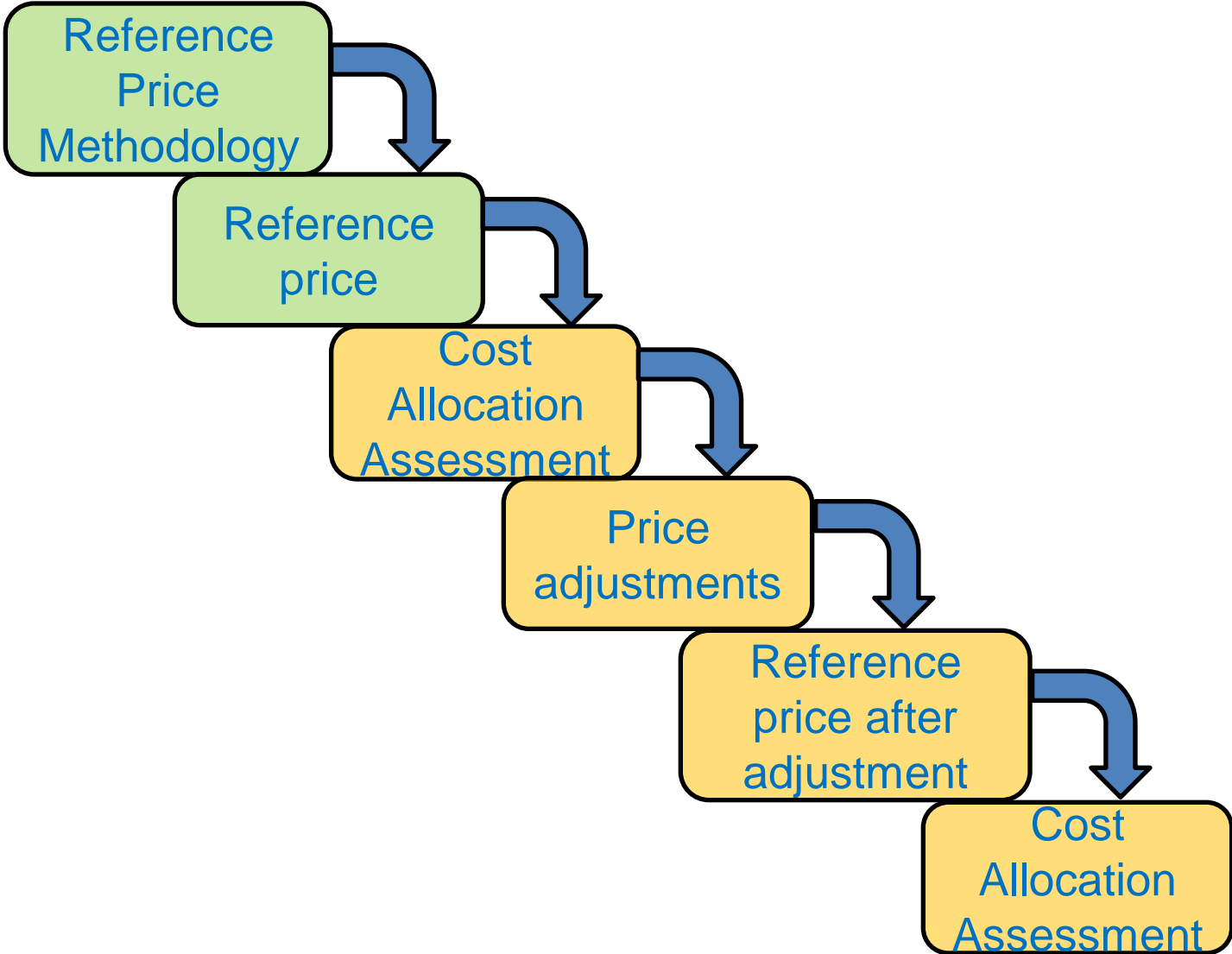
Reference Price Methodology (RPM) for Transmission Service(s) and Tariff Methodologies for Non Transmission Services (2/2)

GTS Services	Transmission Service (TS)	Non Transmission Service (NTS)
<p>Capacity based</p>	<ul style="list-style-type: none"> • TS1 • TS2 • TS3 • <p style="text-align: center;">} 1 RPM</p>	<ul style="list-style-type: none"> • NTS1 -> Tariff methodology 1 (TM 1) • NTS2 -> TM 2 • NTS3 -> TM 3
<p>Commodity based</p>	<ul style="list-style-type: none"> • Flow based charge • Complementary revenue recovery charge • Ref. article 4.3ab 	<ul style="list-style-type: none"> • NTS4 -> TM 4 • NTS5 -> TM 5

RPM, cost allocation assessment, price adjustments for capacity based transmission services



RPM, cost allocation assessment, price adjustments for capacity based transmission services



Tariff methodologies for services other than capacity based transmission services: Commodity based TS

GTS Services	Transmission Service (TS)	Non Transmission Service (NTS)
Capacity based	RPM	
Commodity based		

RPM for capacity based transmission services (1/2)

The application of the RPM shall provide a reference price at all entry and exit points in a given entry-exit system (Ref. article 6).

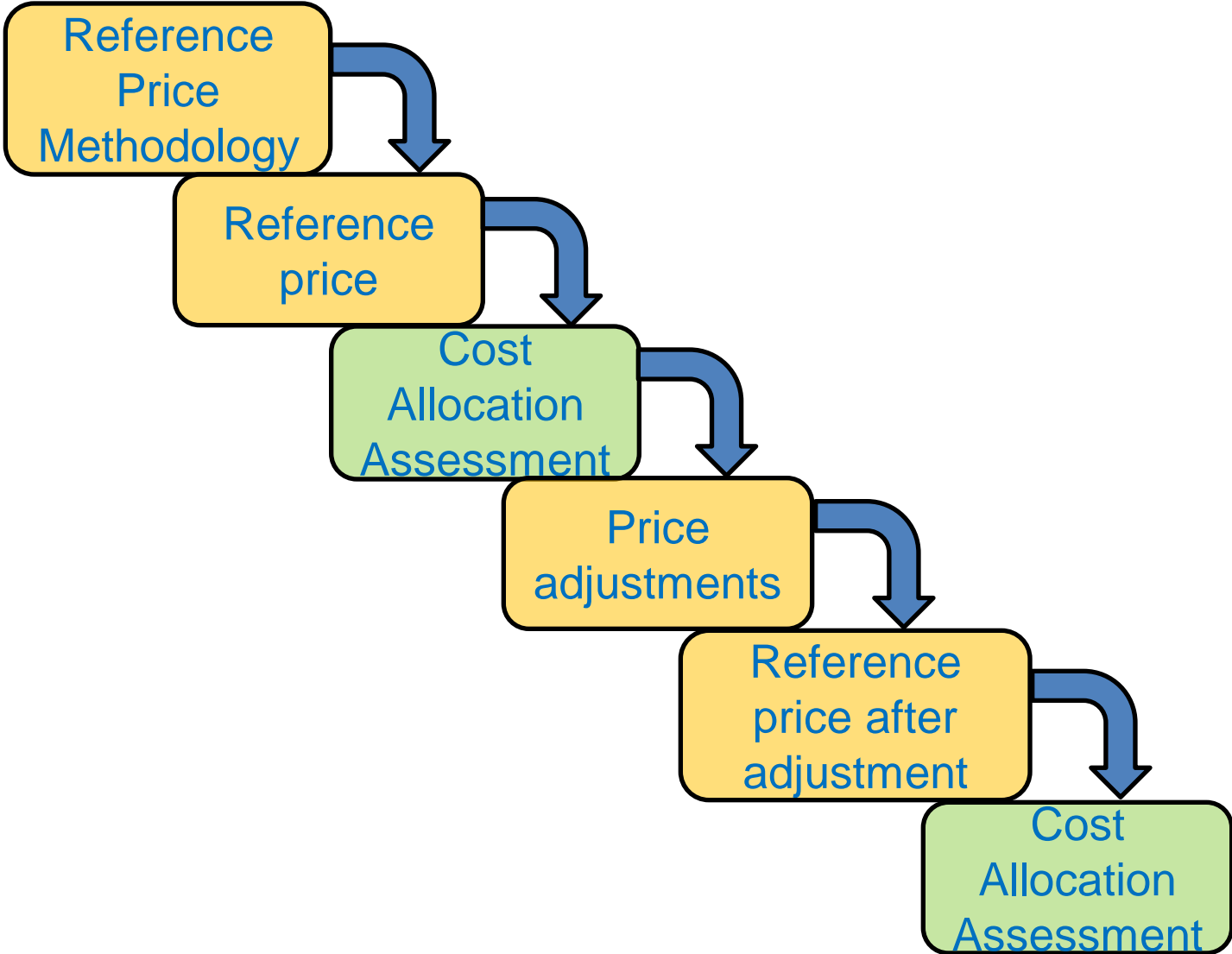
It aims at (Ref. article 7):

- enabling network users to reproduce the calculation of reference prices and their accurate forecast;
- taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;
- ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments;
- 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;
- ensuring that the resulting reference prices do not distort cross-border trade.

RPM for capacity based transmission services (2/2)

- Each RPM can be chosen as long as it is compliant with article 7.
- Where the proposed RPM is other than the CWD from article 8, its comparison against the latter accompanied by the indicative reference prices (Ref. article 26.1).
- The capacity weighted distance (CWD) methodology is fully described in NC TAR (ref. article 8)

RPM, cost allocation assessment, price adjustments for capacity based transmission services



Cost Allocation Assessment (1/5)

- The cost allocation assessment (CAA, ref. article 5) shall indicate the degree of cross-subsidization between intra-system network use and cross- system network use based on the proposed RPM
 - Intra-system network use (Ref. article 3.8) means transporting gas within an entry-exit system to customers connected to that same entry-exit system (“domestic use”)
 - Cross-system network use (Ref. article 3.9) means transporting gas within an entry-exit system to customers connected to another entry-exit system (“transit use”)
- Two assessments:
 - a cost allocation assessment relating to the transmission services revenue to be recovered by capacity-based transmission tariffs (ref. article 5.3)
 - a cost allocation assessment relating to the transmission services revenue to be recovered by commodity-based transmission tariffs (ref. article 5.4)
- Where the results of the CAA exceed 10 % (ref. article 5.6), the national regulatory authority shall provide the justification for such results in the decision referred to in Article 27(4).

Cost Allocation Assessment (2/5)

Revenue^{intra} and Revenue^{cross} have to be determined according to Ref. article 5.3 for capacity based network use and ref. article 5.4 for commodity based network use

- Revenue^{intra} is the sum of
 - the revenue for intra-system network use at entry points and
 - the revenue for intra-system network use at exit points
- Revenue^{cross} is the sum of
 - the revenue for cross-system network use at entry points and
 - the revenue for cross-system network use at exit points

Cost Allocation Assessment (3/5)

- For each exit point it is clear that it serves either 100% intra-system network use or 100% cross-system network use
- Revenue for intra-system network use for **exit points** can be determined unambiguously: sum of revenue from capacity of intra-system exit points
- Revenue for cross-system network use for **exit points** can be determined unambiguously: sum of revenue from capacity of cross-system exit points

Cost Allocation Assessment (4/5)

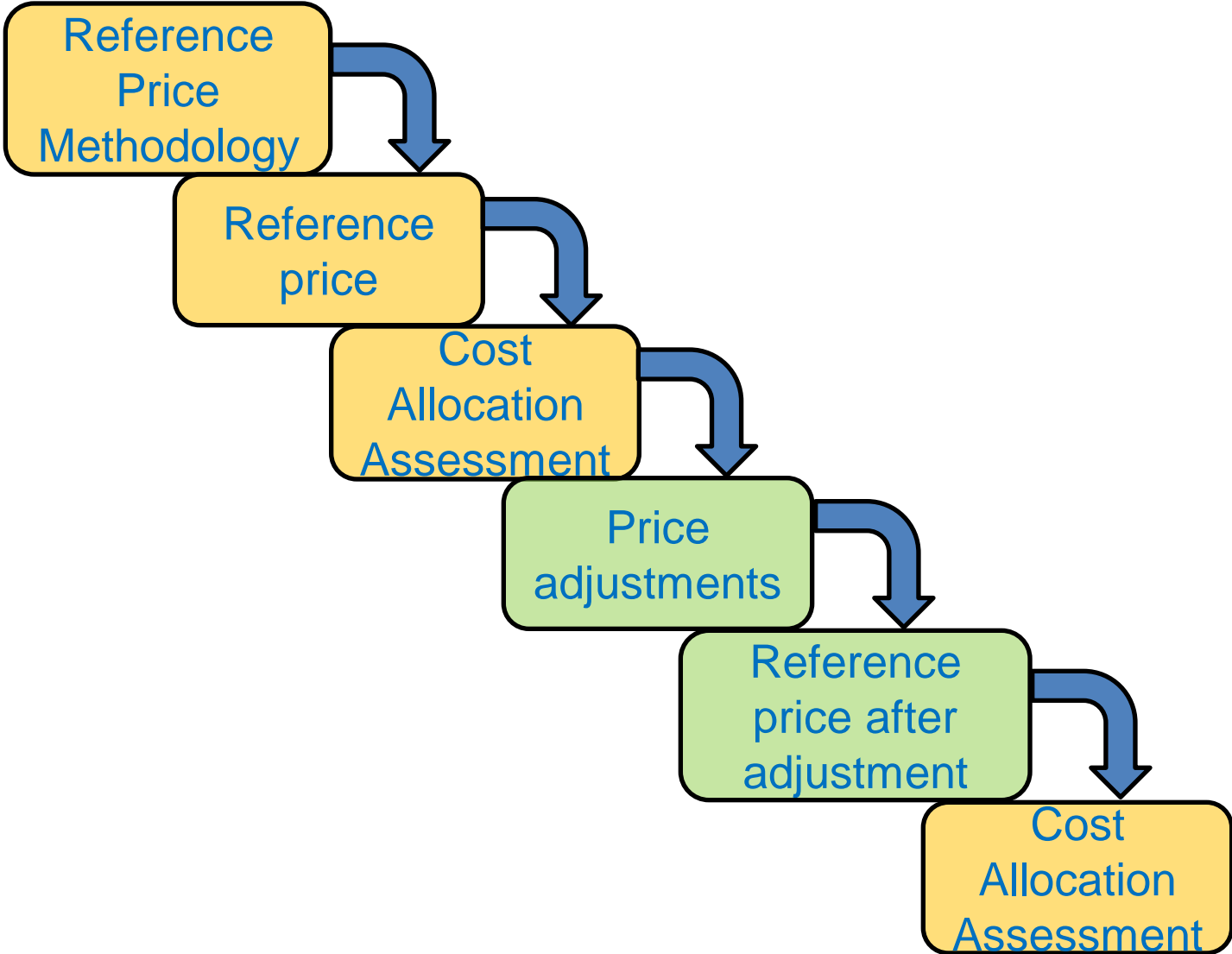
- For entry points it is not clear which part of the entry capacity will be used for intra-system network use and which part will be used for cross-system network use
- Ref. article 5.5a: cross-system entry network use (CSN) is deemed to be equal to cross-system exit network use, as a consequence each entry point has both cross-system network use and intra-system network use
- Revenue for cross-system entry network use can be calculated pro rata: $CSN/TN * \text{total entry revenue}$, where TN is total entry network use (ref. article 5.5b)
- Revenue for intra-system entry network use is difference between total entry revenue and revenue for cross-system entry network use (ref. article 5.5c)

Cost Allocation Assessment (5/5)

Driver^{intra} and Driver^{cross} have to be determined according to Ref. article 5.3 for capacity based network use and ref. article 5.4 for commodity based network use

- Determining intra-system and cross-system cost drivers can be calculated according to the steps on previous slides (mutatis mutandis)
- Although this is a logical approach, it is an interpretation, because there are no explicit guidelines and/or formulas in the NC TAR to determine the CAA cost drivers

RPM, cost allocation assessment, price adjustments for capacity based transmission services



Price Adjustments (1/2)

Allowed price adjustments to the application of the RPM (ref. article 6.4, article 9)

1. Storage discount

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. For the purpose of increasing security of supply

- Discount on LNG entry
- Entry/exit points ending isolation of member states

3. Benchmarking

whereby reference prices at a given entry or exit point are adjusted so that the resulting values meet the competitive level of reference prices;

4. Equalisation

whereby the same reference price is applied to some or all points within a homogeneous group of points;

5. Rescaling

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.

Price Adjustments (2/2)

Each price discount adjustment leads to a under-recovery of revenues which must be recovered. This may be done in the following ways:

1. Rescaling (ref. article 6.4c)

- 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.

2. Complementary revenue recovery charge (ref. article 4.3b)

- levied for the purpose of managing revenue under- and over-recovery;
- calculated on the basis of forecasted or historical capacity allocations and flows, or both;
- applied at points other than interconnection points;
- applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points.

Tariff methodologies for services other than capacity based transmission services: Commodity based TS

GTS Services	Transmission Service (TS)	Non Transmission Service (NTS)
Capacity based		
Commodity based	<ul style="list-style-type: none">• Flow based charge• Complementary revenue recovery charge• Ref. article 4.3ab • The cost allocation assessment (Ref. article 5) is also applicable for commodity based transmission services	

Tariff methodologies for services other than capacity based transmission services: Capacity based NTS

GTS Services	Transmission Service (TS)	Non Transmission Service (NTS)
Capacity based		<ul style="list-style-type: none">• Cost-reflective, non-discriminatory, objective and transparent;• 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.• Ref. article 4.4
Commodity based		

Tariff methodologies for services other than capacity based transmission services: Commodity based NTS

GTS Services	Transmission Service (TS)	Non Transmission Service (NTS)
Capacity based		
Commodity based		<ul style="list-style-type: none">•Cost-reflective, non-discriminatory, objective and transparent;•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.•Ref. article 4.4

Publication requirements

Information to be published before tariff period

- Information on parameters used in the RPM
- Financial information: e.g. allowed revenue, cost of capital
- Revenue splits: e.g. entry/exit split
- Ref. article 30, 31, 32

Information to be published before the annual yearly capacity auction

- Reserve prices for first gas year in the auction
- Multipliers and seasonal factors
- Reserve prices for interruptible capacity for first gas year in the auction
- An assessment of the probability of interruption
- Ref. article 29, 31, 32

Consultation requirements: Processes

Periodic consultation

- Final consultation open for at least two months
- Within five months following the end of the final consultation, the NRA shall take and publish a motivated decision
- The tariffs applicable for the prevailing tariff period at 31 May 2019 will be applicable until the end thereof
- At least every five years starting from 31 May 2019
- Ref. article 26, 27

Yearly consultation

- Discounts, multipliers and seasonal factors
- Ref. article 28

Consultation requirements: Periodic consultation content

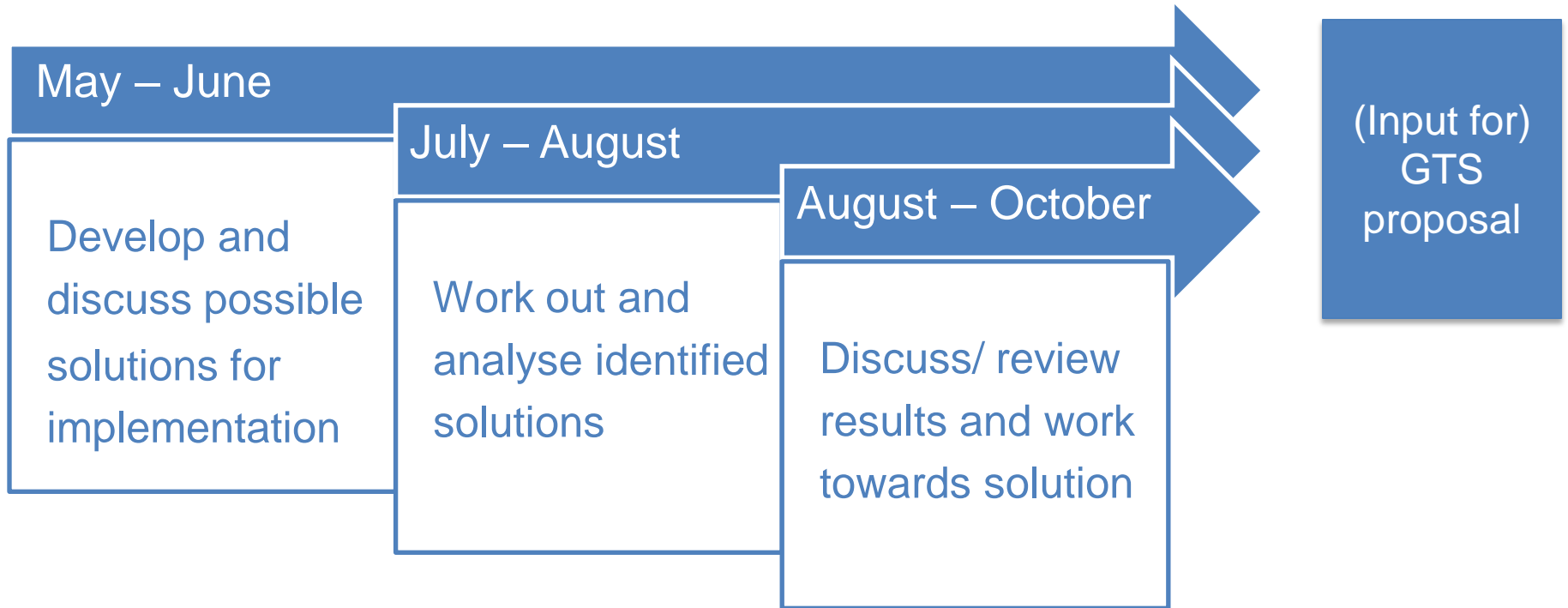
GTS Services	Transmission service (TS)	Non Transmission Service (NTS)
Capacity based	<ul style="list-style-type: none"> • Description of RPM and its used parameters • Proposed adjustments for capacity based transmission tariffs • Indicative reference prices • Results of the CAA • Assessment of RPM against article 7 • If proposed RPM is other than counter factual CWD, then compare indicative tariffs • Ref. article 26, 1a 	<ul style="list-style-type: none"> • The non-transmission service tariff methodology therefor; • The share of the allowed or target revenue forecasted to be recovered from such tariffs; • The manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3); • The indicative non-transmission tariffs for non-transmission services provided to network users;
Commodity based	<ul style="list-style-type: none"> • The manner in which they are set; • The share of the allowed or target revenue forecasted to be recovered from such tariffs; • The indicative commodity-based transmission tariffs • Ref. article 26, 1c(i) 	<ul style="list-style-type: none"> • Ref. article 26, 1c(ii)



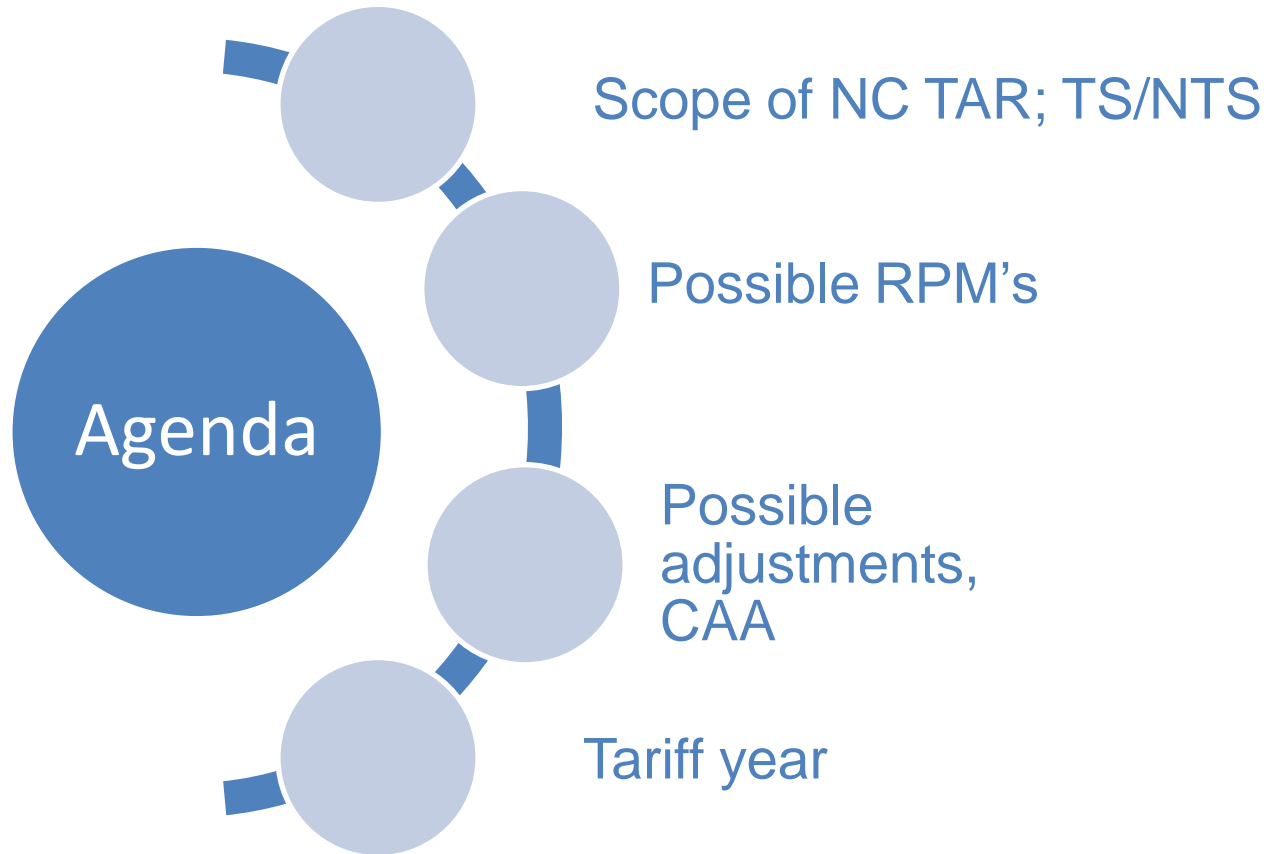
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First step: ensure that possible implementation options are identified, developed and discussed



Topics for stakeholder session on 9 June 2017



Topics for stakeholder session on 28 June 2017

