

Possible solutions for identified issues in case of 0%-100% split

Follow-up GTS's NC TAR implementation proposal



Identified issues in case of 0%-100% split

- As recognised in GTS's NC TAR implementation proposal, several issues need to be solved and considered in case of a 0%-100% entry-exit revenue split.

Identified issues:

1. Contracting capacity, nominating and preventing possible hoarding
 2. Right incentives for investing at entry points
 3. Transport via the TTF market area through BBL
 4. Considering the effect on long term contracts
- We looked for possible solutions which
 - Are feasible
 - Can have a (broad) support by market parties and the regulator
 - Have a minimal impact / require minimal (additional) changes (compared to current situation)
 - Solutions presented on next slides.

Contracting capacity, nominating and preventing possible hoarding (1/2)

- Capacity hoarding: contracting capacity and not using it, which in case of contractual congestion prevents other shippers to contract capacity
- We consider hoarding as non-prudent behaviour, while reasonable and prudent behaviour is a TSC obligation
 - Currently: we expect and see reasonable and prudent behaviour from our shippers.
 - So we expect that hoarding will not become an issue
- We therefore maintain current contracting and nominating model, we expect shippers to contract capacity conform their expected capacity needs (also for GTS planning purposes)
 - (Too) high demand of capacity at IP's will increase the auction premium, which prevents hoarding.
 - At non-IP (feeding and storage entry points): contracted capacity at GTS entry points has no (commercial) value without contracted commodity and capacity at upstream party. Therefore, we expect no hoarding at non-IPs.

Contracting capacity, nominating and preventing possible hoarding (2/2)

- In the unexpected case of hoarding, several solutions are available:
 1. “Unlimited” available interruptible capacity at those entry points
 - “hoarded” shipper can still contract capacity
 - Nominating & matching with upstream NNO conform current practice, this will lead to realistic capacity usage based on applying lesser rule in matching process (=current practice)
 - Physical limitation described in Grid Connection Agreements (GCA) between upstream and downstream NNO (=current practice)
 - Can be applied without code/TSC changes
 2. Adopt other “contracting” model, because contracting capacity has no real value anymore
 - Nominating capacity would then be basis for agreement between shipper and GTS
 - Will lead to changes in code/TSC
 3. Show upstream contract prior to contracting capacity at entry points.
 - Will lead to changes in code/TSC
 4. Use it or lose it (UIOLI)
 - Will lead to changes in code/TSC

- GTS prefers first solution because it solves the potential problem instantaneously without impact on current practice and codes/TSC

Proper incentives for investments at entry points

IP's

- Incremental capacity process is already in place for additional capacity for joint interconnection points. According to art. 33 (3 & 4) NC TAR a mandatory minimum premium may be applied.
 3. In case the allocation of all incremental capacity at the reference price would not generate sufficient revenues for a positive economic test outcome, a mandatory minimum premium may be applied in the first auction or alternative allocation mechanism in which the incremental capacity is offered. (...)
 4. The level of the mandatory minimum premium shall enable a positive economic test outcome with the revenues generated by the offered capacity in the first auction or alternative allocation mechanism in which the incremental capacity is on offer. (...)
- If the "regular" INC process with a possible auction premium will not lead to a positive outcome of the economic test, we propose to use the mechanism of a mandatory minimum premium to ensure the right investment incentives

Non-IP's

- Similar incremental capacity process can be used for additional capacity for joint non-IPs (storage and feeding entry points).
 - Note: Storage contracts also additional exit capacity
- GTS and upstream party will conclude an (updated) grid connection agreement (GCA) about physical properties.

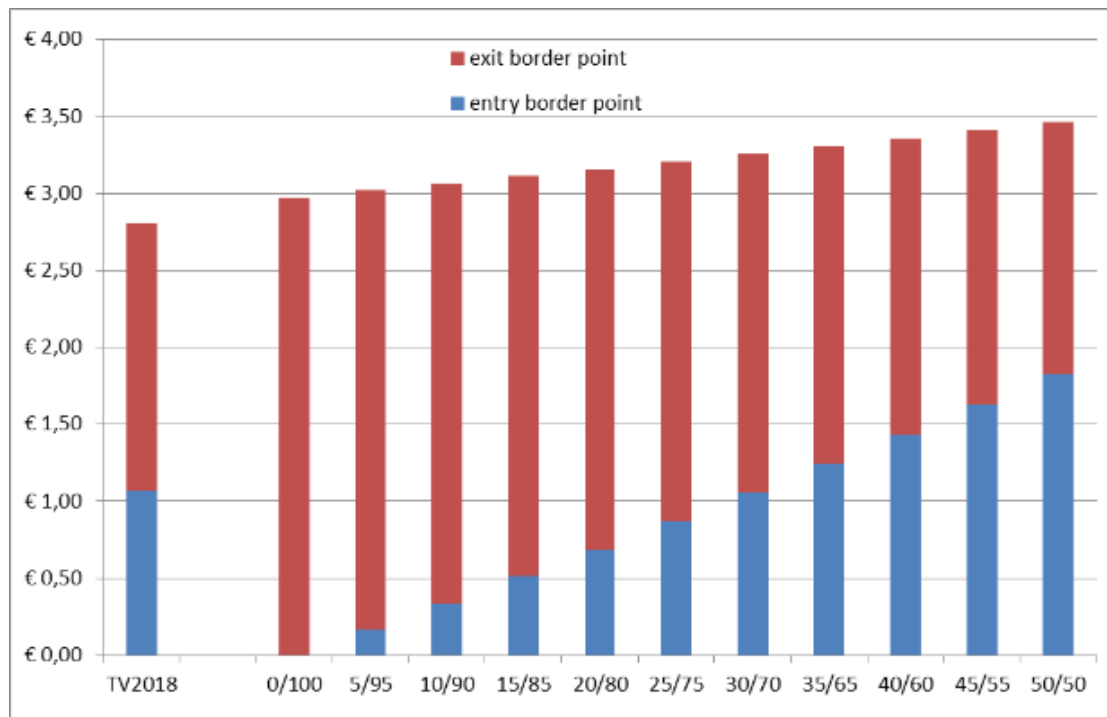
Transport via the TTF market area through BBL

Free ride can be eliminated by introducing Inter TSO compensation (ITC)

- Maintaining TTF market area and 2 separate TSOs (GTS and BBLC).
- BBLC (exit) tariff Bacton includes in that case a GTS tariff component.
- BBLC invoices tariffs /collects revenues and transfers part of these revenues to GTS.
- These revenues are part of the (regulated) transmission service revenues of GTS.
- Will take time to conclude agreement with BBL Company.

General alternative solution for all previous issues

- “Introduce” tariff at all entries close to 0/100 E/E split
- Low entry tariff still necessary to keep transit tariffs as low as possible (see GTS sheets at market session on 27 November 2017, see graph below)



Considering the effect on long term contracts

- Each significant (tariff) change can have effect on commercial (long term) (commodity) contracts and therefore it's not a issue restricted to the 0/100 split only.
- GTS does not have information about these commercial (commodity) contracts.
- GTS cannot foresee in a solution concerning commercial (commodity) contracts.