

Summary of responses to the Consultation Document published under Article 26 of COMMISSION REGULATION (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas

On 1 October 2018, the Energy Regulatory Office ('ERO') published a consultation document required under Article 26 of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas ('TAR NC'). In the consultation process rules, the ERO set 31 December 2018 as the final date for responses, thereby extending by one month the minimum time granted for responding under Article 26(2) TAR NC. A number of market participants have highly appreciated this extension in their responses to the consultation document. The ERO has also received foreign entities' positive responses to the publication of the consultation document in English.

By 31 December 2018, the ERO had received responses from the following organisations:

CENTROPOL ENERGY, a.s.

ČEZ a.s.

The Czech Gas Association

E.ON Energie, a.s.

European Federation of Energy Traders (EFET)

GasNet, s.r.o.

Gazprom Marketing & Trading Limited

Gazprom Export LLC

innogy Gas Storage, s.r.o.

MND Gas Storage a.s.

MND a.s.

NET4GAS, s.r.o.

Pražská plynárenská, a.s.

Pražská plynárenská Distribuce, a.s., člen koncernu Pražská plynárenská, a.s.

RWE Supply & Trading CZ, a.s.

RWE Supply & Trading GmbH (RWEST)

The ERO has not received any response after the final date, nor has it received any response contrary to the set rules for the consultation process.

This document contains a summary of the entities' main comments on and key arguments in favour or against the proposal published in the consultation document. The responses are listed by the area concerned. The full text of all responses is posted on the ERO's website.¹ This summary and the responses received in the consultation process are published in the Czech² and English languages. In

¹ <http://www.ero.cz/cs/informace-podle-tar-nc>

² Responses received by the ERO in English have not been translated into Czech and the ERO has not edited them. Responses received by the ERO in Czech have not been edited either.

the event of any discrepancy between a translation into English and the original wording of the response the original wording shall prevail.

The discount applied to capacity-based transmission tariffs at entry/exit points from/to storage facilities; a large increase in the transmission tariff at the exit point to storage facilities

- **13 responding entities**

An overwhelming majority of the entities refuse the discount for capacity-based transmission tariffs at entry/exit points from/to storage facilities proposed at a level of 50% (under Article 9(1) TAR NC, this is the minimum discount), suggesting a discount of 70 to 100% instead. They put forth the following main arguments for increasing the discount:

- 1) Any payment for transmission to/from storage facilities amounts to double charging, since the network user has already paid for gas transmission at different entry and exit points.
- 2) Increasing the tariff for transmission to/from storage facilities may cause lower demand for gas storage in the Czech Republic ('CR'), which may result in existential problems for some SSOs. This tariff increase may also impair gas supply security in the CR because traders will provide for meeting the supply security standard otherwise than by storing gas in storage facilities in the CR.
- 3) The dramatic increase in the tariff for transmission to/from storage facilities disadvantages the network users who have already bought (in auctions) storage capacities for 2020 and beyond.
- 4) A comparison of the discount proposed in other European, primarily neighbouring countries indicates that the proposed 50% discount is the very lowest.
- 5) Increasing the tariff for transmission to storage facilities by 1,500% is contrary to the ERO's stated objective to ensure the continuity of transmission tariffs and such increase can also disrupt market dynamics and liquidity.

Furthermore, some responses require a quantification of the value of storage facilities, as an active element in the gas system, on the basis of which the decision to grant only a 50% discount was made.

Commodity-based tariffs; flow-based charge

- **Five responding entities**

Some of these entities disagree with the proposed methodology for setting commodity-based tariffs intended to cover the costs of the gas required for compressor station running (fuel gas). According to the responding entities, since we are facing a significant increase in the gas quantity transported across the CR in the coming years, and hence also rising fuel gas costs, the proposed methodology is also causing a significant increase in commodity-based tariffs. On the other hand, one of these entities supports the proposed methodology.

These entities mainly note the following on the proposed methodology:

- 1) The increase in the cost of compressor station running is mainly due to increased cross-system transmission, and so primarily the transit user should bear these costs in line with the general objectives of the TAR NC.
- 2) The reason for which the commodity-based tariffs for transmission to DSOs and storage facilities have been significantly increased has not been thoroughly explained.
- 3) Although the ERO is constrained by Article 4(3) TAR NC when setting commodity-based tariffs, we support the selected CWD methodology for tariff setting and require that the resulting tariffs reflect more strongly the correlation between cost drivers and cost allocation.
- 4) In the case of the directly connected customer Počerady Power Station (Bečov), located some 40 km from the main cross-border entry point, Brandov VIP, where no compression work is required for transporting gas to the customer's supply point, the principle of a fair allocation of costs is evidently violated.

Multipliers for short-term products

- **Four responding entities**

From these responding entities, the ERO has received conflicting requirements for changing the value of the multipliers used for setting the prices.

The requirements for reducing the multiplier values are general and range from reducing all multipliers due to the increased use of the transmission network and covering the costs of network operation when demand for capacity is low, through to a specific suggestion to reduce the value of the multiplier for within-day capacity from 1.7 to the same value as the multiplier for daily capacity, i.e. 1.5. This requirement is supported by the following arguments:

- The proposed multiplier for within day capacity of 1.7 is too high and should be set at 1.5, the same as for daily capacity. A multiplier of 1.7 unduly burdens short term sources of flexibility in both the gas and electricity markets and discourages efficient within day price arbitrage. This is particularly true when a within day capacity booking for only part of the day is priced as if applying for the full day, as in the Czech Republic. Setting a within day multiplier that is higher than the daily multiplier will not encourage market participants to book capacity day ahead instead. Demand for this will be driven by day-ahead price spreads which will either be in the money or out of the money, regardless of the level of the within day multiplier.

On the other hand, there is one requirement to increase the multiplier for within day capacity from 1.7 to 2, supported by the responding entity's following arguments:

- 1) The value 2 is the exact midpoint of the range allowed in Article 13(1) TAR NC and so best meets the requirement of Article 28(3) that the values of multipliers are to ensure the balance between facilitating short-term gas trade and providing long-term signals for efficient investment in the transmission system.
- 2) A too low value of the within day multiplier for within-day capacities does not appear to be substantiated because for instance in Germany, it was increased from 1.5, originally proposed during the preliminary consultation, to 2 in the final consultation.
- 3) Since 1 January 2015, the within day multiplier in the CR has been reduced twice, specifically from 3.65 in 2015 to 2 in 2016 and then to 1.7 in 2017 and 2018. Thus, the gas market has been marked by a significant decrease in bookings of standard yearly capacity products and

a significant increase in bookings of standard within day capacity products. This trend has been caused by changes in the business practices of traders, who are now using short-term products more often because of the decrease in the value of multipliers for within day, daily, and monthly products. For example, a comparison of the first 11 months of 2016 and 2018 shows a 14% decrease and a nearly 8,000% increase in total effective booked capacity of yearly and within day products at cross-border exit points.

Discount for capacity interruption

- **Two responding entities**

Although the conditions laid down in the Regulation for applying an ex-post discount for transmission interruption are satisfied in the CR, with which the responding entities themselves agree, they suggest and prefer the ex-ante discount. In the case of applying the ex-post discount, they also require consistent adherence to TAR NC provisions on compensation for interruptions, which in their opinion should not be reduced based on the duration of interruption or the interrupted capacity's share of total booked capacity.

The number and types of transmission network points

- **Three responding entities**

From three responding entities, the ERO has received requirements for increasing the number of points for which individualised tariffs are set.

- 1) A requirement for a separate setting of tariffs for directly connected customers, who in the current proposal are included in the tariff for transmission to the DSO delivery point, arguing that, e.g., for a key customer, the Počerady Power Station (Bečov), the tariff has been set using a distance of 228 km from the main entry point into the CR, Brandov VIP, while this supply point is actually only 40 km away.
- 2) A requirement for including two points in the CWD methodology, which currently are not part of the Czech transmission system but proposals for their inclusion or establishment exist. These are the new Reintal cross-border point, which is part of the project being prepared for a bidirectional cross-border interconnector between the CR and Austria, and the point of SPP Storage's Dolní Bojanovice storage facility, which is located in the CR but currently is connected only to the Slovak gas system. The reason is that a project for connecting this facility to the Czech gas system is being prepared.
- 3) A missing transmission tariff and the method for its setting for the existing TRU service.

Mismatch between consultation under the TAR NC and consultation for the fifth regulatory period (5RP)

- **Three responding entities**

As part of the consultation, the ERO has been alerted to a mismatch between the applicability of the transmission tariffs under the TAR NC (1 January 2020) and the beginning of 5RP (1 January 2021). Because of the expected impact of the new 5RP rules on the transmission tariffs, some entities suggest

postponing the applicability of the tariffs set under the TAR NC to 1 January 2021 as well or, in the case of major changes arising from the 5RP rules, a new consultation on the tariff methodology under the TAR NC.

Missing information

- **Four responding entities**

These entities note that some information is missing and this prevents them from verifying and assessing the tariffs as to their accuracy. They specifically point to missing information necessary for checking the calculation under the CWD methodology, noting that the tariff setting process is a ‘black box’ for them. They also point to insufficient information about historical long-term contracts, which prevents them from assessing the adequacy of the risk premium used for calculating revenue under the price cap regime, and thus from correctly assessing the cross-subsidies between intra-system and cross-system users.

Cost allocation to national transmission (intra-system) and transit transmission (cross-system)

- **One responding entity**

Throughout the period 2020-2025, the proposed ratio of cost allocation to national transmission and transit transmission is approximately at the same level of 24:76, which the entity believes is contrary to the planned increases in flows, when between 2020 and 2025 the intra-system flows are planned to increase by only 7% while cross-system flows are planned to increase by 40%. According to the entity, cross-system transmission should therefore take a much higher percentage of total costs, or such costs should be allocated directly. According to the entity, the setting of tariffs and mainly their annual changes therefore do not reflect the cost drivers and it can therefore be considered that cross-subsidisation is taking place between transit and national transmission, disfavours consumers in the CR.

The Waidhaus VIP – the transmission tariff level and contracted capacity

- **One responding entity**

This responding entity notes that the consultation document does not clearly explain the drop in the Waidhaus VIP transmission tariff, especially when taking into account the long-term transmission capacity plan as contained in NET4GAS’s *Long-term Available Capacity Forecast*³, which indicates that the Waidhaus VIP has a contracted exit capacity comparable with the Lanžhot point.

Entry/Exit split

- **One responding entity**

One response supports the proposed CWD methodology with a 20.35/79.65 split of regulated entry/exit revenue. According to this entity, a 50/50 entry/exit revenue split would violate the objectives of the TAR NC, in particular as regards the fair cost allocation to intra-system and cross-

³ https://www.net4gas.cz/files/informace-siti/20180821_dlouhodoba_predpoved_volnych_kapacit.pdf

system users. Furthermore, according to the entity, the long-term price stability in the Czech Republic would be disrupted without any justification in terms of costs.

Risk of declining bookings and cross-subsidies

- **One responding entity**

According to this entity the approach taken to the risk of declining bookings is not correct. Different approaches to national and transit transmission (revenue cap versus price cap) and different values of the rate of return (WACC) do not encourage a greater use of transit transmission, and this approach therefore increases the risk of insufficient bookings of transmission capacities. According to the entity, certain concerns about cross-subsidies in favour of domestic customers are caused by the WACC value of 8.18% for transit transmission compared with the values for national transmission, 7.94% for 2020 and 6.72% for 2021 to 2025.