



Konzultační formulář

Consultation form

Konzultační dokument podle Článku 26 Nařízení Komise (EU) 2017/460 ze dne 16. března 2017, kterým se zavádí kodex sítě harmonizovaných struktur přepravních sazeb pro zemní plyn

Consultation Document in accordance with Article 26 of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas

Dotčený subjekt

Interested party

<input type="checkbox"/>	Regulační orgán Regulatory authority	<input type="checkbox"/>	Provozovatel distribuční soustavy Distribution system operator
<input type="checkbox"/>	Ministerstvo nebo vládní organizace Ministry and governmental institution	<input checked="" type="checkbox"/>	Provozovatel zásobníku plynu Storage system operator
<input type="checkbox"/>	Místní samospráva Municipality	<input type="checkbox"/>	Dodavatel plynu, obchodník Gas Supplier, Trader
<input type="checkbox"/>	Akademická sféra Academia	<input type="checkbox"/>	Zákazník Customer
<input type="checkbox"/>	Provozovatel přepravní soustavy Transmission system operator	<input type="checkbox"/>	Jiný Other

příslušné zařazení prosím označte X

please mark with X as of January 2019 as of January 2019

Identifikace

Identification

Jméno právnické osoby Name of legal person	innogy Gas Storage, s.r.o.
Jméno a příjmení odesílatele Name and surname of the sender	
E-mailová adresa E-mail address	
Telefonní číslo Telephone number	
Datum Date	

Připomínky a podněty (v případě potřeby prosím přidejte další řádky)

Comments/initiatives (please add rows as needed)

Kapitola Chapter	Připomínky a podněty Comments and initiatives
3. Introduction 5. Disclaimer	We regard the proposed methodology for setting transmission tariffs as a strategic document that will profoundly influence the dynamics of the use of the Czech gas infrastructure, primarily transit gas pipelines and storage facilities, and that will also have an impact on gas prices for final customers. We therefore appreciate that sufficient time was granted for comments during this public consultation. However, we believe that, given the importance of the document, all gas infrastructure operators should have been invited to participate in its preparation, because the TSO does not have all the relevant data due to the very nature of the unbundling requirements. Such cooperation should ensure a sufficient interlinking between the setting of the transmission tariffs and the costs incurred by the various parts of the network. We feel this most strongly in the case of two aspects of the proposal: the transmission tariff for storage facilities, and the proposed split of the commodity component related to gas flows between transit and national transmission.
9.1.6 Implementation of the proposed pricing method 9.1.7 Justification of the proposed method of implementation 19.1.1 Level of reference prices at entry points 19.1.2 Level of reference prices at exit points	<p>We do not agree with the dramatic increase in the tariffs for transmission to storage facilities, which completely lacks substantiation in our view. Taking this step, the ERO is inconsistent, as on page 23 of the document it clearly notes that gas storage is currently under a strong market pressure, but at the same time it increases the transmission tariff at the exit to storage facilities by 1,498% (page 81, Table 37). The ERO is therefore fully aware that for SSOs, this increase is nearly crushing. innogy Gas Storage, s.r.o. expresses its categorical reservations to this approach. Regardless of whether or not available storage capacity in the Czech Republic is reduced in the future, innogy Gas Storage, s.r.o. holds a firm opinion that it can only take place on the basis of the free market principles rather than the State's interference at the level of an implementing act in the form of a price decision, against which no appeal is admissible.</p> <p>The increase in the price of transmission to storage facilities is an extreme interference with not only SSOs' business but also with that of their long-standing customers who have already bought storage capacity for 2020 and beyond. And this despite the fact that in the case of long-term transmission contracts the ERO preserves the same pricing level, arguing non-discrimination between older and newer contracts and price continuity with the preceding period (page 47). In addition, the ERO's proposal also jeopardises – because of the fundamental economic impact on SSOs – the meeting of the Updated National Energy Policy's requirements for ensuring sufficient storage capacity in the Czech Republic.</p> <p>We consider that, contrariwise, the ERO should take advantage of TAR NC implementation as an opportunity to factor in storage facilities' positive benefits for Czech customers and set a 100% discount from tariffs for transmission to and from storage facilities, including the commodity component reflecting gas flows through the network. We give the following reasons for such move:</p> <ul style="list-style-type: none">• Storage facilities help to cut the overall costs of gas system operation• Storage facilities ensure sufficient gas quantities in the Czech Republic in case of supply disruptions• Customers using national and cross-border storage facilities must be granted a level playing field

1 Actual costs of transmission to and from storage facilities

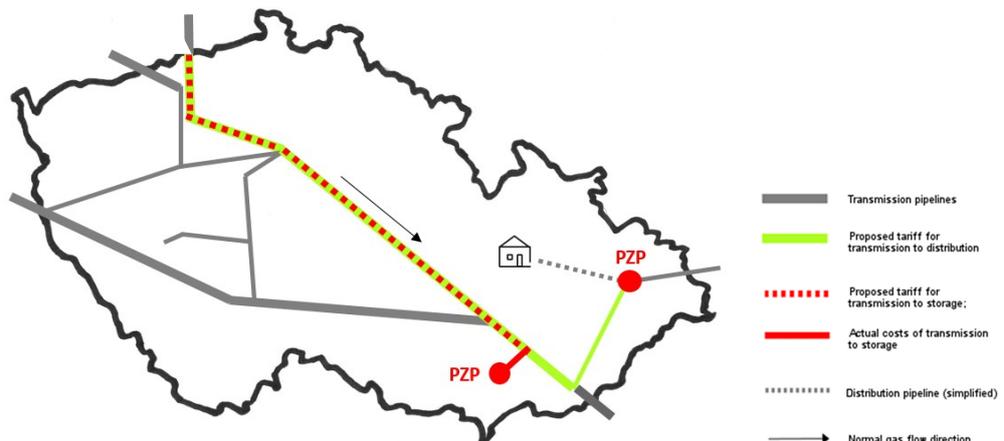
For determining the transmission tariff, the presented document applies a methodology based on the principle of cost weighted distance, which is described in detail in the TAR NC. The methodology relies on calculating distances from network entry points and behaves the same to all exit points in the network. It is therefore more suitable for pricing cross-border entry and exit points. It is not adequate for storage facilities, because it again automatically factors in a large part of the route that the network user has already paid for (this is also true when the mandatory 50% discount is applied). The TAR NC therefore gives the ERO the freedom to set, based on the actual costs for the network, a lower price for transmission to and from storage facilities than the methodology sets out, specifically as low as zero. Unfortunately, the presented document does not contain any assessment of the Czech specificities or an analysis of the costs actually spent by the TSO on using storage facilities. In our response we therefore outline a basic comparison of the proposed tariff and the actual costs, relying on available data. We also urge the ERO to carry out its own analysis and reflect its results in the tariffs.

The proposed tariff results in a double charging of transmission

The proposed tariff for transmission to storage facilities *de facto* doubles the charge for network use: exit to DSO: CZK 1,985.94/MWh/day/year and exit to storage facilities: CZK 1,527.98/MWh/day/year (page 81, Table 37). However, the route for transporting gas to the distribution system is actually the same regardless of whether or not the supplier uses a storage facility. The difference is only a short branch-off to the storage facilities. In the case of storage facilities in northern Moravia, there is even no branch-off from the main transmission route at all, since the storage facility directly constitutes the delivery point between the transmission network and the distribution system. The proposed tariff for transmission to storage facilities therefore significantly overestimates the TSO's costs and fails to reflect the physical location of storage facilities in the network.

Fig. 1 Transmission tariff doubling

The dashed line depicts the proposed tariff for transmission to storage facilities, the green line the tariff for transmission to the distribution system and the red line the actual costs of the branch-off to the storage facilities from the main gas flow.



A customer who uses gas storage therefore pays almost all costs of gas flows through the network when entering and exiting the Czech Republic or when entering the distribution system, and the price for transmission to the storage facility is in fact a doubling of the payment for the gas transmission that takes place anyway, only with a delay, i.e. with storage *en route*.

The actual costs of gas transmission to storage facilities correspond to a discount of 88%

Transmission to storage facilities does not require additional costs, with the exception of the management of branch-offs from the main pipeline route, extending over 152 km on the whole, i.e. 4% of the transmission network. The cost of the technical management and operation of the gas transport piping leading to storage facilities for the *pro rata* part of 4% of the TSO's total allowed revenue (page 71, Table 24) is, net of the forecasted costs of compression for national transmission (page 77, Table 34 and page 75, Table 30), CZK 61,522,721, which also roughly matches the current transmission tariffs for storage facilities. After conversion to the transmission tariff and taking into account the monthly capacity booking tariff coefficient, the actual costs of a storage facility, net of its added value, correspond to a discount of 88% (yearly transmission capacity is not booked for storage facilities, because exit is normally needed for six months for injection and entry is needed for six months for withdrawal into the network). Applying a discount of less than 88% would mean that customers using storage capacity are cross-subsidising the other network users.

2 Added value of storage facilities, which should be reflected in the transmission tariff

Storage facilities work as pressure regulating stations between the transmission network and distribution systems

Some of the storage facilities¹ reduce the network operating costs by working as pressure regulating stations for the transmission network and distribution systems, thanks to which system operators do not have to invest additional hundreds of millions of crowns or pay the costs of the operation of such stations. These are storage facilities located just between the transmission network and the distribution system, i.e. they inject gas from the pipeline with a higher pressure and withdraw gas into the distribution system with a lower pressure, thereby replacing regulating stations. These savings, when set off against the actual costs of CZK 62 million on the maintenance of pipelines leading to storage facilities, negate these costs.

Storage facilities ensure gas transmission to northern Moravia

A special case is the storage facilities in northern Moravia, without which gas supply to the region cannot be ensured at present. In practice, the TSO is currently being paid for a service that is actually provided by the SSO, and without any financial compensation. Thus, the costs of gas transmission to these storage facilities are actually negative. In this case, the existence of a transmission tariff is therefore quite unsubstantiated. Storage facilities in northern Moravia are beneficial not only in the region but also for all customers in the Czech Republic through the TSO's unspent costs, which is reflected in lower costs of transmission to the distribution network for all.

The systemic value of the storage facilities in northern Moravia can be indicatively compared with the alternative being considered under the *Ten Year Transmission System Development Plan*, i.e. the construction of a new pipeline to northern Moravia at an estimated investment cost of about CZK 3 billion (EUR 120 million). The TSO's regulated revenue in 2022 (the tentatively stated year of the potential commissioning under the Ten Year Plan) will be an estimated CZK 370 million (EUR 14 million), by which the price of transmission for customers in the Czech Republic would be increased. The benefit of storage facilities therefore exceeds the costs associated with them.

17.1 The commodity-based transmission tariffs (flow-based charge)

¹ Specifically the Háje, Lobodice, and Třanovice storage facilities

<p>9.1.6 Implementation of the proposed pricing method</p> <p>9.1.7 Justification of the proposed method of implementation</p> <p>19.1.1 Level of reference prices at entry points</p> <p>19.1.2 Level of reference prices at exit points</p>	<p>It should be added that the storage facilities in northern Moravia are part of the virtual storage facility of innogy Gas Storage, s.r.o. and their optimum operation to the needs of the distribution system in the region is ensured thanks to the flexibility of the other storage facilities outside northern Moravia. The other storage facilities are withdrawn or injected depending on northern Moravia's demand, thereby contributing to the smooth gas supply to that region.</p> <p><u><i>Storage facilities reduce the cost of compression in the network thanks to gas injection in summer</i></u></p> <p>Storage facilities operate as an active element of the network, and infuse the required compression into the network. This means that gas is injected into a storage facility, connected bi-directionally to the transmission network, under the same pressure as the pressure under which it is withdrawn from the facility. Technically, the pressure during withdrawal from a storage facility into a pipeline must be the same or slightly greater than the pressure of the gas flowing through the pipeline so that it can be injected into the pipeline. Similarly, in the case of storage facilities located at a delivery point between the transmission network and a distribution system, the storage facility provides the required pressure control to the distribution system's requirements. The use of storage facilities therefore does not cause any losses in compression in the network. The charge for gas flows through the network allocated to storage facilities therefore reflects neither the technical reality nor the TAR NC requirement for assigning the charges to the network points that generate the related costs. In addition, gas is transported to storage facilities in summer, i.e. in the period of a lower usage of the transmission network, thanks to which the costs of the TSO's compression work are lower than in the period of main consumption, i.e. in winter, when storage facilities supply gas into the network. The charge for compression work is therefore unsubstantiated in the case of storage facilities.</p> <p>Without prejudice to the above, we oppose, as a matter of principle, to the proposed setting of the flow-based charge (page 77, Table 34 and page 81, Table 39), as it unjustifiably burdens the users of the national system, although the document clearly notes that a higher usage of the transmission network, and the related higher costs of gas flows, will be caused by an increase in transit transmission. All additional operational expenditures should therefore be allocated to transit, i.e. to the transmission tariff for exit from the Czech Republic. However, in Table 39 on page 81 the proposal paradoxically reduces the charge for transit.</p> <p>3 The value of storage facilities for ensuring supply security in case of emergency is higher than EUR 113/MWh</p> <p>The Czech Republic's key strategic documents on energy, which primarily include the <i>Updated National Energy Policy</i>, the <i>Analysis of the Gas System Risks</i>, and OTE's '<i>report on the electricity and gas demand expected in the future and the method for balancing electricity and gas supply and demand</i>' regard the availability of sufficient storage capacity in the Czech Republic as crucial. In view of the gas consumption forecasts, the capacity should even be increased. Since storage facility operation is business and the State does not own any gas stores or the required infrastructure, the state administration has only limited instruments for providing the required storage capacity in the Czech Republic. The setting of the transmission tariffs is one of such instruments, and the ERO should therefore primarily set off the value of gas supply security against the system's costs of putting such capacity in place, thereby enhancing the attraction of gas storage in the Czech Republic.</p> <p>No standardised methodology for pricing gas supply security or the compensation for gas non-supply exists, and we have therefore selected for the purpose of this</p>
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consultation, an indicative calculation of storage facilities' added value for the security of gas supply to customers in the Czech Republic. We also request the ERO to conduct a deeper analysis and reflect its results in the tariffs for transmission to and from storage facilities. We use the following assumptions and procedure for the calculation:

- 1 The free market is the primary driver of the gas price. When demand for gas increases, a rising price makes it possible to gradually exhaust all physically available gas sources. These sources include all cross-border transmission interconnectors, gas storage facilities, gas production from indigenous fields, and LNG.
- 2 When all available sources are exhausted using the high price on a given day, the market is no longer able to satisfy demand and stops working. Some of the customers must reduce their off-take, or are disconnected from gas supply.
- 3 As long as the market is liquid, the price is still acceptable for customers. The gas price rises as the available sources are being exhausted, until it reaches a point where either all sources have been exhausted or the customer rather accepts non-supply. Thus, when the market is working and no unplanned reductions in consumption or disconnections take place, the gas price is lower than the costs of and the damage caused by gas non-supply. The non-supply price is therefore higher than the market price.
- 4 In order to determine the gas price during demand peaks that is still acceptable for customers and therefore lower than the value of supply security, we looked for prices in representative liquid markets. We regard a high gas price at the time of high demand as a signal of a working market, because its objective is to stimulate the supply of the required gas quantity. In the calculation we therefore consider the price at the NBP market in the UK; at the end of February and beginning of March 2018 it was EUR 135/MWh against the normal winter price of EUR 20/MWh. In recent years, the Czech gas market has not registered a disproportion between supply and demand such as would enable us to give a representative example from the Czech Republic, although the prices in the Czech market climbed to EUR 82/MWh in the same period.
- 5 We therefore consider EUR 135/MWh as the value of gas supply during demand peaks. We have determined the quantity needed to provide for supply security as the quantity for one week of peak demand in the Czech Republic in 2018, which was the period of peak demand at the end of February and beginning of March 2018. During that period, storage facilities supplied 56% of gas demand in the Czech Republic, a total of 2,100,281 MWh of gas. The example of gas supply from storage facilities in 2018 illustrates that the value of supply security provided by storage facilities, i.e. the gas supplied into the network from storage facilities at the time of peak demand, is higher than 2,100,281 MWh x CZK 135/MWh x CZK 26/EUR = CZK 7,371,986,310 (EUR 283,537,935); net of the purchase price of the gas injected in summer, indicatively EUR 22/MWh, storage facilities' added value is CZK 6,170,625,578 (EUR 237,331,753).
- 6 This simplified calculation shows that storage facilities have a fundamental added value at the time of increased demand, which is depicted in the commercial pricing of gas in the market at the given moment. This value is,

thanks to the existence of storage facilities, present in the gas system all the time, but it is not very clearly visible from the commercial perspective. Commercial behaviour tends to analyse the probable risk of gas shortage, but is prevented from taking this risk fully into account by the competitive pressure under which a more responsible trader may secure its supply to a larger extent, but this pushes up its costs, and the trader then becomes less competitive. The market is therefore able to price the demand for gas at the moment of gas shortage but, inversely, market mechanisms work counter to higher levels of preventive security of supply.

7 The part of the storage facilities' value that provides supply security cannot be reflected in the market, and should therefore be reflected through the market design so that it can continue to be provided in the future. In this respect, an important step is to cancel the tariffs for transmission to/from storage facilities. The illustrative calculation shows that the value brought by storage facilities into the system may climb to six billion crowns over one week of exceptionally high demand. The benefit derived from storage facilities is therefore a multiple of the TSO's calculated costs of operating the branch-off piping to storage facilities. There can therefore be no agreement with a critical, high-added-value security element of the system such as storage facilities becoming burdened by any transmission tariff. This approach is, moreover, inconsistent when compared with gas production facilities, which pay a symbolical CZK 1/MWh/day in transmission tariffs for their supply into the system. At the same time, both of these cases involve gas sources for emergencies.

4 Equal position of customers using national and cross-border storage facilities

Since the presented document works with an outlook to 2025, we also have to consider the impact of the expected changes on the storage market in this period. The amendment to the Energy Act envisages the interconnection of the Czech and Slovak gas systems through a storage facility, i.e. a cross-border storage facility. If this interconnection materialises, a transmission pricing method will have to be put in place such as will prevent a pricing advantage for customers using this storage facility over customers using national storage facilities inside the Czech Republic. The imbalance would primarily occur in case the cross-border storage facility's customers would not have to pay for entry to the virtual trading point from the storage facility and could cross the national border right away. The Czech gas market model is based in the virtualisation of the location of storage facilities regardless of their physical connection to the transmission network or distribution systems and the real flow of gas. Setting the transmission tariff for entry into the transmission network from storage facilities at CZK 0/MWh can help to preserve these principles, including the TAR NC's provisions and respect for the non-discrimination of other customers.

Conclusion: Storage facilities bring into the system a higher added value than the associated technical costs

The above comparisons between the technical costs and the benefits of storage facilities for the Czech gas system show that storage facilities' added value for the Czech gas system is higher than the costs spent by the TSO in connection with storage facilities. The existence of storage facilities is therefore in the interest of all customers; those who do not actively use storage services also indirectly benefit from them thanks to the TSO's lower costs and hence lower transmission tariffs. Setting a 100% discount from transmission tariffs and the flow-based charge and

relocating the TSO's allowed revenue to a different point in the network therefore does not constitute cross-subsidising.

From the State's perspective, the cancellation of the tariffs for transmission to storage facilities is the least expensive measure by which the State can significantly influence the use of storage facilities. Through "only" designing the gas market, without any extra costs, the State will put in place suitable conditions for the use of storage facilities. The current proposal shows in practice how strong a tool transmission pricing is. Since the publication of the proposal for a dramatic increase in the tariff for transmission to storage facilities, the demand for storage capacities for the years affected by the changed tariff has dropped to nil (the auction history can be seen at <https://www.innogy-gasstorage.cz/cs/historie-aukci/>). This illustrates the storage capacity market's sensitivity to the transmission price and also shows that the cancellation of transmission tariffs is a measure that will cause the market to respond.

We also emphasise that the cancellation of transmission tariffs for storage facilities, combined with the offering of the broadest possible portfolio of storage products, is the least expensive measure for addressing the insufficient transmission capacity to northern Moravia. It is therefore in the final customers' interest that the ERO approaches the transmission pricing issue with due care and exhausts all available cheaper measures before it starts to look for solutions at the infrastructure level from the side of the TSO.

We are ready to continue in the discussion and to cooperate with the ERO during the next stage of TAR NC implementation.