



Way forward for NC TAR and INCR

Vienna, 22 January 2016 – EU-Russia GAC WS2 meeting

Directorate General for Energy

Agenda

- Background and high-level changes to proposals
- Outline of amendment details
- Next steps

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EC has listened to stakeholders at and leading up to October Madrid Forum

Key issues raised by stakeholders

- *Ensure improvements on transparency (including on costs!) and consultation process as regards tariffication structures!*
- *Ensure a role for ACER in the tariffication process!*
- *Ensure minimum level of consistency as it is not highest priority to fully harmonize reference price methodologies!*
- *Allow for fixed tariffs under certain circumstances!*
- *Beware of reducing multipliers too drastically!*
- *Implement key improvements quickly!*
- *Consider further – more sweeping – changes to tariffs!*

After ACER did not issue Recommendation EC has signalled to ACER and ENTSOG intended direction

High-level amendments to NC TAR (1) and NC CAM

- **Reference price methodology can be chosen freely** BUT must be compared to a capacity-weighted distance **benchmark** and be subject to pragmatic ACER review
- **Asset split** can be applied if **transit** very high or for very **significant new** capacity projects (in both cases to shelter domestic customers)
- Inclusion of **cost transparency**
- **Fixed price for incremental** capacity only **subject to alternative** allocation methodology (large projects)
- Strengthening notion of **firm capacity** offer **preceding interruptible** sales

After ACER did not issue Recommendation EC has signalled to ACER and ENTSOG intended direction

High-level amendments to NC TAR (2)

- Day-ahead and within-day **multiplier** set to **decrease** to 1.5 after 4 years **unless path is adjusted** on the basis of prior assessment to be conducted
- **Default storage discount** and possible deviation therefrom
- **Ambitious, shorter implementation** period

and in addition:

- **EC ready to look into broader natural gas tariffication principles** (including general charging principles and in the broader context of deepening market integration) **but as separate project** and **not through comitology** – study to be started in 2016

EC has benefited from ENTSOG and ACER/NRA technical expertise over last month

Process – what we have done

- 5 trilateral meeting (ENTSOG, ACER/NRA experts, EC) to implement intended EC amendments
- Focus on principles as well as legal text
- Finalization of EC Impact Assessment

Process – what is left to be done

- Further refine principles
- Conclude on technical solutions
- Finalize legal drafting

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Reference price methodology section has been completely rewritten (1)

- NRAs/TSOs free to choose methodology (including ex ante asset cost split and ex post correction via adjustments such as equalization) BUT
 - must comply with "fleshed out" Gas Regulation criteria
 - those criteria apply throughout process from methodology setting to reviewing it (consultation to ACER review)
 - must have "clean" well-documented process and develop well-argued and „story“ for the methodology chosen and the subsequent tariffs set

Reference price methodology section has been completely rewritten (2)

- NRAs/TSOs free to choose methodology (including ex ante asset cost split and ex post correction via adjustments such as equalization) BUT
 - chosen methodology must be justified and benchmarked against "model" capacity-weighted distance methodology using
 - forecasted contracted capacity
 - shortest pipeline route calculation method
 - Possibility to cluster points
 - 50/50 entry/exit split
 - cost allocation test remains
 - ACER to review all methodologies for completeness and consistency – quick 1 month review which can be prolonged if file presented is not convincing (either from procedural or substantive point of view)
 - ACER also to develop recommendation on methodologies

Positive role of storages to be underlined but individually scrutinized

- Default 50% discount on storage entry/exit tariffs
 - acknowledges generally positive contribution storages have to system operation and security and
 - ensures level playing field between storages
- However, possibility to deviate (up or down) from default to take account in particular of
 - impact of storage on costs incurred in balancing the system
 - the way storage is used
 - the way storage impacts network investment needs
 - the way competition may be affected from other non-storage infrastructure providing comparable flexibility service

Asset split / fixed tariffs/ Alternative incremental allocation methodology

- **Asset split** – though in very controlled manner – may be used to **shelter domestic customers from the risks of very large transit flows or of large incremental projects**
 - specific proxy: likely 3:1 or 2:1 ratio (transit to domestic demand) still to be determined
 - triggering project characteristic (e.g. % of RAB) also yet to be determined
- to be determined if same proxy to be used for asset split, fixed incremental price and alternative allocation methodology for incremental
- Fixed tariffs only used for large incremental projects

Cost transparency must be achieved for EU TSOs

- Publication requirement on
 - Information on re-evaluation of assets
 - RAB
 - WACC
 - efficiency targets
 - etc.
- Published on ENTSOG Transparency Platform in standardized, well comparable form in EN
- ACER to prepare Recommendation on TSO revenues and finances (best practices and definitions)

Multipliers path remains / Flexibility on interruptible pricing

Multipliers

- Multipliers of 1.5 for products beyond day-ahead to be implemented as of application date
- Multipliers of 3 for day-ahead and within-day products which automatically reduce to 1.5 in principle within a period of 4 years
- However, report on the impact of the multiplier change 2 years after implementation may trigger amendment to prolong or expedite further envisaged reduction

Interruptible

- Default rule is ex ante discount BUT possibility to apply fixed ex post discount (e.g. fixed ex post discounts with multiple/compensation)
- Opener to avoid OSBB situation where TSOs confirmed readiness to calculate and price risk but finally largely balked and are effectively not selling additional capacity

NC CAM amendments on offering firm and interruptible capacity

- Current CAM NC text (article 21), read together with CMP principles, clearly set out modus operandi for TSOs:

"If interruptible capacity is offered, this shall not be detrimental to the amount of firm capacity on offer. Transmission system operators shall not set aside capacity that can be offered as firm capacity in order to offer it as interruptible capacity."

- Nevertheless, interruptible capacity can unjustifiably still be taken (at much lower price) even when there is firm capacity which distorts the level playing field
- Therefore it is considered to add following text (in red):

*"Transmission system operators may offer interruptible capacity products of longer duration as well, **but only if the respective freely allocable firm capacity product of the same duration was sold out or not offered.**"*

Implementation timeframe must be ambitious and effective

- Expected entry into force end 2016
- 12 months implementation period (instead of 24 months)
- Rules to be **applied automatically as of implementation deadline:**
 - transparency provisions
 - consultation requirements
 - rules on multipliers
 - rules on interruptible
 - rules on incremental capacity
- **Rules on reference price methodology-related changes**
 - reference point for change of methodology is entry into force
 - "freezing"/prolongation of current methodology to allow for necessary preparation/implementation for change-over

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Process on track but plenty of work left

Next steps

- Finalization of legal drafting by end January 2016
- Commission-internal consultation in February 2016
- Circulation of EN text to Member States (and publication of proposal and impact assessment on Comitology register) end February
- Comitology meetings:
 - 10-11 March
 - 28-29 April
 - 29-30 June
- EP and Council scrutiny in autumn 2016
- Adoption and entry into force: end 2016