

Energie-Control Austria
Rudolfsplatz 13a
1010 Vienna

by e-mail to:
recht-post@e-control.at

20 February 2024

**Comments on the "Consultation pursuant to Articles 26 and 28 of
TAR NC - Implementation of the Network Code on Harmonized
Transmission Tariff Structures"**

Dear Madams/Sirs,

OMV Gas Marketing & Trading GmbH (OMV Gas) hereby comments on the consultation document published on the E-Control website on 21 December 2023 in accordance with Articles 26 and 28 of TAR NC:

In our opinion, this consultation is particularly **critical for the future attractiveness of the Austrian gas market**, on the one hand due to the re-orientation of the European gas market and its **changed supply routes** triggered by the Russian war, and on the other hand due to **Austria's** (economic) **isolation** from alternative gas supply sources from North-West Europe triggered by the German gas storage levy.

Another potential threat is the introduction of a similar levy in Italy, which would make imports from the South considerably more expensive and would probably finally make Austria an **undesirably high-price zone of its own** - especially if Russian natural gas is not available.

Creation of favorable framework conditions in terms of energy policy and avoidance of disproportionate cross-subsidization at the expense of Austrian end-customers:

In our opinion, the future Austrian tariff system must therefore clearly pursue the goal of creating **incentives for gas diversification** and **promoting** the import of gas from **alternative, non-Russian sources**. The fact that the significant reduction in imports of Russian natural gas to Europe and directly to Austria will continue indefinitely and the resulting change in the flow situation (especially with regard to transit) in terms of entry/exit points and booking volumes must undoubtedly be taken into account. In view of the fact that the **large transit flows** towards Italy have effectively come to a **standstill** since

summer 2022, it seems only logical and inevitable that **all grid users** in the transmission and distribution grid will have to expect **higher costs to cover the availability of grid infrastructure**.

It therefore came as a surprise to OMV Gas that this is not the case in this consultation draft:

The **indicative capacity-based tariffs** for the Arnoldstein and Oberkappel/Überackern exit points are set to fall (- 20% and - 24% respectively), while the tariffs for the same entry points are set to **rise disproportionately** (+ 206% and + 331% respectively). It is not only the relative change in the capacity-based entry/exit tariffs that is surprising, but also the fact that in future the **costs for imports** at the entry points relevant for Austria's gas diversification should be set at **higher rates than the costs for exports** via these points.

From an energy policy perspective in particular, we are critical of the fact that the entry tariffs at the Baumgarten point are to be by more than 60% cheaper than imports via Oberkappel and by more than 70% cheaper than imports via the Arnoldstein point.

This means that the **import of Russian natural gas** via Baumgarten is **significantly lower** priced than **gas from other supply sources** such as North-West Europe (via Germany) or Italy.

The proposed change to the reference price methodology would also result in the **costs of maintaining** parts of the transmission system being **borne largely** by the **Austrian gas market** (suppliers, industry, end-consumers). In return, the export of natural gas to Italy and Germany would be incentivized. In view of the fact that the **Austrian transmission system** was **designed** and **built** in the past **for the transit of** very large quantities of gas from Russia to Italy (last capacity increase in 2008) and to Germany (last capacity increase in 2013), this to us **does not seem to be fair in terms of causation**.

Intensification of the negative effects of the proposed reference price method and the threat of a price spiral at the Oberkappel and Arnoldstein entry points

The forecast contracted capacity on which the consultation draft is based assumes that the entry capacities from Germany and Italy will be fully booked from 2025 onwards. As the assumption of the forecast bookings takes into account weighted factors for premiums/discounts from short-term factors and interruptible capacities, the contracted capacity at the Oberkappel point is in some cases over 40% higher than the technical capacity.

We therefore conclude that this **assumption** is **extremely "optimistic"** and must have been made against the background of a **complete stoppage of Russian natural gas imported** via Baumgarten. In fact, the **future development** of import volumes via Baumgarten is **very uncertain**. Nevertheless, this assumption results in a considerable risk of a **price spiral** at the Oberkappel and Arnoldstein entry points.

Since, according to the consultation draft, the transmission system operators' allowed revenues are to be recovered at a ratio of 50%-50% from both entry and exit points, a lack of capacity bookings will lead to higher tariffs at entry points. This could trigger a **price spiral** and increase the already substantial rise in tariffs for entry capacities by up to **four**

times (!) by 2028. This would be the case if the current inventory bookings remain unchanged due to the price increase, among other things⁶.

On the other hand, the underlying forecast **hardly** takes into account **any new exit capacities** in the direction of Italy or Germany, **even though tariffs are falling**. In fact, utilization (and thus the booking of new capacities) at the Arnoldstein exit point in the direction of Italy has come to a standstill, as already mentioned. In the direction of Germany, i.e. at the Oberkappel exit point, the trend of declining capacity utilization developed much earlier, as the commissioning of Nordstream in 2011 (first line) and 2012 (second line) gradually led to a sustained change in gas flows. Therefore, if a reduction in tariffs at the major exit points is intended to incentivize the current lack of bookings, the effect would probably also have to be taken into account in the forecast.

Conclusion:

The proposed reference price method of capacity-weighted distance ("CWD") has a **detrimental effect on the energy policy objective of diversifying gas procurement sources and increasing Austria's security of supply**.

The necessary consideration of transmission system costs due to the changed gas industry circumstances is **exclusively at the expense of the Austrian gas market and its customers** and is therefore **not** considered to be **causally justified**. The price signals associated with the change in the reference price methodology could trigger an **undesirable price spiral** and thus drive the Austrian gas market into **increasing isolation from diversified sources, jeopardizing competitiveness, Austria as a business hub and security of supply**.

These undesirable effects have prompted us to analyze all possible NC TAR-compliant reference price methods as an alternative method to the capacity-weighted distance ("CWD"), with the aim of creating **better framework conditions for achieving the energy policy objectives of Europe and Austria in particular**, as well as achieving a cost allocation for the provision of transmission grids that is more in line with the causation principle and relieving the burden on Austria as a business location.

OMV Gas concludes that the continuation of the reference price method currently in use, the "Virtual Point Based Approach - Variant B", in particular under the following additional conditions, best reflects the objectives described above:

Specification 1: "Dominant node Baumgarten":

- The reference price methodology ("RPM") "Virtual Point Based Approach - Variant B (VTP B)" in use in the current regulatory period (2021-2024, "RP 4") is based on **Baumgarten as the dominant node**⁷. OMV Gas considers this core assumption to

⁶ Current actual contracted capacity vs. E-Control assumption at the Oberkappel/Überackern and Arnoldstein entry points in per cent: 2025: ~51%; 2026: ~29%; 2027: ~18%; 2028: ~8%

⁷ See [Framework Guidelines on Harmonised Gas Transmission Tariff Structures.pdf \(europa.eu\)](#), p23/34: ACER defines "dominant node" as "point where most flows occur", thus the "dominant node" does not necessarily have to be an IP

be valid for the following reasons, even taking into account the changes in the supply situation since 2022:

- Being the **hub** of the Market Area East, the **Baumgarten node** connects the main transit systems TAG, WAG, MAB, HAG and KIP with each other, and **flows into the primary distribution system** and significant storage capacities are also directly or indirectly dependent on the Baumgarten node.
- In short, the vast **majority of the** natural gas transited and traded in the **Market Area East** is distributed via the **Baumgarten hub** and thus it continues to be the **dominant node**.

Specification 2: "Clustering":

- The cluster of homogeneous entry points already used in FP4 to create "**fair competition on the Austrian gas market**" must continue to exist in regulatory period 5 (2025-2028 "RP5"). This is the only way to ensure that the gas market can continue to be **adequately supplied** from all import sources under equal conditions. OMV Gas explicitly suggests **maintaining the cluster of homogeneous entry points** while retaining the VTP B RPM⁸.
- OMV Gas is also in favor of **continuing the exit clusters** already in use⁹.

Other specifications to be taken into account:

- OMV Gas questions whether the **distortion of the distance** to the Baumgarten exit point¹⁰ and thus of the "Cluster East" corresponds to a **correct application of the RPM Virtual Point - Variant B** and suggests a correction using the RPM VTP B in RP5.
- OMV Gas also suggests a **reassessment of whether the continuation of the Murfeld benchmarking** is still appropriate.
- OMV proposes an **increase in the DZK discount** from the current level of 10% as a necessary and appropriate adjustment to better reflect the lack of usability of this capacity class.
- OMV Gas supports a commodity-based tariff component as part of the tariff methodology. To make the reservation of capacities as attractive as possible for network users and to ensure cost transparency and revenue recovery for network operators in the event of rising energy costs, we are in favor of covering as much of the approved network costs as possible via the commodity-based tariff. In the interest of predictability and tariff stability, the variable fees should be determined at the same time as the capacity-based transmission tariff.

Tariff impact of the alternative reference price method:

Taking into account the Virtual Point Approach (Variant B) with the specifications described above and using the input parameters as considered in the consultation document of 21 December 2023, the **following indicative tariffs would be computed**:

⁸ [b7646d22-c139-3903-3f45-7c30876b4070 \(e-control.at\)](#), 1.1.4 a)

⁹ [b7646d22-c139-3903-3f45-7c30876b4070 \(e-control.at\)](#) 1.1.4 b-f)

¹⁰ [b7646d22-c139-3903-3f45-7c30876b4070 \(e-control.at\)](#) see footnote 5, page 4/24

Selected tariff impact overview (fixed costs)					
EUR/MWh (rounded two digits)	ENTRY 2024 (as-is)	ENTRY 2025 (indicative), ECA proposal	delta %	ENTRY 2025 (indicative), VTP B RPM Model	delta %
Oberkappel	0,11	0,34	206,2%	0,12	8,5%
Baumgarten	0,10	0,13	30,6%	0,12	23,9%
Arno	0,11	0,48	330,9%	0,12	8,5%
Verteilergebiet	0,00	0,00	0,0%	0,00	0,0%
EUR/MWh (rounded two digits)	EXIT 2024 (as-is)	EXIT 2025 (indicative), ECA proposal	delta %	EXIT 2025 (indicative), VTP B RPM Model	delta %
Oberkappel	0,37	0,28	-23,9%	0,53	41,8%
Baumgarten	0,14	0,14	1,6%	0,29	108,7%
Überackern	0,33	0,25	-23,9%	0,47	42,0%
Moso	0,14	0,14	1,6%	0,29	108,7%
Murfeld	0,22	0,25	14,7%	0,44	102,7%
Arno	0,50	0,40	-20,2%	0,70	41,8%
Verteilergebiet	0,05	0,13	164,3%	0,07	40,9%

The advantages for the Austrian natural gas market, under continuation of the alternative reference price method "Virtual Point Based Approach - Variant B" are as follows:

1. **Reducing the cost burden for importers and Austrian end-consumers** and increasing the competitiveness of Austrian economy.
2. **Averting an impending price spiral at entry points by eliminating the volume risk** in Oberkappel, Arnoldstein and Überackern as far as possible.
3. **Reduction in import costs incentivizes further gas diversification and makes a significant contribution to improving security of supply.**
4. **Fair competition between alternative non-Russian sources** through clustering of entry points and the resulting homogeneous entry tariffs.
5. **Improving cost reflectivity by increasing rather than reducing the exit tariffs** for capacities in the direction of Germany and Italy. This will lead to a **more appropriate distribution** of the costs for the provision of the transmission grid costs originally designed for transits.
6. **Tariff advantages for storage facilities connected directly to the distribution grid.** This does not only offer advantages for suppliers, but also provides a significant contribution to security of supply.

Recommendation:

The reference price methodology applied since 2013 should also be continued in the next regulatory period (RP 5) in order to facilitate a more efficient and sustainable natural gas supply situation for Austria. This will better fulfil the **energy policy objective of gas diversification** and thus increase **security of supply**.

The current uncertainties with regard to (i) the availability of Russian natural gas, (ii) the future development of the exorbitantly high logistics costs from the **German** (and potentially

Italian) gas storage levy and (iii) the booking volumes to cover the transmission grid costs should be taken into account by **re-evaluating the tariff methodology by the middle of the next regulatory period at the latest.**

Mr Alexander Frank (+43 664 841 4479; alexander.frank@omv.com) and Mr Jörg Weissgerber (+43 664 610 3845; joerg.weissgerber@omv.com) will be happy to answer any questions you may have.

Yours sincerely

OMV Gas Marketing & Trading GmbH