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16 May 2024

Subject: **REVIEW OF GAS TRANSMISSION TARIFFS IN AUSTRIA - consultation document RPM -Gas System Charges Ordinance 2013 – 2nd amendment 2024 of E-Control – 2 May 2024**

Dear Sir/Madam,

Gas Intensive, Consorzio Toscana Energia, Electrade, Geoenergie, HB Trading and RomaGas intend to formally express their **concerns and their strong opposition** to the harmonized transmission tariff structure of the 5th Regulatory Period proposed by Austria's energy regulator

E-Control via the **Gas System Charges Ordinance 2013 – 2nd amendment 2024**, based on stakeholder responses to the consultation document published in December 2023:

- As part of the ongoing tariff methodology review process for the period 2025-28, the Austrian energy regulator E-Control published a consultation document at the end of 2023 in which it noted the need to adapt the reference price methodology to the changed energy context. It consequently proposed adopting the capacity-weighted distance (CWD) methodology with a 50:50 split in system costs between exit and entry points¹.
- In the summary of responses to the consultation published on 5 April 2024, E-Control proposed a substantial change to this methodology that will result in a significant increase in exit tariffs, which will now cover 75% of system costs².
- This change in methodology would effectively offload a significant portion of the Austrian system's internal costs onto exports and increase the so-called "pancaking" effect (accumulation of different tariffs in cases of cross-border gas trade), thereby penalising neighbouring countries' markets. Austria, together with other Member States, recently challenged and blocked a similar German initiative in the European Council that aimed to introduce a neutrality charge on storage³.
- The proposed 2nd amendment to the Gas System Charges Ordinance 2013 introduces an additional increase in entry/exit tariffs to the market area East compared to the planned adjustments of April 2024, resulting in additional costs for shippers. Furthermore, by reallocating part of the allowed revenues from commodity-based transmission tariffs to capacity-based transmission tariffs, there is an increase of 8% and 4.3% respectively in TAG and GCA regulated asset bases, providing additional remuneration to the TSOs. It's important to note that under Austrian Law GWG2011, shippers do not have a direct voice in the process of determining the allowed costs for TSOs, despite bearing the costs of the system. The proposal also includes a reduction in multipliers for short-term capacity contracts, to the detriment of long-term capacity holders.
- In addition, the European Union's political decision to cut off Russian gas following the start of the Russia-Ukraine war has led to a significant reduction in gas flows from Austria to Italy, which have decreased by 90% compared to two years ago. These flows are now limited to just a few periods of the year⁴. In this scenario, the sharp increase in Austrian tariffs would affect all operators (and their end-consumer customers) intending to import gas from Northern Europe,

¹ Together with the 50-50 split of costs between entry and exit points, a 20% reduction in export tariffs towards Italy had been envisaged in order to encourage greater North-South gas flows in view of the underutilisation of the pipeline.

² In the new document, as much as 75% of the total costs will be allocated to exit points, while internal exit points will be protected. The increase in distribution tariffs will be reduced to 10%, while a 50% discount on storage exits will be introduced. Rather than the initially envisaged 20% reduction in the Arnoldstein exit tariff (towards Italy) in 2025, the tariff will increase by 31%. In 2028, the tariff is expected to reach twice the current level.

³ Austria recently challenged the neutrality charge on storage applied to exports from Germany. At the meeting held on 4 March 2024, the EU's Transport, Telecommunications and Energy Council agreed to the requests of the Energy Ministers of Austria, the Czech Republic, Hungary and Slovakia to cancel Germany's gas "export tax" because it would have resulted in increased costs for end users in neighbouring countries.

⁴ In March 2024, the disruption in gas flows caused by the shutdowns of the Floating Storage Regasification Units (FSRUs) in Livorno and Piombino was offset by an increase in imports from Northern Europe. In the future, however, only significant price differentials between their respective gas markets will make it economically viable for Italy to import gas from Northern Europe.

with a particularly significant impact on Italian operators holding long-term contracts for imports via the TAG pipeline such as Gas Intensive, Consorzio Toscana Energia, Electrade, Geoenergie, HB Trading and RomaGas⁵. Paradoxically, this would place the majority of the cost burden on these operators, who hold just 15% of the technical capacity. They would be obliged to pay the stipulated tariff, and incur additional costs for increased guarantees, regardless of whether they use the capacity, unlike other operators who have the flexibility to utilize capacity only when it aligns with their short-term interest.

- Lastly, the current geopolitical situation has severely restricted the import of Russian gas via Ukraine. Additionally, the transportation contract between Ukraine and Gazprom is set to expire by the end of the year, with the Ukrainian side already indicating its intention not to renew it, in line with the European Commission's objectives, as explicitly stated in REPowerEU, to phase out Russian gas by 2027 and seek alternative import sources.

While Gas Intensive, Consorzio Toscana Energia, Electrade, Geoenergie, HB Trading and RomaGas aim to align with European policies, the legal contractual framework in Austria currently prevents the cancellation of contracts that have become stranded assets. This situation, instead, exacerbates the burden of these contracts, thereby endangering the viability of several shippers.

We also note that the route **Baumgarten – Arnoldstein** is the most expensive of the entire Market Area East in absolute terms, going beyond mere distance considerations in its cost.

For this reason, it would be at least appropriate, **in analogy to the equalisation of entry tariffs introduced by E-Control**, to introduce **an equalisation of the exit tariffs** to the market area, to reach competitiveness, calculation easiness, equal treatment of market participants and routes. For detailed considerations, please refer to the Annex Technical Analysis attached to this letter (based on the document *planned adjustments of April 2024*, published by E-Control, and not on the Gas System Charges Ordinance 2013 – 2nd amendment 2024).

Gas Intensive, along with Consorzio Toscana Energia, Electrade, Geoenergie, HB Trading and RomaGas, urge the national regulatory authority, E-Control, to refrain from transferring system costs to downstream users of exit points, thus ensuring equal treatment among stakeholders.

Building upon this, we call upon Austria to maintain consistency with its previous stance on the proposed German neutrality charge, emphasizing the unacceptability of transferring national system costs to downstream markets.

Furthermore, we urge European and national authorities to monitor and prevent discrimination against long-term capacity holders, particularly given the heightened impact of political decisions and the likely cessation of gas transit through Ukraine.

⁵ Following its participation in 2006 in the compensatory allocation procedures carried out by Eni as part of a pro-market procedure ordered by the Antitrust Authority, **Gas Intensive, Consorzio Toscana Energia, Electrade, Geoenergie, HB Trading and RomaGas** hold the right to import gas from 1 October 2008/2009 to 30 September 2028/29 via the TAG pipeline.

We remain at the disposal of the offices of the Authority for any further information you consider useful or should there be the need to further substantiate our position.

Your sincerely,



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GAS INTENSIVE S.c.ar.l.

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Annex: technical analysis

We acknowledge the consultation document, which we believe presented a well-balanced and harmonized transmission tariff structure (CWD methodology combined with a 50-50 entry/exit split). However, it appears that the document did not meet the expectations of several Austrian stakeholders. Those accustomed to favourable tariff settings in the past, now face the risk of increased transportation costs during the 5th RP.

After analysing transportation costs across different routes within the Market Area East (comparing tariffs of 4RP and 5RP in the version of the *consultation document of December 2023* and the *planned adjustments of April 2024*), we observed that for bookings at entry and exit points equal to, for example, 1.000 kWh/h/y, the route to Arnoldstein from any entry point (due to equalization) is the most expensive in absolute terms compared to all other routes in the proposed planned adjustment. A similar situation was present in 4RP.

In contrast, the consultation document presented a much more balanced situation, with a tighter variation around the mean (see next picture, figures in grey).

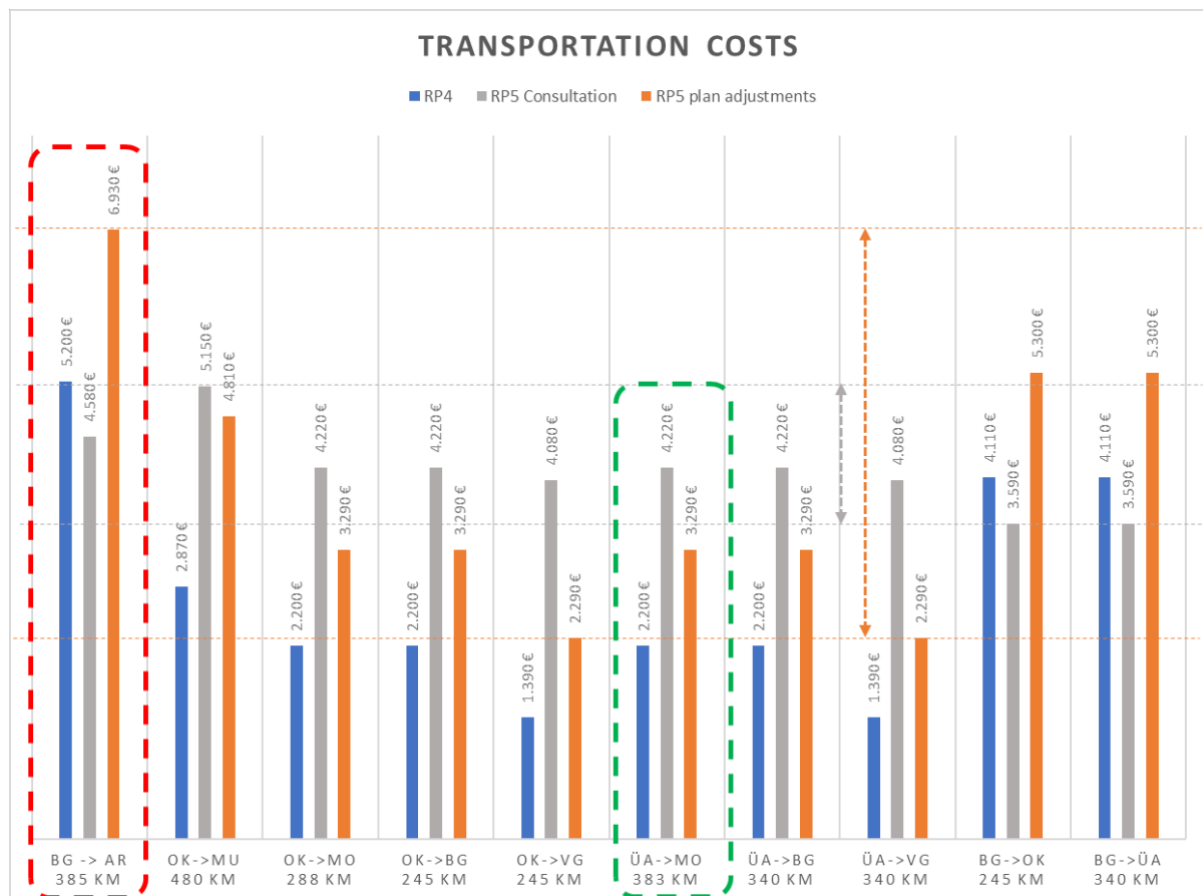


Figure 1: transportation costs related to the booking of 1.000 kWh/h/y at specific entry and exit points to the market area

It could be argued that these results are expected since Arnoldstein is the furthest point from all, and therefore, its share of system costs should be the highest.

However, if this postulate holds, one would expect the specific costs per kilometre of the different routes to be equal or at least comparable. This would ensure that network users pay more for longer distances.

Gas Intensive finds it unclear why the proposed new tariffs result in significantly different specific costs per kilometre, seemingly discriminating against holders of long-term contracts from Baumgarten to Arnoldstein, which in this case subsidise other network users and routes.

The following picture illustrates this aspect.

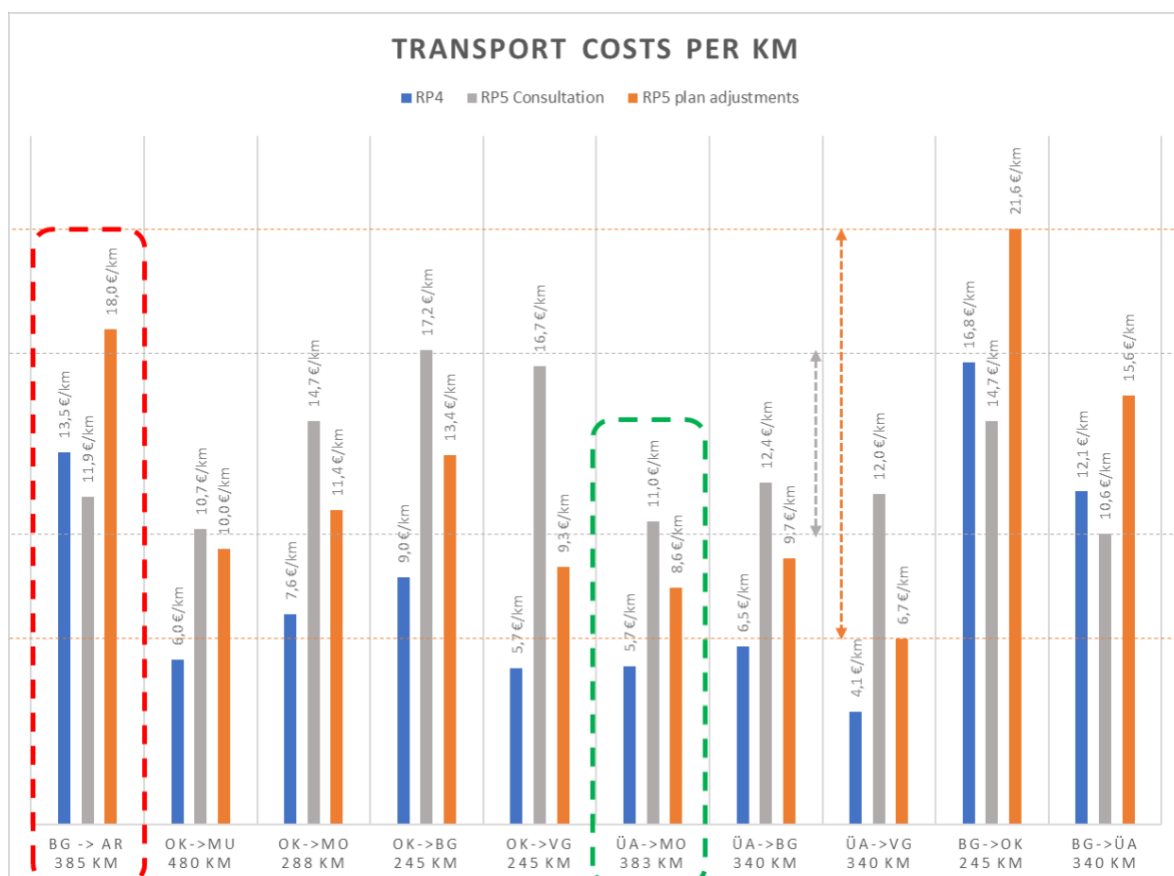


Figure 2: transportation costs per km related to the booking of 1.000 kWh/h/y at specific entry and exit points to the market area

For example, the transportation of natural gas from Überackern to Mosomagyarovar, covering a similar distance to that from Baumgarten to Arnoldstein (383 vs. 385 km), costs just 8,6 €/km compared to 18 €/km from Baumgarten to Arnoldstein. Similar situations exist with other routes.

Gas Intensive believes that E-Control's proposed new tariff methodology should aim for uniform and comparable costs per kilometre to prevent specific subgroups of network users from subsidizing the system and other routes.

The current CWD methodology, with its equalization of all entry points and a 25-75 entry-exit split, along with adjustments for homogeneous groups of exit points, has deviated from its original intent. This deviation makes it extremely challenging, if not impossible, to achieve uniform and comparable costs per kilometre.

Therefore, **we propose equalizing all exit tariffs to the market area** (resulting in 3,77 €/kWh/h/y FZK and 3,39 €/kWh/h/y DZK) while maintaining exit tariffs to distribution areas and storages at the levels proposed in the planned adjustments of April 2024 (see following figure).

Please note that forecasted contracted capacity includes effects of multipliers, interruptible discounts and cross-border storage utilization													
					Indicative volumes								
					2025	2026	2027	2028		RP4	RP5 CD	RP5 PA	RP5 PA EqX
	TSO	DIR	TYPE	NAME									
1. Forecasted Contracted Capacity										€/kWh/h/y	€/kWh/h/y	€/kWh/h/y	€/kWh/h/y
out	GCA	Entry	FZK	FZK Entry Baumgarten	16.087.777	14.419.156	12.742.925	7.864.141	kWh/h	0,85	1,11	1,24	1,24
out	GCA	Entry	FZK	FZK Entry Oberkappel	10.987.013	13.111.878	14.062.693	14.029.621	kWh/h	0,97	2,97	1,24	1,24
out	GCA	Entry	FZK	FZK Entry Überackern	2.230.891	2.610.954	2.610.954	2.610.954	kWh/h	0,97	2,97	1,24	1,24
out	GCA	Entry	FZK	FZK Entry Moson	0	0	0	0	kWh/h				
out	GCA	Entry	FZK	FZK Entry Petrzalka	0	0	0	0	kWh/h				
out	GCA	Entry	FZK	FZK Entry Murfeld	0	0	0	0	kWh/h				
in	GCA	Entry	FZK	FZK Entry Verteilerggebiet	4.028.400	4.028.400	4.028.400	4.028.400	kWh/h	0,00	0,00	0,00	0,00
out	GCA	Exit	FZK	FZK Exit Baumgarten	4.599.481	2.947.158	2.947.158	2.161.436	kWh/h	1,23	1,25	2,05	3,77
out	GCA	Exit	FZK	FZK Exit Oberkappel	13.795.957	12.127.336	10.451.105	5.572.321	kWh/h	3,26	2,48	4,06	3,77
out	GCA	Exit	FZK	FZK Exit Überackern	324.117	324.117	324.117	364.632	kWh/h	3,26	2,48	4,06	3,77
out	GCA	Exit	FZK	FZK Exit Moson	6.142.392	4.398.470	4.398.470	4.406.869	kWh/h	0,23	1,25	2,05	3,77
out	GCA	Exit	FZK	FZK Exit Petrzalka	0	0	0	0	kWh/h				
out	GCA	Exit	FZK	FZK Exit Murfeld	638.699	638.699	638.699	640.448	kWh/h	1,90	2,18	3,57	3,77
in	GCA	Exit	FZK	FZK Exit Verteilerggebiet	21.422.795	21.422.795	21.422.795	21.481.488	kWh/h	0,42	1,11	1,05	1,05
out	GCA	Entry	DZK	DZK Entry ÜA (OK)	3.357.000	3.357.000	2.510.852	0	kWh/h	0,88	2,67	1,12	1,12
out	GCA	Exit	DZK	DZK Exit ÜA (OK)	6.431.372	6.233.937	4.224.448	0	kWh/h	2,93	2,23	3,65	3,39
in	GCA	Exit	DZK	DZK Exit Verteilerggebiet (Bmg)	4.635.629	4.635.629	4.635.629	4.648.329	kWh/h	0,38	0,99	0,95	0,95
in	GCA	Exit	DZK	DZK Exit Verteilerggebiet (OK)	2.378.663	2.378.663	2.378.663	2.385.180	kWh/h	0,38	0,99	0,95	0,95
in	GCA	Entry	UGS	Entry Speicher Penta West	0	0	0	0	kWh/h				
in	GCA	Entry	UGS	Entry Speicher MAB	8.672.911	8.672.911	8.492.422	7.001.106	kWh/h				
in	GCA	Exit	UGS	Exit Speicher Penta West	0	0	0	0	kWh/h	0,44	2,48	2,03	2,03
in	GCA	Exit	UGS	Exit Speicher MAB	7.574.727	7.574.727	7.755.216	9.264.695	kWh/h	0,44	1,25	1,03	1,03
out	TAG	Entry	FZK	FZK Entry Baumgarten	9.697.898	8.239.697	8.239.697	5.859.357	kWh/h	0,85	1,11	1,24	1,24
out	TAG	Entry	FZK	FZK Entry Arnoldstein	9.181.043	9.200.121	8.739.778	11.670.480	kWh/h	0,97	4,18	1,24	1,24
out	TAG	Exit	FZK	FZK Exit Arnoldstein	6.683.747	6.683.747	6.683.747	5.859.357	kWh/h	4,35	3,47	5,69	3,77
in	TAG	Exit	FZK	FZK Exit Verteilerggebiet	3.562.672	3.562.672	3.562.672	3.562.672	kWh/h	0,42	1,11	1,05	1,05
in	TAG	Exit	FZK	FZK Exit VG-Kärnten	471.871	471.871	471.871	471.871	kWh/h	3,85	2,70	4,42	4,42
out	TAG	Entry	DZK	DZK Entry Arnoldstein (VG)	521.331	521.331	521.331	521.331	kWh/h	0,68	3,77	1,12	1,12

Figure 3:equalisation of the exit tariffs

The present proposal aims at adopting a postage stamp model as also proposed by **Energy Traders Europe, EnBW, Uniper** in their answer to the consultation document.