TAG

Trans Austria Gasleitung GmbH

Comments to the draft ordinance on Entry-Exit Tariffs

10 September 2012

On 3 September 2012, E-Control Austria ("ECA") published on its website the draft ordinance containing the entry-exit tariffs ("EE tariffs") to be in place from January 2013 to December 2016, end of the next regulatory period, as approved by E-Control Commission ("ECA Commission"). The published draft ordinance follows the results of the consultation process that ECA launched from August 16 to 30, 2012.

Interested parties will have two weeks for further observations and comments. The draft ordinance will then be submitted for final approval to the Regulatory Committee (*Regulierungsbeirat*) and, if approved, will set the EE tariffs for the next 4 years.

The EE tariffs included in the draft ordinance are different from those that have been submitted for consultation and were based on the comments ECA received during the consultation on EE tariffs which closed on 30 August 2012, especially on comments received by domestic suppliers and industrial consumers. Those comments argued that a tariff at the Oberkappel entry point from Germany (which is an entry point for the reverse flow Oberkappel-Baumgarten) higher than the tariff at the entry point Baumgarten would cause a major distortion to the market and would increase the gas price paid by final users on the domestic market.

The revised EE tariffs published in the draft ordinance ("draft EE tariffs"):

- Increases the entry tariff at Baumgarten from 0.45 €/kWh/h per year to 0.79 €/kWh/h per year;

- Decreases the entry tariff at Oberkappel from 3.14 €/kWh/h per year to 0.79 €/kWh/h per year;

- Decreases the entry tariff at Überackern from 6.91 €/kWh/h per year to 0.88 €/kWh/h per year;

- Decreases the entry tariff at Arnoldstein (reverse flow) from 2.07 €/kWh/h per year to 0.79 €/kWh/h per year;

- Set the reserve price of day-ahead capacity auctions equal to (i)1/365 of the entry tariff at Baumgarten for all entry points (0.79 €/kWh/h per year) and (ii) 1/365 of the exit tariff at Baumgarten (1.15 €/kWh/h per year) for all exit points.

ECA has left unchanged the tariffs at all exit points with the exception of:

- Oberkappel, where the tariff has been increased from 3.85 €/kWh/h per year to 4.21 €/kWh/h per year;

- Murfeld, where the tariff has been decreased from 4.86 €/kWh/h per year to 4.16 €/kWh/h per year;

- Mosonmagyaróvár, where the tariff has been decreased from 2.28 €/kWh/h per year to 1.92 €/kWh/h per year; and

- Überackern, where the tariff has been decreased from 6.91 €/kWh/h per year to 2.91 €/kWh/h per year.

In a subsequent e-mail sent to TAG on 6 September 2012, ECA pointed out that a material error occurred in the published draft decision and that the tariff at the interconnection point Weitendorf/SOL has to be decreased from 2.78 €/kWh/h per year to 2.08 €/kWh/h per year.

As a consequence of the proposed updated draft tariffs, ECA has estimated that TAG would pay each year 2.44 million Euro to Gas Connect Austria GmbH ("GCA"), and about 19.1 million Euro to BOG GmbH ("BOG").

The new proposed draft tariff structure allows TAG to recover its allowed revenues. However, we point out that:

(i) the proposed tariffs are different from the value originally proposed by TAG on the basis of its internal understanding of its network costs;
(ii) the proposed updated tariffs imply an increase in TAG revenues which will be transferred to the other TSOs;
(iii) the other TSOs recover their allowed revenues partly through an increase in TAG tariffs;
(iv) the higher entry tariff at the Baumgarten entry point will increase the cost of gas transit to Italy and to Slovenia (via SOL) through TAG;
(v) higher transit costs of TAG will imply that TAG will be less competitive with respect to other routes to Italy and to Slovenia;
(vi) the reserve price for day-ahead capacity auctions at Arnoldstein is not calculated on the basis of the yearly tariff at the exit point but on the basis of a much lower tariff;
(vii) lower day-ahead tariffs at Arnoldstein imply that TAG might not be able to sell capacity contracts shorter than 1 year as shippers will have an incentive to sign day-ahead contracts instead of quarterly, monthly or daily capacity contracts where capacity is priced on the basis of the yearly capacity price plus a mark-up;
(viii) according to TAG's calculation, the value of the day-ahead tariff will not cover energy costs (in particular fuel gas costs) of day-ahead shippers.

This note is organized as follows:

- Section 1 summarizes the new draft EE tariffs included in the draft ordinance approved by ECA Commission and makes a comparison of the new tariffs with the tariffs published in the ordinance in consultation ("consultation document");
- Section 2 describes the potential implications for TAG of the new ECA proposal;
- Section 3 gives our conclusions.

An overview of TAG's original EE tariff proposal for its entry and exit points is reported in Annex A.

1. PROPOSED EE TARIFFS IN THE DRAFT ORDINANCE

The Entry Exit tariffs for FZK and DZK for contracts with duration of one year or more are provided in Tables 1 and 2. The Tables report the values of the tariffs published in the ordinance under consultation and the new draft EE tariffs included in the draft ordinance approved by ECA Commission.

Table 1 EE Tariffs – FZK (€/kWh/h per year)

	Entry		Exit	
	Old	New	Old	New
Baumgarten (BOG; TAG; GCA)	0,45	0,79		
Oberkappel	3,14	0,79		
Überackern (ABG, SUDAL)	6,91	0,88		
Arnoldstein	2,07	0,79		
Baumgarten (BOG)			1,15	1,15
Oberkappel			3,85	4,21
Arnoldstein			5,26	5,26
Murfeld			4,86	4,16
Mosonmagyaróvár			2,28	1,92
Petrzalka			1,97	1,97
Distribution area			0,65	0,65
Überackern			6,91	2,91

Source: Consultation document and draft ordinance GSNE-VO 2013

Table 2 EE Tariffs – DZK (€/kWh/h per year)

Entry point	Off-take point for which capacity is granted	Entry tariff	
		Old	New
Baumgarten	Oberkappel	0,40	0,70
Baumgarten	Überackern	0,40	0,70
Oberkappel	Überackern	0,21	0,21
Oberkappel	Baumgarten	2,83	0,70
Baumgarten	MAB	0,21	0,21
Arnoldstein	Distribution area	0,56	0,56
Überackern	Oberkappel	2,62	0,80
Arnoldstein	SOL	0,56	0,56
Exit point	**Injection point for which capacity is granted**	**Exit tariff**	
		Old	**New**
Baumgarten	Oberkappel	0,75	0,75
Baumgarten	MAB	0,21	0,21
Oberkappel	Baumgarten	3,46	3,75
Überackern	Oberkappel	2,62	2,62
Oberkappel	Überackern	0,21	0,21
Distribution area	Baumgarten	0,63	0,63
Distribution area	Oberkappel	0,63	0,63

Source: Consultation document and draft ordinance GSNE-VO 2013

Furthermore, ECA has:

- Reduced the interruptible tariff at Mosonmagyaróvár from 2.28 to 1.92 €/kWh/h per year; and
- Reduced the tariff for DZK capacity at interconnection with storage fields from 0.28 to 0.14 €/kWh/h per year;

- Reduced the tariff at the interconnection point Weitendorf/SOL from 2.78 €/kWh/h per year to 2.08 €/kWh/h per year;

- Set the reserve price for day-ahead capacity allocated through auctions (which is the tariff for day-ahead capacity) equal to 1/365 of the annual entry tariff at Baumgarten for all entry points and equal to 1/365 of the annual exit tariff at Baumgarten for all exit points instead of 1/365 of the annual tariff prevailing at each entry and exit point.

All other tariffs are unchanged with respect to the tariffs published in the ordinance under consultation.

On the basis of the application of the new tariff structure, compensation payments calculated by ECA have changed as follows with respect to the consultation document:

- TAG has to pay GCA EUR 2,440,331.8 instead of GCA having to pay TAG EUR 4,084,668.02; and
- TAG has to pay BOG EUR 19,119,069.2 Euro instead of EUR 8,548,795.3.

2. EXPECTED IMPACT ON TAG

From the TSO's point of view, the crucial issue, in the tariff setting process, is the approval of the allowed revenues it is entitled to recover from tariffs. The tariff structure to recover such revenues, however, might affect the pipeline competitiveness, especially in case of transit pipelines such as TAG, whose revenues are mainly related to the transit service to the Austrian /Italian border ("A/I border").

The EE tariffs structure published in the draft ordinance appears to be designed to reduce transportation costs for the domestic market and to reduce costs for gas import from Germany. Table 1 shows that, with respect to tariffs proposed in the consultation document, ECA has increased the entry tariff in Baumgarten but has not decreased the exit tariff at the A/I border. Furthermore, the compensation payments published in the draft ordinance show that TAG is the only TSO who would give compensation payments to other TSOs. This implies that TAG's higher transit tariffs to Italy will over-recover its allowed revenues and will be used to compensate the other TSOs.

This will harm TAG competitiveness with respect to other routes and especially to Italy as the new tariff structure will imply an increase in regulated tariffs by about 14% (Table 3).

Table 3 Increase in regulated tariffs related to updated EE tariffs published in the draft ordinance

		ECA 28 AUGUST PROPOSAL		REGULATED TARIFF	Increase
		including energy costs	excluding energy costs	excluding energy costs*	
FROM	Baumgarten	0,79			
TO	Arnoldstein	5,26			
	TOTAL €/kWh/h per Year	6,1	*4,71*	4,15	13,6%

In the short term TAG might not be able to sell short term capacity at expiration of existing short term contracts. In the medium-long term, when existing take-or pay contracts will expire, TAG might not be able to sell its currently long term capacity.

Furthermore, the day-ahead reserve price calculated by ECA will likely have a negative impact on TAG's capacity sales as TAG might not be able to sell capacity contracts shorter than 1 year. As a matter of fact, the tariff that ECA chose as the base tariff for day-ahead

reserve price calculation at Arnoldstein is about 22% of the yearly exit tariff at the same exit point. Shippers that need exit capacity at Arnoldstein for less than 1 year, therefore, are likely to sign the less expensive day-ahead contracts rather than buying short term capacity products that are priced at the yearly capacity price plus a mark-up.

Furthermore, on the basis of TAG's calculations, the reserve price at Arnoldstein proposed by ECA appears to be too low to remunerate fuel gas costs of day-ahead shippers. Although capacity sold in day-ahead auctions is regarded as "overbooked" capacity and is not included in tariff calculation, it is to note that:

- In order to grant the transportation service to shippers with day-ahead capacity ("day-ahead shippers"), the TSO needs using compressors and, therefore, incurs fuel gas costs;

- The current day-ahead tariff on an annual basis (1.15 €/kWh/h per year) is lower than the fuel gas costs for the exit point Arnoldstein estimated by TAG on an annual basis (about 1.34 €/kWh/h per year);

- A tariff lower than fuel gas costs implies that the day ahead shippers do not cover all costs they are causing to the system and that such costs are subsidized by the other system's users, namely the ones paying the full regulated yearly tariff

    - fuel gas costs are included in the cost base on which EE tariffs are calculated;

    - as capacity contracts provides that the shipper has to pay the capacity tariff regardless of its utilization (i.e. the shipper has to pay the capacity tariff also for days in which he does not nominate for transport), the shippers signing contracts other than the day-ahead contract pay for the fuel gas also when they do not ship gas;

    - as the TSO can sell such unused capacity on a day-ahead basis (overbooking), imposing a tariff lower than fuel gas costs amounts to make the shippers not using capacity subsidize day-ahead shippers.

3. CONCLUDING REMARKS

The structure of the new proposal seems to be designed to reduce transportation costs to the domestic market and to lower the cost of importing gas from Germany. The new draft tariffs will imply higher transportation cost for transit, in particular to Italy.

The proposed tariff structure will harm the competitive position of TAG with respect to other TSOs/transit routes both over the short term and over the medium-long term. As a matter of fact, we note that:

- With respect to the EE tariffs proposed in the consultation document, ECA has increased the tariff at the entry point Baumgarten but has not reduced the exit tariff at the A/I border. This implies an increase in the cost of transit to Italy with respect to the cost envisaged on the basis of the EE tariffs proposed by ECA in the consultation document;

- EE tariffs proposed by ECA in the consultation document, in turn, were different from the ones proposed by TAG, which were calculated by TAG on the basis of its internal costs and would imply a lower transportation cost to Italy and a higher transportation cost to the domestic market;

- TAG is the only TSO to make compensation payments to other TSOs; and

- In absence of a transfer of revenues from TAG to the other TSOs, tariffs for import from Germany would be higher than the value proposed by ECA

The transit service provided by TAG, therefore, will likely become less attractive than the transit service provided by competing pipelines and TAG might not be able to properly sell its transportation capacity.

Furthermore, the reserve price proposed by ECA for day-ahead exit capacity at Arnoldstein will:

- undermine TAG's ability to sell very infra-annual capacity product on the market as such capacity will be much more expensive than day-ahead capacity; and

- (on the basis of TAG's calculation) not cover fuel gas costs of day-ahead shippers, which will have to be remunerated by the other shippers.

The European legislation provides that gas transport tariffs have to be non-discriminatory and have to foster an effective competition and the efficient functioning of the market (Regulation EC 715/2009). TSOs need the appropriate incentives to increase efficiency and foster market integration and security of supply (Directive 2009/73/EC).

Furthermore, ACER is in the process of publishing the framework guidelines to be followed by National Regulators in the design of cross-border tariffs, according to such legislation. The development of the framework guidelines has to meet the objectives and principles on tariffs introduced by the Gas Regulation (Regulation EC 715/2009). In its consultation document published in February 2012, ACER has listed the following objectives, which are based on provisions included in art. 13 of the Gas Regulation:

- facilitation of trade and competition;
- avoidance of cross-subsidies, and undue discrimination between network users;
- cost-reflectivity;
- promotion of new efficient investment; and
- transparency.

ECA has not provided detailed information on its calculation methodology so far, and therefore it is not clear to what extent such methodology reflects the above objectives. As a matter of fact, the EE tariffs proposed in the draft ordinance might not be totally compliant to the cost-reflectivity principle. If that is the case, some market participants will face higher costs than those born in presence of a more straightforward cost-reflective approach, with cross-subsidization between network users.

ANNEX A - OVERVIEW OF TAG'S PROPOSAL

In order to publish the consultation document on the new tariffs, ECA has asked each TSO to submit a tariff proposal. TAG submitted its proposal based on:

- The allowed revenues approved by ECA (those revenues include the allowed fuel gas costs);
- the currently committed capacity communicated to ECA;
- a Gross Calorific Value ("GCV") equal to 11.171 which reflects the average gross calorific value measured on the TAG Pipeline system.

Allowed revenues and committed capacity have been approved by ECA with a previous ordinance.

The EE tariffs proposed by TAG are reported in the table below.

Table 4 EE tariffs proposed by TAG (€/kWh/h per year)

	Capacity Type	Entry	Exit
Baumgarten	FZK	0,45	
Arnoldstein	DZK	0,56	
A/I border	FZK		5,09
Distribution area	FZK		1,37
Interconnection point Weitendorf/SOL	FZK		2,79

NOTE: GCV=11.171 kWh/Nm^3
Source: TAG calculation

We highlight that the tariff at the interconnection point Weitendorf/SOL is calculated on the basis of the currently committed capacity, equal to about 3.8 million kWh/h (about 343,500 Nm^3/h). Such capacity is allocated to GCA (about 232,000 Nm^3/h) and to other users (the remaining 111,500 Nm^3/h). GCA uses its capacity to deliver gas to SOL (exit point Murfeld), while the other users off-take gas at Weitendorf. As Weitendorf is no longer an off-take point, system's users might terminate their contracts. If that will be the case, TAG's volumes will decrease by about 111,500 Nm^3/h and revenues will decrease by about 3.5 million Euro per year. However, ECA has told TAG that in case the off-take capacity at Weitendorf would be lost, TAG will be allowed to apply for a tariff increase at the interconnection point to recover its allowed revenues as granted by ECA. Alternatively, the difference between actual revenues and allowed revenues will be recovered in the gas transport tariffs of the next regulatory period.

The use of the GCV included in the ordinance by ECA, that is 11.19 kWh/Nm^3, deemed to be representative of the domestic market, other things equal, will lower the tariffs by about 0.01 €/kWh/h per year (Table 4);

Table 5 EE Tariffs proposed by TAG (€/kWh/h per year) – GCV=11.19 kWh/Nm^3

	Capacity Type	Entry	Exit
Baumgarten	FZK	0,45	
Arnoldstein	DZK	0,56	
A/I border	FZK		5,08
Distribution area	FZK		1,36
Interconnection point Weitendorf/SOL	FZK		2,78

Source: our calculation on TAG's proposed tariffs

The increase of the exit tariffs at the A/I border from 5.08 to 5.26 €/kWh/h per year (+3.5%).