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Betrifft: **Stellungnahme zu den Zwischenberichten**
zu den KEMA-Gutachten zu Entry-Exit Tarifierung und Bilanzierung

Sehr geehrte Herren!

Unter Bezugnahme auf Energie-Control's Webseite bzw. das Ersuchen an die Marktteilnehmer, sich zu den dort gestellten Fragen zu äußern, übermitteln wir Ihnen gerne TAG GmbH's diesbezügliche Stellungnahme zu Ihrer Verwendung.

Mit freundlichen Grüßen

Trans Austria Gasleitung GmbH

G. Peluso R. Starzer

Enclosure: as mentioned

Comments to the "Principle of Entry-Exit Tariff Setting Project Commissioned by E-Control" Interim Report and to the "Balancing Study" Interim Results presented by KEMA on 20 December 2011

19 January 2012

On 20 December 2011, KEMA has presented the interim report on entry-exit tariff settings and the interim results of the balancing study and E-Control has sought comments from interested stakeholders before issuing the final documents.

The Interim Report on entry-exit tariffs presents the conceptual properties of the entry-exit model and provides some highlights on the experience of countries which have already implemented such model. Further to the theoretical framework and the country survey, the Interim Report presents how available capacity is calculated and most common capacity allocation mechanisms. The Interim Report concludes presenting a high level description of the basic feature of the entry-exit model.

The Interim Results of the Balancing Study presents the general and regulatory background in Austria and provides some highlights on the experience of countries which have experienced recent changes. The Interim Results also reports results of network simulations and defines the next steps.

We welcome the opportunity to comment on the study carried out so far, although we believe that the documents KEMA presented during the 20 December workshop are not an "Intermediate Report" but rather high level studies that provide an explanation of general principles on the basis of information available at this stage but do not provide the implementation details required for a proper assessment, which we expect to be provided in subsequent meetings/documents.

As a general comment to the introduction of the entry-exit system, we believe that the proposed system will have to take into account that the bulk of transportation services currently provided in Austria are related to transit. As the new *Gaswirtschaftsgesetz 2011* requires common rules for the transit and domestic market transportation to be in place, we believe that the approach to the new system has to carefully balance transit and domestic transportation needs in order not to harm gas transit through Austria. A negative impact on transit services in Austria, in fact, would cause a major bottleneck in the European gas transportation network and would not allow creating an efficient European gas market. In order to meet the latter target, we believe that the entry-exit model and the new market rules will have to be based on provisions that will be included in the network codes that are being prepared by ENTSOG and are to be adopted by the EU Commission. As an example, this implies that in order to grant interoperability between Austrian and European TSOs, the design of capacity products has to be consistent with the capacity product design included in the Capacity Allocation and Management Network Code and that the balancing rules have to be consistent with those in the Balancing Network Code.

In the following paragraphs we will provide some basic specific comments to the documents on the basis of information available so far. Comments and proposals will be updated on the basis of information that will be made available in next meetings/documents.

"Principle of Entry-Exit Tariff Setting Project Commissioned by E-Control" Interim Report

The three basic principles to evaluate the design of transportation tariffs can be summarized as follows:

- Tariffs should allow transportation companies to recover costs incurred to build, operate and maintain the network in order not to harm investments and proper operation of the network;
- Tariffs have to provide an incentive to efficient use, operation and expansion of the network;
- Tariff setting has to be transparent.

The way such principles are implemented depends on the characteristics of the gas market.

The Interim Report provides at this stage only very limited information on how the above principles will be implemented.

Cost recovery

The basic characteristics of the entry-exit system as resulting from the Interim report are (page 33):

- Uniform entry tariff at cross border points
- Locationally differentiated exit tariffs at cross border points
- Uniform exit tariff for domestic exit (i.e. one national exit zone)
- Specific tariffs for storage and production sites
- Two tariff components: a capacity charge and a commodity charge to cover fuel costs.

According to the Interim Report, in order to grant cost-reflectivity, the gas transit network has been divided in segments, whose costs will be allocated to different network points. The Interim Report, however, does not specify how such costs would be allocated.

As tariffs should grant cost recovery, the Interim Report envisages calculating tariffs on the basis of total allowed revenues for TSOs (equal to the sum of each TSO's allowed revenues) and calculating tariffs on the basis of total costs to be remunerated (pag. 34). The resulting tariff will be an "average tariff" calculated on costs at system level. The Interim Report specifies that "Depending on the applied capacity allocation mechanism an inter-TSO compensation mechanism may be required". According to the Interim Report (see pag.9) this means that in case there is a separate capacity allocation, the TSOs need an inter-compensation mechanism to reconcile actual revenues with allowed revenues. It is to note that if an "average" tariff is calculated, a compensation mechanism will be required in any case to reconcile actual and allowed

revenues as the calculated average tariff will likely over-remunerate some TSOs and under-remunerate some other TSOs.

Crucial issues, therefore, will be

- Who will be the entity in charge of managing the compensation mechanism in order to preserve confidentiality of sensible commercial data and grant smooth operation of the mechanism;

- How the compensation system will be designed in order to minimize impact on TSO's accounts

  - Information to be provided by TSOs

  - Timing for providing information

  - Timing for payments

  At present, the Interim report does not provide such details.

As for the way in which costs are recovered, the Interim Report envisages recovering costs from a capacity component and a commodity component, the latter used to recover fuel costs. It is to note that fuel costs depend on how the network is used and, therefore, on shippers' behavior. Cost recovery through the commodity component could cause the TSO not to recover all its costs or shippers to pay a higher charge than that required to remunerate fuel costs. Recent trends in regulation is to treat fuel costs separately from other costs and have such costs remunerated in kind by the shipper (e.g. by allocating to the shipper a given percentage of either injected or off-take gas as gas to recover fuel gas, losses and unaccounted for gas) rather than through a tariff charge. Without any further qualification, therefore, E-Control might want to consider the opportunity to remunerate fuel gas in kind among the available options to remunerate of fuel gas.

The Interim Report envisage different capacity product to be marketed. The standard product would be the annual, firm, freely allocable capacity. Other products to be considered will be short term capacity and multi-annual capacity. The Interim report, however, does not specify how allowed revenues have to be recovered from sale of capacity, i.e. the share of allowed revenues to be recovered from annual capacity, from multi-annual capacity and from short term capacity. This allocation has an impact on the incentive faced by the TSO to market capacity.

Incentive to efficient use, operation and expansion of the network

Details provided so far do not allow a comprehensive assessment of whether the tariff design is such to allow efficient use of the network and provide the right price signals for network expansion. The proposal to set uniform entry tariff at cross border points and locationally differentiated exit tariffs at cross border points and a uniform tariff at domestic exit points, however, might not provide such an incentive and a further investigation is required on how the above proposals might provide an incentive to efficient network operation and expansion.

Capacity Management

Calculation of available capacity is based on simulations based on demand/supply scenarios. All scenarios have been allocated a weight and only a subset of scenarios is considered. The Interim Report, however, does not detail:

- assumptions under each scenario;
- how weights are calculated;
- criteria to accept/exclude a given scenario from the calculation of available capacity.

Further clarifications on how scenarios have been built and simulations carried out are therefore required from KEMA.

The study identifies three capacity products:

- freely allocable firm capacity;
- non-freely allocable firm capacity;
- interruptible capacity.

When classifying each TSO's capacity according to the above classes, it has to be considered that TSOs have commercial agreements in place with shippers and that the TSO has to fulfill its contract obligations. The Interim Report does not provide any explanation on the mechanism that would ensure that TSO's capacity is not downgraded and, in case a downgrade should occur, how the TSO would be compensated.

Auctions appear to be the preferred method to allocate capacity. According to the Interim Report (pag. 28), the auction has to have the following general characteristics:

- Explicit price-volume auctions. The starting price is determined and is increased until capacity demand equals capacity supply. We understand that the starting price is the tariff. If this were not the case, a critical issue might arise as a consequence of the separate marketing of entry end exit capacity. From the tariff structure highlighted in the report, it appears that tariff at exit points will have somehow to ensure that TSOs recover all costs not covered by the entry tariff (which is uniform). In this case, if the starting price is different from the tariff, the TSO might not recover all its costs;
- Capacity of different TSOs at each point is auctioned together. A rule is required to allocate sold capacity to each TSO in case a share of capacity is not sold. No such rule has been defined yet;
- Multiple rounds with increasing prices. No hints on how auction revenues in excess of tariffs will be used;
- Open bid curve. This might have an impact on auction revenues maximization.

- Limiting the volume per bidder. No proposal is provided on the mechanism to allocate unsold capacity (if any) to shippers that have been allocated less capacity than they wish.

"Balancing Study" Interim Results

When considering balancing, two aspects have to be considered:

- The physical balancing of the network, which is operated by the TSO to ensure that the gas is delivered from the entry to the exit point; and

- The commercial balancing, i.e. the set of activities which are required to for the correct accounting and allocating of transported gas, as well as the penalty system that incentives shippers to maintain the balance between the quantities of gas injected and gas off-taken.

The Balancing Study provides at this stage an overview of major characteristics of a balancing mechanism and of balancing mechanism used in European countries as the results provided in the section on "Network Simulations" are not detailed (e.g. assumptions are not provided and therefore it is not clear which is the reference network condition and which "disturbances" are considered) and need further clarification.

In general, definition of the balancing rules requires:

- Clear identification of TSOs obligations and, for the internal market, DSOs obligations according to rules that will be provided in the ENTSOG Balancing Code in order to preserve the operational capabilities of the TSOs;

- Rules for TSOs purchase of balancing resources;

- Rule to define imbalances prices in such a way as to not allow strategic behavior from shippers;

- Setting of tolerances and penalties when tolerances are exceeded.

The above issues have to be discussed before any decision on the balancing model is taken.

Conclusion

We welcome the opportunity to comment on the study carried out so far, although we believe that the presented documents are not to be defined as "Intermediate Report" but rather high level studies that provide an explanation of general principles but do not provide the implementation details required for a proper assessment.

We believe that the proposed entry-exit system will have to take into account that the bulk of transportation services currently provided in Austria are related to transit and that the specificity of the transit system have to be taken into account in setting the new market rules. To such extent, we believe that the entry-exit model and the new market rules will have to be based on provisions that will be included in the network

codes that are being prepared by ENTSOG and are to be adopted by the EU Commission.

As the two studies still provides high level information that needs to be further qualified, it would be advisable to have a meeting with KEMA as soon as possible in order to have a clarification on methodology and the hypothesis underlying results that have been provided so far.

In detail, the following issues need to be clarified in further meetings either with KEMA or with the regulator:

- rules to calculate allowed revenues;
- methodology to allocate costs to entry and exit points;
- design of the compensation mechanism among TSOs;
- capacity/commodity split and remuneration of fuel gas;
- recovery of allowed revenues;
- calculation of available capacity and capacity classification;
- rules for capacity pooling.

This set of information will provide a starting point for properly assessing the proposed entry-exit system and provide TAG position to the regulator and interested stakeholders.