

28 March 2019

## **EFET<sup>1</sup> response to the E-Control consultation on the reference price methodology in accordance with Art. 26 and 28 of the TAR NC**

EFET welcomes the opportunity to comment on the reference price methodology in Austria and appreciates that the consultation was provided in English as well. We also hope that the same approach will be retained when publishing the conclusions from the consultation process.

It would be extremely helpful to understand E-Control's rationale for choosing both the methodology and the adoption of Baumgarten as reference point for a period which will likely see material volumes entering the Austrian system from other locations. More explanation here is essential to allow a meaningful debate around how tariff changes will impact the Austrian gas market, not least through future capacity bookings and system usage.

It is disappointing that E-Control has not taken the opportunity to bring additional transparency to the calculation of allowable revenues. The inclusion of relevant terms was an important addition to the European network code on harmonised transmission tariff structures for gas (TAR NC), both as an aid to the market in predicting tariff movements, and as a tool to assist the National Regulatory Authority in ensuring tariffs are set at fair and reasonable levels.

During workshops on the Network Code, EFET continually pointed out the importance of having a detailed tariff model and good input data in order to replicate accurately not only the proposed tariffs, but also to be able to conduct sensitivity analysis under various scenarios. Unfortunately, the model published has very limited functionalities and does not allow any sensitivity analysis.

Our fear was that TSOs would deliberately circumvent any useful transparency in order to obscure artificially high levels of return and/or costs. In this instance we note a significant increase in tariffs during a period of low investment and when TSOs should be seeking to improve cost efficiencies. One possible reason might be that lower capacity bookings are forecast, but this is not made clear, nor is it obvious why this should be the case.

To corroborate this view, we point to the ongoing restriction of the TENP pipeline causing the reduction of flows to Italy via Germany/Switzerland, which creates an advantage for the Austrian route to the south. This advantage fails to materialize only if the Austrian route becomes less attractive than LNG deliveries and/or deliveries from TAP, because of excessively high tariffs. Lower utilization of the Austrian system is therefore very unlikely<sup>2</sup>, and it would in any case be primarily self-inflicted.

<sup>1</sup> The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and a competitive economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: [www.efet.org](http://www.efet.org).

<sup>2</sup> Further evidence for this can be found in the fact that import of Russian gas to Austria have increased by 32% between January to March 2019 compared to the same period in 2018 and one might expect this trend to continue in the future.

When discussing the parameters of the already existing methodology, we are concerned that the multipliers set for different capacity products, and in particular the within day multiplier may have effects that are different to those anticipated. A day-ahead multiplier at an IP which is lower than a within-day multiplier will not incentivize market participants to book capacity earlier if the day-ahead price spread does not warrant this, and a higher within-day multiplier will simply be reflected in within-day price spreads, discouraging within-day optimization. Also, the proposed seasonal factor at the Arnoldstein exit point may do little to shift gas demand away from high-demand periods. But it too may discourage optimization, and it is not clear when it is proposed to come into effect.

Increasing the costs of trading in the short term, through high multipliers and seasonal factors, may prove to be counterproductive, as longer-term bookings no longer match the business model of many market participants, creating a risk of lower network utilization.

E-Control proposes applying a mixture of *ex ante* and *ex post* interruptible capacity discounts at different interconnection points. Whilst our strong preference is for *ex ante* discounts, when applying *ex post* discounts, it is important that compensation for any interruption is applied strictly in accordance with the TAR NC. In other words, “compensation for each day on which an interruption occurred shall be equal to three times the reserve price for daily standard capacity products for firm capacity”. Therefore, it should not be adjusted downwards based on the actual amount of booked capacity that is interrupted or the duration on an interruption<sup>3</sup>.

The topic of imposing a 10% cap is a double-edged sword as at the same time we are seeking to protect network users from egregious movements in the tariff level, but also trying to avoid the reduced cost-reflectivity that can be imposed by implementing the cap. Some additional analysis – such as scenarios showing tariffs under no cap and a lower cap – would have been helpful to facilitate a more informed industry discussion.

In order to plan forward for capacity bookings and supply optimization, an understanding of the longer-term outlook for tariffs is essential. While we appreciate this consultation around the *status quo*, a broader discussion of the general methodology for upcoming years is extremely important. Considering the new regulatory period in Austria will start on 1 January 2021, we strongly encourage E-control to conduct further discussion with additional transparency as required by full compliance with TAR NC, with further industry consultation.

For any question or clarification, we would be very happy to engage in future conversations with you on this topic.

<sup>3</sup> EFET raised a FUNC request on the correct interpretation of ex-post compensation payments, as ENTSG's TAR NC Implementation Document (IDoc) incorrectly stated that the three times daily reserve price compensation amount could be scaled down. This led to ENTSG, with ACER's agreement, making amendments to page 85 and Annex N of the IDoc in a revised edition published in July 2018.