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Vienna, 09.08.2016

OBJECT: New gas transportation tariff methodology

Dear Madame/Sir,

We appreciate the opportunity to share with you our views on the ongoing process leading to the revision of the existing gas transportation tariff methodology in view of the next regulatory period starting on January 2017.

We understand that in revising the tariff methodology E-Control will run a pre-consultation with the members of the Austrian Chamber of Commerce, anticipating the formal public consultation involving all network users. It is also clear to us that during the pre-consultation members have access to info on the new regulated asset basis discussed between E-Control and the TSOs as well as on the draft new tariff methodology. This puts the Austrian Chamber of Commerce in the position to influence the outcome at a very early stage of the process.

Such prominent role proves particularly important as we hear that any public consultation document is unlikely to be published before September 2016 which would put E-Control in a position not to publish the final new tariff methodology earlier than November 2016. As implementation is expected from 1 January 2017, the regulatory process would leave shippers exposed to a substantial regulatory risk they would have limited or no means to mitigate. On this basis and as members of the Austrian Chamber of Commerce, we would like to share with you a number of concerns and suggestions with the hope that they may contribute to shape your discussion with the Austrian regulatory body in the best interest of the whole industry as well as of end users.

In particular, we would like to bring to your attention that during the past years network users have observed a number of anomalies in the Austrian transportation tariff regime that have led to question their degree of compliance with relevant EU legislation and in particular Regulation 715/2009. While we appreciate that E-



Control publishes the overall description of the tariff methodology, access to details on the underlying regulated asset basis as well as on the level of the remuneration recognized to the TSOs seems limited. Increasing transparency, inherently beneficial for the industry, would also help dissipating such network users' doubts.

With the above in mind in pointing at the main necessary regulatory changes we would highlight the need for:


- **A more detailed itemization of costs incurred by Austrian TSOs.** This is a fundamental element for promoting transparency and oversight over TSO efficiency. On the contrary, a partial picture or a picture with insufficient granularity prevents any thorough assessment or carrying out a full benchmark with other system operators in Europe. This may lead to limited cost predictability which is essential to ensure mid to long term market attractiveness;
- **Publication of the rationale supporting the different remuneration components and rates of return.** Remuneration of TSOs in Austria seems to be partly based on an undisclosed assessment of risk factors and on related undisclosed rates of return. While it is argued that this is due to commercial sensitiveness of such information, we struggle to understand how this can be relevant in the case of a fully regulated business;
- **Appropriate and well-reasoned TSOs' rates of return.** We note that on the basis of the information available it would seem that Austrian operators have profitability margins on average higher than those observed in other European markets. Where the existence of long term bookings guarantees the absence of a volume risk, at least this mitigating effect should be reflected in TSOs' allowed revenues. However, this does not seem to be the case;
- **Tariff determined on the basis of current volume forecast.** An alternative to a rate of return including a capacity risk premium to address potential TSOs concerns about the stability of their revenues could be to set tariffs on volume forecast adjustable year after year. This would allow to better capture market dynamics and ensure a more efficient use of infrastructure;
- **Variable costs should be covered by a variable tariff component.** Introducing a variable component in the tariff methodology would better reflect actual use of the system, and align shippers' costs to the market value of the necessary fuel gas therefore contributing to a more cost reflective tariff methodology.
- **Alignment with historical costs.** In the transition from a path based tariff system to an entry-exit system some shippers saw their overall transportation tariff spike by 30 %. Such an outcome reveals that in fact some cross-subsidization must have occurred.
- **A cost reflective cost allocation methodology.** An unreflective cost allocation will lead to cross-subsidization between the different transportation systems as well as between network users, which will ultimately distort competition and lead to an inefficient use of the infrastructure. We note that this is a catch-all principle substantiating all the above comments.


Moreover, we observe that, while the discussion at the European level on the EU Tariff harmonization network code progresses, Austria is far from being compliant with the transparency provisions included in article 30 of the latest version of the code circulated among stakeholders and now ready to enter the Comitology process. While we appreciate that the code is not yet in force, efforts to move proactively towards the forthcoming rules would be of benefit for the market and for Austrian consumers. We note that while avoiding unnecessary doubling of regulatory processes, early compliance would allow the Chamber of Commerce to play a much better advisory role.




In conclusion, we regard any opportunity to be involved in and/or informed on the relevant discussions between the Chamber of Commerce and E-Control as extremely important and valuable. While we consider this letter as an initial input, please note that we remain available for any discussion you may find useful or necessary.

We look forward to continue our dialogue with a view to improve the fairness and competitiveness of the overall gas industry in Austria.


Sincerely,


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