



# Network code on harmonised transmission tariff structures for gas (NC TAR)

Implementation of the NC TAR in the Netherlands

Second session

17 May 2017

# Opening

**Today's  
agenda**

- 1. Introduction**
- 2. Stakeholders' visions and impact on tariffs**
- 3. In-depth explanation of NC TAR**
- 4. Next steps**

**Today's  
agenda**

1. Introduction
2. Stakeholders' visions and impact on tariffs
3. In-depth explanation of NC TAR
4. Next steps

**Today's  
agenda**

1. Introduction
2. Stakeholders' visions and impact on tariffs
3. In-depth explanation of NC TAR
4. Next steps

## NC TAR in depth

- Transmission services, non transmission services
- Price methodologies, cost allocation assessment
- Price adjustments
- Publication requirements
- Consultation requirements

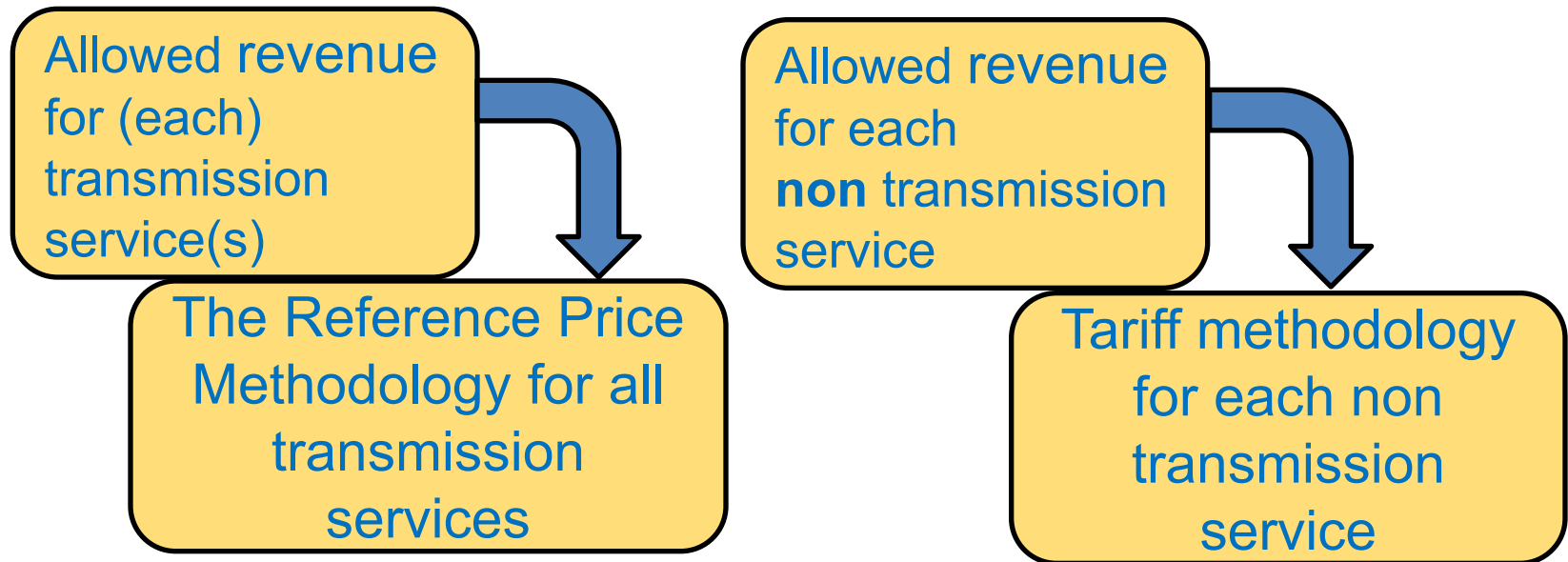
# Transmission service or non-transmission service: Criteria

<b>Transmission Service (TS)</b>	<b>Non Transmission Service (NTS)</b>
<p>A service is obligatory TS: If costs of service are caused by (a) cost drivers capacity and distance AND (b) the related infrastructure is part of the regulated asset base</p> <ul style="list-style-type: none"><li>• Ref. article 4.1</li></ul>	
<p>Option TS or NTS: If one of the criteria (a) or (b) is not met</p> <ul style="list-style-type: none"><li>• Ref. article 4.1</li><li>• NRA will decide whether a service is T or NT service after consultation.</li></ul>	

# Non-transmission service

- The non-transmission services revenue shall be recovered by non-transmission tariffs applicable for a given non-transmission service.
- Such tariffs shall be as follows:
  - cost-reflective, non-discriminatory, objective and transparent;
  - charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both.
  - Where according to the national regulatory authority a given non-transmission service benefits all network users, the costs for such service shall be recovered from all network users.
  - Ref. Article 4.4

## Price methodologies to calculate reference prices





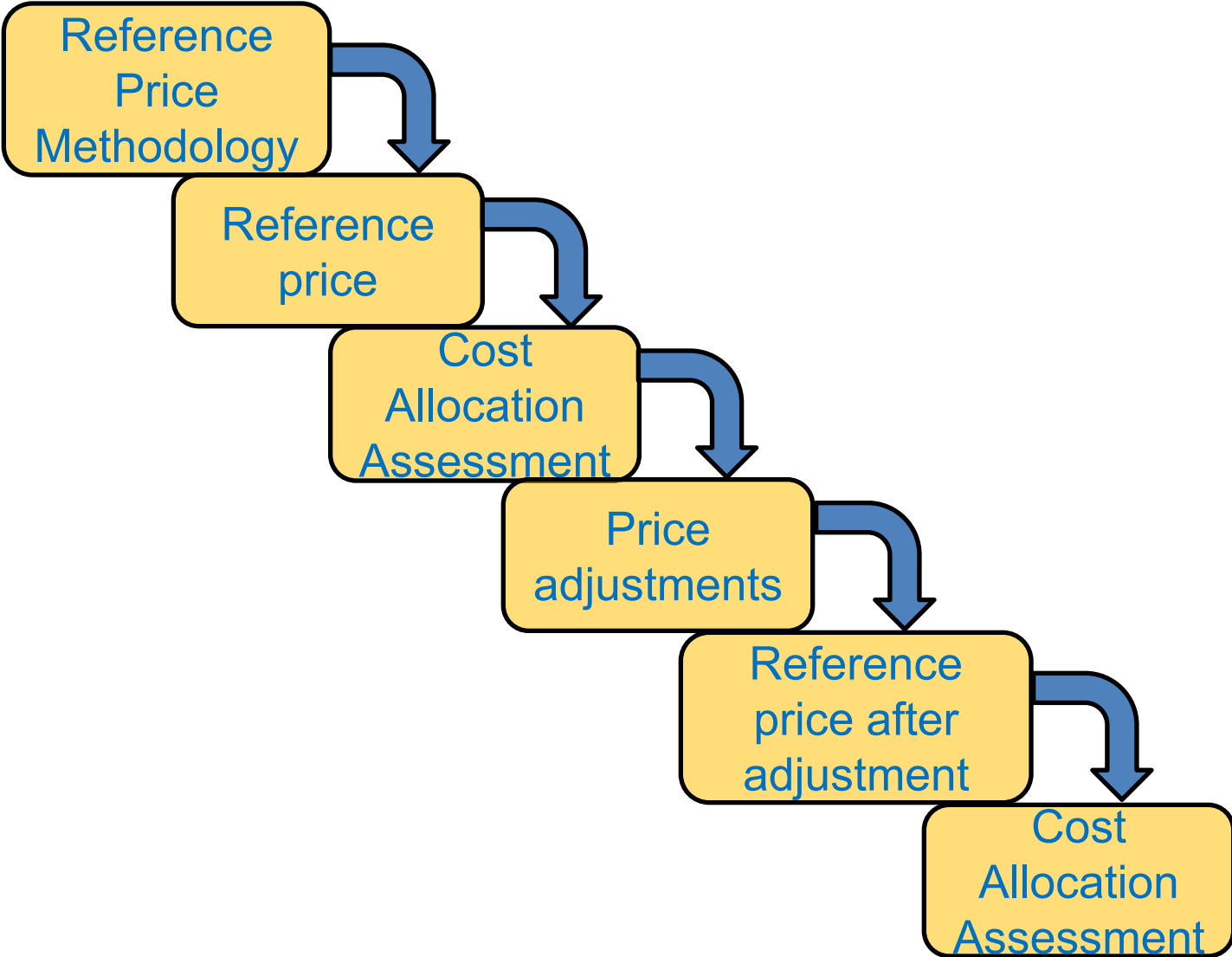
# Reference Price Methodology (RPM) for Transmission Services and Tariff Methodologies for Non Transmission Services (1/2)

<b>GTS Services</b>	<b>Transmission Service (TS)</b>	<b>Non Transmission Service (NTS)</b>
<b>Capacity based</b>	<ul style="list-style-type: none"> <li>• One RPM for all capacity based TS</li> <li>• RPM will calculate a reference price (tariff for yearly product) for each entry and exit point.</li> <li>• Ref. article 6, 7, 8, 9</li> </ul>	<ul style="list-style-type: none"> <li>• A tariff methodology for each NTS</li> <li>• Tariff methodology calculates the tariff for the relevant entry and exit points.</li> <li>• Ref. article 4.4</li> </ul>
<b>Commodity based</b>	<ul style="list-style-type: none"> <li>• Flow based charge</li> <li>• Complementary revenue recovery charge</li> <li>• Ref. article 4.3ab</li> </ul>	See above

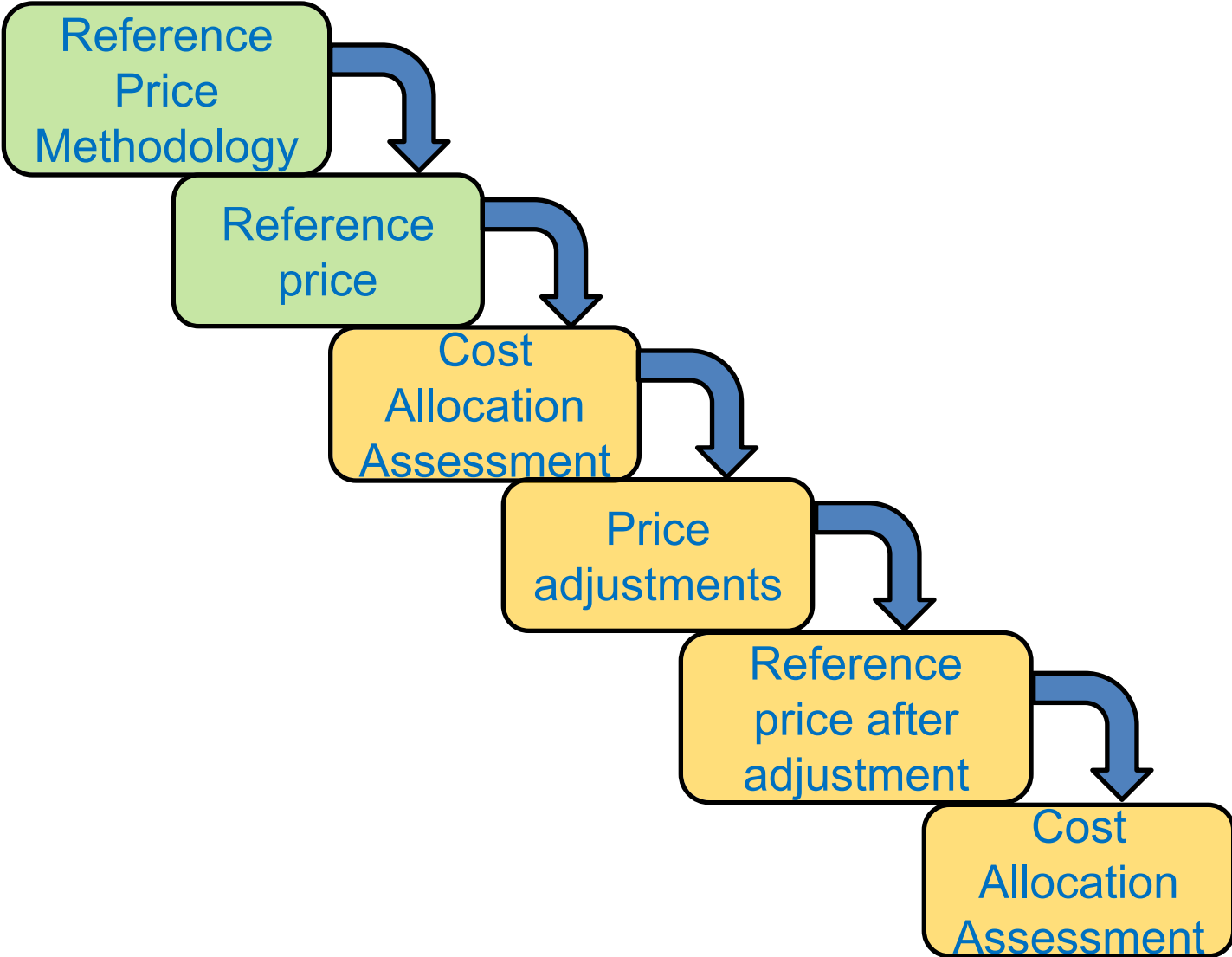
# Reference Price Methodology (RPM) for Transmission Service(s) and Tariff Methodologies for Non Transmission Services (2/2)

GTS Services	Transmission Service (TS)	Non Transmission Service (NTS)
<p><b>Capacity based</b></p>	<ul style="list-style-type: none"> <li>• TS1</li> <li>• TS2</li> <li>• TS3</li> <li>• .....</li> </ul> <p style="text-align: center;">} <b>1 RPM</b></p>	<ul style="list-style-type: none"> <li>• NTS1 -&gt; Tariff methodology 1 (TM 1)</li> <li>• NTS2 -&gt; TM 2</li> <li>• NTS3 -&gt; TM 3</li> </ul>
<p><b>Commodity based</b></p>	<ul style="list-style-type: none"> <li>• Flow based charge</li> <li>• Complementary revenue recovery charge</li> <li>• Ref. article 4.3ab</li> </ul>	<ul style="list-style-type: none"> <li>• NTS4 -&gt; TM 4</li> <li>• NTS5 -&gt; TM 5</li> </ul>

# RPM, cost allocation assessment, price adjustments for capacity based transmission services



# RPM, cost allocation assessment, price adjustments for capacity based transmission services



# Tariff methodologies for services other than capacity based transmission services: Commodity based TS

<b>GTS Services</b>	<b>Transmission Service (TS)</b>	<b>Non Transmission Service (NTS)</b>
<b>Capacity based</b>	<b>RPM</b>	
<b>Commodity based</b>		

## RPM for capacity based transmission services (1/2)

The application of the RPM shall provide a reference price at all entry and exit points in a given entry-exit system (Ref. article 6).

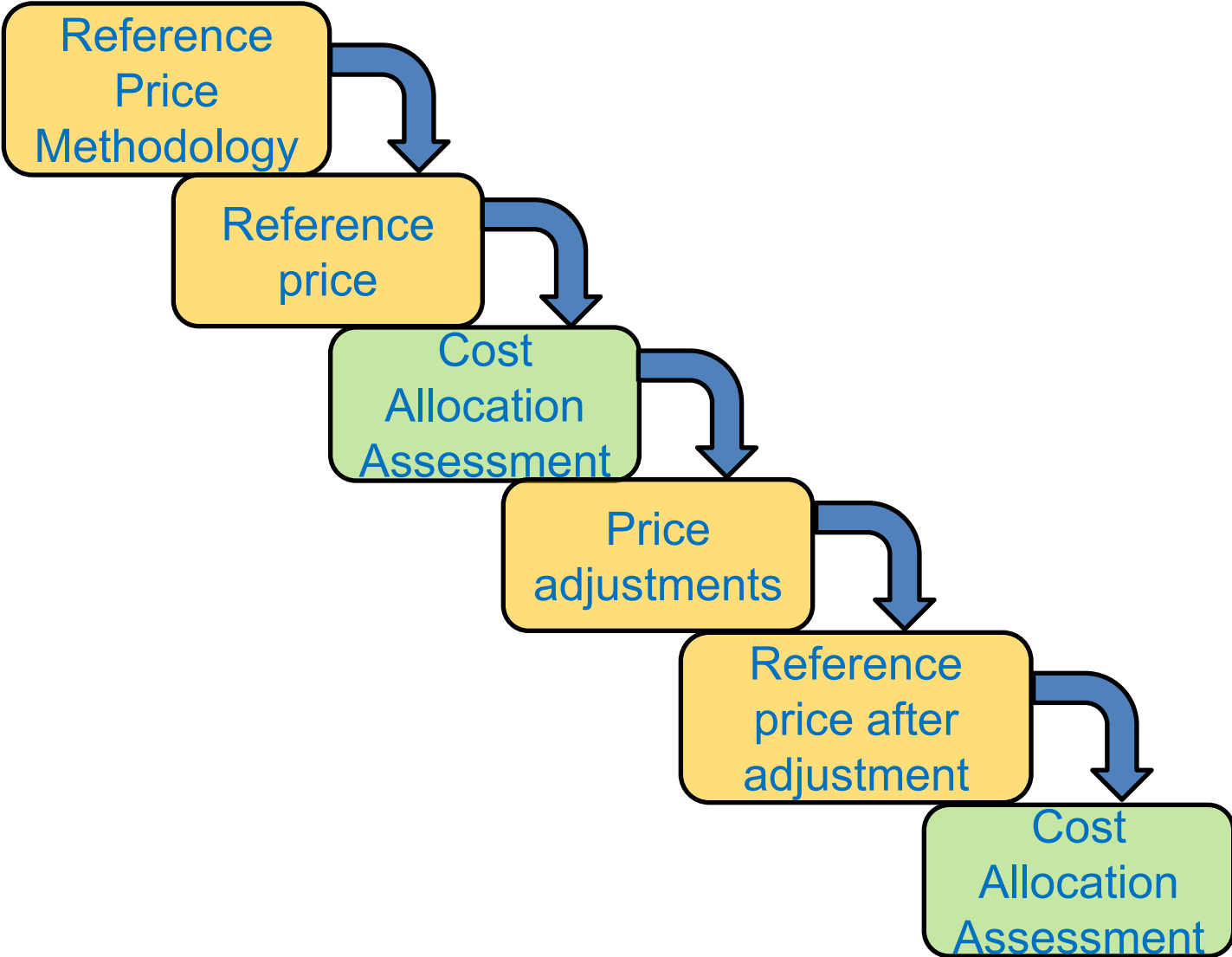
It aims at (Ref. article 7):

- enabling network users to reproduce the calculation of reference prices and their accurate forecast;
- taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;
- ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments;
- ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;
- ensuring that the resulting reference prices do not distort cross-border trade.

## RPM for capacity based transmission services (2/2)

- Each RPM can be chosen as long as it is compliant with article 7.
- Where the proposed RPM is other than the CWD from article 8, its comparison against the latter accompanied by the indicative reference prices (Ref. article 26.1).
- The capacity weighted distance (CWD) methodology is fully described in NC TAR (ref. article 8)

# RPM, cost allocation assessment, price adjustments for capacity based transmission services





## Cost Allocation Assessment (1/5)

- The cost allocation assessment (CAA, ref. article 5) shall indicate the degree of cross-subsidization between intra-system network use and cross- system network use based on the proposed RPM
  - Intra-system network use (Ref. article 3.8) means transporting gas within an entry-exit system to customers connected to that same entry-exit system (“domestic use”)
  - Cross-system network use (Ref. article 3.9) means transporting gas within an entry-exit system to customers connected to another entry-exit system (“transit use”)
- Two assessments:
  - a cost allocation assessment relating to the transmission services revenue to be recovered by capacity-based transmission tariffs (ref. article 5.3)
  - a cost allocation assessment relating to the transmission services revenue to be recovered by commodity-based transmission tariffs (ref. article 5.4)
- Where the results of the CAA exceed 10 % (ref. article 5.6), the national regulatory authority shall provide the justification for such results in the decision referred to in Article 27(4).

## Cost Allocation Assessment (2/5)

Revenue<sup>intra</sup> and Revenue<sup>cross</sup> have to be determined according to ref. article 5.3 for capacity based network use and ref. article 5.4 for commodity based network use

- Revenue<sup>intra</sup> is the sum of
  - the revenue for intra-system network use at entry points and
  - the revenue for intra-system network use at exit points
- Revenue<sup>cross</sup> is the sum of
  - the revenue for cross-system network use at entry points and
  - the revenue for cross-system network use at exit points

## Cost Allocation Assessment (3/5)

- For each exit point it is clear that it serves either 100% intra-system network use or 100% cross-system network use
- Revenue for intra-system network use for **exit points** can be determined unambiguously: sum of revenue from capacity of intra-system exit points
- Revenue for cross-system network use for **exit points** can be determined unambiguously: sum of revenue from capacity of cross-system exit points

## Cost Allocation Assessment (4/5)

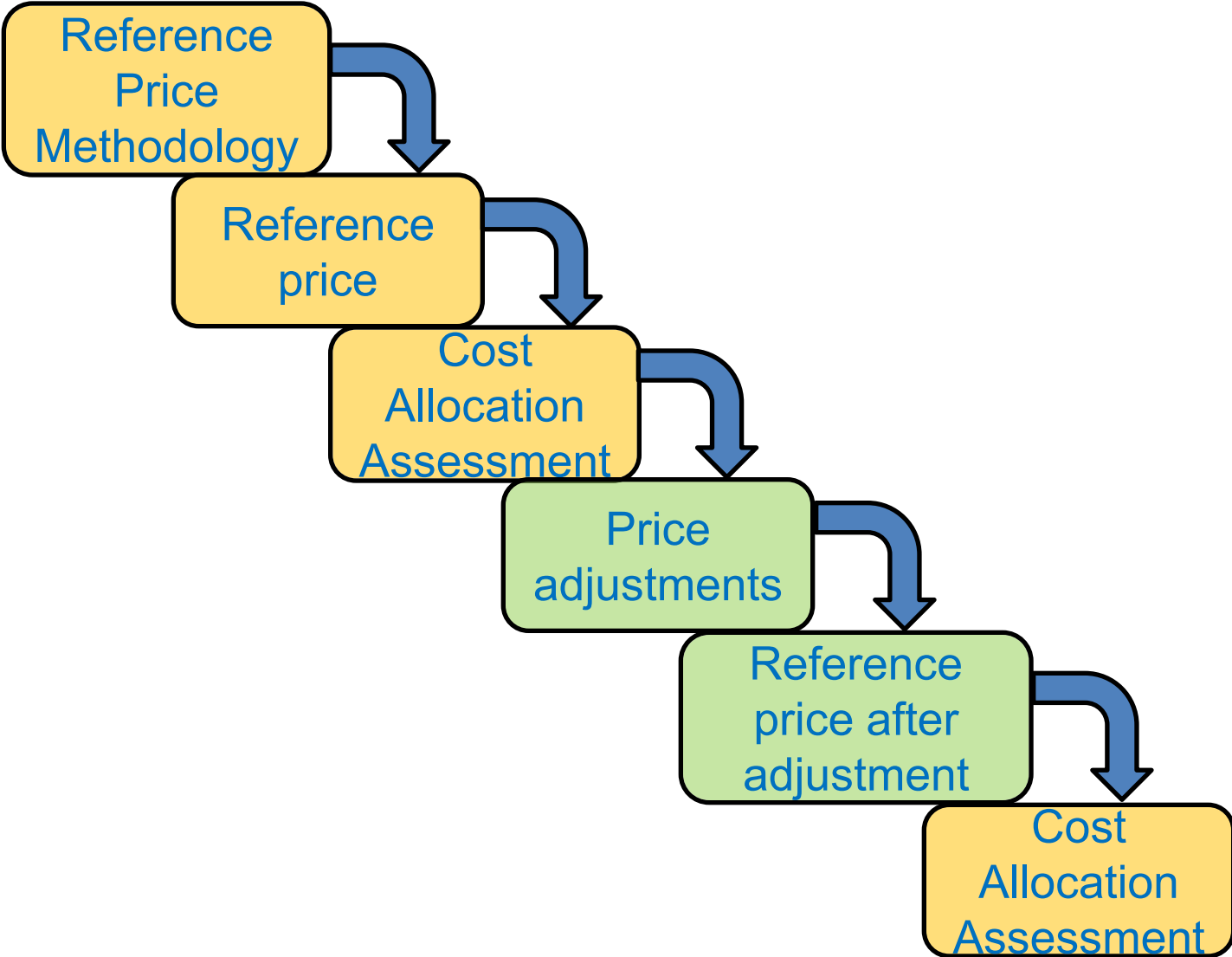
- For entry points it is not clear which part of the entry capacity will be used for intra-system network use and which part will be used for cross-system network use
- Ref. article 5.5a: cross-system entry network use (CSN) is deemed to be equal to cross-system exit network use, as a consequence each entry point has both cross-system network use and intra-system network use
- Revenue for cross-system entry network use can be calculated pro rata:  $CSN/TN * \text{total entry revenue}$ , where TN is total entry network use (ref. article 5.5b)
- Revenue for intra-system entry network use is difference between total entry revenue and revenue for cross-system entry network use (ref. article 5.5c)

## Cost Allocation Assessment (5/5)

Driver<sup>intra</sup> and Driver<sup>cross</sup> have to be determined according to ref. article 5.3 for capacity based network use and ref. article 5.4 for commodity based network use

- Determining intra-system and cross-system cost drivers can be calculated according to the steps on previous slides (mutatis mutandis)
- Although this is a logical approach, it is an interpretation, because there are no explicit guidelines and/or formulas in the NC TAR to determine the CAA cost drivers

# RPM, cost allocation assessment, price adjustments for capacity based transmission services



# Price Adjustments (1/2)

Allowed price adjustments to the application of the RPM (ref. article 6.4, article 9)

1. Storage discount

A discount of at least 50 % shall be applied to capacity-based transmission tariffs at entry points from and exit points to storage facilities, unless and to the extent a storage facility which is connected to more than one transmission or distribution network is used to compete with an interconnection point.

2. For the purpose of increasing security of supply

- Discount on LNG entry
- Entry/exit points ending isolation of member states

3. Benchmarking

whereby reference prices at a given entry or exit point are adjusted so that the resulting values meet the competitive level of reference prices;

4. Equalisation

whereby the same reference price is applied to some or all points within a homogeneous group of points;

5. Rescaling

whereby the reference prices at all entry or all exit points, or both, are adjusted either by multiplying their values by a constant or by adding to or subtracting from their values a constant.

## Price Adjustments (2/2)

Each price discount adjustment leads to a under-recovery of revenues which must be recovered. This may be done in the following ways:

### 1. Rescaling (ref. article 6.4c)

- whereby the reference prices at all entry or all exit points, or both, are adjusted either by multiplying their values by a constant or by adding to or subtracting from their values a constant.

### 2. Complementary revenue recovery charge (ref. article 4.3b)

- levied for the purpose of managing revenue under- and over-recovery;
- calculated on the basis of forecasted or historical capacity allocations and flows, or both;
- applied at points other than interconnection points;
- applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points.



# Tariff methodologies for services other than capacity based transmission services: Commodity based TS

<b>GTS Services</b>	<b>Transmission Service (TS)</b>	<b>Non Transmission Service (NTS)</b>
<b>Capacity based</b>		
<b>Commodity based</b>	<ul style="list-style-type: none"><li>• Flow based charge</li><li>• Complementary revenue recovery charge</li><li>• Ref. article 4.3ab</li> <li>• The cost allocation assessment (Ref. article 5) is also applicable for commodity based transmission services</li></ul>	

# Tariff methodologies for services other than capacity based transmission services: Capacity based NTS

<b>GTS Services</b>	<b>Transmission Service (TS)</b>	<b>Non Transmission Service (NTS)</b>
<b>Capacity based</b>		<ul style="list-style-type: none"><li>• Cost-reflective, non-discriminatory, objective and transparent;</li><li>• Charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both.</li><li>• Ref. article 4.4</li></ul>
<b>Commodity based</b>		

# Tariff methodologies for services other than capacity based transmission services: Commodity based NTS

<b>GTS Services</b>	<b>Transmission Service (TS)</b>	<b>Non Transmission Service (NTS)</b>
<b>Capacity based</b>		
<b>Commodity based</b>		<ul style="list-style-type: none"><li>•Cost-reflective, non-discriminatory, objective and transparent;</li><li>•Charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both.</li><li>•Ref. article 4.4</li></ul>

## Publication requirements

### **Information to be published before tariff period**

- Information on parameters used in the RPM
- Financial information: e.g. allowed revenue, cost of capital
- Revenue splits: e.g. entry/exit split
- Ref. article 30, 31, 32

### **Information to be published before the annual yearly capacity auction**

- Reserve prices for first gas year in the auction
- Multipliers and seasonal factors
- Reserve prices for interruptible capacity for first gas year in the auction
- An assessment of the probability of interruption
- Ref. article 29, 31, 32

# Consultation requirements: Processes

## **Periodic consultation**

- Final consultation open for at least two months
- Within five months following the end of the final consultation, the NRA shall take and publish a motivated decision
- The tariffs applicable for the prevailing tariff period at 31 May 2019 will be applicable until the end thereof
- At least every five years starting from 31 May 2019
- Ref. article 26, 27

## **Yearly consultation**

- Discounts, multipliers and seasonal factors
- Ref. article 28

# Consultation requirements: Periodic consultation content

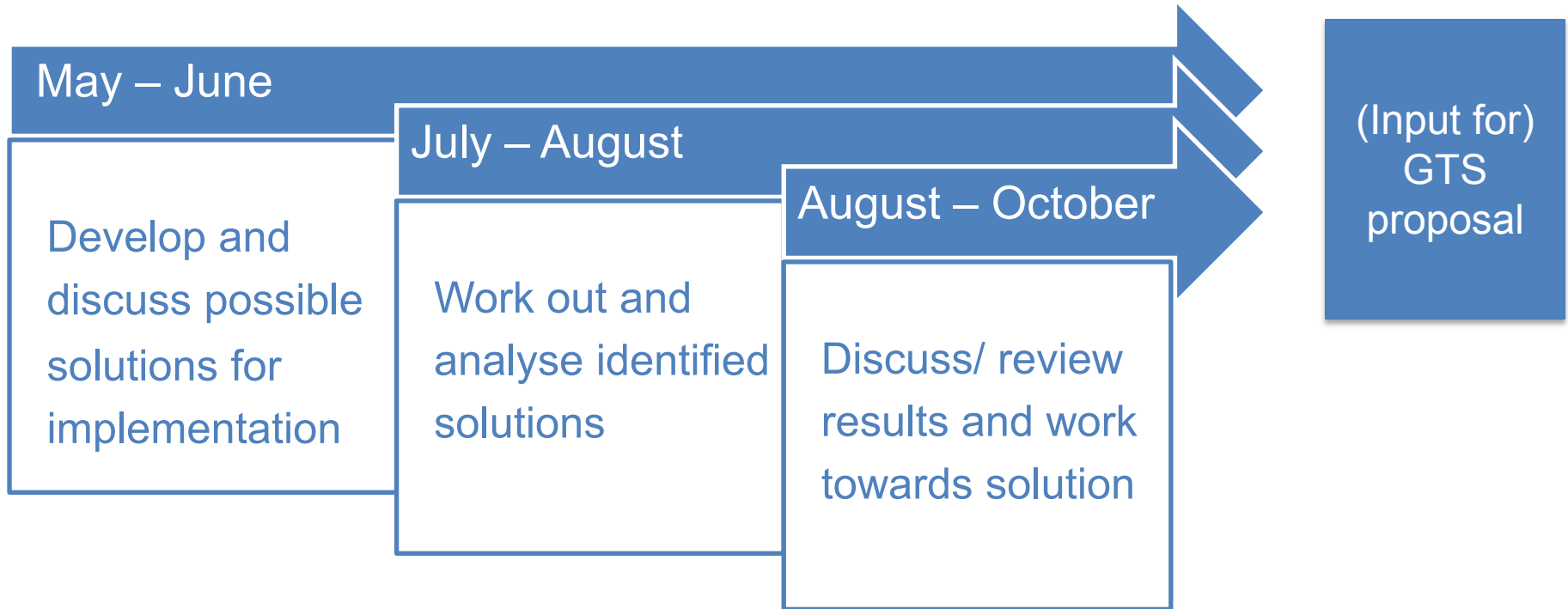
GTS Services	Transmission service (TS)	Non Transmission Service (NTS)
<b>Capacity based</b>	<ul style="list-style-type: none"> <li>• Description of RPM and its used parameters</li> <li>• Proposed adjustments for capacity based transmission tariffs</li> <li>• Indicative reference prices</li> <li>• Results of the CAA</li> <li>• Assessment of RPM against article 7</li> <li>• If proposed RPM is other than counter factual CWD, then compare indicative tariffs</li> <li>• Ref. article 26, 1a</li> </ul>	<ul style="list-style-type: none"> <li>• The non-transmission service tariff methodology therefor;</li> <li>• The share of the allowed or target revenue forecasted to be recovered from such tariffs;</li> <li>• The manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3);</li> <li>• The indicative non-transmission tariffs for non-transmission services provided to network users;</li> </ul>
<b>Commodity based</b>	<ul style="list-style-type: none"> <li>• The manner in which they are set;</li> <li>• The share of the allowed or target revenue forecasted to be recovered from such tariffs;</li> <li>• The indicative commodity-based transmission tariffs</li> <li>• Ref. article 26, 1c(i)</li> </ul>	<ul style="list-style-type: none"> <li>• Ref. article 26, 1c(ii)</li> </ul>



**Today's  
agenda**

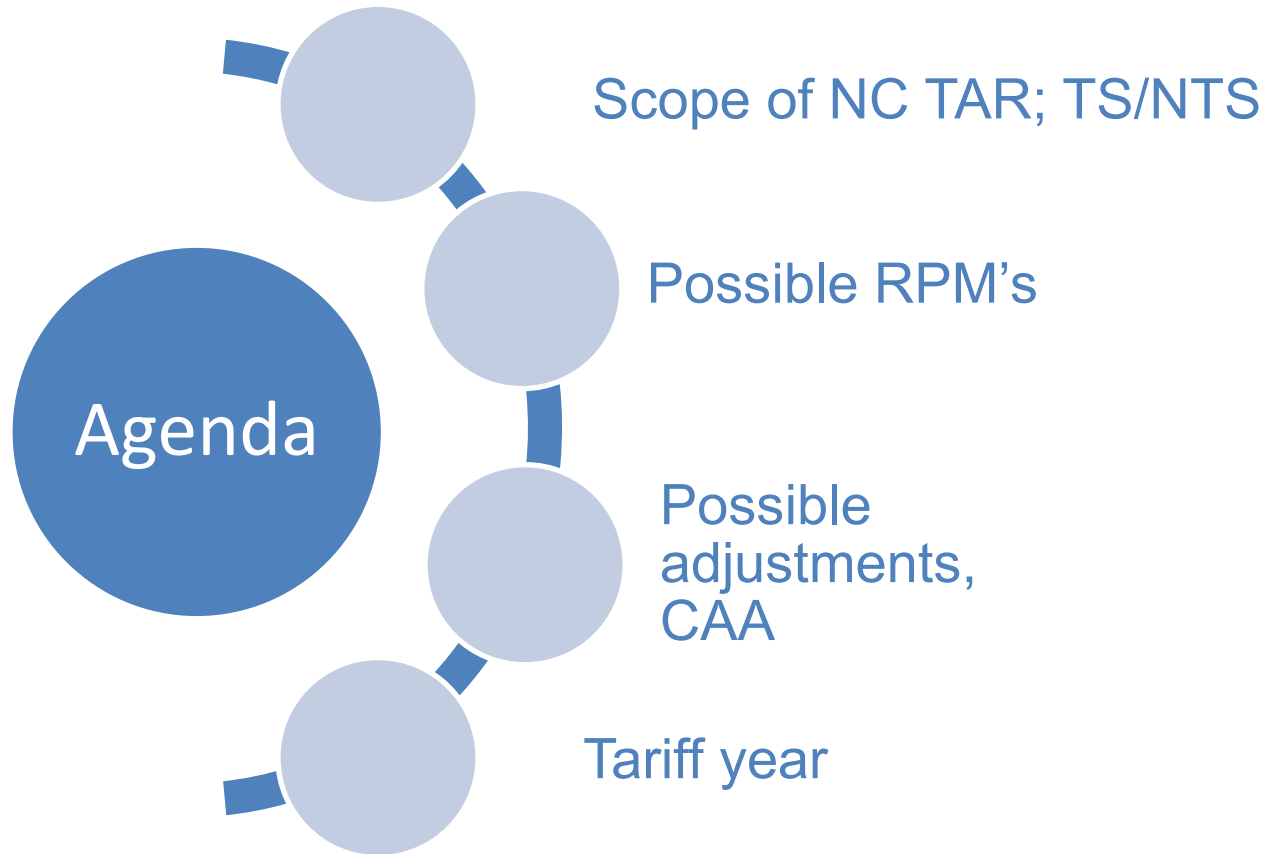
- 1. Introduction**
- 2. Stakeholders' visions and impact on tariffs**
- 3. In-depth explanation of NC TAR**
- 4. Next steps**

Where are we? → First step: ensure that possible implementation options are identified, developed and discussed





# Topics for stakeholder session on 9 June 2017



# Topics for stakeholder session on 28 June 2017

