

25<sup>th</sup> May 2018

## RE: Draft code amendment decision for the implementation of NC TAR

Dear Sir / Madam,

Thank you for the opportunity to respond to your draft decision on implementing the NC TAR. This response represents the view of the Centrica group of companies. This response is non-confidential and can be published on your website. Centrica is an active trader and shipper in the Dutch wholesale gas market and holds capacity at several GTS interconnector points.

Below we have a few comments where we believe the proposals would benefit from change or increased clarity:

- **Multipliers:** whilst we accept that a multiplier of 1 may not be acceptable, we believe that the proposed multipliers are unnecessarily high (i.e. 1.25 / 1.5 / 2.5 / 2.5 for quarterly, monthly, daily and within-day respectively). There does not appear to be any justification for these levels. The provisional daily and within-day multipliers are at the upper end of the range allowed by NC TAR and higher than neighbouring markets (e.g. the German tariff system is 1.1/1.25/1.4 for quarterly, monthly and daily capacity). Unnecessarily high costs for short-term capacity can have a negative impact on the functioning of the market. In particular, they make it more expensive for shippers to react to short-term market developments, reduce short-term optimisation opportunities and lead to higher balancing costs.
- **Shorthaul:** Under the proposals, shorthaul will be removed from the product suite due to the historic lack of interest. Whilst we do not dispute that there has been a limited uptake for the GTS shorthaul product, we would argue that was due to issues with the specific shorthaul product offered by GTS (e.g. the fact that the calculation of shorthaul charges was non-transparent and required a minimum 3-year commitment) and not a rejection of a shorthaul product *per se*. We believe that a transparent and fair methodology with a shorter user commitment would attract interest from the market, especially in light of the forecast tariff increases. Furthermore, the introduction of a fair and transparent shorthaul product would increase the cost-reflectivity of the methodology by providing more accurate tariffs for those only using a small part of the network.

**Discount for interruptible capacity:** we note that the ACM is minded to opt for an ex-post discount for interruptible capacity. However, whilst we accept that this is allowed for within NC TAR, we believe that an ex-ante discount would be a more optimal solution; shippers are more likely to purchase a product when there is certainty of price up front. Indeed, an ex-post discount for interruptible capacity could actually lead to the TSO receiving an overall lower level of bookings compared to an ex-ante discount.

**Introduction of VIPs:** there appears to be an inconsistency between the NWC TAR proposals and the recent ACM decision on how tariffs for Virtual Interconnection Points (VIPs) tariffs are set. The ACM states that tariffs for VIPs will be based on the weighted average of actual flows in the most recent year for all physical cross-border points that form the VIP. However, the NWC TAR proposals provide for a postage stamp methodology whereby the tariffs are the same at each entry and exit point, including VIPs. We would assume that the ACM will either have to update its NWC TAR proposals to ensure that VIP tariffs are based on physical flows, or introduce arrangements whereby existing IP contracts maintain the proposed tariff methodology and new VIP contracts attract a tariff determined by recent flow activity. We would ask the ACM for some clarity in this area.

**Over and under-recovery:** the ACM proposals do not set out any arrangements to deal with how over/under payments will be allocated to/from shippers. It is important that this is set out in detail, following the rules set out in articles 18 to 20 of NC TAR. The arrangements for over and under-recovery have particular importance in the Netherlands given that historically tariffs have often been legally challenged, resulting in changes to allowed revenues and subsequently tariffs.

We hope this response is helpful. If there are any of the points raised in this response that you would like to discuss in more detail feel free to contact me on + 44 (0) [REDACTED].

Yours sincerely,  
[REDACTED]  
Regulatory Manager