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MEMO

SUMMARY OF THE FINAL CONSULTATION ON THE TARIFF METHODOLOGY

The present memo contains a discussion of the responses to the Final Consultation on the tariff methodology conducted by Energinet during the period from 31st August to 16th November 2018.

Four stakeholders have replied to the Final Consultation Document:

- Ørsted
- Uniper
- PGNiG
- Gas Storage Denmark

The former three responders are significant shippers in the Danish gas transmission system, while Gas Storage Denmark operates the two Danish gas storage facilities.

General support to the proposed tariff methodology

Three of the stakeholders who have replied to the Final Consultation Document gives their acknowledgment to, and agrees with, the proposed gas tariff methodology.

Overall, three of the stakeholders agree with the proposed postage stamp tariffs (uniform cost allocation RPM) with an ex post entry-exit split, which in their view will lead to more stable tariff development from year to year. The stakeholders also agree with the 100% storage discount, which they note, provide significant savings to the overall system, and it is crucial to the security of supply during the Tyra close down.

Multipliers and seasonal factors

In the Final Consultation Document, Energinet proposes to set a stepwise increasing long-term multiplier for capacity bookings within the range of 0.90 – 0.95 depending on duration (length) of booking.

The pattern of the multiplier could as a result be the following:

- 0.95 – 5-year contracts,
- 0.94 – 6-year contracts,
- 0.93 – 7-year contracts,
- 0.92 – 8-year contracts,
- 0.91 – 9-year contracts,
- 0.90 – 10-year and longer contracts.

All four stakeholders support such a long-term multiplier on capacity bookings. One stakeholder elaborates that it is essential that the lower value (0.90) is chosen.

Another stakeholder suggests that the duration of the multiplier should go even further and could go up to for example 15 or 20 years with a corresponding lower multiplier. The stakeholder argues that this would give more financial stability and predictability for the capacity bookings.

The same stakeholder suggest that the current multipliers for short term transmission capacity should be increased compared to the price for the yearly product in order to encourage purchase of yearly products instead of short-term products. This would ensure a lower transportation cost for gas imports during summer period and encourage the market to store gas and encourage suppliers to safeguard their respective portfolios to the benefit of overall security of supply.

Energinet notes that it is the intention to implement a long-term multiplier within the range 0.90 – 0.95. It is Energinet's belief that it will create a sustainable balance between long-term commitments from shippers and benefit to the Danish gas market.

Interruptible product at Ellund entry

A stakeholder notes that Energinet proposes to re-introduce an interruptible capacity product at Ellund entry due to the Tyra close down. The stakeholder underlines that an introduction of an interruptible capacity product at Ellund entry will not enhance security of supply but could actually imply the opposite.

Energinet notes that a re-introduction of interruptible capacity at Ellund is not a part of the Final Consultation Document and therefore not at part of the hearing process.

Seasonal profiling

Energinet is not proposing to change the seasonal profiling in the Final Consultation Document. However one stakeholder notes, that Energinet has previously removed seasonal profiling in the tariffication.

The stakeholder believes that there are good arguments for a reintroduction of seasonal profiling of the Ellund tariff. There is surplus transmission capacity during the summer due to decreasing gas consumption. At the same time it is important to ensure that enough gas is flowed from Ellund to gas storage during the summer months in order to have enough gas for the winter season. Therefore, the stakeholder recommends lowering the Ellund capacity tariff during the gas injection season from 1. May to 1. November. This would both ensure a better utilization of the Ellund entry capacity – and possibly an increased revenue stream to the TSO – and an increased security of supply.

Energinet notes that a temporary reintroduction of seasonal profiling could be a way to increase storage filling and hence security of supply during the Tyra close down from 2029-2022 and will consider the suggestion.

Storage discount

In the Final Consultation Document Energinet argues, that the current storage discount of 100% should remain. Two of the stakeholders agree with the 100% discount at entry and exit points towards the underground gas storages. None of the stakeholders argue against the discount.

One stakeholder notes that the 100% discount is important given the geographical position of the Danish gas market, the storages provide significant savings to the overall transportation system.

Another stakeholder also agree with the 100% discount to storage and writes: the purpose of TAR NC is to avoid double tariffication when using storage capacity compared to a situation without using storage capacity. The only way to achieve this is by applying a discount of 100% for both capacity and commodity tariffs. The stakeholder also notes that the storage facilities

in Denmark reduce the Gas-TSO's operational expenditure, as it reduces the need for compression in Egtved. Therefore, the storages increase security of supply and reduce the net cost of operating the system. The stakeholder concludes, that the continuation of the storage discount of 100% on both capacity and commodity tariffs is the best solution.

Energinet notes, that none of the stakeholders have argued against the current storage discount.

Entry/Exit split

In the Final Consultation Document it is proposed, that the current ex post allocation method (50:50 split) is continued, as it would give the same capacity tariff for all entry/exit point in the system.

There is a general support for the proposed ex post entry/exit split in the final-consultation document. None of the replies are against the ex post entry/exit split.

Concerns regarding increasing tariff levels

Two stakeholders express concerns over the future tariff level. Increasing tariffs reduces the competitiveness of the Danish gas transmission and of gas as a fuel in competition with substitute fuels.

Energinet takes duly note of these concerns. Several factors contribute to an increasing tariff trend in coming years, notably the Tyra shut-down that delimits internal supplies to the market and transit, as well as additional costs during the same period to safeguard supplies. Looking beyond the Tyra shut-down, gas demand is challenged domestically. In case of the transmission system, attracting transit flow is key to ensuring that capacity is effectively utilized and that Danish gas consumers pay cost effective prices for their gas supply. Baltic Pipe, if realized, offers to increase transit on a long term basis with significant benefits to all system users.

Strengthened interconnection to adjacent markets will aid by providing stronger price-linkage to a European gas market price.

Uniform (postage stamp) tariffs

The Final Consultation Document contains a proposal to replace the current differentiated capacity tariffs with uniform capacity tariffs based on an ex post entry/exit split. This implies that Energinet also favours the uniform capacity tariff method above a capacity weighted distance methodology as described in the Regulation (EU) 2017/460 Network Code on Harmonised Transmission Tariff Structures for Gas (TAR NC).

This principle change to the tariff methodology has been exhaustively discussed in dialogue with the Shippers prior to submitting the pre-consultation material.

Three of the stakeholders have replied, that they in general support the implementation of postage stamp tariffs, and that they believe it would benefit the Danish gas transmission system.

One of the stakeholders supports implementation of a CWD model to the Danish gas transmission system. However another stakeholder writes that a CWD model would lead to arbitrary results and would only complicate the system.

Another stakeholder emphasize in their reply, that it is essential that the future tariff methodology contains uniform tariffs, because uniform capacity tariffs ensures lower levels of cross-subsidisation between different system users in comparison to capacity weighted distance methodology. Additionally, the uniform postage stamp methodology is less vulnerable to changes in the cost base and flow patterns expected to happen in Denmark in the coming years (due to the Tyra close down). Uniform capacity tariffs are therefore necessary to ensure a well-functioning Danish gas market given the future investment decisions to be made.

Energinet notice that most of the market participants support implementation of the postage stamp tariffs and that postage stamp tariffs will lead to the lowest level of cross-subsidisation. One stakeholder prefers the CWD method.

Commodity/Capacity split

Energinet has proposed a commodity-capacity split with a cap of 40% of combined revenues stemming from commodity tariffs and at least 60% from the capacity tariffs.

One stakeholder supports this split while none of the stakeholders are against the proposed split. The stakeholder underlines that the commodity-capacity split would benefit shippers of relative flat and non-seasonal demand, as they would pay relatively lower cost for overbooked capacity. Such a solution is cost reflective as the gas system has to be maintained to accommodate peak demand so shippers with high seasonal swing should pay a relatively higher unit tariff.

The same stakeholder notes that it is important that the commodity-capacity split is accompanied with the current short term booking multipliers. This is because the proposed commodity-capacity split gives the shippers a higher sensitivity to the load factor. Shippers with a high load factor will imply additional benefits.

Energinet values the stakeholders insights in the effects of the proposed commodity-capacity split, and agrees that this solution is the most cost reflective way to split the commodity/capacity revenues.