

Appendix 1: Public consultation

Consultation response from Ørsted, 6 February 2019:

Reintroduction of seasonal tariffs

Ørsted agrees that during the Tyra shut-down period (Oct 2019 – Jan 2022), the Danish gas security of supply will be more challenged than in the current situation. It appears however, that the system will continue to be robust and can handle "normal situations" in the Tyra shut-down period. We base this on the following view on the security of supply situation in the years during the Tyra shut-down,

- For storage year 2019-2020 we have recently witnessed that European summer-winter spreads have opened. This has ensured that all available storage capacity is booked in the Danish storages for the benefit of security of supply in the coming year.
- For storage year 2020-2021 the summer-winter spreads are well below the minimum storage tariff currently set by Gas Storage Denmark. This minimum tariff employed by Gas Storage Denmark effectively disincentivises commercial bookings. It should also be noted that the bookings (incl. bookings made by Ørsted) already made in Gas Storage Denmark is 2,799 GWh, which is app. double the volume needed in a normal weather scenario in 2021 (ref. Market Consultation regarding "Reintroduction of seasonal factors in the tariff structure during the Tyra redevelopment period", Figure 2)
- For year 2021-22 we would not expect a security of supply situation to arise given the expected entry into operation of BalticPipe in January 2022.

We agree that it remains important that the critical infrastructure assets are used efficiently. However, in this regard only Entry capacity could be a limiting factor, and we suggest that any adjustments to the system only apply to Entry capacity. Efficient use is of special importance for storages as they require that they are filled during the summer. It is of less importance to have pre-booked transport capacity as this is available throughout the year. Ørsted finds that the key driver for efficient storage use is effective tariff setting of the storage, ie that tariffs are set to reflect market conditions. If tariffs don't reflect market conditions, the storages could remain un-booked and "under-utilized" also despite a reintroduction of seasonal tariffs.

We note that introducing seasonal multipliers during the Tyra shut down will change the relative cost of short-term bookings versus long term bookings. Energinet argues, that this will create an incentive to import for storage at warmer time periods (summer) and withdraw in colder (winter). Ørsted agrees with this assumption when we consider summer versus winter. We find however, that within a quarter more efficient use of gas transport infrastructure can be achieved if the reservation price for day ahead capacity mirrors the quarterly capacity (on a pro rata base) for both summer and winter periods. With a very high day-ahead capacity tariff during winter periods we run the risk that Entry capacity will not be booked even though the Danish market requires gas on such day. With equal multipliers for Quarter, Months and Day also during winter periods, market participants can book capacity when needed instead of only having the economic option to withdraw from storages.

In assessing the proposal, we have the following view on the impact of the proposal during Tyra shut-down:

- For the year 2019-2020 it will only have limited impact as storage capacity is already booked.
- For 2020-2021 the proposal could have the effect to increase the value of Danish storage by increasing the cost of alternative flexibility (for instance from the German market/storages) with an estimated 10-15 % (measured against the storage product with the least injection/withdrawal capacity). However, given the current level of 2020/21 summer-winter spread the change in transport cost will not lead to additional storage bookings if the current minimum gas storage tariff is being kept. Danish storage would remain commercially unattractive.
- For the year 2021/22 we would not see any impact as the BalticPipe is expected to be operational 1 January 2022.

Based on the above, Ørsted finds that the proposal, even if adjusted with equal multipliers for Quarter, Months and Day during winter, at best will have a marginal impact on the security of supply situation for the year 2020/2021 and no real impact on year 2019/20 and 2021/22. The negative impact on markets from more volatile tariffs is not quantified. Furthermore, the key concern for security of supply remains, ie that the minimum gas storage tariff set by Gas Storage Denmark is above market levels.

Consultation response from SEAS-NVE, 8 February 2019:

Hørings svar vedrørende sæsonafhængige transmissionstariffer

SEAS-NVE er imod indførelsen af sæsonafhængige transmissionstariffer.

Vi forstår, at Energinet ønsker flow om sommeren med henblik på at sikre fyldte lagre ved indgangen til vinterperioden af hensyn til forsynings sikkerheden.

Forslaget om sæsonafhængige tariffer mener vi primært er drevet af en bekymring for, at der ikke sker en tilstrækkelig lagerfyldning hen over sommeren, og at der dermed kan opstå en nødforsynings situation i løbet af vinteren. Dette ser vi som en nødforsyningsproblematik, der ikke bør løses ved at ændre på den generelle tarifstruktur, men i stedet via nødforsyningsregimet, så man mere målrettet fokuserer på en eventuel nødforsynings situation fremfor at sætte markeds mekanismerne ud af kraft for at imødegå en situation, der måske alligevel ikke opstår.

Vi ser til dels forslaget om sæsonafhængige tariffer som en konsekvens af, at priserne for lagerkapacitet i Tyra-perioden af lagerselskabet er fastlåst på et niveau, der er højere end markedsværdien af lageret (bortset fra det kommende lagerår, hvor, der er flow fra Tyra i sommerperioden, og der dermed må forventes et unormalt højt sommer/vinter-spread i Danmark). Dermed skabes et kunstigt behov for sæsonafhængige tariffer for at kompensere for de høje lagertariffer, hvilket vi finder uheldigt. Det kan ikke være meningen, at transmissionstarifferne skal designes til at understøtte lagervirksomheden.

I øvrigt mener vi ikke, at sæsonafhængige tariffer vil ændre på noget, hvis der ikke er solgt tilstrækkelig lagerkapacitet, da kapacitetspriserne, uanset om startpriserne på kapacitetsauktionerne er fastsat som i dag eller ud fra sæson tariffer, vil blive budt op til et niveau, hvor det igen bliver interessant at købe lager. Markedskræfterne sikrer allerede i dag, at kapacitetspriserne afspejler udbud og efterspørgsel med lageralternativet som prissættende faktor.

Vi vil i stedet foreslå, at der opereres med muligheden for, at transmissionsselskabet køber short term fyldningsrestriktioner til en reel markedsudsat pris, fx på månedsbasis, hvis det ser ud til, at forsynings situationen strammer til. Omkostningerne til køb af fyldningsrestriktioner vil herefter skulle indregnes i nødforsynings tariffen og påhviler dermed i sidste ende de forbrugere, der nyder godt af forsynings sikkerheden, i modsætning til sæson tarifferne, der rammer mere vilkårligt i forhold til, hvem der har været heldige/dygtige i spillet om lager- og transmissions kapaciteter.

Hvis det, imod vores anbefaling, besluttes at indføre sæsonafhængige transmissionstariffer, bør de tidligst indføres fra og med lageråret 2020/21. En ændring af tarifstrukturen fra 1 oktober 2019 vil ikke ændre på fyldningen af lageret for vinteren 2019/2020. Derudover er hele lagerkapaciteten stort set allerede solgt, hvorfor en forbedring af værdien af lageret ikke vil tilskynde til yderligere salg.

Vi foreslår yderligere, at man afventer til foråret 2020 med at træffe beslutninger, om der skal indføres sæson tariffer fra og med lageråret 2020/21. Den markedsindsigt man vil have efter vinteren 2019/2020 vil utvivlsomt give et bedre beslutningsgrundlag for værdien og den potentielle effekt af sæson tariffer for så vidt angår solgt lagerkapacitet for 2020/2021, forsynings sikkerheden og markedspriserne i Danmark om vinteren.

Prisen for forsyningssikkerhed i det danske gasmarked vil utvivlsomt stige under Tyra. Omkostningen vil blive båret af forbrugerne afspejlet af en højere markedspris og/eller højere nødforsyningstarif. Vi advokerer for, at omkostningerne for så vidt muligt bør være en del af nødforsyningstariffen og ikke bør pålægges kunderne, før der haves et bedre beslutningsgrundlag.

Consultation response from Gas Storage Denmark, 8 February 2019:

GSD'S RESPONSE TO SEASONAL FACTORS IN THE TARIFF STRUCTURE DURING THE TYRA REDEVELOPMENT PERIOD

1. Introduction

On 25 January 2019 Energinet Gas-TSO invited the market parties for discussions of the proposal¹ to reintroduce “seasonal factors in the tariff structure as temporary measure during the Tyra redevelopment period, starting from 1 October 2019”. The proposal has been triggered by the necessity “to strengthen the incentive to make more efficient use of the capacity in the gas system in order to safeguard security of supply during the upcoming redevelopment of the Tyra platform.” In addition, the proposed methodology on seasonal factors is considered to be “a supplement to the main methodology of the future tariffs”, described in the “Final Tariff Methodology”, which is now waiting for the approval decision of the Danish Utility Regulator.

Energinet Gas-TSO, in its role as provider of the security of gas supply in Denmark cf. the Danish Act on Natural Gas Supply Section 12(3), takes the step to reintroduce seasonal factors in the tariff structure especially with respect to aid an optimal, timely and sufficient yearly supply of natural gas in the Danish gas system. However, the key factor for the realization of this goal is how the shippers utilize the capacity in the interconnection point Ellund. Therefore, in the opinion of GSD, the reintroduction of the seasonal factors in the tariff structure is designed to stimulate shippers’ behavior in interconnection point Ellund in particular.

GSD believes that the reintroduction of seasonal factors in the tariff structure will provide a good solution to how to stimulate the right utilization of the capacity in Ellund by single shippers, provided that the proportions (the seasonal factors) between short term capacity - quarter, month, day and the yearly capacity are strong enough as options that can be capitalized by the shippers.

GSD would like to use the opportunity to support the method proposed in the consultation document. In addition, GSD would like to give some recommendations to some specific points in the consultation document where due concern to how the transmission system works in relation to gas storage could be important for the future system stability and security of supply in Denmark.

2. Yearly products fit naturally with the s-w cycle

It is important to underline that the summer-winter cycle constitutes a natural length in the causeeffect relationship between supply and demand on the one hand and transmission and storage on the other. It requires a planned approach for the natural gas undertakings to be able to meet the supply standards. The approach will have to entail an adequate use of the import infrastructure during the summer, thereby filling the storages in order to ensure that the energy as well as the capacity is available to meet the peak off-take during the winter. Thus meeting the supply standards will require that taking commercial positions in transmission and storage infrastructure and their utilization are planned jointly on yearly basis by each individual natural gas undertaking. The yearly cadence in the planning ensures that the gas system components (infrastructures and energy in/out of the system) can be basically dimensioned to each other with optimal risk level. It is important to underline that GSD supports additional profiling through short products (quarter, month, day) on the top of the yearly capacity. Short products must be available for sale in order to keep the overall gas system more flexible at the relevant points in time under the relevant market situations. However, in GSD’s opinion it is the yearly products that constitute the backbone and the interconnectivity between the gas system components.

¹ <https://en.energinet.dk/Gas/Gas-news/2019/01/18/Seasonal-tariffs>

3. Low price for yearly products in Ellund

Energinet Gas-TSO wants to reintroduce seasonal factors in the tariff structure during the Tyra redevelopment period. This is explained with the fact that shippers must be stimulated in more efficient use of the capacity in the gas system in order to safeguard the security of supply during the upcoming redevelopment of the Tyra platform.

“The implementation of seasonal factors is expected to cause a change in the shippers’ booking behavior. Specifically, the implementation of seasonal factors is expected to cause an increase in bookings primarily of the short term capacity products applicable in the warm period and secondarily in bookings of the long term capacity product (yearly). The reasoning behind this is the fact that short term products will become cheaper during the warm months and consequently the short term products during the cold months will become more expensive. Additionally a multiplier equal to 1.00 makes the short term products more flexible than long term capacity products favouring the short term products to the long term products.”²

GSD supports this initiative and recommends TSO to go even further that is to say, that the multipliers ensure that shippers prefer to buy yearly products rather than short term products. GSD recommends that the short term multipliers should be increased for a number of reasons:

- The transmission capacity standing alone (without storage) cannot secure gas supply matching the Danish demand during the winter. Given the advantages of the yearly approach as described in section 2 of this response paper, GSD has already introduced a pricing structure incentivizing the sale of yearly storage capacity.
- Usually the argument for having short term products is due to a need for lowering the entry-barrier to the market for new-comers because it is anticipated that incumbent operators control the market access. However, no scarcity of transmission capacity renders short term products less useful simply because the entry-barrier to the market is already low. On top of that the liberalization of the Danish gas market has removed the dominance of an incumbent operator.
- Short term products seen in isolation are not good for the transmission system as a whole, as they lead to less use of the transmission system and higher overall tariffs going forward. By using short term products shippers can postpone buying transmission capacity until the very last day before the gas day where they will need the gas transported into the Danish gas system. Obviously, it might be good seen from the shipper’s perspective, but the risk of this unused surplus capacity is then transferred to the TSO. The TSO on its side will socialize the cost by imposing higher tariffs to the whole market next year.
- Short term products seen in isolation hamper the security of supply as they incentivize sourcing short and therefor hampers the needed, year-based co-optimization across transmission, storage, end user and supply sources.

Based on the above arguments GSD concludes that the proposed multipliers for short term transmission capacity (especially the quarter multipliers) should be increased compare to the yearly price in order to encourage purchase of yearly products instead of short products. This would ensure a low price for gas import during summer and encourage the market to put gas on store to the benefit of security of supply. Thus by choosing the right multipliers, the TSO can also maintain an overall lower tariff level for the entire marked. It is about getting the actors to

² section 1 on page 8 of the Market Consultation paper

pay for their activities in proportion to the responsibilities they take for the security of supply - less responsibility should lead to higher payment.

4. Higher prices for monthly and daily capacity in March support higher filling level in March

The proposed by TSO multipliers for quarter, month and day are highest in January and February and lowest in the period from May to September. This principle is justified with the fact that January and February are the coldest months and the period from May to September is the warmest. High price in February and March and low price in May-September should incentivize shippers to prefer buying products, when the price is lower. However, in the opinion of GSD, if TSO wants to keep the security of supply high, the shippers should be encouraged to hold their gas in the storage especially in March, where the risk for very low storage filling is a very likely scenario. This points out to the fact that the multiplier for March should be the highest or at least at the same level as in January and February.

5. More yearly capacity motivates more trading

Short term products impose a barrier to gas trade because this capacity is not considered as sunk cost. If the shippers buy longer term products they will consider it as sunk cost and take greater advantage of movements in gas prices which in turn will increase the price transparency and liquidity on the gas hub. Short term products hampers this development since the decision to trade coincides in time with the decision to buy transmission capacity whereby it will not be considered as sunk cost.

For better understanding of the issue with the short term capacity and trading, we can use the following example. Trading does not take place, if there is a prospect to not being able to purchase the necessary transport capacity in order to transport the traded gas. It is a risk taking, when the gas and the capacity for transport of the gas are traded in parallel or within a small window of time.

This could be the case in a constrained system, when many shippers may bid for capacity on the Prisma auctions on short terms and for the same reasons – e.g. to harvest the same window of opportunity or to avoid shortage in their portfolios. Neither the price for the capacity or the outcome of the bidding is predictable for the trader.

The overall signal result will be that the short term capacity at Ellund might make the market feel safe and reluctant to store gas in storage. But at the end of the day only gas in storage will ensure a sufficient security of supply during the Tyra shut down.

6. More yearly capacity supports “shared responsibility” and lower tariffs on long term

Implementing tariff structure that secure a dominant booking and utilization of yearly products rather than use of short term products has other positive side effects for TSO, such as providing the TSO financial stability and predictability of the physical operations of the gas system. Through the yearly products the TSO can also impose “shared responsibility” for the security of supply in a “natural” manner avoiding “ex post” punishment for imbalances. At the end it will secure stable if not lower tariffs for all market parties on long term. GSD’s experience proves that market actors are basically commercial responsible, when harvesting their investments. Thus investing in yearly capacity will be used to accumulate profit around the year - for gas supply to market during winter, for gas supply to storage during summer and on the top of these to take advantage of price surges by trading any time, when the chances arise. Therefore it is important that the rules are settled already before the domestic gas production ceased, before 1 September 2019.