Energinet
Att: PJJ@ENERGINET.DK

Public Consultation: Methodology for integrating Baltic Pipe in the Danish Market Model

28 January 2021

Our ref. petbi

Ørsted is pleased to get the opportunity to give our input to the above consultation.

The methodology for integrating Baltic Pipe is significant for Ørsted as an active shipper in the Danish transmission system and as an operator and provider of offshore transport services through its subsidiary Danish Offshore Gas System A/S (DOGS). The design, integration and implementation method of the Baltic Pipe project will be an important element in ensuring a well-functioning, non-discriminatory and competitive Danish gas market.

The consultation document suggests a solution where the entire Baltic Pipe project is considered fully integrated into the Danish onshore gas transmission system. Hence, the EP II branch pipeline is integrated into the overall transmission set-up despite it being subject to a different regulation (negotiated access vs the regulated access applicable to the transmission system).

The proposed methodology implies that onshore gas transmission shippers assume all risks and possible benefits from the offshore project. The underlaying tariff principles and methodology is a key factor when assessing risks and possible benefits, but the proposed tariff methodology is unfortunately not part of the consultation document and has only been presented in general terms at the recent Shipper Task Force meeting on 14 January 2021.

The proposed methodology may represent the best alternative. However, the consultation document neither presents nor discusses the alternative, i.e. the regulatory baseline where the EPII branch pipeline is handled separately. Further, the introduction of an offshore entry point may have repercussions on other parts of the Danish offshore gas transport system (i.e. Tyra-Nybro and SydArne-Nybro transport pipelines), but the document does not analyse this, including how non-discrimination is achieved for Danish gas producers and Danish offshore shippers (i.e. shippers shipping gas in the Tyra-Nybro or SydArne-Nybro transport pipelines). Thus, Ørsted has two general concerns, which are described below;

- *Transparency. What is the alternative – and what are the financial implications?*
  Ørsted agrees that full integration of the Baltic branch pipeline carries several potential benefits. However, the document gives no information enabling the stakeholders to assess the proposal against the “regulatory baseline”, i.e. a

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situation where the EPII branch pipeline is handled as a separate system with own tariffing and potential balancing rules etc. A full presentation to the stakeholders also requires transparency as to the underlying financials between the EPII branch pipeline and the existing transmission system – here stakeholders are given no information at all – and the important discussion on tariffs methodology is carved out and not yet presented. Hence, stakeholders are asked to comment without being provided information on risks and potential benefits offered by different models.

Ørsted suggests that the consultation document (and the process going forward) is expanded with a basic financial model, including the basic tariffing methodology with suggested adjustments, and an analysis on pros/cons when considered against the alternative.

- *Impact on Danish producers & Danish offshore shippers*
  It can be questioned if the proposed model for integration should apply generally in order to ensure non-discrimination, i.e. should a solution with exclusively an offshore entry point (i.e. no Nybro entry point) – and potentially long term lease of offshore capacity – be offered to Danish gas producers and Danish offshore shippers as well? In this regard, it should be noted that the rationale for an integrated system in the Baltic Pipe case could equally be used to support an offshore entry point for the Danish production directly to the transmission system. Such system could support that all Danish production flows towards Denmark – and would treat Danish producers equally with Norwegian producers.

  Ørsted suggests that the consultation document is expanded with an analysis of the wider impact on Danish offshore producers and the Danish offshore shippers in which Energinet also demonstrates why the current approach does not discriminate against shippers in the DOGS' system who- in addition to paying tariffs to DOGS - also will pay an entry Nybro tariff to the transmission TSO.

In addition to and subject to our general remarks above, Ørsted has the following more detailed remarks.

- *Comments to p.6, 2nd and 3rd bullet*
  - 2nd bullet. Ørsted finds that harvesting of synergies could also be done in a situation where the EPII branch pipeline is not integrated into the Danish gas TSO. Shippers could still be offered a bundled product even though the tariffs are set separately.
  - 3rd bullet. Ørsted finds that the gas transport tariffs must be based on the regulation – and here it is not the objective to provide a competitive route from Norway to Poland.
- Comments to Section 2.4.1
  - Ørsted invites Energinet to consider whether legal unbundling into a separate entity handling upstream transportation in the EPII branch pipeline (as is the case for Energinet's power activities) would achieve

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greater transparency and would inter alia also ensure that the Energinet contracting legal entities are subject to the stricter transfer pricing rules (compared to the suggested segregation of accounts). In this connection we note that Ørsted unbundled its offshore transportation activities inter alia based on shipper comments and pursuant to the explicit recommendation of the Danish Utility Regulator (then the Danish Energy Regulatory Authority ("Energitilsynet")

- *Comments to Section 2.4.2*
  On the more detailed level, we question why Energinet Gas TSO enters into a 15-year lease agreement with EP II branch pipeline. The alternative would be to enter into shorter agreements enabling the Gas TSO and the branch pipeline to adjust the (primarily financial) terms on an on-going basis as needed.
- *Comments to section 3.1 and 3.2*
  Ørsted agrees to the shipper benefits with the proposed allocation methodology, the capacity products, the bundling of capacities and the booking platform.
  On section 3.2, then we look forward to the up-coming discussion on the future balancing regime.
- *Comments to section 3.4*
  It is Ørsted's understanding that DUR's methodology approval dated 31 May 2019 specifically only covered the period up to 2022, i.e. we are of the understanding that DUR's approval is subject to the submission of a duly substantiated methodology document.

At the 14 January 2021 user group meeting, Energinet introduced three areas for discussion regarding the tariff methodology, i.e. gas year vs calendar year, the 70/30 capacity/volume split and a long-term booking rebate. A methodology paper has not yet been issued, but Ørsted would like to offer the following initial comments;

- Ørsted supports a move towards calendar year, as this will align with the general methodology in our neighbouring large liquid gas markets
- On the 70/30 split, it is Ørsted's understanding that the Danish Utility Regulator (DUR) already has assessed that in the long term a 70/30 split is not compliant with NC TAR – and that a 90/10 or 85/15 would be more appropriate. Hence, Ørsted would ask that Energinet, as already mentioned in the Regulators decision from 31 May 2019, presents more detailed data to support the discussion.
- Ørsted does not support a long-term rebate on existing capacity bookings relating to the TSO-system. For existing bookings, DUR has clearly stated that a long-term rebate can't be considered part of the shipper decision to book OS2017 capacity. Hence, a retroactive rebate could arguably effectively be cross-subsidisation. For new bookings, we note that the OS2017 included significant long-term bookings in the Energinet system. The current financial position of Energinet should be solid - also in a European perspective, and further incentivise for additional bookings is hardly needed for financial certainty. Further, incentives for new long-term bookings run against the

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regulatory efforts to establish dynamic short-term markets, where flexibility in the short-term transport market is important.

Ørsted looks forward to the continued discussion, including elaboration of the underlying financial models, balancing rules, and tariff methodology. We are off course available for questions you may have in relation to our dconsultation input.

Best regards

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