

Energinet Gas TSO

Document officer: MAB
Secretary:
Case no.: s2020-1028
Document no.: d2021-1804-2.1
31st January 2021

Danish Energy's consultation response to Energinet's methodology for integrating Baltic Pipe in the Danish Market Model

Danish Energy would like to thank Energinet for the opportunity to present our views and comments on the methodology for integrating Baltic Pipe in the Danish market model.

Danish Energy is an association representing Danish electricity and gas companies. Our members include gas suppliers and shippers operating in the Danish wholesale gas market.

The methodology for integrating the EP II branch pipeline of the Baltic Pipe Project into the Danish onshore gas model, i.e. a joint Danish market zone, is described in Energinet's consultation paper of 21st December 2020. The consultation paper proposes a joint zone which will combine gas infrastructure which are subject to two different regulations, i.e. the EP II branch pipeline is subject to the upstream gas infrastructure regulation with negotiated third part access and the onshore gas system is subject to the gas transmission system regulation.

Energinet argues that one joint zone will ensure simple market access for shippers and efficient operation of the pipeline systems by harvesting synergies.

The proposed methodology implies that onshore shippers assume all risks and possible benefits from the Danish offshore part of the Baltic Pipe project. The underlying tariff methodology is a key factor when assessing risks and possible benefits, but the proposed tariff methodology is not part of the consultation document and has only been presented in general terms at the recent User Group meeting on 14th January 2021. At the User Group meeting, Energinet introduced three areas for discussion regarding the tariff methodology: gas year vs calendar year, the split between capacity tariffs and volume tariffs as well as a long-term booking rebate through multipliers.

Danish Energy sees several potential benefits from a full integration of the offshore Baltic Pipe pipeline into the Danish gas market model. However, we have some concerns regarding the consultation paper regarding the transparency of the choice of the model and information about the financials and future tariff model. Our concerns are described below.

Lack of transparency on market model alternatives and the implications

The consultation paper only describes one solution and does not present nor discuss other alternatives. Thereby, the full set of implications – positive and negative – are not analysed

nor presented, and market participants are asked to comment without all the relevant information about risks and potential benefits offered by different models. One useful comparison would be a regulatory baseline, where a situation with the EPII branch pipeline as a separate system with own tariffing, potential balancing rules, etc. is described.

Energinet describes that one of the ideas behind integrating the upstream point of the Baltic Pipe with Energinet transmission system is to harvest synergies through efficient operation of the pipeline systems. However, the potential synergies from the proposed joint zone model is not described in the consultation paper and neither is an assessment of whether such synergies can be achieved with other models.

The consultation paper lacks information about the financial implications of integrating the offshore pipeline into the onshore gas system. Combined with the lack of information about the future tariff methodology, it is not possible for market participants fully assess how the proposed joint zone will impact them.

Energinet's states "a competitive route from Norway to Poland" as one of three purposes behind the introduction of the joint Danish market model. The Danish gas system and the gas tariffs must be based on the regulation and the underlying principles of transparency, non-discrimination and cost reflectiveness. Therefore, Danish Energy does not consider the establishment a competitive route from Norway to Poland to be a relevant in designing the Danish gas market model.

Danish Energy suggests that the methodology description is expanded with a complete description of all relevant implications of the proposed joint model including a comparison to "regulatory baseline" with two separate systems and other potential market models.

Danish Energy would like to emphasise the importance of involving and consulting shippers throughout the process of designing and deciding on the future market model – especially after all relevant information about the financials and the future tariff model has been presented.

Tariffs

The current tariff methodology was approved by the Danish Utility Regulator (DUR) in May 2019, and DUR decided that the regulatory period of the tariff methodology will run until October 2022 when Baltic Pipe is expected to be commissioned. The shippers will not be able to fully assess the impact of the proposed joint market zone until the future tariff methodology is clarified.

At the User Group meeting on 14th January 2021, Energinet briefly presented information about the **capacity/commodity split** from 2022 and onwards along with a point for discussion about whether to keep the commodity charge or not in the Danish tariff model. In the summary of the User Group meeting, which was shared 19th January 2021, Energinet concluded that market participants had no objections against removing the commodity charge. The participants did not receive any information about Energinet's suggestion on this topic prior to the virtual meeting. Furthermore, in DUR's assessment in the tariff decision from 2019, they considered a capacity/commodity split of 85/15 or 90/10 to be appropriate with regard to NC TAR under the circumstances at that time.

Danish Energy recommends not to exclude any tariff elements in the development of the future tariff model, which would be a central and fundamental change, based on such as brief presentation at one virtual meeting.

At the user group meeting on 14th January 2021, Energinet presented information about the gas TSO's current work on **long term tariff multipliers** suggesting to introduce a **rebate for long capacity contracts**.

DUR clearly stated in the tariff decision from 2019, that DUR found “that the discount for long-term contracts could potentially harm the competition in the Danish gas market if it is not generally available to all shippers.” Furthermore, DUR states “the market participants could not reasonably have expected that a discount for medium and/or long-term capacity contracts would be available for the coming regulatory period, cf. that DUR has not supported nor had the opportunity to address such an important new tariff element as part of the Open Season processes”

Open Season 2017 included significant long-term bookings, and the current financial position should be solid - also in a European perspective, and further incentivise through a rebate for future long-term capacity bookings is hardly needed for financial certainty.

The European gas markets have moved towards short-term trading in recent years. The introduction of incentives for new long-term capacity bookings would go against the regulatory efforts to establish dynamic short-term markets, where flexibility in the short-term transport market is important. The future role of gas in Danish energy system, in the context of the green transition and the Danish CO2 reduction target of 70% in 2030, will change from base-load to flexibility provider (backup/peakload) which will increase the need for flexibility in the gas system. This flexibility will become unnecessarily expensive with long-term multipliers at the expense of short-term oriented shippers in the Danish gas system. Additionally, the introduction of an hour-based gas balancing model, which is proposed by Energinet due to Baltic Pipe, is likely to shift allocation towards shorter products. Multiplier rebate for long-term products goes against all of this.

Furthermore, a retroactive rebate for existing long-term capacity bookings would effectively be cross-subsidisation.

Only few shippers are large enough to consider capacity bookings for 5 years or longer, which is the period suggested by Energinet for long-term multiplier rebates. Therefore, a multiplier will favour large shippers which will affect the competition of the Danish gas market.

Danish Energy is therefore strongly concerned, that long term tariff multipliers will harm the competition of the Danish gas Market which goes against Article 13(1) of the Gas Regulation which states that the tariff methodologies “shall facilitate efficient gas trade and competition”.

Danish Energy does not support the introduction of long-term multipliers which goes against the trend of the gas markets towards shorter term trading and bookings, and more importantly it will favour large shippers at the expense of other shippers in the Danish gas market.

Danish Energy would ask Energinet to provide more information about the future tariff methodology as this is central to the assessment of the proposed joint market zone and the implications for the shippers.

Impact on different shippers and the competition on the Danish gas market

Energinet concludes, that the analyses of the impact from these changes proposed in the consultation paper, “have not identified any issue that will change the competition between big and small shippers or between current shippers and new shippers.” Energinet has identified that the main impact of integrating the offshore part of Baltic Pipe in the current Danish market model is simplicity for all shippers. However, the implications of the proposed joint zone combined with a future tariff methodology is not assessed in the consultation paper.

Danish Energy believes that the proposed methodology cannot be analysed separate from the interrelated methodologies for areas such as the balancing model and the tariff model. E.g. a future model including a multiplier rebate would benefit large shippers at the expense of smaller shippers. Furthermore, the benefit of a simple market setup with the joint zone would depend on whether the shippers will use the offshore Baltic Pipe or not, as shippers that will not use the offshore pipeline will not benefit from the simplicity. The simplicity of the joint market zone does not consider that shippers still have to negotiate third party access to the Norwegian EP2 pipeline, where larger shippers will have a clear advantage.

With a uniform tariff, the cost of a joint zone will be covered by all shippers in the Danish gas system through increased tariffs regardless of whether they use the offshore Baltic Pipe or not.

Energinet describes that a joint zone was the foundation for the Open Season. However, the impacts and implications of the proposed joint zone model must be fully assessed to ensure that the overall best model for the Danish gas market is implemented.

Danish Energy suggests expanding the analysis of the proposed joint zone with an assessment of the impact on different market participants and shippers in the Danish gas system in order to demonstrate that the market model is transparent non-discriminatory, cost reflective and fair.

Danish Energy is course available should you have any questions or if you need elaboration of our consultation response.

Yours sincerely,

Maria Holm Bohsen
Dansk Energi