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## Agency Report

# Analysis of the Consultation Document on the Gas Transmission Tariff Structure

for Greece

NRA: Ρυθμιστική Αρχή Ενέργειας/  
Regulatory Authority for Energy (RAE)

TSO: Διαχειριστής Εθνικού Συστήματος  
Φυσικού Αερίου Α.Ε./ National Natural Gas  
System Operator A.E. (DESFA)

25 March 2019

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## 1. ACER conclusion

- (1) The Greek Regulatory Authority for Energy (“RAE”) has organised a consultation on the tariff methodology that has been proposed by the Greek transmission system operator (TSO), National Natural Gas System Operator (“DESFA”). DESFA proposes a postage stamp methodology with an *ex-ante* 50/50 split between entries and exits. In addition, DESFA proposes a commodity charge for the purpose of complementary revenue recovery. There is a discount for entry points from LNG facilities and re-scaling is applied to all entry points. The discount is set to create the same access conditions for LNG and pipeline gas. In other words, the LNG terminal fee plus the transmission tariff for the entry point from such a terminal equals the transmission tariff for pipeline entry points. Part of the allowed revenues of the LNG terminal at Revythoussa<sup>1</sup> is socialised<sup>2</sup> into the transmission tariffs at (domestic) exit points in consideration of the LNG terminal’s contribution to the balancing of the national natural gas system (“NNGS”) load, to security of supply<sup>3</sup> and to the facilitation of the entry of new suppliers into the natural gas market. There is a separate charge to cover costs for operating the transmission system, such as losses and fuel costs. Finally, there are cost-based non-transmission charges for the three non-transmission services of certification of welding operators, metrology and odourisation.
- (2) The Agency notes that the next regulatory period consists of 4 consecutive tariff periods, from 2019 to 2022. In early 2019, RAE is scheduled to approve the allowed revenues for the whole regulatory period. The tariffs for 2019 are based on the current national Tariff Regulation<sup>4</sup>, which is the same as for the 2018 tariffs, but with updated allowed revenues. The tariffs for the years 2020 to 2022 will be based on the proposed draft national Tariff Regulation, which is being consulted on, using the approved allowed revenues. Changes to the established tariffs within the regulatory period may be triggered for the purpose of reconciliation.
- (3) The Agency is of the view that the inclusion of a significant socialisation<sup>5</sup> of the costs of the LNG terminal into the RPM, and its treatment as a transmission service, distorts the RPM. In its analysis of the RPM, the Agency had to take the socialisation into consideration since all required assessments of the proposed RPM had been provided as such by RAE. The Agency dedicates a separate section to the socialisation in Chapter 5 of this Report.
- (4) The Agency, after having completed the analysis of the consultation documents pursuant to Article 27(2) of the NC TAR, concludes that:

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<sup>1</sup> The Revythoussa LNG terminal corresponds to the Agia Triada entry point from LNG in the Greek transmission system. In this report, “Agia Triada LNG” is used to refer to the transmission point, whereas “Revythoussa LNG” refers to the terminal itself.

<sup>2</sup> Article 88(3) of Law 4001/2011. An unofficial English translation is available at: [http://www.rae.gr/site/file/system/docs/laws/4001\\_2011](http://www.rae.gr/site/file/system/docs/laws/4001_2011).

<sup>3</sup> RAE clarified that the role of the LNG terminal in improving security of supply has been assessed in Greece’s Security of Supply National Prevention Plan that has been notified to the European Commission.

<sup>4</sup> RAE Decision 644/2018.

<sup>5</sup> In a bilateral exchange between RAE and the Agency in December 2018, RAE clarified that the socialisation factor is 75%, meaning that three quarters of the allowed revenues for the LNG terminal is recovered via the TSO tariffs and not via the LNG terminal fees.

- The consultation is complete and contains the required information listed in Article 26(1) of the NC TAR, with the exception of the information related to the share of the allowed revenues to be recovered through non-transmission tariffs as required by Article 26(1)(c)(ii)(2) of the NC TAR;
  - The proposed RPM is partially compliant with respect to the requirement of transparency as set out in Article 7(a) of the NC TAR, allowing network users to reproduce tariffs e.g. through the simplified tariff model spreadsheet that is published on the web page of RAE. Due to the uncertainty<sup>6</sup> introduced by the extraordinary tariff reviews, the ability of network users to forecast the evolution of tariffs may be limited;
  - The proposed RPM is not compliant with the principle of cost-reflectivity set out in Article 7(b) of the NC TAR, as it does not take into consideration distance as a cost driver, and RAE does not adequately motivate its choice to disregard distance, while the CWD methodology-based calculations indicate that distance is relevant. Additionally, the significant socialisation of the allowed revenues for the operation of the LNG terminal at Revythoussa into the transmission tariffs at (domestic) exit points dilutes the cost-reflectivity of the transmission tariffs;
  - The proposed RPM does not comply with the principle of avoiding undue cross-subsidies as set out in Article 7(c) of the NC TAR, because the RPM does not comply with the cost-reflectivity criterion, and creates undue cross-subsidies from network users who are active at Sidirokastro in the North and Agia Triada LNG in the South of the transmission network, which are closer to the main consumption areas, to the benefit of those users active on the remote entry point Kipi in the North-East of the transmission network, which is a region with much less consumption. There are also cross-subsidies from the users at domestic exit point to the users of the LNG terminal services due to the above mentioned socialisation of LNG terminal costs. The RPM is non-discriminatory as all users pay the tariffs based on the RPM;
  - The requirements with respect to volume risk and cross-border trade as laid out in Article 7(d) and (e), respectively, of the NC TAR are not relevant in the case of Greece due to the present very limited cross-system use;
  - The requirements of Article 4(3) of the NC TAR for setting commodity-based charges are met;
  - The compliance with the requirements of Article 4(4) of the NC TAR for non-transmission services could not be assessed by the Agency, because RAE still has to decide on the non-transmission share of the TSO's allowed revenues.
- (5) The Agency recommends RAE to treat the socialisation of the allowed revenues of the LNG terminal in a way similar to a non-transmission service. While the socialisation is not related to the activities of the TSO as required by Article 3(15) of the NC TAR, treating it as a non-transmission service makes the charges subject to the requirements of Article 4(4) of the NC TAR. Such an approach is transparent, and the costs can be charged to the beneficiaries who are the users of domestic exit points. This ensures that the costs of the LNG facility are not allocated to interconnection points (IPs). The Agency points out that LNG from the terminal at Revythoussa could be exported to Bulgaria. In that case, network users active at the exit of the Sidirokastro IP should contribute to the socialisation as they would be beneficiaries similar to users at domestic exit points.

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<sup>6</sup> RAE clarified that the draft national Tariff Regulation specifies the percentage at which an extraordinary review is triggered as 5%. RAE deems that network users can forecast the tariff levels with an uncertainty level of 5%.

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- (6) The socialisation of the terminal cost shall be in line with the requirements for security of supply, pursuant to Article 5 of Directive 2009/73/EC<sup>7</sup>. The Agency recommends the use of a cost-benefit analysis (CBA) to assess whether and to what extent the LNG terminal has positive externalities, such as improved security of supply, that could justify socialisation.
- (7) The Agency recommends that RAE includes the following missing elements in its final decision referred to in Article 27(4) of NC TAR:
- An adequate reasoning on how the proposed RPM takes into account the principle of cost-reflectivity, the specificities of the Greek gas system and national energy policy objectives. If such a reasoning could not be provided, the Agency recommends that RAE switch to a distance-related RPM such as the CWD methodology;
  - A separate motivated price-setting methodology for the non-transmission charge related to the socialisation of the under-recovery of the allowed revenues of the LNG terminal at Revythoussa, taking into consideration that such terminal contributes to the balancing of the Greek gas system, increases security of supply and facilitates entry of new suppliers into the Greek gas system. The resulting non-transmission tariff shall be in line with the requirements of Article 4(4) of NC TAR;
  - The information regarding the share of the allowed revenues to be recovered via non-transmission tariffs as required by Article 26(1)(c)(ii)(2) of NC TAR.
- (8) The Agency additionally recommends RAE to clarify its view on the potential future cross-system use of the Greek transmission system in consideration of the anticipated expansion of the network in the near future.
- (9) The Agency notes that the non-transmission services “certification of welding operators” and “metrology” could be competitive activities and that “odorisation” in most Member States is considered to be a regulated activity. The Agency recommends RAE properly to classify the services of DESFA as either regulated or non-regulated services. In case that a service is considered as non-regulated, the allowed revenues should be adjusted<sup>8</sup> to avoid double remuneration of assets and undue cross-subsidies from the TSO’s regulated services to its competitive (non-regulated) services.
- (10) The Agency notes the significant size of the shortfall in the regulatory account amounting in 2018 to approximately 254 million euro for the TSO<sup>9</sup>, labelled as “Old Recoverable Difference”, and the intention of RAE to reduce it via a complementary revenue recovery charge. The Agency highlights that under- and over-recovery should be minimised, cost recovery through tariffs should be timely,

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<sup>7</sup> Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2009/55/EC, OJEU L 211, 14 August 2009

<sup>8</sup> For instance, if the costs of employees who dedicate part of their time to metrology services and part of their time to other, regulated services are fully recovered through the allowed revenues, there would be cross-subsidies from the regulated to the competitive services. In other words, the costs of the hours dedicated to regulated services should be recovered via the allowed revenues, whereas the costs of the hours related to competitive services should be dealt with outside the allowed revenues.

<sup>9</sup> The total Old Recoverable Difference, according to Law 4409/2016 (Gazette B’136/28.07.2016) and RAE’s decision 344/2016 was 325 million euro, of which 308 million euro was allocated to the regulatory account of the TSO and 17 million euro to the LNG terminal.

and significant differences between tariffs in consecutive tariff periods should be avoided pursuant to Article 17(1) of the NC TAR. The Agency takes note that RAE aims for tariff stability and it has reduced the initial schedule to recover the revenue over the course of 20 years to a period of 16 years following significant over-recovery in 2017. The Agency recommends RAE regularly to re-evaluate the pace of the reconciliation.

- (11) The Agency furthermore welcomes that RAE extended the consultation period from 13 December 2018 to 31 January 2019 in order to publish indicative<sup>10</sup> information about the tariffs for the years 2019, 2020, 2021 and 2022 in the consultation document, in particular in the simplified tariff model, for the benefit of network users.
- (12) The Agency appreciates the efforts of RAE to make available additional information at the Agency's request and to translate information to English.

## 2. Introduction

- (13) Commission Regulation (EU) 2017/460 of 16 March 2017 establishes a network code on harmonised transmission tariff structures for gas ("NC TAR").
- (14) Article 27 of the NC TAR requires the Agency to analyse the consultation documents on the reference price methodologies for all entry-exit systems<sup>11</sup>. This Report presents the analysis of the Agency for the transmission system of Greece.
- (15) On 9 October 2018, RAE forwarded the consultation documents to the Agency. The consultation was launched on 11 October 2018 and remained open until 31 January 2019. On 12 February 2019 and 1 March 2019 the consultation responses and their summary were published, respectively<sup>12</sup>. The Agency has taken these into consideration for this analysis. Within five months following the end of the final consultation, and pursuant to Article 27(4) of the NC TAR, RAE shall take and publish a motivated decision on all the items set out in Article 26(1).

### *Reading guide*

- (16) Chapter 3 presents an analysis on completeness, namely if all the information in Article 26(1) of the NC TAR has been published. Chapter 4 focusses on compliance, namely if the RPM complies with the requirements set out in Article 7 of the NC TAR, if the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met and if the criteria for setting non-transmission tariffs as set out in Article 4(4) are met. Chapter 5 includes other comments, mainly on the socialisation of the LNG charges. This document contains two annexes, respectively on the legal framework and a list of abbreviations.

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<sup>10</sup> The information is indicative pending the approval of the tariff decision that sets the allowed revenues for 2019 and pending the approval of the new tariff methodology and allowed revenues for 2020-2022.

<sup>11</sup> With the exception of Article 10(2)(b), when different RPMs may be applied by the TSOs within an entry-exit zone.

<sup>12</sup> For the individual consultation responses:

[http://www.rae.gr/site/el\\_GR/categories\\_new/about\\_rae/activity/global\\_consultation/history\\_new/2019/1102\\_lix\\_1\\_018.csp?viewMode=normal](http://www.rae.gr/site/el_GR/categories_new/about_rae/activity/global_consultation/history_new/2019/1102_lix_1_018.csp?viewMode=normal). For RAE's summary: [http://www.rae.gr/site/en\\_US/categories\\_new/about\\_rae/factsheets/2019/maj/0103\\_2.csp](http://www.rae.gr/site/en_US/categories_new/about_rae/factsheets/2019/maj/0103_2.csp).

### 3. ACER analysis: completeness

#### 3.1 Has all the information referred to in Article 26(1) been published?

- (17) Article 27(2)(a) of the NC TAR requires the Agency to analyse whether all the information referred to in Article 26(1) of the NC TAR has been published.
- (18) Article 26(1) of the NC TAR requires that the consultation document be published in the English language, to the extent possible. The Agency remarks that the consultation document was published in Greek and in English.
- (19) RAE extended the consultation period to make available to network users indicative data for the tariff period 2019-2022, as required by Article 26(a)(iii) of the NC TAR. The information is indicative due to the pending approvals of the allowed revenues for 2019 and of the proposed tariff regulation to be applicable for 2020-2022.
- (20) Overall, the information in Article 26(1) of the NC TAR has been properly published, with the exception of the share of the allowed revenues to be recovered via the non-transmission tariffs as required by Article 26(1)(c)(ii)(2) of the NC TAR.

Table 1 Checklist information Article 26(1)

| Article   | Information  | Published:<br>Y/N/NA |
|---|--|----------------------|
| <b>26(1)(a)</b>   | the description of the proposed reference price methodology  | Yes                  |
| <b>26(1)(a)(i)</b><br><b>26(1)(a)(i)(1)</b><br><b>26(1)(a)(i)(2)</b>                          | the indicative information set out in Article 30(1)(a), including: <ul style="list-style-type: none"> <li>the justification of the parameters used that are related to the technical characteristics of the system</li> <li>the corresponding information on the respective values of such parameters and the assumptions applied</li> </ul> | Yes                  |
| <b>26(1)(a)(ii)</b>   | the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9  | Yes                  |
| <b>26(1)(a)(iii)</b>  | the indicative reference prices subject to consultation  | Yes                  |
| <b>26(1)(a)(iv)</b>   | the results, the components and the details of these components for the cost allocation assessments set out in Article 5   | Not applicable       |
| <b>26(1)(a)(v)</b>  | the assessment of the proposed reference price methodology in accordance with Article 7  | Yes                  |
| <b>26(1)(a)(vi)</b>   | where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii)   | Yes                  |
| <b>26(1)(b)</b>   | the indicative information set out in Article 30(1)(b)(i), (iv), (v)   | Yes                  |
| <b>26(1)(c)(i)</b><br><b>26(1)(c)(i)(1)</b><br><b>26(1)(c)(i)(2)</b><br><b>26(1)(c)(i)(3)</b> | where commodity-based transmission tariffs referred to in Article 4(3) are proposed <ul style="list-style-type: none"> <li>the manner in which they are set</li> <li>the share of the allowed or target revenue forecasted to be recovered from such tariffs</li> <li>the indicative commodity-based transmission tariffs</li> </ul>         | Yes                  |



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|  |  |                |
|--|--|----------------|
| <p><b>26(1)(c)(ii)</b><br/> <b>26(1)(c)(ii)(1)</b><br/> <b>26(1)(c)(ii)(2)</b><br/> <b>26(1)(c)(ii)(3)</b><br/> <b>26(1)(c)(ii)(4)</b></p> | <p>where non-transmission services provided to network users are proposed:</p> <ul style="list-style-type: none"> <li>the non-transmission service tariff methodology therefor</li> <li>the share of the allowed or target revenue forecasted to be recovered from such tariffs</li> <li>the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3)</li> <li>the indicative non-transmission tariffs for non-transmission services provided to network users</li> </ul>  | No             |
| <b>26(1)(d)</b>  | the indicative information set out in Article 30(2);   | Yes            |
| <p><b>26(1)(e)</b><br/> <b>26(1)(e)(i)</b><br/> <b>26(1)(e)(ii)</b><br/> <b>26(1)(e)(iii)</b><br/> <b>26(1)(e)(iv)</b></p>                 | <p>where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity:</p> <ul style="list-style-type: none"> <li>the proposed index;</li> <li>the proposed calculation and how the revenue derived from the risk premium is used</li> <li>at which interconnection point(s) and for which tariff period(s) such approach is proposed</li> <li>the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed</li> </ul> | Not applicable |

## 4. ACER analysis: compliance

### 4.1 Does the RPM comply with the requirements set out in Article 7?

- (21) Article 27(2)(b)(1) of the NC TAR requires the Agency to analyse whether the proposed RPM complies with the requirements set out in Article 7 of the NC TAR. This article refers to Article 13 of Regulation (EC) 715/2009 and lists a number of requirements to take into account when setting the RPM. As these overlap, in the remainder of this chapter, the Agency will take a closer look at the five elements listed in Article 7 of the NC TAR.
- (22) Since the concepts of transparency, cost-reflectivity, non-discrimination, cross-subsidisation and cross-border trade are closely related<sup>13</sup> the Agency concludes with an overall assessment.
- (23) The transmission network is owned and operated by the DESFA. The Revythoussa LNG terminal is regulated and is owned and operated by DESFA. The transmission activities and LNG activities have unbundled accounts. The Greek network is interconnected with Bulgaria and Turkey.
- (24) Before going into the regular analysis, the Agency would like to point out that the Greek RPM is distorted by the socialisation of the costs of the LNG terminal at Revythoussa, which is not part of the transmission system, into the transmission tariffs at (domestic) exit points. As a consequence, the Agency's analysis is distorted, since the Agency had to build in various instances on the assessments of the proposed RPM that includes the socialisation of the LNG costs in the transmission charges.

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<sup>13</sup> The principle of cost-reflectivity is related to the principles of cross-subsidisation and non distortion of cross-border trade. Tariffs that are fully cost-reflective do not result in any form of cross-subsidisation (and hence they do not distort cross-border trade), as they charge users for the exact costs they cause to the system. Following this reasoning, tariffs that are less cost-reflective may result in cross-subsidisation between users.

- (25) For that reason, the Agency dedicates a separate section to the socialisation in Chapter 5, at the end of this Report. Nevertheless, the Agency comments on the impact of socialisation in its analysis in the present chapter to the extent it connects to the principles laid down in Article 7 of the NC TAR.

### 4.1.1 Transparency

- (26) **Article 7(a)** of the NC TAR requires that the RPM aim at ensuring that network users can reproduce the calculation of reference prices and their accurate forecast.
- (27) RAE makes publicly available on its website DESFA's simplified tariff model (in spreadsheet format), as required by Article 30(2)(b) of the NC TAR<sup>14</sup>. The spreadsheet allows the users to change values for all parameters that determine the reference prices. The main parameters are the allowed revenues for transmission, the entry-exit split, the LNG terminal allowed revenues, the socialised part of the LNG terminal allowed revenues, the annual inflation rate, the reconciliation of under- or over-recovered revenue in year  $y-2$ <sup>15</sup>, the forecasted under- or over-recovered revenue of year  $y-1$ <sup>16</sup>, the reconciliation of the historic under-recovery over the period 2006-2016<sup>17</sup> via commodity charges on domestic exit points, the discount for the entry point from LNG facilities at Agia Triada LNG, the forecasted contracted capacities at the three entry points and the forecasted contracted capacities and volumes for the single clustered exit point<sup>18</sup>.
- (28) The outputs of the tool provide the indicative postage stamp tariffs for annual entry and exit capacities and the commodity charge for complementary revenue recovery. These tariffs are set for all tariff periods at the start of the regulatory period. Within the regulatory period, the tariffs are subject to extraordinary tariff revisions that can be triggered by significant under- or over-recovery, as specified in Article 18 and Article 18A, respectively, of the draft 4<sup>th</sup> revision of the Tariff Regulation for the basic activities of the national natural gas system (hereafter "draft national Tariff Regulation")<sup>19</sup>.
- (29) The Agency takes note of RAE's disclaimer that "*the tariffs for the years 2019 to 2022 are based on indicative considerations used solely for the purposes of Article 30(2)(b) of the NC TAR and does not pre-empt the tariffs to be approved in the framework of the regular tariff revision under process*". The approval of the draft national Tariff Regulation for 2020-2022, in particular, will trigger the start of a new regulatory period based on the revised allowed revenues in 2019 and the new RPM proposed in the consultation document.

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<sup>14</sup> The Greek TSO, DESFA, provides the required information for the current regulatory period at the following link: <http://desfa.gr/regulated-services/transmission/commission-regulation-EU-2017-460>.

<sup>15</sup> Labelled as "Recoverable Difference  $y-2$ " in the Consultation Document.

<sup>16</sup> Labelled as "forecasted Recoverable Difference  $y-1$ " in the Consultation Document.

<sup>17</sup> Labelled as "Old Recoverable Difference" in the Consultation Document.

<sup>18</sup> The forecasted capacities are based on expected reserved capacity and expected commodity consumption of gas and uses as inputs forecasts for GDP, energy market prices, developments in the electricity market and information provided by the gas industry. Background information on the development of the Greek gas system is provided in DESFA, 2018. *Development Study 2019-2028. June 2018*. <http://desfa.gr/en/national-natural-gas-system/development-of-the-nngs/development-study>.

<sup>19</sup> The draft national tariff regulation for 2020-2022 is a proposal by DESFA; at the time of the Agency's Report, it is subject to approval by RAE.

- (30) The Agency considers that network users would be able to reproduce the calculation of reference prices.
- (31) The Agency considers that the uncertainty<sup>20</sup> introduced by extraordinary tariff reviews may limit the ability of network users to forecast accurately the evolution of tariffs.
- (32) While the LNG socialisation charge has been included in a very transparent way in the simplified model, the Agency recommends to exclude this charge from the RPM and treat it as a non-transmission charge (see Section 5.1). To maintain the transparency of costs for users of exit points, the Agency recommends to report the combined fee of the transmission charge and non-transmission charge at exit points, possibly with an informative label.
- (33) The Agency considers the consultation document partially compliant with respect to transparency as network users can reproduce the tariffs, but their ability to forecast them may be limited.

### 4.1.2 Cost-reflectivity

- (34) **Article 7(b)** of the NC TAR requires the RPM to take into account the actual costs incurred for the provision of transmission services, considering the level of complexity of the transmission network.

#### 4.1.2.1 The proposal for a RPM based on a postage stamp methodology

- (35) DESFA proposes, in Articles 10-11 of the draft national Tariff Regulation, a RPM based on a postage stamp methodology with an *ex-ante* entry-exit split of 50/50 and a discount for the entry point from the LNG facility, followed by a rescaling of the reference prices<sup>21</sup>. The discount is set to deliver the same access conditions for LNG and pipeline gas. In other words, the LNG terminal fee plus the transmission tariff for the entry point from the LNG terminal equals the transmission tariff for pipeline entry points. For the reference prices at the single clustered exit point, the RPM additionally considers the socialisation of 75% of the allowed revenues of the LNG terminal at Revythoussa, which is indicatively<sup>22</sup> estimated at 28 to 30 million euro per year for the years 2019 to 2022 and compares to approximately one third of the TSO's indicatively published allowed revenues in these years.
- (36) According to RAE, the choice for a postage stamp-based RPM is motivated by the national policy objective to have the same tariff irrespective of the location of the users, whereas the transmission discount and the socialisation of the LNG terminal costs are motivated by the role of the LNG entry point to facilitate gas-to-gas competition and to increase supply security for the Greek gas market.
- (37) RAE further explains that the Greek system is a simple one, with three interconnection points spread out over the North (Sidirokastro, border with Bulgaria), the North-East (Kipi, border with Turkey) and the South (Agia Triada LNG terminal) and only domestic exit points, comprising 24 points to distribution networks, 8 exits to industrial customers and CNG facilities, and 12 exits to

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<sup>20</sup> RAE clarified that the draft national Tariff Regulation specifies the percentage at which an extraordinary review is triggered as 5%. RAE deems that network users can forecast the tariff levels with an uncertainty level of 5%.

<sup>21</sup> As discussed in paragraph (32), this is the entry-exit split before taking into consideration the socialised part of the required revenues of the LNG terminal and the commodity charges for complementary revenue recovery.

<sup>22</sup> The information is indicative pending the decisions approving the allowed revenues of the LNG terminal and the socialisation factor.

power plants. The main transmission pipeline is 512 km long and runs from the north to the south with few branches. The overall gas network has a length of 952 km. RAE claims there is no cross-system use at the moment as Greece is only importing gas. An additional entry point may become operational in the next years after the Trans Adriatic Pipeline is commissioned.

- (38) RAE additionally points out that there are currently no underground storage operations<sup>23</sup>.

### 4.1.2.2 Agency's reflections on the proposed RPM based on postage stamp

- (39) The Agency focuses its cost-reflectivity analysis on two elements: (i) the fact that the RPM disregards distance as a cost driver, and (ii) the socialisation of 75% of the allowed revenues of the LNG terminal at Revythoussa.

### 4.1.2.3 Disregarding distance: the comparison of the postage stamp methodology and the CWD methodology calculated with one and with three clusters of exit points

- (40) The Agency is of the view that the simplicity of a non-meshed grid with entry points spread out over its extremes is not a sufficient motivation to disregard distance as a cost driver in the RPM. In fact, distance tends to be more relevant as a cost driver in non-meshed grids. In the subsequent paragraphs, the Agency elaborates further on the comparison with the CWD methodology, to assess the choice of the postage stamp methodology.
- (41) RAE carried out the mandatory comparison of the proposed RPM with the CWD tariffs calculated according to Article 8 of the NC TAR. For the CWD methodology, RAE considered as the main parameters a distance matrix from the three entry points to a single clustered exit point, labelled as the national natural gas transmission system ("NNGTS"), the forecasted allowed revenues, the forecasted contracted capacities, and a 50/50 entry-exit split. Where possible, the parameters of the proposed RPM and those of the counterfactual CWD methodology use the same values. However, the CWD-based tariffs do not include a discount for the LNG transmission point and the subsequent rescaling of all entry points.
- (42) RAE made available, upon the Agency's request, additional information further to illustrate the comparison. In particular, RAE provided a comparison where both the postage stamp-based tariffs and the counterfactual CWD-based tariffs do not include the discount for entry points from the LNG terminal (and the associated rescaling). Additionally, RAE proposed to carry out and made available to the Agency a counterfactual CWD calculation that considered three clusters of exit points, based on geographical location, and calculations including and excluding the socialisation charge. The Agency very much welcomes and appreciates RAE's cooperative attitude.
- (43) The indicative prices for 2018 based on the CWD methodology with a single exit cluster and the proposed postage stamp methodology as calculated and presented by RAE in its consultation document are reported in Table 2.

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<sup>23</sup> RAE clarified in a bilateral exchange that the LNG terminal at Revythoussa offers limited short term storage.

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Table 2 Comparison of forecasted tariffs according to the CWD methodology with a single clustered exit point, to the proposed postage stamp methodology for 2018 and to the postage stamp methodology excluding the LNG discount (Agency elaboration based on the consultation document, section A6). Units: [€/kWh/hr/yr].

|   | Sidirokastro (entry) | Kipi (entry) | Agia Triada LNG (entry) | NNGTS (exit) |
|---|----------------------|--------------|-------------------------|--------------|
| CWD excluding LNG discount and re-scaling*, including socialisation [€/kWh/hr/yr]   | 5.764                | 9.178        | 3.273                   | 7.205        |
| Postage stamp (including LNG discount, re-scaling and socialisation)<br><i>The proposed reference prices</i><br>[€/kWh/hr/yr] | 6.385                | 6.385        | 3.438                   | 7.205        |
| Absolute difference   | 0.621                | -2.793       | 0.165                   | 0            |
| Relative difference **  | <b>11%</b>           | <b>-30%</b>  | <b>5%</b>               | <b>0%</b>    |
| Postage stamp excluding LNG discount, re-scaling, including socialisation [€/kWh/hr/yr]                                       | 5.178                | 5.178        | 5.178                   | 7.205        |
| Absolute difference   | -0.586               | -4           | 1.905                   | 0            |
| Relative difference [/*]  | <b>-10%</b>          | <b>-44%</b>  | <b>58%</b>              | <b>0%</b>    |

\* The CWD-based tariffs do not consider the LNG discount for Agia Triada LNG and re-scaling of Sidirokastro and Kipi.

\*\* The relative difference reported has the CWD tariffs in the denominator, whereas the relative differences reported in RAE's consultation document use the postage stamp-based tariffs in the denominator.

- (44) RAE further clarified that, due to the clustering of all the (domestic) exit points into a single point, there is no difference between the exit tariffs based on the CWD methodology and the postage-stamp methodology.
- (45) The Agency notes that the entry point Kipi, which is significantly further away from demand, benefits from a 30% lower tariff in the proposed RPM compared to the CWD methodology, whereas the tariffs for Sidirokastro IP and the Agia Triada LNG terminal entry point record moderate premiums of 11% and 5%, respectively. The Agency additionally notes that the CWD tariff at the Agia Triada LNG terminal entry point without the discount is almost the same as the proposed postage-stamp based tariff including the discount. These differences for IP tariffs are significant.
- (46) RAE clarified that the effective tariff for network users active at the Agia Triada LNG entry point includes also the terminal fee of the Revythoussa LNG terminal, which amounts to 2.947 €/kWh/hr/yr.
- (47) The Agency notes that the sum of the LNG terminal fee (the part that is not socialised) and the discounted postage stamp-based tariff at Agia Triada LNG, 2.947 €/kWh/hr/yr and 3.438 €/kWh/hr/yr respectively, amounts to 6.385, which brings the use of the LNG infrastructure to the same price as the proposed postage stamp-based tariffs for the other entry points, incentivising gas-to-gas competition.
- (48) The indicative prices for 2018, based on the CWD methodology with three exit clusters, and the proposed postage stamp methodology, as made available to the Agency by RAE, are reported in Table 3. Figure 1 depicts the three clusters, which are identical to the three zones used in the currently applicable tariff regulation in Greece.

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Figure 1. Map of the three clusters of exit points based on geography, as used in the CWD calculation made available to the Agency in a bilateral exchange. Map provided by RAE in a bilateral exchange in January 2019. FYROM changed name into North Macedonia in February 2019.



Table 3 Comparison of forecasted tariffs according to the CWD methodology with 3 clusters for exit points and the proposed postage stamp methodology for 2018 and the postage stamp methodology excluding the LNG discount (Agency elaboration based on information provided by RAE in a bilateral exchange)

| Entry point/Exit point             | Proposed RPM with LNG discount and re-scaling [€/kWh/hr/yr] | Proposed RPM (values without LNG discount) [€/kWh/hr/yr] | CWD with 1 cluster for exit points [€/kWh/hr/yr] | CWD with 3 clusters for exit points [€/kWh/hr/yr] |
|------------------------------------|---|--|--|---|
| <b>Sidirokastro</b>                | 6.38464   | 5.178232   | 5.764081   | 6.02811   |
| <b>Kipi</b>                        | 6.38464   | 5.178232   | 9.177723   | 9.57126   |
| <b>Agia Triada LNG</b>             | 3.43796   | 5.178232   | 3.272784   | 2.85169   |
| <b>NNGTS single exit cluster</b>   | 7.20535   | 7.20535  | 7.20535  |   |
| <b>Cluster 1 : North-East Exit</b> |   |  |  | 8.19135   |
| <b>Cluster 2: North Exit</b>       |   |  |  | 6.55827   |
| <b>Cluster 3: South Exit</b>       |   |  |  | 7.37718   |

All numbers in the table are with socialisation included.

Without socialisation of LNG, the tariff at domestic exit points would be 4.241 €/kWh/hr/yr for the case with a single cluster (equivalent to the proposed RPM based on postage stamp) and 5.227 €/kWh/hr/yr, 3.594 €/kWh/hr/yr and 4.413 €/kWh/hr/yr for the North-East, North and South exit clusters.

- (49) The comparison of the CWD-based tariffs with 3 exit clusters and those with a single cluster shows that exit tariffs would be higher in the North-East (+13%), lower in the North (-9%) and stable in the South cluster (+2%) if distance were more accurately considered. For the entry points, tariffs at Sidirokastro and Kipi IPs would be very similar (+4%) if three clusters were considered, whereas the (non-discounted) tariff at Agia Triada LNG entry point would be lower (-13%).



- (50) The Agency remarks that the effect of distance in all calculations for exit points is partially diluted due to the effect of the socialisation of the LNG allowed revenues in the transmission tariffs at exit points<sup>24</sup>.
- (51) The Agency concludes that, based on the counterfactual CWD calculations, distance appears to be a cost driver in the Greek gas system.
- (52) The Agency recommends RAE to clarify in its final decision on which elements the choice to disregard distance and to apply a postage stamp-based RPM is based. In case such elements were insufficient to support the choice of a postage stamp RPM, the Agency recommends RAE to consider using a RPM that considers distance as a driver, for instance the CWD methodology.

#### 4.1.2.4 Agency's reflections on the socialisation of 75% of the LNG terminal's allowed revenues

- (53) The Agency notes that the proposed RPM considers that 75% of the allowed revenues of the LNG terminal at Revythoussa is socialised into the transmission tariffs at (domestic) exit points. In a bilateral exchange, RAE explained that the socialisation is a continuation of an existing practice, laid down in Article 88(3) of Law 4001/2011, and is motivated by the role of the LNG terminal in the Greek gas market. The criteria for taking the decision for the socialisation are the contribution of the LNG terminal to the balancing of the national natural gas system load, to security of supply<sup>25</sup> and to the facilitation of the entry of new suppliers into the natural gas market. RAE explained that a regulatory assessment takes place on the basis of the national law and verifies whether and to what extent the objectives of security of supply and the opening up of the national gas market to competition are met. RAE further clarified that the chosen approach places LNG in a competitive position compared to pipeline gas at the border, which is supplied by a dominant upstream supplier. The regulatory process<sup>26</sup> has led to a significant reduction of the socialisation rate from 95% in the period 2006-2012 to the current level of 75% after the adoption of the national Tariff Regulation for the Basic Activities of the NNGS and the implementation of the NNGS Tariff in July 2012.
- (54) The Agency notes that the socialised LNG allowed revenues amounts to approximately 30% of the allowed transmission revenue, or 60% of the allowed transmission revenue that is recovered at exit points.

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<sup>24</sup> The addition of a constant does preserve the absolute differences, whereas it can significantly distort relative differences.

<sup>25</sup> RAE clarified in a bilateral exchange that the purpose of the socialisation is not to subsidise the limited number of third parties that occasionally unload a cargo at Revythoussa, but rather to ensure the uninterrupted supply of protected customers according to Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply, and also solidarity protected customers. RAE additionally indicated that the LNG terminal played a prominent role in dealing with disrupted supply from Russia in 2009 and again in 2012.

<sup>26</sup> For the relevant decisions, see RAE Decisions 594/2012 and 722/2012, RAE 352/2016 and Gazette B '3513/2016

- (55) The Agency notes that the utilisation rate<sup>27</sup> of the LNG terminal at Revythoussa was below 20% of the part dedicated to third party access<sup>28</sup> in 2017, and that 30% of the total terminal capacity (in 2019 225,000 m<sup>3</sup>) is committed to mandatory back-up storage for gas fired power plants.
- (56) The Agency notes that the presence of economic externalities of a service such as security of supply provided by an LNG terminal could be a reason partially to socialise the cost of such service. The Agency is not in a position to assess whether and to what extent the socialisation is justified in the case of Greece. The Agency considers a CBA a good method to carry out such an assessment.
- (57) The Agency notes that the socialisation represents a cost that has nothing to do with the activities of a TSO. The cost is neither driven by distance nor related to the use of the transmission infrastructure.
- (58) The Agency concludes that the proposed tariffs at exit points cannot be cost-reflective in the sense of Article 7(b) of the NC TAR due to the distorting effect of the socialisation of part of the LNG terminal allowed revenues into the transmission exit tariffs.

### 4.1.2.5 Conclusions on cost-reflectivity

- (59) The Agency deems the proposed RPM not compliant with Article 7(b) of the NC TAR, as the choice of a RPM that disregards distance is not sufficiently motivated.
- (60) The Agency recommends RAE to clarify in its final decision which other elements it considers in its decision to disregard distance as a cost driver and to propose a postage stamp-based RPM. In case such a motivation could not be provided, the Agency recommends RAE to consider using a RPM that considers distance, such as CWD methodology.
- (61) The Agency recommends that RAE, in its final decision, exclude the socialisation charge from the RPM. The Agency presents its view on the treatment of a socialisation charge in Section 5.1. In addition, the Agency recommends the use of a CBA for national regulatory assessments to verify whether and to what extent non-TSO infrastructure delivers positive externalities to the national energy system.

### 4.1.3 Cross-subsidisation

- (62) **Article 7(c)** of the NC TAR requires the RPM to ensure non-discrimination and prevent undue cross-subsidisation.

#### 4.1.3.1 Agency's reflections on non-discrimination

- (63) The Agency finds that the proposed RPM is not discriminatory since all users in the same circumstances pay the same tariffs.

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<sup>27</sup> Bilateral exchange between RAE and ACER of 4 December 2018.

<sup>28</sup> RAE clarified in a bilateral exchange that terminal upgrades have been necessary to be able to unload the current generation of LNG cargo ships.



### 4.1.3.2 Agency's reflections on the cross-subsidisation between intra-system and cross-system users

- (64) One instrument to evaluate cross-subsidisation between intra-system users and cross-system users is the cost allocation assessment (CAA, Article 5 of the NC TAR). RAE argues that there is no cross-system use and concludes that the CAA indicator is not relevant.
- (65) The Agency agrees that in the absence of cross-system use there can be no cross-subsidisation between intra-system users and cross-system users and that the CAA indicator is meaningless.
- (66) However, the Agency notes that cross-system use is already or may become relevant in Greece for two reasons. First, based on the information available on the ENTSOG Transparency Platform (ENTSOG TP), there have been a few occurrences of nominations at the exit point Sidirokastro from Greece to Bulgaria, in particular in June 2018. Additionally, a limited number of firm reverse flow bookings have been recorded in June 2018 at the Kulata entry point (the Bulgarian side of Sidirokastro) from Greece to Bulgaria. Both records indicate interest in cross-system use.
- (67) Second, the Agency notes that, according to the system development study 2019-2028 by DESFA, an interconnection point from Greece to North Macedonia is under development and is expected to become operational in 2022, which is the last year of the next regulatory period, for the supply of gas to power plants in North Macedonia. Additionally, the TAP pipeline and the interconnector between Greece and Bulgaria are under development and may lead to cross-system use in the future.
- (68) RAE clarified that these instances of gas exiting Greece have been very few, nominations have been very small, and that these small exit quantities have been considered in the total estimated capacity use. RAE further clarified that in case an IP is used as an exit from Greece, the same tariff is applied as for the entry at the same IP<sup>29</sup>. With respect to the future developments that may lead to new IPs, these network developments are part of incremental capacity procedures. Tariff revisions may be triggered when these projects reach a mature stage.
- (69) The Agency stresses that tariffs at all points need to be set following the RPM; this includes the exit tariff at IPs even when the forecasted contracted capacity is zero.

### 4.1.3.3 Agency's reflections on the cross-subsidisation based on location

- (70) The Agency notes that the proposed RPM introduces cross-subsidisation from network users who are active in the Northern and Southern parts of the country, to network users who are active in the North-East at entry point Kipi. This cross-subsidisation is inherent to the proposed postage stamp-based RPM because it disregards distance as an important cost driver.

### 4.1.3.4 Agency's reflections on the cross-subsidisation due to the socialisation of the LNG terminal's allowed revenues into the transmission tariffs

- (71) The Agency notes that the proposed RPM introduces cross-subsidisation from all users of domestic exit points to the users of the LNG terminal due to the socialisation of part of the LNG terminal

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<sup>29</sup> Article 9(6) of the draft national Tariff Regulation.

costs<sup>30</sup>. This cross-subsidisation is inherent to the concept of socialisation and is caused by a shift of costs from a small group of users of the LNG terminal to a larger group of users at domestic exit points of the transmission system.

### 4.1.3.5 Conclusion on cross-subsidisation

- (72) The Agency considers the proposed RPM not compliant with respect to undue cross-subsidisation as long as RAE does not offer an adequate motivation for disregarding distance, as recommended above.
- (73) The Agency reiterates its recommendation in paragraph (61) and refers to Section 5.1 for the Agency's view on the treatment of a socialisation charge.
- (74) The Agency invites RAE to clarify its view on the potential future cross-system use of the Greek transmission system considering the information for June 2018 on the ENTSOG TP and the impact of future developments of the Greek gas system.

### 4.1.4 Volume risk

- (75) **Article 7(d)** of the NC TAR requires that the RPM ensure that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system.
- (76) In Greece there are very limited cross-system flows; therefore, volume risk, as defined above, is deemed not relevant.
- (77) The Agency considers the proposed RPM compliant in this respect.

### 4.1.5 Cross-border trade

- (78) **Article 7(e)** of the NC TAR requires that the RPM ensure that the resulting reference prices do not distort cross-border trade.
- (79) In Greece there are currently very limited cross-system flows; therefore, RAE deems this aspect not relevant. RAE additionally argues that, for potential gas flows exiting Greece, the exit tariffs at Sidirokastro and Kipi IPs and at the Agia Triada LNG terminal are the same as the entry tariffs and that these cross-border exit points do not bear the costs related to the reconciliation of the historic under-recovery and the socialised part of the allowed revenues of the LNG terminal.
- (80) The Agency considers that the proposed reference prices do not distort cross-border trade and considers the proposed RPM compliant in this respect.

### 4.1.6 Conclusions on the compliance of the proposed RPM with the requirements of Article 7

- (81) The Agency finds that the RPM proposed by RAE in its consultation document is not compliant with respect to the requirements of cost-reflectivity and cross-subsidisation as set out in Article 7 of the

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<sup>30</sup> The amount to be socialised compares to two thirds of the allowed transmission revenue that is allocated to (domestic) exit points.

NC TAR. RAE may achieve compliance by including an adequate motivation on the principle of cost-reflectivity and the choice for the particular RPM.

- (82) If no adequate motivation can be provided, the Agency recommends RAE to consider a distance-related methodology, such as CWD methodology.
- (83) The Agency notes that the criteria related to volume risk and cross-border trade are not applicable.

#### 4.2 Are the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) met?

- (84) The Greek tariff methodology foresees a commodity-based charge for complementary revenue recovery of the “Old Recoverable Difference” that represents the under-recovery for the period 2006-2016.
- (85) The commodity-based charge is calculated based on historical flows and applies only to domestic exit points, because the under-recovery is the result of reduced domestic gas consumption compared to the forecasts<sup>31</sup>.
- (86) According to Article 19B of the draft national Tariff Regulation, the part of the Old Recoverable Difference that is to be recovered in each tariff period of the regulatory period is set by a national Tariff Decision at every regular or extraordinary tariff revision and is also reviewable when a recalculation of tariffs for the remaining years of the tariff period is triggered.
- (87) The Agency considers that the criteria of Article 4(3)(b) of the NC TAR are met as summarised in Table 4. The Agency offers further comments on the Old Recoverable Difference in Section 5.2 of the Report.

Table 4 Criteria Article 4(3)(b) – complementary revenue recovery charges

| Criteria   | Y/N?   |
|--|--|
| (i) levied for the purpose of managing revenue under- and over-recovery  | Yes, under-recovery for the period 2006-2016 |
| (ii) calculated on the basis of forecasted or historical flows, or both  | Yes, historical flows                        |
| (iii) applied at points other than interconnection points  | Yes, applicable only at domestic exit points |
| (iv) applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points | Yes  |

#### 4.3 Are the criteria for setting non-transmission tariffs as set out in Article 4(4) met?

- (88) Article 27(2)(b)(3) of the NC TAR requires the Agency to analyse whether the criteria for setting non-transmission tariffs as set out in Article 4(4) of the NC TAR are met.

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<sup>31</sup> Bilateral exchange between RAE and the Agency.

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- (89) DESFA foresees to offer three non-transmission services: odourisation, metrology<sup>32</sup> and certification of welding operators.
- (90) These non-transmission services are charged following a separate pricing methodology that is based on the specific cost drivers related to the offered services. The methodology is included in the documentation package supporting the consultation document which is available on RAE's web page.
- (91) It is proposed that over- and under-recovery of non-transmission revenue are reconciled via the allowed revenues at exit points, since the beneficiaries of these services are the users at exits.
- (92) The share of the allowed revenues that will be covered by non-transmission revenue has not been estimated, since the accounting unbundling of the three services had not been completed by the time of the consultation.
- (93) The Agency notes that the non-transmission services "certification of welding operators" and "metrology" could be competitive activities and that "odourisation" is considered to be a regulated activity in most Member States. The Agency recommends RAE to carefully classify DESFA's services as either regulated or non-regulated services. In case that a service is considered as non-regulated, the allowed revenues should be adjusted to avoid double remuneration of assets and undue cross-subsidies from the TSO's regulated activities to its competitive (non-regulated) services.
- (94) The Agency considers that these non-transmission tariffs will be applied from 2020 onwards and recommends RAE to make information on the allowed non-transmission revenue available in its final decision, as required by Article 26(1)(c)(ii)(2) of NC TAR.
- (95) The Agency could not conclude on the compliance of the non-transmission tariffs with the criteria of Article 4(4) of NC TAR due to missing information.

Table 5 Criteria Article 4(4) – criteria for non-transmission tariffs

| Criteria  | Y/N?               |
|---|--------------------|
| (a) cost-reflective, non-discriminatory, objective and transparent  | Not able to assess |
| (b) charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both | Not able to assess |

## 5. Other remarks

### 5.1 Socialisation charge to recover costs of the LNG terminal

- (96) The Agency notes that RAE proposes to include a socialisation charge in the transmission tariffs that is applicable at domestic exit points. The socialisation is motivated in recognition of the contribution of the LNG terminal at Revythoussa to the balancing of the NNGS load, to security of supply and to the facilitation of the entry of new suppliers into the natural gas market.

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<sup>32</sup> Metrology is the service of calibrating metering equipment.

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- (97) The Agency notes that the charge is subject to a regulatory process to set the socialisation rate. As a result of such a process, RAE has reduced the socialisation rate from 95% in the period 2006-2012 to the current level of 75% after the adoption of the NNGS Tariff Regulation for the Basic Activities of the NNGS and the implementation of the NNGS Tariff in July 2012<sup>33</sup>. RAE proposes to keep the rate of 75% for the regulatory period 2019-2022. The Agency notes that the regulatory assessment of the current level of the socialisation rate is not in the scope of the Agency's review.
- (98) The Agency is of the view that, according to Article 3(12) and (15) of the NC TAR, the service to be covered through the socialisation charge is neither a transmission service nor a non-transmission service, as the security of supply provided by a LNG terminal is not related to a TSO activity.
- (99) However, the Agency understands the reasoning to recover the costs of the LNG terminal from all network users who benefit from the additional security, provided that the regulatory assessment properly takes proportionality into account and the need for such recovery based on a cost-benefit analysis.
- (100) The Agency recommends RAE to treat the socialisation of the allowed revenues of the LNG terminal as a non-transmission service. Even though the socialisation is not related to the activities of the TSO as required by Article 3(15) of the NC TAR, treating it as non-transmission service makes the charges subject to the requirements of Article 4(4) of the NC TAR, notably, to cost-reflectivity, non-discrimination, objectivity and transparency, being charged to the beneficiaries with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both. The Agency notes that such an approach would be transparent and would not lead to economic harm. This is because the costs could be charged to the beneficiaries, who are all users of domestic exit points, and not IPs.

### 5.2 The size of the negative regulatory account

- (101) The Agency notes the intention of DESFA to recover the historic negative regulatory account of approximately 300 million euro by means of the complementary revenue recovery charge.
- (102) The indicated pace of annual recovery of approximately 20 to 30 million euro would require more than 10 years to balance the regulatory account, disregarding future under-recovery, which raises issues of inter-temporal cross-subsidisation between past, current and future network users.
- (103) RAE clarified that the initial plan approved by the Greek government foresaw to recover the revenues over the course of 20 years. RAE decided to shorten the recovery period to 16 years following significant over-recovery in 2017. RAE aims foremost at tariff stability.
- (104) The Agency highlights that, according to Article 17 of the NC TAR, under- and over-recoveries should be minimised, revenues should be recovered timely and significant differences between the tariffs of two consecutive tariff periods should be avoided. Additionally, Article 20(3) of the NC TAR requires that the reconciliation aims at reimbursing to the TSO the under-recovered amount. The Agency recommends RAE regularly to re-evaluate the pace of the reconciliation.

### 5.3 The operational gas offsetting charge

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<sup>33</sup> For the relevant decisions, see RAE Decisions 594/2012 and 722/2012, RAE 352/2016 and Gazette B '3513 /2016

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- (105) The Greek tariff methodology foresees an “operational gas offsetting charge” to cover costs of running the transmission system, such as losses and fuel costs. These costs are estimated at 3% to 5% of the allowed transmission revenues.
- (106) The Agency notes that an assessment of this charge has not been included in the consultation document. In a bilateral exchange between RAE and the Agency, RAE clarified the charge as described below.
- (107) The Greek network code allows the TSO to recover such costs either as operational expenses that are recovered via the transmission tariffs, or as a separate charge to network users. Currently, DESFA applies the second option of a separate charge
- (108) Every year, RAE approves the Operational Gas Unit Price (“OGUP”) which is the price paid by the TSO to the supplier from which operational gas will be bought. The OGUP is the sum of the Reference Price of Gas published in the previous month on the website of the European Energy Exchange and a fixed mark-up of 3.80 EUR/MWh<sup>34</sup>. The OGUP is determined in such a way that fixed and variable costs incurred by the TSO with respect to operational gas can be covered. The charge is revenue neutral.
- (109) The Agency notes that Article 4(3)(a) of the NC TAR allows flow-based commodity charges to cover the costs that are mainly driven by the quantity of gas flows. The Agency additionally notes that the Greek operational gas offsetting charge is largely similar to a flow-based commodity charge.
- (110) The Agency finds the Greek methodology to set a separate operational gas offsetting charge to be transparent, cost reflective, not causing undue cross-subsidies and non-discriminatory and therefore compliant with the NC TAR.

### 5.4 Other charges outside the scope of the analysis

- (111) The Greek tariff methodology has a number of other charges that are treated outside of the RPM. These charges are “connection fee” (draft national Tariff Regulation, Article 5), “capacity reservation charge in the cases of release, transfer, surrender of transmission capacity or LNG regasification capacity” (draft national Tariff Regulation, Article 14), and “charge for the exceeding of reserved capacity” (draft national Tariff Regulation, Article 17). The fees are described as follows:
- The connection fee is cost-based and paid by the user requesting the connection. The costs corresponding to the connection are not included in the regulatory asset base.
  - The capacity reservation charge in the cases of release, transfer, surrender of transmission capacity or LNG regasification capacity can be seen as an administrative fee that reflects the handover of capacity rights from one user to another. The revenues from these services are reconciled.
  - The charge for the exceeding of reserved capacity is an administrative fee to induce desirable shipper behaviour. The revenue is reconciled.
- (112) Additionally, the Greek tariff methodology has a “charge for the use of an exit point of the transmission system servicing a new customer” (draft national Tariff Regulation, Article 16). This service is part of the transmission services, but it uses, as a cost driver, the flows in the first months

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<sup>34</sup> RAE decision 1039/2018.

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that an asset connected to an exit point enters into operation. The different cost driver addresses the uncertainty regarding the flows in the stage of starting up. It is reconciled in the same way as other transmission services.

- (113) The Agency takes note of these charges and considers them outside the scope of the analysis.



## Annex 1: Legal framework

(114) Article 27 of the NC TAR reads:

1. *Upon launching the final consultation pursuant to Article 26 prior to the decision referred to in Article 27(4), the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority, shall forward the consultation documents to the Agency.*

2. *The Agency shall analyse the following aspects of the consultation document:*

*(a) whether all the information referred to in Article 26(1) has been published;*

*(b) whether the elements consulted on in accordance with Article 26 comply with the following requirements:*

*(1) whether the proposed reference price methodology complies with the requirements set out in Article 7;*

*(2) whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met;*

*(3) whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.*

3. *Within two months following the end of the consultation referred to in paragraph 1, the Agency shall publish and send to the national regulatory authority or transmission system operator, depending on which entity published the consultation document, and the Commission the conclusion of its analysis in accordance with paragraph 2 in English.*

*The Agency shall preserve the confidentiality of any commercially sensitive information.*

4. *Within five months following the end of the final consultation, the national regulatory authority, acting in accordance with Article 41(6)(a) of Directive 2009/73/EC, shall take and publish a motivated decision on all items set out in Article 26(1). Upon publication, the national regulatory authority shall send to the Agency and the Commission its decision.*

5. *The procedure consisting of the final consultation on the reference price methodology in accordance with Article 26, the decision by the national regulatory authority in accordance with paragraph 4, the calculation of tariffs on the basis of this decision, and the publication of the tariffs in accordance with Chapter VIII may be initiated as from the entry into force of this Regulation and shall be concluded no later than 31 May 2019. The requirements set out in Chapters II, III and IV shall be taken into account in this procedure. The tariffs applicable for the prevailing tariff period at 31 May 2019 will be applicable until the end thereof. This procedure shall be repeated at least every five years starting from 31 May 2019.*

(115) Article 26(1) of the NC TAR reads:

1. *One or more consultations shall be carried out by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority. To the extent possible and in order to render more effective the consultation process, the consultation document should be published in the English language. The final consultation prior to the decision referred to in Article 27(4) shall comply with the requirements set out in this Article and Article 27, and shall include the following information:*

*(a) the description of the proposed reference price methodology as well as the following items:*

*(i) the indicative information set out in Article 30(1)(a), including:*



- (1) the justification of the parameters used that are related to the technical characteristics of the system;
    - (2) the corresponding information on the respective values of such parameters and the assumptions applied.
  - (ii) the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9;
  - (iii) the indicative reference prices subject to consultation;
  - (iv) the results, the components and the details of these components for the cost allocation assessments set out in Article 5;
  - (v) the assessment of the proposed reference price methodology in accordance with Article 7;
  - (vi) where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii);
- (b) the indicative information set out in Article 30(1)(b)(i), (iv), (v);
- (c) the following information on transmission and non-transmission tariffs:
- (i) where commodity-based transmission tariffs referred to in Article 4(3) are proposed:
    - (1) the manner in which they are set;
    - (2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;
    - (3) the indicative commodity-based transmission tariffs;
  - (ii) where non-transmission services provided to network users are proposed:
    - (1) the non-transmission service tariff methodology therefor;
    - (2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;
    - (3) the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3);
    - (4) the indicative non-transmission tariffs for non-transmission services provided to network users;
- (d) the indicative information set out in Article 30(2);
- (e) where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity:
- (i) the proposed index;
  - (ii) the proposed calculation and how the revenue derived from the risk premium is used;
  - (iii) at which interconnection point(s) and for which tariff period(s) such approach is proposed;
  - (iv) the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed.

(116) Article 7 of the NC TAR reads:

*The reference price methodology shall comply with Article 13 of Regulation (EC) No 715/2009 and with the following requirements. It shall aim at:*

- a) *enabling network users to reproduce the calculation of reference prices and their accurate forecast;*
- b) *taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;*
- c) *ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;*

*(d) ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;*

*(e) ensuring that the resulting reference prices do not distort cross-border trade.*

(117) Article 13 of Regulation (EC) No 715/2009 reads:

*1. Tariffs, or the methodologies used to calculate them, applied by the transmission system operators and approved by the regulatory authorities pursuant to Article 41(6) of Directive 2009/73/EC, as well as tariffs published pursuant to Article 32(1) of that Directive, shall be transparent, take into account the need for system integrity and its improvement and reflect the actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator and are transparent, whilst including an appropriate return on investments, and, where appropriate, taking account of the benchmarking of tariffs by the regulatory authorities. Tariffs, or the methodologies used to calculate them, shall be applied in a non-discriminatory manner.*

*Member States may decide that tariffs may also be determined through market-based arrangements, such as auctions, provided that such arrangements and the revenues arising therefrom are approved by the regulatory authority.*

*Tariffs, or the methodologies used to calculate them, shall facilitate efficient gas trade and competition, while at the same time avoiding cross-subsidies between network users and providing incentives for investment and maintaining or creating interoperability for transmission networks.*

*Tariffs for network users shall be non-discriminatory and set separately for every entry point into or exit point out of the transmission system. Cost-allocation mechanisms and rate setting methodology regarding entry points and exit points shall be approved by the national regulatory authorities. By 3 September 2011, the Member States shall ensure that, after a transitional period, network charges shall not be calculated on the basis of contract paths.*

*2. Tariffs for network access shall neither restrict market liquidity nor distort trade across borders of different transmission systems. Where differences in tariff structures or balancing mechanisms would hamper trade across transmission systems, and notwithstanding Article 41(6) of Directive 2009/73/EC, transmission system operators shall, in close cooperation with the relevant national authorities, actively pursue convergence of tariff structures and charging principles, including in relation to balancing.*

(118) Article 4(3) of the NC TAR reads:

*3. The transmission services revenue shall be recovered by capacity-based transmission tariffs. As an exception, subject to the approval of the national regulatory authority, a part of the transmission services revenue may be recovered only by the following commodity-based transmission tariffs which are set separately from each other:*

*(a) a flow-based charge, which shall comply with all of the following criteria:*

- (i) levied for the purpose of covering the costs mainly driven by the quantity of the gas flow;*
- (ii) calculated on the basis of forecasted or historical flows, or both, and set in such a way that it is the same at all entry points and the same at all exit points;*
- (iii) expressed in monetary terms or in kind.*

*(b) a complementary revenue recovery charge, which shall comply with all of the following criteria:*

- (i) levied for the purpose of managing revenue under- and over-recovery;*
- (ii) calculated on the basis of forecasted or historical capacity allocations and flows, or both;*

*(iii) applied at points other than interconnection points;*

*(iv) applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points.*

(119) Article 4(4) of the NC TAR reads:

*4. The non-transmission services revenue shall be recovered by non-transmission tariffs applicable for a given nontransmission service. Such tariffs shall be as follows:*

*(a) cost-reflective, non-discriminatory, objective and transparent;*

*(b) charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both.*

*Where according to the national regulatory authority a given non-transmission service benefits all network users, the costs for such service shall be recovered from all network users.*

## Annex 2: List of abbreviations

| Acronym       | Definition  |
|---------------|---|
| <b>ACER</b>   | Agency for the Cooperation of Energy Regulators                   |
| <b>NRA</b>    | National Regulatory Authority                                     |
| <b>TSO</b>    | Transmission System Operator                                      |
| <b>EC</b>     | European Commission   |
| <b>EU</b>     | European Union  |
| <b>NC TAR</b> | Network code on harmonised transmission tariff structures for gas |
| <b>IP</b>     | Interconnection Point   |
| <b>RPM</b>    | Reference Price Methodology                                       |
| <b>CWD</b>    | Capacity Weighted Distance  |
| <b>CAA</b>    | Cost Allocation Assessment  |
| <b>RAB</b>    | Regulated Asset Base  |
| <b>RAE</b>    | Regulatory Agency for Energy                                      |
| <b>DESFA</b>  | National Natural Gas System Operator A.E.                         |
| <b>NNGS</b>   | National natural gas system                                       |



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