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Agency Report

Analysis of the Consultation Document on the Gas Transmission Tariff Structure for Ireland

NRA: Commission for Regulation of
Utilities (CRU)

TSO: Gas Networks Ireland (GNI)

8 April 2019

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1. ACER conclusion

- (1) The Commission for Regulation of Utilities ('CRU') proposes a matrix methodology with a 33/67 entry-exit split. There are neither storage nor LNG facilities in Ireland, so no discounts are currently applied. In case a storage facility were to be commissioned, a 50% discount at entry points from, and exit points to, the storage facility would apply. In case an LNG facility were to be commissioned, no discount would be applied, based on current evidence. Furthermore, CRU proposes both commodity-based transmission tariffs and non-transmission tariffs.
- (2) The Agency, after having completed the analysis of the consultation documents pursuant to Article 27(2) of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a Network Code on Harmonised Transmission Tariff Structures for Gas ('NC TAR'), concludes that:
 - The choice of the matrix methodology as the proposed Reference Price Methodology ('RPM') is overall compliant with the principle of cost-reflectivity, in a forward-looking sense. A broader cost-reflectivity is reached via the application of rescaling, compliant with the NC TAR, to recover the current actual costs. Yet, since the rescaling is applied via a uniform additive value to all points, while the forward-looking cost-reflectivity is preserved, the cost-reflectivity with respect to the current actual cost decreases.
 - The results of the comparison with the counterfactual Capacity Weighted Distance ('CWD') methodology show a reasonable level of cost-reflectivity.
 - The consultation document contains the required information listed in Article 26(1) of the NC TAR, with the exception of:
 - .i. The exact amount of the total allowed revenue, since only the transmission share of the allowed revenue is reported;
 - .ii. The way in which non-transmission tariffs are reconciled.

In this respect, the consultation document is therefore incomplete with respect to the requirements of Article 26(1) of the NC TAR and therefore non-compliant with these requirements.

- The tariff model file underlying the tariff calculations includes the Twynholm exit point, to Northern Ireland, as a non-domestic point, and its respective tariff. Yet CRU does not mention the Twynholm exit point in the consultation document, nor proposes the respective tariff. Therefore the consultation document is incomplete and not transparent in this respect.
- The consultation offers a detailed tariff model that helps to understand the complexity of the proposed matrix RPM.
- The simplified tariff model is in line with the requirements of Article 30(2)(b) of the NC TAR.
- Network users would be able to reproduce and forecast the reference prices using the tariff model provided in the consultation document.
- The equalisation of domestic exits is in line with the NC TAR requirements.
- A possible source of cross-subsidisation between Irish and Northern Irish network users may exist, if gas flows can exit Ireland and enter Northern Ireland via the Twynholm exit

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point. This possibility is not analysed in the consultation document, thus the consultation document is incomplete in this respect.

- The tariffs showed in the tariff model file underlying the tariff calculations for the Twynholm exit point, if adopted, may not comply with the principle of non-discrimination
- The Twynholm exit point seems to allow transit flows and therefore a potential for volume-risk and cross-border trade effects. These aspects are not analysed in the consultation document, thus the consultation document is incomplete in this respect.
- The criteria of Article 4(3) of the NC TAR for setting the commodity charge are met.
- The proposed non-transmission service tariffs satisfies the criteria of Article 4(4) of the NC TAR. Yet the consultation document does not address how the respective over- and under-recovery are addressed.
- Some of the proposed charges to be recovered outside the allowed revenue seem to be related to access to the network and they would therefore be within the scope of the NC TAR.

(3) The Agency recommends that, in its final decision, CRU:

- Publish the total allowed revenue specifying its transmission and non-transmission shares.
- Provide adequate transparency and details on the status of the Twynholm exit point, taking into consideration the existing intergovernmental treaty and the underlying transmission agreement. This shall allow clarifying the effect, if any, on cost-reflectivity, non-discrimination, avoiding undue cross-subsidisation, volume risk and cross-border trade.
- Explain how the non-transmission over- and under-recovery are addressed.
- Verify that all proposed charges on top of the RPM tariffs are not related to access to the network. If they are instead related to it, they should be recovered via the RPM.

2. Introduction

- (4) Commission Regulation (EU) 2017/460 of 16 March 2017 establishes a network code on harmonised transmission tariff structures for gas (NC TAR).
- (5) Article 27 of the NC TAR requires the Agency to analyse the consultation documents on the reference price methodologies for all entry-exit systems¹. This Report presents the analysis of the Agency for the transmission system of Ireland.
- (6) On 12 December 2018, CRU forwarded the consultation document to the Agency. The consultation was launched on 11 December 2018 and remained open until 11 February 2019. On 14 March 2019, CRU published the consultation responses and their summary. 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, CRU shall take and publish a motivated decision on all the items set out in Article 26(1).

Reading guide

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

3. Completeness

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

- (8) 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.
- (9) Article 26(1) of the NC TAR requires that the consultation document be published in the English language, to the extent possible. The Agency confirms that the consultation document has been published in English.
- (10) Overall, the information in Article 26(1) of the NC TAR has been properly published.
- (11) However, CRU does not include in the consultation document the value of the total allowed revenue and a few more element as listed in Table 1.
- (12) The Agency therefore recommends CRU to publish in its final decision the total allowed revenue specifying its transmission and non-transmission shares and all other missing items.

¹ With the exception of Article 10(2)(b), when different RPMs may be applied by the TSOs within an entry-exit zone.

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Table 1 Checklist information Article 26(1)

Article	Information	Published: Y/N/NA
26(1)(a)	the description of the proposed reference price methodology	Yes
26(1)(a)(i) 26(1)(a)(i)(1) 26(1)(a)(i)(2)	the indicative information set out in Article 30(1)(a), including: <ul style="list-style-type: none"> the justification of the parameters used that are related to the technical characteristics of the system the corresponding information on the respective values of such parameters and the assumptions applied 	Yes
26(1)(a)(ii)	the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9	Yes
26(1)(a)(iii)	the indicative reference prices subject to consultation	Yes
26(1)(a)(iv)	the results, the components and the details of these components for the cost allocation assessments set out in Article 5	Yes
26(1)(a)(v)	the assessment of the proposed reference price methodology in accordance with Article 7	Yes
26(1)(a)(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)	Yes
26(1)(b)	the indicative information set out in Article 30(1)(b)(i), (iv), (v)	Partly: only the transmission share of the allowed revenue is reported ²
26(1)(c)(i) 26(1)(c)(i)(1) 26(1)(c)(i)(2) 26(1)(c)(i)(3)	where commodity-based transmission tariffs referred to in Article 4(3) are proposed <ul style="list-style-type: none"> the manner in which they are set the share of the allowed or target revenue forecasted to be recovered from such tariffs the indicative commodity-based transmission tariffs 	Yes
26(1)(c)(ii) 26(1)(c)(ii)(1) 26(1)(c)(ii)(2) 26(1)(c)(ii)(3) 26(1)(c)(ii)(4)	where non-transmission services provided to network users are proposed: <ul style="list-style-type: none"> the non-transmission service tariff methodology therefor the share of the allowed or target revenue forecasted to be recovered from such tariffs the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3) the indicative non-transmission tariffs for non-transmission services provided to network users 	Partly: the reconciliation of the non-transmission tariffs is not exhaustively addressed.
26(1)(d)	the indicative information set out in Article 30(2);	Yes
26(1)(e) 26(1)(e)(i) 26(1)(e)(ii)	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: <ul style="list-style-type: none"> the proposed index; 	Not applicable

² In addition, CRU states that the non-transmission share of the allowed revenue is equal to 0.01% of the total allowed revenue. CRU states that the transmission allowed revenue can be considered as a good approximation of the total allowed revenue, since the non-transmission allowed revenue is negligible.

<p>26(1)(e)(iii) 26(1)(e)(iv)</p>	<ul style="list-style-type: none"> • the proposed calculation and how the revenue derived from the risk premium is used • at which interconnection point(s) and for which tariff period(s) such approach is proposed • the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed 	
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4. Compliance

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

- (13) Article 27(2)(b)(1) of the NC TAR requires the Agency to analyse whether the proposed reference price methodology 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.
- (14) With the proposed RPM, CRU firstly aims at ensuring predictability, stability, equity, and at promoting effective competition. Against this background, CRU makes sure to respect the principles of Article 7 of the NC TAR.
- (15) CRU proposes a matrix RPM with expansion constants³. The expansion constants take into account the forward-looking cost of expanding the network. Therefore the proposed matrix RPM results in cost-based investment signals that incentivise new efficient entry into the Irish gas market. CRU justifies the need of a forward-looking cost approach by considering that the Irish system is in an evolving stage, facing:
- the decline of the Corrib gas field;
 - the expected end of production from the Kinsale gas field in 2019;
 - the likelihood that a number of renewable gas injection facilities will connect to the transmission system;
 - steadily growing demand;
 - the possibility of future indigenous natural gas production; and
 - the recent interest from a number of LNG projects.

4.1.1 Description of the network

- (16) The transmission system network in Ireland can be considered mostly ring-shaped, with both onshore and offshore pipelines.

³ An expansion constant provides a numerical value for the cost of expanding capacity so that one unit of gas travels over a specified distance. This is measured in €/GWh/d/km. To determine the values of an expansion constant, actual pipeline and compressor capital and operating costs are used to forecast forward-looking costs. As the Gas Network Ireland ('GNI') system is comprised of both dry (onshore) and wet (subsea) pipelines, CRU has calculated separate expansion constants to reflect the different costs associated with each. Both dry and wet expansion constants are comprised of pipeline costs and compression costs.

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- (17) CRU explains in the consultation document that the transmission network has four physical entry points: the Moffat IP (import from the UK); the Bellanaboy point (from the subsea Corrib gas field); the Inch point (from the subsea Kinsale gas field); and a notional entry point from biogas production facilities⁴.
- (18) There are currently 110 domestic exit points⁵, one physical exit at the Gormanston IP (export to Northern Ireland – the point has never been used).
- (19) Beyond the physical IPs, there are also two virtual reverse flow ('VRF') IPs: in the exit direction at the Moffat IP, and in the entry direction at the Gormanston IP⁶.
- (20) Finally, CRU considers two additional entry points at Foynes and Innisfree as potential entry points for LNG currently non-operational, but taken into account in the scenarios for the next gas years⁷.
- (21) The Agency notes that the tariff model file underlying the tariff calculations includes a tariff for the Twynholm exit point as a non-domestic point, but CRU does not mention the point nor its tariff in the consultation document. Therefore, the Agency finds that, based on the consultation document, the status of the Twynholm point is unclear⁸.
- (22) The Agency understands from CRU's clarifications that:
- the peculiar status of the Twynholm point is determined by an intergovernmental treaty between the UK and Ireland and by a dedicated transmission agreement⁹;
 - the Twynholm point connects the Scotland / Northern Ireland Pipeline (SNIP) and onshore Scotland infrastructure;
 - in practice, the tariff shown in the tariff model file underlying the tariff calculations is not charged to any party as all gas flows from Great Britain to Northern Ireland using the onshore Scotland infrastructure are covered by the transportation agreement¹⁰;
 - if customers in Ireland were theoretically to use the Twynholm exit point, they would be charged the tariffs as specified in the tariff model¹¹.

⁴ CRU considers two possible options to set the location of the single notional point: a point based on the geographically dispersed location of the Gormanston (County Meath), Corracunna (County Cork) and Cappagh South (County Galway) transmission entry points; or a point based on a location that is close to a demand centre. The consulted RPM calculates the reference prices for the former option.

⁵ To the distribution network and large gas consumers, such as power generators.

⁶ The VRF at the Gormanston entry IP has never been used, since the necessary condition to enable the possibility of the VRF, namely a commercial physical flow in the opposite direction (exit from the Republic of Ireland towards Northern Ireland), has never occurred. According to CRU, physical exit flows at the IP Gormanston have only to date only occurred in emergency situations.

⁷ LNG supply is present in two of the three scenarios CRU has proposed. Scenario 2: an LNG entry point connects at Foynes, Co. Limerick in the year 2021/22. Scenario 3: an LNG entry point connects at Innisfree, Co. Cork in the year 2021/22. CRU is considering these scenarios based on the list of Projects of Common Interest and does not assign to them any probability.

⁸ The ENTSOG Transparency Platform shows that the point does not belong to the transmission network of Gas Network Ireland ('GNI').

⁹ The transportation agreement, supported by an intergovernmental treaty between the UK and Ireland, is in place between GNI (UK) and Premier Transmission Limited for all flows from Great Britain to Northern Ireland customers. The transportation agreement facilitates the cross-border transportation of gas between Great Britain and Northern Ireland in accordance with Article 32(2) of the Gas Directive.

¹⁰ The remaining capacity could be used to flow gas into Ireland, thus Twynholm in this case would be a domestic exit point.

¹¹ That tariff is based on the same tariffing methodology applied to any other exit point. The Agency could not clarify if gas flows to Northern Ireland beyond the transportation agreement would be possible and at what tariffs.

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- (23) The Agency recommends CRU to provide full transparency and sufficient detail on the Twynholm exit point and its interaction with the RPM in its final decision.

4.1.2 Transparency

- (24) **Article 7(a)** of the NC TAR requires that the RPM ensure that network users can reproduce the calculation of reference prices and their accurate forecast.
- (25) CRU assessed in the consultation document that the RPM is transparent since the allowed revenue setting¹² and the tariff consultation processes have been inclusive and transparent. Moreover, CRU has made publicly available the full tariff model in electronic format. In the full tariff model, CRU publishes the calculations for three different future supply scenarios and two different entry-exit splits. In addition, network users can change many of the input variables and add their own scenarios. CRU is aware of the complexity of the proposed RPM, but it assessed that the inclusive and transparent tariff consultation process has effectively mitigated the RPM's complexity.
- (26) CRU also provided a link to the simplified tariff model¹³. As a result, CRU concludes that network users are able to reproduce the calculation of the RPM and their accurate forecast.
- (27) The Agency overall agrees with CRU's assessment and finds the simplified tariff model in line with the requirements of Article 30(2)(b) of the NC TAR. The Agency notes that CRU explains the matrix RPM, which is a complex one, and guides the users to understand and reproduce the reference prices and their forecasts. Yet the algorithm by which the non-adjusted¹⁴ tariffs are calculated is not fully explained in the consultation document and in the tariff model.
- (28) The Agency considers that network users would be able to reproduce and forecast the reference prices using the tariff model provided in the consultation document.

4.1.3 Cost-reflectivity

- (29) **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.
- (30) CRU proposes to use a matrix RPM which includes expansion constants that approximate the cost of expansion of all routes connecting each entry point with each exit point.
- (31) CRU proposes to use a 33/67 entry-exit split.
- (32) CRU proposes to use a 90/10 capacity-commodity split.
- (33) CRU claims that the reference prices are cost-reflective since:
- the TSO recovers all transmission services revenues from all entry and exit points, with a single RPM being used to recover these revenues;
 - the parameters used within the RPM reflect the network cost drivers; and

¹² The allowed revenue setting was part of a different, even though related, prior consultation process.

¹³ The simplified tariffs model has not yet been updated with the numbers proposed in the consultation document under analysis. CRU has told the Agency, during bilateral calls, that the simplified tariff model will be updated as soon as the tariffs methodology is approved.

¹⁴ In CRU's consultation document, the non-adjusted tariffs are referred to as the "primary tariffs". Those are the tariffs derived directly by the matrix calculation which have not yet been adjusted.

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- the revenues are allocated to each entry and exit point relative to a reasonable proportion of the costs for using the network via the entry or exit point in question.

4.1.3.1 Inputs to the methodology

- (34) The proposed matrix RPM uses distance and expansion constants as cost drivers. The proposed matrix RPM is based on forward-looking long-run marginal cost considerations with the aim of producing locational signals. The RPM is based on actual pipeline distances between entry points and exit points. The matrix uses these distances and the expansion constants to approximate the cost of expansion between each entry and each exit point in a matrix.
- (35) As regards distances, all possible routes are measured taking the shortest path from each entry to each exit point.
- (36) In order to estimate where capacity expansion may be needed, as well as how much, forecasts of capacity expansion are needed. As regards forecasted capacity, CRU proposes three scenarios of changed network topology, supply, and demand. The scenarios provide values of forecasted contracted capacity at particular locations, which enter the RPM calculation via an annuitisation factor, to transform all forecasted short-term bookings into an annual booking equivalent¹⁵ that serves to calculate the expansion cost.
- (37) The expansion constants provide numerical values for the cost of expanding capacity along particular routes so that one unit of gas travels over a specified distance¹⁶. To determine the values of an expansion constant, actual pipeline and compressor capital and operating costs are used to forecast forward-looking costs. As the GNI's system is comprised of both dry (onshore) and wet (subsea) pipelines, CRU has calculated separate expansion constants to reflect the different costs associated with each type of pipeline.
- (38) An annuitisation¹⁷ factor is used to calculate the annual revenues needed to finance the potential expansion. The annuitisation factor uses the capital costs of the assets, the cost of capital, the annual depreciation and the annual operating costs to calculate the average annual payment that would be made for this asset over its lifetime.

4.1.3.2 Calculation of the tariffs

- (39) The matrix RPM tariffs setting has several steps, which CRU shows in the published tariff model.
- A mathematical formula derives¹⁸ the non-adjusted tariffs at each point by minimising the sum of squared differences between the theoretical unit costs of the path and the sum of the entry and exit reference prices corresponding to the respective paths.

¹⁵ CRU shows a summary table at page 31 of its consultation document.

¹⁶ CRU provides the breakdown of offshore and inland distances, because they cause different costs, which are only reflected in the expansion coefficients. As a result, each path has its own unit expansion cost.

¹⁷ Different than the one used for forecasted capacity.

¹⁸ Using a non-linear solver, launched by the macro, in the full tariff model excel file.

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- Since the non-adjusted tariffs do not allow to recover the full allowed revenue, a constant (additive) rescaling is added to all points. The absolute tariffs differentials between entry points are thus retained¹⁹.
 - The tariffs for the VRF IPs are discounted²⁰.
 - Domestic exit tariffs are equalised.
- (40) CRU tests the robustness of the proposed RPM and related parameters on three future capacity bookings scenarios²¹.
- (41) The Agency notes that CRU's methodology pursues a forward-looking notion of cost-reflectivity: the proposed tariffs do not reflect the current costs at each point. The rescaling can be seen as bridging the current and forward-looking cost-reflectivity notions, as it ensures that the allowed revenue is recovered.

4.1.3.3 Adjustments to the application of the RPM

- (42) There is currently no storage facility in Ireland. However, in the event that a storage facility began operation, CRU would apply at least a 50% discount in accordance with the NC TAR.
- (43) There is currently no LNG facility in Ireland, but there are LNG projects that could be developed in the future²². CRU does not currently propose any discount for the potential future LNG plants, because it has not got enough evidence that such a discount could be beneficial to the final consumers²³.
- (44) The Agency finds CRU's approach to discounts in line with the NC TAR requirements.
- (45) CRU proposes to equalise the entry tariff for all biogas production points as a single notional entry point. This choice is driven by the need to provide stable investment signals to the growing, small-scale biogas production and by the objective to incentivise renewable gases that contribute to lower carbon emissions.
- (46) CRU considers that the single notional entry point reduces the locational signal of the matrix RPM, but is a pragmatic and effective solution²⁴. The Agency notes that such a choice may lower the cost-reflectivity of the methodology and impact the competitive level playing field.
- (47) CRU proposes to equalise domestic exit points. In CRU's assessment, domestic exit tariffs are not meant to create economic signals or incentivise new users, unlike entry tariffs. The aim is to create a national level-playing field for all network users²⁵.

¹⁹ While the relative tariffs change.

²⁰ The Moffat VRF exit IP receives a 48% discount, while the Gorman VRF entry IP receives an 18% discount. CRU provides details on the VRF methodology in section 6 of the consultation document. The discounting methodology is out of the scope of this Agency's Report.

²¹ Explained in details in Section 2 of the consultation document. CRU does not offer a probability of realisation of the scenarios.

²² See the proposed scenarios.

²³ CRU presents its analysis in section 5.5.5 of its consultation document.

²⁴ Two options are presented in section 5.3.1 of the consultation: in both cases, the biogas entry tariffs would be one third of the entry tariff at Moffat. This happens because distances are lower.

²⁵ See consultation document, section 3.4.2.2.

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- (48) The Agency finds the equalisation of domestic exits in line with the NC TAR requirements.
- (49) As mentioned in the previous section, CRU proposes an additive rescaling applied to the non-adjusted tariff in order to recover the allowed revenue without changing the differential between points.
- (50) The proposed rescaling is allowed by the NC TAR and the Agency considers it cost-reflective in a forward-looking sense. At the same time, the Agency notes that the additive rescaling, by providing a form of 'postalisation' of the final tariff, waters down the cost-reflectivity with respect to the actually incurred costs.

4.1.3.4 Comparison with Capacity Weighted Distance methodology

- (51) CRU provides a comparison between the matrix-based reference prices and those of the counterfactual Capacity Weighted Distance ('CWD') methodology in section 3.3 of the consultation document and in the full tariff model.
- (52) The Agency notes that the tariff comparison for the Twynholm exit point and the Gormanston exit IP are not reported in the consultation document. The Agency recommends CRU to add all missing values in the comparison and to reassess the validity of the choice of the RPM against the additional results.
- (53) The Agency has calculated the following statistics based on CRU's tariff model file. The proposed matrix with a 33/67 entry-exit split gives, compared to the CWD with a 50/50 entry-exit split:
- 34% more expensive tariffs at domestic exit points, in all scenarios;
 - cheaper tariffs at all entry points and in particular, when focusing on the comparison between existing and new import entry points²⁶:
 - .i. in the case where the Foynes entry is developed connecting the Shannon LNG to the main transmission network (Scenario 2), Moffat would be 40% and Foynes 28% cheaper than with the CWD methodology;
 - .ii. in the case where the Innesfree entry is developed connecting the Cork LNG to the main transmission network (Scenario 3), Moffat would be 36% and Innisfree 25% cheaper than with the CWD methodology;
 - .iii. less volatile tariffs, especially for the Moffat entry IP, in the three proposed scenarios.
- (54) To neutralise the effect of the entry-exit split, the comparison of the proposed matrix RPM with a CWD methodology using a 33/67 entry-exit split results in:
- the same tariffs at domestic exit points, in all scenarios;
 - when focusing on the comparison between existing and new import entry points²⁷:
 - .i. cheaper tariffs for the Moffat entry IP: 9% in scenario 2, 3% in Scenario 3;

²⁶ In the case where only new biogas production is developed (Scenario 1), the Moffat entry IP would be 33% cheaper and, on average, all other entry points would be 30% cheaper.

²⁷ In the case where only new biogas production is developed (Scenario 1), the Moffat entry IP would be 2% more expensive and, on average, all other entry points would be 5% cheaper.

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- .ii. more expensive tariff for the Foynes (3%, scenario 2) and for the Innesfree entry IP (13%, scenario 3).

- (55) Given the importance of the Moffat entry IP as the marginal gas source, thus setting the wholesale price, CRU is of the view that the matrix-based RPM can be preferred to CWD also for stability purposes.
- (56) According to the Agency, the results of the comparison with the counterfactual Capacity Weighted Distance ('CWD') methodology show a reasonable level of cost-reflectivity.
- (57) At the same time, the Agency notes that, compared to the CWD RPM, the matrix RPM results in relatively higher entry tariffs at the potential LNG facilities with respect to the Moffat entry IP. The Agency understands that, according to CRU's view, this depends on the higher expansion costs and is thus justified in light of forward-looking cost-reflectivity. Therefore, given the information available to the Agency, the choice of the methodology seems to be appropriate in terms of cost-reflectivity, despite its complexity.

4.1.3.5 Comparison with the tariffs in the prevailing period

- (58) Compared to the tariffs of the prevailing period²⁸, the proposed tariffs are higher because they include shrinkage²⁹ costs, which were previously considered outside of the allowed revenue for transmission services. CRU justifies its proposal as all users derive a benefit of the pressure being maintained throughout the system and operated to meet gas flows instructions irrespective of the location on the network. Therefore, shrinkage represents a transmission service and should be captured in the transmission services revenue portion of the allowed revenue.
- (59) The Agency agrees with CRU's assessment.

4.1.3.6 Overall conclusion on cost-reflectivity

- (60) In conclusion, the Agency considers that the conditions referred to in paragraph (33) are overall met. Therefore, following the reasoning laid out in paragraphs (34) to (59), the Agency concludes that the application of the proposed RPM is overall compliant with the principle of cost-reflectivity, in the forward looking sense. The forward-looking notion of cost-reflectivity, based on expansion constants and the matrix calculations, sets non-adjusted tariffs which are not related to the actual costs incurred, but to possible costs to be incurred in the future. A broader cost-reflectivity is reached via the application of the rescaling, which considers the current actual costs. Yet, since the rescaling is applied via an additive value equal for all points, providing a form of 'postalisation' of the final tariff, while the forward-looking notion of cost-reflectivity is preserved³⁰, the one related to the actual costs incurred is watered-down³¹.

²⁸ The prevailing tariff period coincides with the gas year 2018-2019.

²⁹ Shrinkage gas means own use gas and natural gas required to replace Unaccounted for Gas ('UAG'). Own use gas means natural gas which is used by GNI for the operation of the gas transportation network or any localised part thereof including at compressor stations and/or for pre-heating and venting purposes. UAG means natural gas which is lost or otherwise unaccounted for from the gas transportation network or any localised part thereof. Shrinkage costs are estimated at approximately 7.5% of transmission revenues.

³⁰ As the tariff differentials between points do not vary.

³¹ Since the amount of tariff added to all points does not depend on capacity nor distances.

4.1.4 Cross-subsidisation and non-discrimination

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

4.1.4.1 Cross-subsidisation between intra-system use and cross-system use

- (62) For this analysis, the Agency defines ‘cross-subsidisation’ as a deviation from cost-reflectivity whereby users of the entry-exit system are charged tariffs that differ from the costs they cause to the system. One instrument to evaluate cross-subsidisation is the cost allocation assessment (CAA, Article 5 of the NC TAR).
- (63) CRU explains that because there are no transit flows via the Irish transmission network, there is no possibility of cross-subsidisation occurring between intra-system and cross-system network users. The cost allocation assessment formula does not provide a result for zero cross-system flows and, as such, the formula is not meaningfully applicable.
- (64) The Agency notes that transit flows from Ireland to Northern Ireland are theoretically possible not only via the Gormanston exit IP, which has not been used so far, but also via the Twynholm exit point. As mentioned in paragraph (22) of this Report, the use and cost of flowing gas from Great Britain to customers in Northern Ireland through the Twynholm exit point is subject to an intergovernmental treaty and a dedicated transmission agreement. Neither the point nor the proposed tariffs for its use (beyond the dedicated transmission agreement) are explicitly mentioned in the consultation document; yet such tariffs are visible in the full tariff model file.
- (65) The Agency notes that a possible source of cross-subsidisation between Irish and Northern Irish users may exist due to the use of the Twynholm exit point. Since the consultation document lacks information on the Twynholm exit point, the Agency cannot assess the magnitude of such a possible cross-subsidisation.
- (66) The Agency recommends CRU to assess the potential for cross-subsidisation between intra-system use and cross-system use when taking its final decision.

4.1.4.2 Cross-subsidisation among intra-system users

- (67) The CAA only assesses cross-subsidisation between intra-system and cross-system network use. The Agency also assessed if there is undue cross-subsidisation between groups of intra-system users.
- (68) CRU explained that since the proposed matrix RPM places significant emphasis on the cost-drivers of the network, than cross-subsidies are minimised.
- (69) The Agency in principle agrees with this assessment, but also notes that the matrix RPM creates a form of internal cross-subsidisation since points with future high expansion costs, but low current costs, will have a higher reference price than points with low expansion costs, but high current costs. However, the reasonable similarity between the CWD and matrix tariffs indicates that this potential cross-subsidy may not be significant³². Beyond this, the sizeable additive rescaling added

³² CRU explained to the Agency that this results from the fact that the costs associated with new entry capacity, given that they are calculated based on actual projects would not be expected to differ significantly from that incurred historically.

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to all points creates a cross-subsidy as it is neither proportional to the non-adjusted tariffs, which are the cost-reflective³³ parts of the reference prices, nor related to the actual capacities and distances.

- (70) The equalisation of domestic exit points and biogas entry points also creates cross-subsidies: both are allowed by the NC TAR and are performed for internal competition reasons.
- (71) Given the information available to the Agency in the consultation document and the comparison with the CWD methodology presented in section 4.2.2.4 of this Report, it seems that the instances of intra-system users' cross-subsidisation are not undue.

4.1.4.3 Discrimination

- (72) For this analysis, the Agency defines 'discrimination' as 'applying different rules to comparable situations or the same rule to different situations'.
- (73) Following bilateral clarifications by CRU, the Agency understands that at the Twynholm exit point a particular situation exists (see paragraphs (22) and (64)). The use of the point is determined by an intergovernmental agreement between the UK and Ireland which establishes that 8.08 mscm/d of gas can flow from Moffat, through Twynholm, to Northern Ireland without any explicit tariff being paid by network users. Users wishing to flow gas outside the transmission agreement will be subject to a separate, different tariff.
- (74) Since different rules seem to be in place for a comparable situation (exiting the network at Twynholm), the Agency finds that the current situation may create discriminatory conditions for the users of the Twynholm exit point. Given the information available, the Agency cannot assess the size and effect of this discrimination.
- (75) The Agency recommends CRU to address this discrimination in the most compatible way with the requirements of NC TAR given the existing intergovernmental agreement.

4.1.5 Volume risk

- (76) **Article 7(d)** of the NC TAR requires that the RPM ensures that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system.
- (77) In the consultation document, CRU explains that there are currently no cross-system volumes. This is expected to continue for the near future at least. CRU is therefore of the view that there is no volume risk.
- (78) The Agency notes that the particular status of the Twynholm exit point may create transit volumes and therefore a potential for volume risk.
- (79) The Agency recommends CRU to assess the volume risk taking into consideration the particular situation of the Twynholm exit point.

³³ In a forward-looking sense.

4.1.6 Cross-border trade

- (80) **Article 7(e)** of the NC TAR requires that the RPM ensures that the resulting reference prices do not distort cross-border trade.
- (81) CRU is of the view that reference prices are compliant with the principle of not distorting cross-border trade if the RPM complies with the principles of cost-reflectivity, non-discrimination and preventing undue cross-subsidisation.
- (82) When setting the RPM, and assessing its cross-border effect, CRU has taken into account the calculation of the VRF tariff³⁴. The rationale of inserting the VRF calculation into the RPM is that the users of the VRF service should help recover the cost of the whole system, like all other users. At the same time, the VRF tariffs should be set in a way to favour cross-border trade and market integration. CRU has therefore tried to determine VRF tariffs that strike the right balance between the two aforementioned aspects.
- (83) CRU identifies interactions between the tariffs applied to the forward flow and VRF products. The relevant firm product against which the Moffat exit VRF product is priced is considered to be the exit tariff. At the same time, CRU wants to reduce distortions to cross-border trade and to encourage the efficient use of the VRF product. Therefore, CRU proposes that the VRF tariffs are priced lower than the equivalent entry tariffs³⁵, to reflect the interruptible nature³⁶ of the product and the market interactions with Great Britain³⁷.
- (84) The Agency in principle agrees with this approach, but has not assessed the methodology to set the multipliers determining the VRF tariffs, since these are out of the scope of the present Report.
- (85) Beyond this aspect, the Agency has not identified explicit distortion of cross-border trade. Based on the analysis carried out in previous paragraphs of this chapter, the Agency recommends CRU to address all possible instances of discrimination and undue cross-subsidisation to ensure that the RPM does not distort cross-border trade.

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

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

³⁴ Currently, gas shippers wishing to use the VRF service pay an annual registration fee. CRU has highlighted its intent to move to a tariff for VRF, which is based on the probability of interruption. CRU is therefore proposing that the tariff for use of the VRF service should be set using the principles and requirements in NC TAR for standard interruptible capacity products. This proposed treatment is consistent with charging for use of a single entry-exit transmission system and will provide transparency and predictability to users of the VRF service of how the VRF tariff will be set, using NC TAR principles. For further detail see Section 6 of the consultation document.

³⁵ For the assumptions and analytics of the proposed discounts, see Sections 6.3-6.5 of the consultation document.

³⁶ VRF is a 'reverse flow' service offered on a virtual interruptible basis, at the IP, to enable shippers to virtually flow gas from ROI to GB-UK and from ROI to Northern Ireland-UK.

³⁷ This would apply to the Moffat VRF tariff only. The Gormanston VRF product tariff is already less than the equivalent exit tariff, CRU does not propose to apply this further reduction to the Gormanston VRF product. At the Moffat VRF exit IP, CRU wants to set a tariff that is adequate (low enough) to allow the Irish market players to exploit the tariff differentials between the British and the Irish wholesale markets in the cases where the British market has higher prices; at the same time, CRU wants that the tariff is adequate (high enough) to contribute to the cost of the system.

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- (87) CRU proposes to apply commodity-based transmission tariffs. The commodity-based transmission tariffs provide 10% of the transmission services revenue. The Agency considers this an appropriate use of the commodity charge.
- (88) The NC TAR allows for two types of commodity-based transmission tariffs: a flow-based charge and a complementary revenue recovery charge. CRU proposes to apply a flow-based charge.
- (89) The proposed flow-based charge meets the criteria set in Article 4(3)(a). The flow-based charge is mainly levied to recover the shrinkage costs, and, to a lesser extent, to recover other costs related to the quantity of gas flow³⁸. CRU argues that the main cost incurred by any TSO relating to the quantity of gas flowed is shrinkage gas, the main component of which is compressor fuel. The flow-based charge is derived from forecasted flows. The charge at entry points is the same for all entry points and the charge at exit points is the same for all exit points.

Table 2 Criteria Article 4(3a)

Criteria	Y/N?
levied for the purpose of covering the costs mainly driven by the quantity of the gas flow	Yes
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	Yes
expressed in monetary terms or in kind	Yes

- (90) The commodity CAA³⁹ index is not meaningfully applicable, since there are no transit flows via the Irish transmission network⁴⁰.
- (91) From the information CRU provides in the consultation document, the Agency considers the application of commodity charges in line with the requirements of the NC TAR.

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

- (92) 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.
- (93) CRU proposes to make use of non-transmission tariffs to cover the cost of the Corrib Linkline.
- (94) The Corrib Linkline is a 150-kilometre transmission pipeline from the Corrib gas field production facility at Bellanaboy to the ring main at Cappagh South.
- (95) CRU classifies the Corrib Linkline as a non-transmission service because, despite it being owned by GNI, it is not part of its regulated asset base, in line with Article 4(1)(b) of the NC TAR.
- (96) CRU states that, as the Corrib Linkline is a non-transmission service, its allowed revenue is recovered through a non-transmission service tariff, i.e. Corrib Linkline element of the Bellanaboy

³⁸ E.g. CO₂ emissions and less quantifiable costs such as wear and tear of the compressors. All these costs are estimated at 2.5% of transmission revenues.

³⁹ Presented at pages 90-91 of the consultation document.

⁴⁰ The Agency notes that the commodity CAA would have different values if the flows at the Twynholm exit point were considered.

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entry tariff. The non-transmission services revenue equals only 0.01% of allowed transmission services revenue. The non-transmission service tariff is equal to 494 EUR/MWh.

- (97) The non-transmission tariffs shall be cost-reflective, non-discriminatory, objective and transparent and shall be charged to the beneficiaries of the non-transmission service.
- (98) CRU proposes that:
- the users of the Corrib Linkline are charged the Corrib Linkline element since they are the beneficiaries of the pipeline;
 - the tariff of the Corrib Linkline is based on a standard ‘building blocks’ calculation⁴¹ which ensures cost-reflectivity and objectivity;
 - only the users of the Corrib Linkline pay the related tariff and all in the same amount, therefore the set non-transmission tariff is non-discriminatory and does not create undue cross-subsidy. The additional revenue is passed through to the Corrib Partners⁴².
- (99) The Agency notes that the consultation document does not address how the over- and under-recovery are addressed.
- (100) Apart from this, the Agency considers that the proposed non-transmission charges satisfy the requirements of Article 4(4) of the NC TAR.
- (101) The Agency recommends CRU to explain how the non-transmission over- and under-recovery are addressed.

5. Other comments

- (102) CRU proposes to recover certain charges outside the scope of the NC TAR via a dedicated disbursement account, instead of as part of the allowed revenue. CRU claims that these charges do not correspond to network costs and are in place to encourage certain shippers' behaviour. GNI is revenue neutral with respect to all these charges. These charges relate to:
- Cost of taking balancing actions;
 - Payments/charges to shippers as a result of shipper imbalances (imbalance commodity charges and scheduling charges);
 - Capacity overrun charges incurred by shippers;
 - Costs of stock movements/unaccounted for gas.
- (103) All items are allocated according to each shipper's throughput as a proportion of the total throughput, except for the capacity overrun charges which are reallocated according to each shipper's proportion of the total monthly capacity holdings.
- (104) The Agency notes that some of the proposed charges (e.g. the capacity overrun) might be related to access to the network and they would therefore be within the scope of the NC TAR. The Agency

⁴¹ The revenue regime is a target revenue regime. The annual target revenue is calculated as: depreciation + (asset value*WACC) + operating expenditure + replacement capital expenditure. The resulting Corrib Linkline tariffs are calculated as: annual target revenue ÷ throughput.

⁴² The operators who own the licence to exploit the Corrib gas field.

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recommends CRU to check the actual nature of such charges and, if they are connected to access to the network, to recover them via the RPM.

Annex 1: Legal framework

(105) 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.*

(106) 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:

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- (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.*

(107) 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;*

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(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.

(108) 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 nondiscriminatory 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.

(109) 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;*

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(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.

(110) 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
ACER	Agency for the Cooperation of Energy Regulators
CAA	Cost Allocation Assessment
CRU	Commission for Regulation of Utilities
CWD	Capacity Weighted Distance
EC	European Commission
EU	European Union
GNI	Gas Networks Ireland
IP	Interconnection Point
MS	Member State
NC TAR	Network code on harmonised transmission tariff structures for gas
NRA	National Regulatory Authority
RPM	Reference Price Methodology
TSO	Transmission System Operator



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