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## Agency Report

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

NRA: Energiavirasto  
TSO: Gasgrid Finland Oy

31 July 2020

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## 1. ACER conclusion

- (1) The Finnish Transmission System Operator ('TSO'), Gasgrid Finland Oy, has carried out the consultation on the reference price methodology ('RPM') for Finland. The proposed methodology is a postage stamp methodology. However, the proposed tariffs are derived not only by using this postage stamp methodology, but are also based on a broader scheme applicable to the Finnish, Estonian and Latvian networks ('FINESTLAT') for the integration of their markets. The complete methodology used to set tariffs for this region includes the following elements:
  - A common entry tariff of 142.77 €/MWh/d/y set at all external entry IPs of the FINESTLAT zone;
  - Zero tariffs at the IPs within the FINESTLAT zone;
  - An Inter-TSO compensation ('ITC') mechanism agreement applied to the revenues collected from entries. This revenue covers the variable costs of the three FINESTLAT TSOs, while the remaining amount collected by the ITC mechanism is distributed between TSOs proportionally to the consumption of each country of the FINESTLAT zone.
  - Finally, a separate postage stamp methodology solely applied to domestic and cross-border exits, applied per Member State ('MS') individually.
- (2) Based on this methodology a share of the TSO revenue is allocated to entries, while the remaining revenue is allocated to domestic and cross-border exits. The split of the revenue between the entries (based on the agreed entry tariff and subject to the ITC mechanism) and the exits (allocated based on the proposed postage stamp) is 13-87%.
- (3) The revenue allocated to entries from all FINESTLAT TSOs is gathered and re-assigned to TSOs on the basis of two criteria:
  - First, TSOs are compensated for the 'eligible variable' costs (mostly compression costs) of their whole networks. The expected amount of these variable costs is not clearly mentioned in the consultation document;
  - Second, the remaining part of the revenue recovered from entries is assigned to TSOs based on the domestic consumption of each involved MS.As a result of this ITC mechanism and of the setting of an agreed tariff to entries, the Agency understands that the postage stamp methodology is only applied to exits, while tariffs for entries to the FINESTLAT zone are agreed between the different parties and described by the proposed ITC mechanism.
- (4) The Agency repeats in this Report most of the conclusions that were already published in its reports regarding the Estonian<sup>1</sup> and Latvian<sup>2</sup> transmission tariffs. Indeed, while the ITC mechanism was accurately described in the Finnish consultation document, the Agency regrets once more that the settings of the ITC mechanism were designed upfront without joint consultation and decision of the concerned NRAs.

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<sup>1</sup> Agency Report on the Analysis of the Consultation Document for Estonia [https://www.acer.europa.eu/Official\\_documents/Acts\\_of\\_the\\_Agency/Publication/Agency%20Report%20-%20analysis%20of%20the%20consultation%20document%20for%20Estonia.pdf](https://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/Agency%20Report%20-%20analysis%20of%20the%20consultation%20document%20for%20Estonia.pdf)

<sup>2</sup> Agency Report on the Analysis of the Consultation Document for Latvia [https://www.acer.europa.eu/Official\\_documents/Acts\\_of\\_the\\_Agency/Publication/Agency%20Report%20-%20analysis%20of%20the%20consultation%20document%20for%20Latvia.pdf](https://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/Agency%20Report%20-%20analysis%20of%20the%20consultation%20document%20for%20Latvia.pdf)

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- (5) Pursuant to Article 27(2) of the NC TAR, the Agency has analysed the compliance of the proposed methodology to calculate tariffs, including both the proposed postage stamp methodology and the ITC mechanism, with the provisions of the NC TAR. Based on the available data, the Agency concludes that the methodology used to calculate tariffs does not fully comply with the requirements of transparency and cost-reflectivity. In particular, the allocation of the compression costs between the three TSOs of the FINESTLAT region should be reviewed and monitored by the Finnish NRA and the other concerned NRAs.
- (6) While the Agency favours the regional integration of markets, it regrets that in this case such an integration takes place at the price of incompliance with the NC TAR. Bilateral discussions with the concerned NRAs gave good hope that these inconsistencies with the NC TAR will only be temporary. The Agency provides in this Report several recommendations, to be applied both regionally and nationally in Finland, to achieve compliance with the NC TAR.
- (7) The Agency encourages the NRAs of the FINESTLAT region to consult jointly on the proposed ITC mechanism. While the latter requirement is not laid out in the NC TAR; it can be inferred from the joint reading of Articles 10 and 11 of the NC TAR. The Agency regrets that a consultation on the ITC mechanism was not carried out prior to or in parallel with the national tariff consultations of the FINESTLAT market zone. Such a consultation could take place within a period of one year. This time should allow clarifying among the parties involved in the process what are the realised and expected flow patterns within the FINESTLAT market zone (including those in the Balticconnector). Additionally, and given the role of future infrastructure to come online (such as the GIPL pipeline in 2022-23), a review of the flow patterns should take place again in 2023-24. These consultations should be based on greater coordination between the NRAs and TSOs involved, and should aim at harmonising the regulatory and tariff periods to manage the reconciliation mechanisms appropriately.
- (8) Regarding the consultation on the ITC mechanism, the Agency remarks that the consultation document:
- Should be compliant with the requirements listed under Article 10(3) of the NC TAR applicable for the ITC mechanism;
  - Should clarify the costs that are subject to the ITC mechanism. Ideally, the consultation should include an assessment of the assets that are used across the market zone along the steps proposed in Chapter 5;
  - Should assess the way in which costs that are subject to the ITC mechanism are redistributed. These costs should be assigned across the market zone to the beneficiaries of the merger along the steps proposed in Chapter 5. Such mechanism should inhibit cross-subsidisation between the cross-system and intra-system flows, as required by Article 10(3) of the NC TAR, and between the FINESTLAT networks.
- (9) Lastly, the Agency recommends the Finnish NRA to clarify the amounts designated in the consultation document as 'allowed revenue' and 'transmission revenue' and to check that they comply with the definitions of the NC TAR.

## 2. Introduction

- (11) Commission Regulation (EU) 2017/460 of 16 March 2017 establishes a network code on harmonised transmission tariff structures for gas (NC TAR).
- (12) 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>3</sup>. This Report presents the analysis of the Agency for the transmission system of Finland.
- (13) Finland was previously granted a derogation based on Article 49 of Directive 2009/73/EC, as the country was considered an isolated market. This derogation ended at the end of 2019, when the pipeline Balticconnector was commissioned, interconnecting the Finnish gas network with the Estonian one. Since then, the NC TAR applies in Finland and had to be implemented.
- (14) On 1 April 2020, the Finnish TSO launched its consultation. It remained open until 1 June 2020. On 11 June 2020, an English translation of the consultation responses and their evaluation by the Finnish NRA were forwarded to the Agency. On 30 June 2020, the TSO published a summary and an evaluation of these responses. The Agency has taken these into consideration for this analysis.
- (15) Within five months following the end of the final consultation, and pursuant to Article 27(4) of the NC TAR, the Finnish NRA shall take and publish a motivated decision on all the items set out in Article 26(1) of the NC TAR.
- (16) Together with their Latvian and Estonian counterparts, the Finnish NRA and TSO are involved in the regional market integration process FINESTLAT. Given the similarity of the RPM described in the Finnish consultation document with the RPMs earlier adopted in Latvia and Estonia, this Report will partly repeat the findings of the previous reports on these two countries.

### *Reading guide*

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

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<sup>3</sup> With the exception of Article 10(2)(b) of the NC TAR, when different RPMs may be applied by the TSOs within an entry-exit zone.

### 3. Completeness

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

- (18) 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.
- (19) Overall, most of the information in Article 26(1) of the NC TAR has been properly published. Nonetheless, given the specific situation of Finland and the ongoing FINESTLAT market integration, greater transparency should have been provided on some items, as indicated in Table 1.

Table 1 Checklist information Article 26(1)

Article	Information	Published: Y/N/NA
<b>26(1)(a)</b>	the description of the proposed reference price methodology	Partially (ITC)
<b>26(1)(a)(i)</b> <b>26(1)(a)(i)(1)</b> <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>	Partially (e.g. compression costs are not clearly forecasted)
<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	Yes
<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> <b>26(1)(c)(i)(1)</b> <b>26(1)(c)(i)(2)</b> <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
<b>26(1)(c)(ii)</b> <b>26(1)(c)(ii)(1)</b> <b>26(1)(c)(ii)(2)</b> <b>26(1)(c)(ii)(3)</b> <b>26(1)(c)(ii)(4)</b>	where non-transmission services provided to network users are proposed: <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> </ul>	Yes

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	<ul style="list-style-type: none"> <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>	
<b>26(1)(d)</b>	the indicative information set out in Article 30(2);	Yes
<b>26(1)(e)</b> <b>26(1)(e)(i)</b> <b>26(1)(e)(ii)</b> <b>26(1)(e)(iii)</b> <b>26(1)(e)(iv)</b>	<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. Compliance

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

- (20) 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: transparency, cost-reflectivity, non-discrimination, cross-subsidisation and cross-border trade.
- (21) As it was the case for Estonia and Latvia, the tariff setting calculation in Finland is partly determined by the regional market integration process of FINESTLAT. This analysis starts by presenting the scope adopted by the Agency to complete the assessment of the Finnish RPM (and which was previously adopted in the Latvian and Estonian cases). The remainder of the section assesses the compliance of the proposed tariff setting mechanism with the provisions of the NC TAR. The section concludes with an analysis on the requirements listed in Article 7 of the NC TAR.
- (22) The consultation carried out by the Finnish TSO is based on a market integration scheme that involves the FINESTLAT networks. A description of this setting is provided in the Finnish consultation document and in the Memorandum of Understanding between the FINESTLAT NRAs and the Lithuanian NRA and this Memorandum was included as part of the consultation documentation.
- (23) The market integration scheme includes the following elements relevant for the setting of gas transmission tariffs:
- A common entry tariff of 142.77 €/MWh/d/y set to all external entry IPs of the FINESTLAT zone;
  - Zero tariffs to the IPs within the FINESTLAT zone;



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- An ITC mechanism applied to the revenue collected from entries. This revenue covers the variable costs of the three involved TSOs, while the remaining amount collected by the ITC mechanism is distributed between TSOs, proportionally to the consumption of each country of the FINESTLAT zone;
- A national methodology applied individually per MS to set the tariff for exit points. Finland applies a postage stamp methodology to its domestic exits.

### 4.1.1 Preliminary considerations on the analysis of the Agency

- (24) In this context, this Report assesses the compliance of the regional and national tariffication schemes to cover all the tariffs applicable in Finland.

#### 4.1.1.1 Article 11 does not exempt from full compliance with the NC TAR

- (25) The standard application of the NC TAR is based on its Article 6(3) which prescribes that *the same methodology shall be applied to all entry and exit points in a given entry-exit system*. There are two articles covering exceptions to this rule, Article 10 of the NC TAR, applicable to entry-exit system within a MS where more than one TSO is active; and Article 11 of the NC TAR, applicable to entry-exit systems covering more than one MS. In the case of the FINESTLAT market zone, the latter article applies. Article 11 of the NC TAR allows the following options:

- Apply the same RPM jointly by all MSs;
- Apply the same RPM separately by the involved MSs;
- Apply different RPMs separately by the involved MSs.

- (26) In its consultation document, the Finnish TSO proposes to apply the postage stamp methodology separately (second option above). The Agency notes that while this option can be used for the purpose of integrating the three market zones, such process should maintain compliance with the rules of the NC TAR. Overall, the proposed postage stamp methodology is only applied to domestic exit points while the tariff at the cross-border entry from Russia (Imatra) is set by the ITC agreement between the three FINESTLAT TSOs.

- (27) As explained in its Latvian and Estonian tariff reports, the Agency does not consider that the RPMs applied in the three FINESTLAT countries are exactly the same, and the proposed approach is not fully compliant with Article 6(3) and Article 11 of the NC TAR. For instance, the regulatory and tariff periods, and the revenue reconciliation are not harmonised across countries. These aspects are discussed individually in this Report, questioning the compliance of certain aspects with the NC TAR, and warning that the chosen design can potentially lead to market inefficiencies within the integrated market zone. In addition to this, the Agency remarks that the choice to apply different RPMs per MS leads to very different domestic tariffs per network, which can further increase the inefficiencies within the region.

#### 4.1.1.2 No actual consultation has been carried out on the ITC

- (28) The specific application of Article 11 of the NC TAR, particularly in the form proposed in the FINESTLAT zone, leads to the need to apply an ITC mechanism to guarantee revenue recovery for the TSOs. Article 11, however, does not refer explicitly to the option of applying an ITC mechanism. It is instead Article 10 which defines and describes this option in detail. As explained

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in the Agency's Latvian and Estonian tariff reports, an ITC mechanism in an integrated market area may be necessary to ensure that TSOs are able to recover their allowed or target revenue. The Agency considers that it is indeed the case regarding the FINESTLAT region and that the application of an ITC mechanism is justified in the concerned countries on the basis of a joint reading of Articles 10 and 11 of the NC TAR, in particular with a view to Article 10(3), which describes relevant principles for '*an effective ITC mechanism*'.

- (29) At the same time, the Agency notes that, according to Article 10(5) of the NC TAR, the establishment of an ITC mechanism requires such a mechanism to be consulted at the same time as the RPM. In addition, Article 10(3) of the NC TAR lays out several requirements that the ITC mechanism should comply with:
- The ITC mechanism should prevent detrimental effects to the revenue recovery of the TSOs;
  - The ITC mechanism should avoid cross-subsidisation between intra-system and cross-system network use;
  - The ITC mechanism should ensure that the costs included in the mechanism correspond to those of an efficient TSO.
- (30) The Agency acknowledges that the ITC mechanism necessary to support the FINESTLAT zone is well described in the Finnish consultation document. Moreover, the Finnish TSO presents in its consultation document several scenarios, providing theoretical tariffs resulting from the application of CWD and postage stamp RPMs with and without the ITC. These scenarios allow to assess the quantitative impact of the ITC.
- (31) However and despite the scenarios, the Agency regrets that this ITC mechanism has not been properly consulted before its adoption, as the settings of this mechanism were decided without the stakeholders, by an agreement between the concerned TSOs before the consultation on the RPM for Finland. While the requirement to consult is only mentioned in Article 10 of the NC TAR, the same reasons that justify such consultations apply for Article 11 (despite the fact that Article 11 does not repeat the provisions related to the ITC mechanism). In addition, both Article 10 and 11 fall under Chapter II of the NC TAR, on '*Reference Price Methodologies*', which is subject to transparency and consultation requirements<sup>4</sup>.

### 4.1.1.3 The Agency's analysis looks at both national and regional elements

- (32) The Agency provides an assessment of the methodologies used to calculate tariffs, which include the postage stamp methodology, the ITC mechanism and the tariffs set at entries and intra market

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<sup>4</sup> Recital 2 of the NC TAR states that a crucial step in reaching the objectives of market integration, enhancing security of supply and promoting the interconnection between gas networks, '*is to increase the transparency of transmission tariff structures and procedures towards setting them. Therefore, it is necessary to set out the requirements for publishing the information related to the determination of the revenues of transmission system operators and to the derivation of different transmission and non-transmission tariffs. These requirements should enable network users to understand better the tariffs set for both transmission services and non-transmission services, as well as how such tariffs have changed, are set and may change*'. In addition, Recital 3 of the NC TAR states that '*the obligation to consult on the proposed reference price methodology should be laid down [serves to] achieve and ensure a reasonable level of cost reflectivity and predictability (...) of transmission tariffs*'. The Agency therefore understands that the TAR NC sets requirements to consult on all aspects related to the '*derivation of transmission tariffs*' with the aim of ensuring cost-reflectivity. Such obligations apply to the ITC, as it is a crucial element determining the cost-reflectivity of tariffs and it works in conjunction with the RPM itself.

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zone IPs. All these elements fall under Chapter II of the NC TAR. Article 27(2) requires that the Agency analyse *whether the proposed reference price methodology complies with the requirements set out in Article 7*.

### 4.1.2 Proposed tariff setting methodology for Finland

- (33) The following section assesses the four main components used to set tariffs regionally and for Finland.

#### 4.1.2.1 Common entry tariff of 142.77 €/MWh/d/y for the FINESTLAT zone

- (34) As in the Latvian and Estonian cases, the consultation proposes a tariff of 142.77 €/MWh/d/y deriving from the ITC agreement between the three TSOs to be applied at entries to the FINESTLAT zone, including Imatra, the Finnish entry point from Russia. This tariff is set at the proposed level to match the average EU gas transmission tariff for firm entry capacity at cross-border IPs.
- (35) Once the capacity tariff at entries is set, based on forecasted flows and assumptions of yearly and short term bookings, it is possible to calculate the revenue to be recovered from entries. The remainder of the allowed or target revenue per TSO is allocated to exits. In the consultation document, the Finnish TSO proposes tariffs resulting in an entry-exit split of 13-87%, which corresponds, on the one hand, to the amount of revenue forecasted to be recovered using the common entry tariff (13%), and, on the other hand, to the revenue forecasted to be recovered at domestic exits using the RPM (87%).
- (36) As already mentioned in the Latvian and Estonian reports, the Agency remarks the NC TAR foresees several tools to arrive at a common entry tariff, such as the adjustment of the entry-exit split, the application of benchmarking<sup>5</sup>, or the application of equalisation when applying the same RPM to different entry-exit zones jointly. In all cases, the revenue that is not allocated to entry points is allocated to exit points. Such instruments, however, require the application of the RPM to all points of the networks, and the fulfilment of the transparency provisions, to allow network users to reproduce and forecast tariffs on the basis of well-defined RPM and regulatory periods.
- (37) In the case of the FINESTLAT zone, setting a single entry tariff to the market zone would be possible. However, the Agency understands that the features that were described in the consultation document lead to the RPM being applied only to domestic points and that tariffs at entries are set ex-ante in the ITC agreement, outside of this RPM. As for Latvia and Estonia, the Agency recommends the Finnish NRA to review the compliance of the proposed calculation for deriving tariffs with the provisions of the NC TAR, so that the agreed entry tariff for the FINESTLAT market zone is accompanied by clear and well described steps explaining how the RPM is applied to all points and how different adjustments are applied to arrive at a common entry tariff.

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<sup>5</sup> The Agency provides guidelines for the application of benchmarking in the Agency Report on the Analysis of the Consultation Document for Slovakia ([link](#))

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### 4.1.2.2 Zero tariffs to the IPs within the FINESTLAT zone

- (38) With the purpose of promoting cross-border trade across the FINESTLAT zone, the tariffs at IPs within the zone are removed (including entry and exit tariffs at the Balticconnector, connecting Finland and Estonia). The removal of tariffs at specific points implies that the revenue associated to these points is not recovered by the users of these points. This revenue will therefore be recovered from other points, potentially leading to undue cross-subsidisation between network users. The consultation document assesses the impact of this measure by presenting the theoretical tariffs that would have been applied without the ITC. The Agency provides a conclusion on these effects in the next section.

### 4.1.2.3 ITC mechanism

- (39) The consultation document refers to an ITC mechanism that is applied to all the revenue recovered from the common entry tariffs of 142.77 €/MWh/d/y set for the FINESTLAT zone.
- (40) The revenue from entries is gathered and later allocated to TSOs according to two criteria.
- First, each TSO is compensated fully for its 'eligible variable' costs (mostly compression costs necessary to flow gas at a regional level). The figures provided in the Finnish consultation document do not allow to estimate how much these variable costs amount to.
  - Second, the remaining revenue collected at the entries of the FINESTLAT region is allocated to each TSO in proportion to the share of consumption associated to its network users compared to the total consumption of the FINESTLAT region.
- (41) The revenue corresponding to the 142.77 €/MWh/d/y tariff set at entries is not calculated on the basis of costs of specific assets. As explained in the previous paragraph, a first part of this revenue is used to recover the compression costs of each TSO, while the remaining 86.2% is allocated to each TSO in proportion to its share of consumption. Finally, the remainder of the costs of each TSO that are not subject to the ITC mechanism are recovered from their respective domestic exit points.
- (42) The Agency regrets that the ITC mechanism has not been consulted before its adoption by the concerned TSOs. To the Agency's knowledge, this mechanism was only implicitly validated ex-post by the Estonian and Latvian NRAs in their respective tariff decisions. The Agency recommends the NRAs participating in the market integration process to launch a joint consultation specifically dedicated to the ITC mechanism with the aim of providing a joint NRA decision. Such consultation should address the following points already detailed in the Estonian and Latvian tariff reports.
- (43) First, the costs that are subject to the ITC mechanism should be clearly delineated. The current proposal applies to variable costs and to other unspecified costs, without providing a justification for how such amounts have been set. The Agency understands that such figures result from setting the tariff to entry points to 142.77 €/MWh/d/y rather than from an assessment of the share of costs that should be included in the ITC mechanism. In Chapter 5 of this report, the Agency provides guidance for a cost benefit analysis that would allow the FINESTLAT NRAs to identify the transmission assets used within the regional market zone and the costs that should be logged into the ITC mechanism. The allocation of these costs should be distributed to the beneficiaries of the integration to ensure cost-reflectivity of the mechanism as described in the next point.

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- (44) Second, the calculation to redistribute the costs subject to the ITC mechanism should aim at being cost-reflective. The proposed ITC mechanism is designed in such a way that it provides compensation in cases even where a TSO bears no costs<sup>6</sup>. This is because the TSOs' costs are mostly related to the cost drivers of capacity and distance, while the criteria for distributing the revenue logged into the ITC mechanism is based on the gas consumption. Both aspects, the costs drivers of capacity and distance on the one side, and domestic consumption on the other, are not necessarily correlated, and are particularly not correlated in cases where a network is used to transport gas to neighbouring networks (cross-system use of the network). The Agency understands that the main objective of the current ITC design is to ensure stable revenues to all involved TSOs, even if the regional market integration makes the flows less predictable. This objective is legitimate. Nonetheless, the Agency recommends that the redistribution of the revenues that are subject to the ITC mechanism be assessed against Article 10(3)(a) of the NC TAR and is in line with Chapter 5. Such an assessment should provide clarity on the potential cross-subsidisation resulting from the ITC mechanism.
- (45) Third, the joint consultation should aim at the harmonisation of the tariff and regulatory periods and should touch upon the regulatory accounts of the TSOs involved to ensure that reconciliations are performed under similar conditions across the involved TSOs.

### 4.1.2.4 Proposed postage stamp RPM

- (46) The postage stamp RPM proposed by the Finnish TSO is applied only to domestic exits and allocates the revenue that is not recovered at entry points. The Agency has several remarks regarding the assessment of the proposed RPM provided in the consultation document.
- (47) The calculation provided shows that the domestic exit tariff derives from an assumption of annualised bookings. This assumption is explicitly based on the forecasted domestic consumption and on the multipliers determining the reserve prices of short term capacity products. These data are also provided in the simplified tariff excel file published by the TSO. The Agency considers that these detailed figures provide sufficient clarity on the tariff calculation.
- (48) Second, the consultation document provides several versions of the CAA, considering different scenarios, allowing to compare the Postage Stamp with or without the ITC. These calculations are done with booked capacity as the only cost driver. The Agency welcomes the level of detail provided, which allows to assess the specificities of the Finnish transmission tariffs and the impact of the ITC. The result of the CAA taking into account the ITC is 200%, well above the 10%

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<sup>6</sup> The Agency provides the following examples of cases:

- Should the Latvian exit to and entry from storage be discounted, it is not clear whether such discount is born only by Latvian users or by users of the FINESLAT market zone. In the former case, Latvian users would cross-subsidise neighbouring users if these were to use the Latvian storage.
- Should users of the Russian system access the Latvian storage, the Finnish TSO could receive a compensation even if not bearing any costs for the service.
- Should users in the Lithuanian network access the Latvian storage, the Finnish and Estonian TSOs would receive some compensation even if not bearing any costs for the service.

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recommended by the NC TAR, but appears to be a logical result of the market integration. (The only cross-border point whose tariff is not cancelled is the entry from Russia, Imatra<sup>7</sup>.)

- (49) Third, the comparison with the CWD methodology provided in the consultation document also takes into account several scenarios to assess how variations of transit flows would impact tariffs. However, this comparison is only available without taking into account the ITC. It shows that there would be an important difference in exit tariffs if a CWD RPM was applied. More distant exit points and points with a lower usage rate would have higher tariffs under a CWD methodology.

### 4.1.3 Compliance with the requirements set out in Article 7

- (50) The information received on the ITC mechanism is only partial; therefore the analysis on the compliance of the proposed tariffs with Article 7 of the NC TAR cannot conclude that the requirements on cost reflectivity, non-discrimination, cross-subsidisation and cross-border trade are fulfilled.

#### 4.1.3.1 Transparency

- (51) **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. In the context of the Finnish consultation, the tariffs are determined by the postage stamp methodology and by the additional market integration setting, including the ITC mechanism.
- (52) The consultation document does not provide sufficient justifications about the portion of costs logged into the ITC mechanism, which determines the revenue split between entries and exits. The Agency recommends the NRA to provide further justifications and to clarify the parameters of the tariff model allowing to calculate tariffs. Such model should include the required steps related to the ITC mechanism and to the split of revenues between all entries and all exits.
- (53) Moreover, the Agency considers that there is an inconsistency in the consultation document between the amounts of the allowed revenue and of the transmission revenue. While the document correctly quotes the definition of allowed revenue provided by the NC TAR (the sum of transmission services revenue and non-transmission services revenue), the document indicates amounts for the transmission revenue well above the total allowed revenue<sup>8</sup>. Based on its exchanges with the Finnish NRA, the Agency suspects that either differently used terminology or translation error explains this inconsistency. The amounts designated as allowed revenue would only relate to CAPEX. The Agency recommends the Finnish NRA to clarify this point in its tariff decision and to make sure that all the transparency requirements of the NC TAR are fulfilled (in particular the ones related to the TSO's allowed revenue in Article 30(b)).

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<sup>7</sup> In its calculation of the Cost Allocation Assessment, the Finnish TSO considers that all the revenue collected at Imatra corresponds to an 'intra-system network use'. The Agency considers, on the contrary, that a portion of this revenue corresponds to a cross-system use. Indeed, the Finnish TSO assumes in its calculation that 1,66TWh/year will transit across Finland from Russia to Estonia. This shift of revenue from intra-system to cross-system use would approximately amount to 650 k€. However, it does not qualitatively change the conclusion of the CAA.

<sup>8</sup> Amounts indicated for the transmission revenue remain above 80 M€ from 2020 to 2023, while the allowed revenue would remain below 50M€ during the same period.

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### 4.1.3.2 Cost-reflectivity

- (54) **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.
- (55) Due to the partial information made available on the ITC mechanism, the Agency cannot fully assess the compliance of the proposed tariffs with the principle of cost-reflectivity. The Agency looks forward to completing this analysis once the full ITC mechanism is consulted by the NRAs involved in the FINESLAT market integration. The allocation of the compression costs between the three TSOs of the FINESTLAT region should in particular be monitored.

### 4.1.3.3 Cross-subsidisation and non-discrimination

- (56) **Article 7(c)** of the NC TAR requires the RPM to ensure non-discrimination and prevent undue cross-subsidisation.
- (57) One instrument to evaluate the compliance with the principle of avoiding cross-subsidisation is the CAA (Article 5 of the NC TAR). As it was the case for the Latvian and Estonian systems, this assessment shows that the FINESTLAT market integration will induce cross-subsidies between intra-system and cross-system users. This is the logical consequence of the market integration. The expected benefits in terms of cheaper access to alternative source of gas, market liquidity and competition will likely compensate this downside.
- (58) Regarding the requirement of ensuring non-discrimination, the Agency has not identified any form of discrimination related to the proposed RPM. For this analysis, the Agency defines 'discrimination' as 'charging different prices to different network users for identical gas transmission service'.

### 4.1.3.4 Volume risk

- (59) **Article 7(d)** of the NC TAR requires that the RPM ensure that significant volume risk related particularly to transport across an entry-exit system is not assigned to final customers within that entry-exit system.
- (60) Given the characteristics of the Finnish transmission system, such a risk seems unlikely.

### 4.1.3.5 Cross-border trade

- (61) **Article 7(e)** of the NC TAR requires that the RPM ensures that the resulting reference prices do not distort cross-border trade.
- (62) The Agency considers that the FINESTLAT market integration should favour cross-border trade within the region and that the proposed RPM complies with this requirement.

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

- (63) 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) are met.

- (64) The use of commodity-based transmission tariffs is an exception. Only part of the transmission services revenue may be recovered by commodity-based transmission tariffs. The Finnish TSO proposes to apply a commodity-based transmission tariffs at its domestic exits. The capacity-commodity split would be 96/4. The commodity charge should allow to recover only 3 M€ in 2021, corresponding to compression costs and maintenance costs mainly driven by the quantity of the gas flow.
- (65) Therefore, the Agency considers that this flow-based charge is in line with the requirements of Article 4(3) of the NC TAR.

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

- (66) 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.
- (67) The TSO proposes to recover a limited set of costs as a non-transmission charge that would be applied to domestic exit points (approximately 0.2 M€ per year). This charge would correspond to the costs induced by the centralized information exchange system, datahub<sup>9</sup>, which was introduced in the retail market.
- (68) To the extent that these costs induced by the retail market are published in a transparent manner, and are charged at domestic exits, the Agency considers that such a non-transmission charge would comply with the requirements set out in Article 4(4).

## 5. Other comments: the regional ITC mechanism

- (69) The Agency acknowledges that an ITC agreement is necessary to enable the FINESTLAT countries to make progress towards a truly integrated regional gas market, especially if greater focus is put on keeping stable and predictable revenues, while implementing zero tariffs between their respective networks. It also acknowledges that developing a regional ITC mechanism is a complex task.
- (70) As explained in its Report on the Latvian transmission tariff, the Agency considers that the current ITC mechanism is not sufficient to prevent cross-subsidies in the long-run, as it is not based on an assessment of the costs that are caused by cross-border users. Therefore, the current design can only be transitory towards a more established ITC setting. In this context, the Agency would consider the following steps meaningful for creating a more sustainable ITC mechanism in the future.
- (71) First, the transmission assets jointly used within the regional market zone and their associated costs should be identified to ensure an acceptable level of cost-reflectivity at a regional level. Such an

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<sup>9</sup> This information system is a monopoly. Its regulation is under development. By the end of 2020, the legislation concerning the Act on the Control of the Electricity and Natural Gas Market should clarify its regulatory framework.



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assessment should be based on a forecast of the flows across the FINESLAT market zone, and these costs should be logged into the ITC mechanism.

- (72) Second, the ITC mechanism should ideally aim at allocating these costs in a manner that is in line with the distribution of the benefits of the market integration. In this way, the ITC mechanism would be sustainable as it could be used both for the costs of the existing infrastructure and for new investments. In addition, the cost-reflectivity principle promoted by the NC TAR would be safeguarded, since this kind of mechanism would allow to allocate efficient costs to their beneficiaries (and exclude sunk costs of over-dimensioned infrastructures).
- (73) The last step in this process would be to adjust the domestic exits of each TSOs within the regional market, to allow them to recover their allowed or target revenue from domestic users after the contribution of cross-border users to the ITC mechanism has been established.

## Annex 1: Legal framework

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.*

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.*

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.

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.

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.*

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 non-transmission 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>CAA</b>	Cost Allocation Assessment
<b>CAPEX</b>	Capital Expenditures
<b>CBCA</b>	Cross border cost allocation
<b>CWD</b>	Capacity Weighted Distance
<b>EC</b>	European Commission
<b>ENTSOG</b>	European Network of Transmission System Operators for Gas
<b>EU</b>	European Union
<b>FINESLAT</b>	Market integration zone involving Finland, Estonia and Latvia.
<b>IP</b>	Interconnection Point
<b>MS</b>	Member State
<b>NC BAL</b>	Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a network code on gas balancing of transmission networks
<b>NC CAM</b>	Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission networks
<b>NC TAR</b>	Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas transmission networks
<b>NRA</b>	National Regulatory Authority
<b>OPEX</b>	Operational Expenditures
<b>RAB</b>	Regulated Asset Base
<b>RPM</b>	Reference Price Methodology
<b>TSO</b>	Transmission System Operator
<b>VIP</b>	Virtual Interconnection Point



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