Questionnaire for the Draft Framework Guideline on Harmonised transmission tariff structures[1]

Centrica Storage

Please provide the Agency with your full contact details, allowing us to revert to you with specific questions concerning your answers.

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Please indicate, if your company/organisation is:

Storage System Operator (with Shipper Licence)

1 Further also referred to as "FG". The resulting Network code on Harmonised transmission tariff structures is further also referred to as "NC".

Please note that Centrica Storage Limited is legally, financially and physically separate from Centrica plc. This response has been prepared separately from other parts of the business and primarily focuses on issues relating to storage.

Please provide, if relevant, reasoned indication if you wish to consider (part of) your response as confidential[2].

When writing your responses could you include how your arguments contribute to the objectives set out in section 1.2 of the draft Framework Guideline. For definitions please consult section 1.3 of the draft FG.

1. **General provisions. Scope, application, definitions and implementation (Chapter 1 of the draft Framework Guideline)**

1.1. Please explain whether any of aspects of the application of the draft FG (NC) to existing contracts would cause disproportionate effects on gas business in relation to 3rd Package objectives?

As the scope of the draft FG may extends beyond interconnection points, and could, depending on final drafting, have significant implications for the distribution of costs across all network users there is a potential significant risk of it having disproportionate effect on existing capacity holders.

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2 The Agency shall carefully consider all responses received (whether confidential or not) subject to the provision that anonymous responses or responses from respondents who do not want their identity to be made public will generally not be taken into consideration. The Agency will make public the number of responses received to formal consultations, the names of the respondents, and all non-confidential responses. Respondents may request that information or data in their responses is treated as confidential. The Agency will assess, in co-ordination with the respondents requesting confidentiality, which information or data shall not be made public and may request from the respondents an explanation of their confidentiality interests and a non-confidential version of their response for publication. The Agency will evaluate confidential responses as transparently as possible without undermining the respondents' confidentiality interests.

CSL generally supports the objectives of promoting transparency, cost-reflectivity and non-discrimination, etc. in the methodologies used in member states for setting access tariffs. However, this objective should not be used to drive unnecessary uniformity of charging regimes across Europe. It is possible for member states to maintain different tariff setting regimes which promote the desired objectives. In contrast significant and unwarranted changes could in fact undermine objectives such as promoting competition and liquidity should they result in significant changes in the costs of market participants.

The potential challenges faced by network users would be amplified if sufficient lead times are not provided for implementation. CSL would suggest that 12-18months may not provide sufficient time in GB if the FG (NC) results in significant changes to existing charging arrangements.

1.2. Please explain if any further definitions should be added for clarity of the FG (NC)?

No. However, CSL would note that the overall clarity regarding which aspects of the FG (NC) are intended to apply to interconnector points and which aspects apply to all entry/exit points

2. <u>Cost allocation and determination of the reference price (Chapter 2 of the draft Framework Guideline)</u>

2.1. Transparency provisions

2.1.1 Do you agree with the level of harmonization proposed for the transparency in relation to tariffication methodologies[3]?

CSL is supportive of proposals to improve the transparency of tariff setting methodologies. For parties currently operating and/or seeking to invest in major gas infrastructure, being able to reasonably forecast future capacity costs is vital. Given this, all TSOs should be required to

[3] Article 18(2) of Regulation 715/2009 states that: “In order to ensure transparent […] tariffs […], transmission system operators or relevant national authorities shall publish reasonably and sufficiently detailed information on tariff derivation, methodology and structure”. The proposed text in the draft FG seeks to ensure such reasonable and sufficient detailed information.

release the relevant tariff models, which provide sufficient transparency for network users to replicate the TSO's calculations, not just final results.

2.1.2 Would you support additional requirement(s) to ensure "reasonable and sufficiently" detailed tariff information[4]? For example, one could consider including a provision such as: "the transmission system operators or relevant national authorities shall provide additional information if a significant tariff fluctuation is expected on a specific or on all entry- and exit points".

CSL's view is that TSOs (or NRAs where applicable) should provide as much information on changes in tariffs as often as reasonably practicable.

2.2 Cost allocation and reference price setting methodology, general questions.

2.2.1 Do you agree with proposed level of harmonization for the reference price setting methodology, aiming for same methodology for all types of network users per one entry-exit zone?

CSL is generally supportive of having the same methodology for all types of network user being a key driver of the reserve price setting methodology in the same entry-exit zone. However, this view is conditional on both: the capacity and commodity model for revenue recovery, as used in the GB market continuing to be applicable; and the methodology itself appropriately capturing the benefits that storage facilities provide to the network.

2.3 Cost allocation and the Reference price setting methodology, detailed questions.

2.3.1 **Do you agree with proposed option for setting reference prices for entry capacity i.e. to have methodology based on major cost driver (e.g. distance) unless use of equal tariffs can be justified?**

[4] Article 18(2) of Regulation 715/2009 states that: "In order to ensure transparent […] tariffs […], transmission system operators or relevant national authorities shall publish reasonably and sufficiently detailed information on tariff derivation, methodology and structure".

CSL's view is that entry and exit charges should be reflective of the long run marginal cost. Distance while important is just one element that needs to be taken into consideration. An LRMC model would also reflect supply and demand patterns, demand for new investment and the potential to reallocate or substitute spare capacity. It is worth noting that an entry/exit model driven by distance would not capture the benefits that storage facilities deliver to the entry/exit zone.

2.4 Pricing of entry- and exit capacity on the transmission network to and from gas storage facilities (see also questions under '9' Locational signals).

2.4.1. Do you agree with proposed option to base tariffs for entry and exit capacity on the transmission network to and from gas storage facilities at an adequate discount to other entry and exit points on the TSO?

CSL's is supportive of any tariff setting methodology reflecting the benefits that storage provides to the network and network users (eg lowering investment requirements, managing peak loads etc). In the GB market, these benefits may be captured by the LRMC and by the commodity charge not being applied to gas entering and exiting storage.

It is important that any entry/exit charging methodology does not render storage as uncompetitive against other sources of flexibility.

2.4.2. Do you agree with harmonization of such a discount across all storage points in the EU?

Please reason your answer, including any quantitative evidence, tables and examples. Please also specify, if you believe that harmonization should go even further, e.g. benchmarking absolute entry-exit tariff levels for gas storage sites.

No. However CSL does support harmonizing the principles for setting entry/exit tariffs such that the methodology used adequately reflects the benefits storage provides to the relevant entry/exit zone.

2.4.3. If you prefer harmonization for an 'adequate' discount, which level of such a discount applied to firm capacity level do you advocate?

See above.

2.4.4. What are your views on harmonization of tariff measures, leading to harmonization of transmission tariff levels across all storage points in the EU (instead of harmonizing a discount across all storage points in the EU)?

Please reason your answer, including any quantitative evidence, tables and examples. Please consider question 2.4.2, where we also asked about your ideas on benchmarking of absolute entry-exit tariff levels for gas storage sites.

Please see our answer to 2.4.2.

3. Revenue recovery (Chapter 3 of the draft Framework Guideline)

3.1. General – interdependency questions.

Introduction.

3.3. Reconciliation of Regulatory accounts.

3.3.1. Which option for the reconciliation of regulatory accounts do you prefer?

No opinion. First it is not clear whether the regulatory account proposals are intended to apply to interconnection points or the entire entry/exit zone.

However, assuming this proposal is based to be applied to the zone, TSOs should have the option of applying either a capacity only or a capacity/commodity model. Under either model the aim should be to minimise both under/over-recovery and volatility of charges.

4. Reserve prices (Chapter 4 of the Framework Guideline)

NB: when answering, please specify if your answer differs for daily, monthly and/or quarterly products.

4.1 General.

4.1.1 Do you consider it sufficient to have rules on firm, interruptible and non-physical backhaul capacity products or are you aware of other capacity products that should be addressed in the FG?

Yes because it is consistent with the CAM NC.

4.2 Reserve prices (firm)

4.2.1 Do you agree with proposed level of harmonization?

No because it could result in market distortions and added uncertainty (regulatory risk).

4.2.5. Would you agree with using Seasonality (or other criteria, which you may suggest) of the systems as criteria to set the Reserve price for short-term products that will be higher than the price of an annual product, to interconnection points?

CSL would be supportive of the use of different capacity products that are aligned with the requirements of system users. However, it may be better to use specifically designed products than developing rules and limited that are hard coded into the NC.

4.3 Reserve prices (interruptible)

4.3.1 Do you agree with proposed option to set Interruptible Reserve prices at a discount to firm capacity where the discount is based on the likelihood of interruption, and to recalculate once a year?

Yes on the basis that the reserve price for interruptible services can be set at zero. In respect of storage, customers factor in the perceived risk of interruption when valuing storage products.

4.3.2 If you prefer a fixed discount, which level of such a discount applied to firm capacity level do you advocate?

The discount should not be fixed but should reflect the probability of interruption.

4.3.3 Do you agree with application of the proposed option to entry and exit points where the Network Code on CAM applies, i.e. interconnection points only?

Yes because it is consistent with CAM.

8. <u>Incremental capacity (no explicit chapter in draft FG, implications at least to chapters 2/3 foreseen).</u>

8.1. Please provide evidence of concrete problems with the current arrangements for incremental capacities, whereas these problems affect tariff structures in EU.

The integrated auction process in the GB market has generally worked well.

8.3. Are there any other elements required in the Network Code on transmission tariff structures, to accommodate incremental capacity offer (e.g. influence on regulatory accounts, regulatory periods length, requirement for a fixed for period of years tariffs).

Clear rules are needed to ensure that shippers are committed to pay for contracted capacity that is underpinning new investments, with appropriate and fair credit arrangements in place.

9. <u>*Usage of locational signals* (no explicit chapter in FG, implications at least to chapters 2/3/4 foreseen).</u>

9.1 Please provide evidence of concrete problems with the current arrangements for locational signals.

No evidence

9.2. Are there any other elements required in the Network Code on transmission tariff structures to accommodate locational signals?

No, locational signals would naturally be accommodated if the tariff methodology was based on long-run marginal costs.

9.3. Please consider whether the chapter on 'Reference price' should have more options added in regard to use of locational signals. Please consider specifically how tariff structures can be used to signal investment for e.g. gas-fired power plants, storages, LNG terminals, etc.

As noted the methodology for setting tariffs should address the benefits storage brings to the system and that entry/exit charges should not render storage uncompetitive. However, it is unlikely that locational signals are likely to make storage investments competitive. There is also a risk that if any 'signal' is short lived that it could result in stranded assets.

9.5 Specific treatment of LNG (if any) considered, in view of considering specific storage treatment (see questions under 2.4).

To the extent that LNG is covered by the scope of the FG, LNG terminals should be treated in the same way as other entry points to the system.

9.5.1. Do you think that tariffs for entry and exit capacity from the LNG terminal could incorporate a discount relative to other entry and exit tariffs on the TSO, similar to the proposed option for underground gas storage?

No. To the extent that LNG is covered by the scope of the FG, LNG terminals represent another entry point to the transmission network and should not have any special treatment.

Thank you very much for your contribution, and do not hesitate to contact ACER staff if you have any questions regarding the questions.