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

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

Name: *Helen Stack*

Position held: *Commercial Manager, Regulatory Affairs*

Phone number and e-mail: *helen.stack@centrica.com*

Name and address of the company you represent: *Centrica Plc*

Millstream, Maidenhead Road, Windsor, United Kingdom, SL4 5GD

Please indicate, if your company/organisation is:

- ~~**a. European association**~~
- ~~**b. National association**~~
- ~~**c. TSO**~~
- **d. Shipper or energy trading entity**
- **e. End-user** – as a power station owner & operator
- ~~**f. Other (e.g. Power Exchanges, Storage Operator etc.), namely:……**~~

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

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

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.

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?

The draft FG could have a disproportionate effect if the impact on existing capacity contracts is not carefully handled. Depending on the final contents of the FG, the move to a floating regulated price and changes to the apportionment of costs could substantially change the price paid by network users for their existing capacity. This would create winners and losers and could harm the businesses of individual shippers who could not have foreseen such changes at the time capacity was booked in good faith. New entrants risk suffering greater negative effects compared to incumbent shippers with broader capacity portfolios where the relative gains and losses might be balanced out. Sudden tariff increases could also foreclose gas trading on affected hubs.

Where negative effects are foreseen, mitigating measures should be considered such as the option for shippers to terminate transmission contracts that are made uneconomical by the FG (NC). This would have to be carefully handled to ensure that any resulting lost revenue to the TSO is not unfairly borne by other network users.

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.

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

Not at this stage. Further and more precise definitions may well be needed at the Network Code development stage.

Some of the terminology used in the draft FG is too vague e.g. it is not clear what is meant by "an adequate discount" for entry/exit to storage facilities.

1.3. Please suggest the top-5 *core indicators*[3] for monitoring the future EU-wide implementation of the future tariff FG (NC)? ACER and ENTSO-G both have legal obligations to monitor NC implementation (in accordance with Article 9 (1) and Article 8(8) of Regulation (EC) No 715/2009 respectively).

- Compliance with transparency and reporting requirements, including an assessment by network users on the user-friendliness and timeliness of the data provided by the TSO and NRA. The monitoring could also consider the general clarity of the charging methodology.
- Satisfaction of network users with the consultation processes of the TSOs and NRAs in relation to tariff development.
- Monitoring the transmission costs of hub-to-hub trading against hub development.
- Monitoring the booking rates and product types booked by network users at IPs after application of the NC – including requests for new investment in capacity. This will help test if the NC is leading to changes in gas trades, flows and system development.
- Levels of and reasons for under and over-recovery. How successful is the tariff regime at minimising under and over-recovery? Where under-recovery occurs, what effect does the subsequent tariff adjustment or additional charge have on the volatility of transmission costs and commodity prices?

3 An example of a *core indicator* could be e.g. the relative size of (positive or negative) Regulatory account in comparison to overall Tariff revenues, indicating under- or over recovery of the tariff regime in a specific entry- and exit zone.

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

2.1. Transparency provisions

2.1.1 Do you agree with the level of harmonization proposed for the transparency in relation to tariffication methodologies[4]?

No. Although the FG is heading in the right direction and will represent an improvement in many Member States, much more detail on the breakdown of costs and modelling assumptions should be shared with network users. All TSOs should be required to release the tariff models used, allowing network users to replicate the TSO's calculations. The level of transparency should also allow network users to reasonably forecast future tariffs. Given the importance of cross-border gas trade the documents containing this information must be published in English, as well as the national language(s).

2.1.2 Would you support additional requirement(s) to ensure "reasonable and sufficiently" detailed tariff information[5]? 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".

Yes, the provision of detailed information should be the norm. For the example given of a tariff fluctuation, the TSO and/or NRA should provide a fully reasoned explanation for the change. The

[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". The proposed text in the draft FG seeks to ensure such reasonable and sufficient detailed information.

[5] 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".

provision of such information should not be limited to "significant" fluctuations, as this is a subjective decision. Very small changes in tariffs can make hub-to-hub trading uneconomic.

There should be greater harmonisation and coordination around the frequency and timing of tariff changes at cross-border points.

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?

In principle yes, the same methodology and assumptions should be used to set all transmission tariffs for all network users in the same entry-exit zone. Our agreement is conditional on the understanding that tariffs such as short-haul can continue to be applied where this is more efficient, as suggested in the Impact Assessment. We also agree that operational costs driven mainly by the volume of flows can be recovered via a specific commodity charge upon approval by the NRA.

Whilst short-haul tariffs may be different the assumptions and methodology should be consistent with the general transmission tariff principles and capacity products.

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?

We believe that reference prices should be based on efficiently incurred costs. We do not support the text as written. Whilst we might expect the reference prices to have a strong distance element in the underlying cost drivers, care needs to be taken on how this distance element is derived to ensure it is truly cost reflective and non-discriminatory. An LRMC model would also reflect supply and demand patterns, demand for new investment and the potential to reallocate or substitute spare capacity.

If NRAs were allowed to adopt an equalisation approach it is vital that this is supported by robust proof that this will not result in discrimination. TSOs and NRAs should be strongly encouraged to move away from an equalisation approach in favour of the default model.

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

We do not support the proposal as written in the draft FG. As mentioned in our response to 2.3.1, care has to be taken in how any distance element is derived to ensure that is truly cost reflective and non-discriminatory. For example, if tariffs are based on the distance of an IP from a virtual central point within a Member State then where that virtual central point is located could result in discrimination.

An LRMC model would also reflect supply and demand patterns, demand for new investment and the potential to reallocate or substitute spare capacity. (The latter refers to the TSO moving capacity from one system point to another to maximise the overall available capacity in the system before the need for incremental capacity.)

If NRAs are allowed to adopt an equalisation approach it is vital that this is supported by robust proof that this will not result in discrimination. TSOs and NRAs should be strongly encouraged to move away from an equalisation approach in favour of the default model.

2.3.3. Do you agree with the cost allocation principle that revenue from entry points should equal 50% of revenue from all entry and exit points?

A 50/50 split in cost allocation could be used as a guideline and default starting point for consultation between stakeholders. However, it may not be appropriate to set a precise figure in the Network Code. The main driver should be to obtain a cost split that meets the objectives of the Framework Guideline, including non-discrimination between network use for domestic consumption and network user for cross-border trade.

We strongly support a FG that is designed to avoid charges which inhibit cross-border trade, hence our concern about the impact of under-recovery on the volatility of future charges related to use of the transmission system. One option to avoid future under-recovery at a given point could be to allow adjustments to the 50/50 (or chosen national) split at points where under-recovery is likely to be an issue.

As mentioned in our answer to 1.1, if a move to 50/50 would significantly disadvantage existing capacity holders, shippers should be allowed to terminate transmission contracts that are made uneconomic. This would have to be carefully handled to ensure that any resulting lost revenue to the TSO is unfairly borne by other network users.

2.3.4. Do you agree with application of the proposed options for setting reference prices to all entry and exit points (without any separate mechanism for the domestic points, whilst ensuring no discrimination between domestic and cross-border network usage)?

Yes, because the same principles should be applied to domestic and cross-border exit to ensure non-discrimination and that tariffs are broadly cost reflective. The wording in the draft FG on this question is appropriate. Some flexibility should be allowed for NRAs to avoid perverse incentives e.g. concerning entry/exit for storage facilities and short haul tariffs.

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?

No, we do not support a single fixed percentage discount as suggested in the text.. A discount could be allowed but it could take a number of forms and should be cost-reflective – for example reflecting the benefit that well-located storage near demand centres helps to avoid costs for the TSO. Also any discount should not distort cross-border trade in flexibility. In the GB market for example there is no discount on capacity charges, but the commodity element is not applied to storage flows as otherwise a double commodity charge would apply to gas in store. The Network Code should allow the TSO and NRA to determine an appropriate regime for storage facilities in consultation with stakeholders.

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, we do not support the application of a common standard percentage discount for storage. Any discount should be cost reflective, e.g. depending on the location and technical characteristics of the gas storage sites and hence its contribution to the system. It should not lead to discrimination against other sources of flexibility services, including cross-border flexibility.

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?

There should be no common discount figure for storage. Where justified, any discount should be cost-reflective. It is also to be determined what the discount is on e.g. in the GB market there is no discount on the capacity price, but relief is give from charges that cover system operating costs.

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 2.4.3. General principles to avoid non-discrimination could be set in the NC, but the differences between the flexibility facilities connected to the TSO's networks makes prescriptive measures inappropriate.

3. Revenue recovery <u>(Chapter 3 of the draft Framework Guideline)</u>

3.1. General – interdependency questions.

Introduction.

3.1.1. Do you agree that the current draft FG proposals on Reserve prices for short term products, on revenue recovery and on payable price are consistent together?

Yes because they seem to be generally consistent, although we do not support some of the principles e.g. regarding the option of zero reserve prices for short term products. Some of the proposals could allow a wide variety of tariff structures to exist in different Member States and this could lead to inconsistencies.

3.1.2. Are the current draft FG proposals on Reserve prices for short term products, on revenue recovery and on payable price properly addressing the ambition for the pricing of transmission capacity to strike the right balance between facilitating short-term gas trading on one hand and providing long-term signals for covering costs and promoting efficient investments on the other?

No, we and other network users have expressed concern about the impact of zero or heavily discounted reserve pricing leading to a substantial under-recovery of costs by the TSO, which then has to be smeared over network users. The wording in the FG on the reserve prices for short-term standard capacity products should be strengthened to avoid a situation of significant under-recovery occurring. For example, substantial discounts to the yearly reference price for daily capacity should only be allowed if the TSO has secured sufficient revenue from the sale of longer-term capacity. To avoid under-recovery, the Network Code could contain a clear conditionality rule for offering a zero reserve price or substantial discount e.g. if 95% of the capacity at a system point is already sold.

The application of large discounts to short-term primary products also risks undermining the secondary market for capacity. Low short-term reserve prices can also undermine confidence in the fair pricing long-term capacity products impacting security of supply for the EU energy market.

3.2 Regulatory account

3.2.1 Do you agree with the principle to set reference prices to minimise the difference between allowed and collected revenues?

Yes, this is important to avoid a situation of under and/or over-recovery occurring. The TSOs allowed revenues should be based on efficiently incurred costs.

3.2.2 Do you agree with proposed level of harmonization of using the regulatory account?

No, because further harmonization is possible in 3.1 of the draft FG, whilst retaining appropriate national NRA flexibility. For example, it would be useful to align the regulatory periods.

3.2.3 Do you agree that NRAs should determine or approve how often and how fast the regulatory account has to be reconciled on a national level, whilst preserving balance between timely cost recovery and sudden adjustments to tariffs?

Yes, although some harmonization is possible e.g. aligning regulatory periods.

3.2.4 What is your view on including the option to use the Regulatory Account (including the potential over-recoveries from auction premium) to contribute to solving congestion? How could this be done, especially in view of principles of non-discrimination and cost-reflectivity? Please give reasons for your answer, including any quantitative evidence, tables and examples.

This is a possibility although we would prefer to see integration of the process for incremental capacity allocation in to the annual long term capacity auctions under CAM.

3.3. Reconciliation of Regulatory accounts.

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

a. Option 1; because….
b. Option 2; because….If preferred, what percentage of revenues should be recovered through capacity charges and why?
c. No opinion, because.....Our main concern is to avoid under (or over recovery). Provided that under/over-recovery is minimised TSO's could have a choice as to which option is used. The GB market has for several years experienced substantial, increasing and volatile commodity charges due to problems with under-recovery resulting from heavily discounted short-term reserve prices for entry capacity. There would still have been a problem with tariff uncertainty if this under-recovery had been reconciled via Option 1 as opposed to Option 2, although under Option 1 it would have potentially not resulted in such a significant barrier to hub-to-hub trade. Significant commodity costs kill trade and represent a form of cross-subsidy between users.

3.3.2. In line with the interdependency discussion above in question 3.1, what are your views on recovering revenues by means of a separate charge set at the start of the gas year with the aim of minimising the amount that goes into the regulatory account? This charge could be based either on gas flows (commodity) or capacity bookings (capacity). Then the regulatory account would be reconciled through the reserve or reference price. See chapter 3 of the draft FG.

If the tariff methodology is not designed to minimise under-recovery then there will be market distortions and cross-subsidies whichever method is chosen for recovering revenues. The key therefore lies with getting the main tariff framework right and not relying on an adjustment mechanism as a given.

3.3.3. Do you agree with application of the option on reconciling regulatory account to all entry and exit points (both domestic and cross-border)?

a. Yes, because......;
b. No, because...... Adjustments should be possible to ensure non-discrimination and avoidance of cross-subsidies in practice. The proposal in the FG could mask specific under-recovery problems. We suggest that further analysis is needed.
c. No opinion, because....:.

3.3.4. Do you agree that the regulatory account should be recovered by splitting the total under- or over- recovery across all entry and exit points in the same proportion as set out in the cost allocation methodology? For example if the cost allocation methodology is a 50:50 split then 50% of all under- or over- recovery will be from the entry points and 50% from the exit points.

a. Yes, because......;
b. No, because....... We have concerns about that the approach in this question and 3.3.3, by leading to greater socialisation of under recovery could mask the short-comings of the underlying regime.
c. No opinion, because....

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?

a. Yes, because......; For the purpose of this section the Tariffs FG and NC should match the products in the CAM NC. We note that other capacity products that exist would have to be included in the regulatory account e.g. short haul tariffs, flow commitments etc.
b. No, because......

c. No opinion, because.....

4.2 Reserve prices (firm)

4.2.1 Do you agree with proposed level of harmonization?

No because more prescriptive rules are needed to limit the discounts that NRAs can give on short-term products in the case of expected under-recovery. For example, a rule could be set requiring a certain % of capacity to be sold out or amount of revenue guaranteed at a given point before significant discounts are offered on short-term capacity.

Heavily discounted short-term primary capacity products risk undermining the market for secondary capacity.

4.2.2 Do you agree with proposed option for the Reserve price for short-term products including the possibility that the national regulatory authority may decide to allow for higher short-term prices that may apply (via multiplier higher than one, but not higher than 1.5) if there is risk of *significant* under-recovery of allowed revenues?

a. Yes, because......;
b. No, because......
c. No opinion or other view, because..... It would be more important to have a mandatory rule that limits the discount from being lower than one where there is a risk of significant under-recovery.

We are not a proponent of automatic seasonal factors as they do not necessarily reflect the demand for capacity.

4.2.3 Do you agree with application of the proposal on short-term Reserve prices to entry and exit points where the Network Code on CAM applies, i.e. interconnection points only?

Yes because this is consistent with CAM.

4.2.4. What criteria would you propose to set the Reserve price for short-term products that will be higher than the price of an annual product, to interconnection points?

Please give reasons for your answer, including any quantitative evidence, tables and examples. Please include in your answer your views on use of seasonal factors.

We would prefer a policy that avoids the risk of under-recovery, firstly be limiting the possibility of discounts for short-term products. As mentioned above, we would welcome the addition of wording that limits the discount lower than one that could be offered where there is a risk of significant under-recovery.

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?

Generally not. Seasonality does not necessarily reflect the demand for existing capacity, but we accept that TSOs could be allowed to incorporate some element of seasonality if this is part of a well designed regime to minimise under/over-recovery.

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, this seems appropriate.

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.

4.4. Reserve price (backhaul)

4.4.1 Do you agree with proposed level of harmonization?

- **a.** Yes, because......; Yes, the price of non-physical backhaul should reflect the actual marginal costs the TSO incurs to provide the service.
- **b.** No, because......
- **c.** No opinion, because.....

4.4.2 Do you agree with proposed option to set backhaul prices at a discount to firm capacity level so that Reserve prices reflect the level of actual marginal costs (= IT and administrative costs)?

- **a.** Yes, because......;
- **b.** No, because......
- **c.** No opinion, because..... Non-physical backhaul reserve prices should largely reflect the marginal costs, but given that there will also be administrative costs the reserve price may not be zero. We understand that the FG would allow for operational costs related to back haul to also be recovered, including on a commodity basis.

Please give reasons for your answer, including any quantitative evidence, tables and examples. Would you propose an alternative option to that proposed? Please also specifically address and propose mitigation of consequences of such a policy to existing forward flow shippers as well as positive contribution to potentially reduced need for additional capacity construction.

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

- **a.** Yes, because......; Yes, because this is consistent with CAM.
- **b.** No, because......
- **c.** No opinion, because.....

Please give reasons for your answer, including any quantitative evidence, tables and examples. Would you propose an alternative option to that proposed?

5. Virtual IPs

Do you support the proposed option for Reserve price in Virtual IPs as EU-wide standard? Please reason your answer, including any quantitative evidence, tables and examples on balance between cost-reflectivity and cross border trade stimulation.

a. Yes, because......;
b. No, because......
c. No opinion, because..... More information is needed. Our support would depend on the level of detail that is to be elaborated in the Network Code. Given the lack of experience with Virtual IPs, it may be appropriate for the Network Code to reflect the high-level principles in the FG Section 5, with further detail being established in the local consultation process that is set out in the same section.

6. Bundled capacity products

6.1 Reserve price (Bundled)

6.1.1 Do you agree with proposed level of harmonization?

a. Yes, because......; Yes this is a logical approach. However, it could become complicated if the TSOs choose to apply seasonal factors.
b. No, because......
c. No opinion, because.....

6.1.2. Do you agree with the proposed option that the sum of Reserve prices for unbundled capacity is used as bundled Reserve price?

a. Yes, because......; Yes, as above this could become complicated if seasonal factors are applied.
b. No, because......
c. No opinion, because.....

Please give reasons for your answer, including any quantitative evidence, tables and examples. Would you propose an alternative option to that proposed?

6.1.3 Do you agree with application of specified the proposal to entry and exit points where the Network Code on CAM applies i.e. interconnection points only?

a. Yes, because......; Yes, as this section is about bundled capacity products that are part of the CAM Network Code it makes sense for the section to only apply to those points that are covered by CAM.

b. No, because......

c. No opinion, because....:

6.2. Do you support the proposed option for Reserve price (if unbundled) as the EU-wide standard? Please give reasons for your answer, including any quantitative evidence, tables and examples on balance between cost-reflectivity and cross border trade stimulation. We encourage you to specify if you support the Unbundled Reserve price being higher to support bundling of products.

a. Yes, because......; Yes, this is a logical approach. Given the complexity of actual capacity holdings in the EU gas market at IP's covered by CAM, we expect that there will be a number of points where unbundled capacity exists after the application of CAM. It is important that unbundled capacity is not discriminated against in order to maximise the amount of capacity that can economically be used to trade between hubs.

b. No, because......

c. No opinion, because.....

6.3 The Network Code on Tariffs shall specify that the revenues from Reserve price of bundled capacity products shall be attributed to the TSOs proportionally to the Reserve prices of their respective capacities in the Bundled Capacity. The revenues from the auction premium from bundled capacity above the Reserve price shall be split according to agreement between the relevant national regulatory authorities. Furthermore, the Network Code on Tariffs shall in the case that no agreement is concluded before the auction, specify that the revenues from the auction premium shall be split equally between the TSOs.

6.3.1 Do you agree with proposed level of harmonization in that approach above?

a. Yes, because......; Yes this is a sensible approach.

b. No, because......

c. No opinion, because.....

6.3.2 Do you agree with proposed option for splitting auction revenues from bundled products to the relevant TSOs?

- **a.** Yes, because......;
- **b.** No, because......
- **c.** No opinion, because..... Given the time it can take for NRA approval and agreement it may be appropriate to allow the NRAs to reach agreement after the auction and delay application of the default 50/50 split of the auction premium. It goes without saying that full transparency is needed around how NRAs do decide to split auction revenues.

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

- **a.** Yes, because… Yes because this is consistent with CAM.
- **b.** No, because…
- **c.** No opinion, because.....

7. Payable price

7.1.1 Do you agree with proposed level of harmonization?

No, because the FG should also allow for mechanisms where capacity can be sold at a fixed price, giving network users certainty of the price that they will pay for the duration of their contract. Both methods – fixed and floating – could be possible.

7.1.2 Do you agree with the proposed option to set payable price equal to the current Reserve price for year in which capacity is used plus any premium?

No, because the FG should also allow for mechanisms where capacity can be sold at a fixed price, giving network users certainty of the price that they will pay for the duration of their contract. Both methods – fixed and floating – could be possible.

7.1.3 Do you agree with the application of specified options regarding payable price to entry and exit points where the Network Code on CAM applies i.e. interconnection points only?

Yes, because this 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. The TSO should ensure that appropriate credit arrangements are in place to ensure that if a shipper defaults, after having committed to capacity bookings that are underwriting new investments, then the costs are not passed on to other network users.

8.2. Please therefore consider if harmonization, or partial harmonization of any parameters in the "market test" is appropriate within Tariffication principles at EU-level ?

Centrica supports at least partial harmonization of the "market test". Wording related to the market test could be added after the current work by the "CEER on Market-based investment procedures for gas infrastructures" has led to concrete proposals for binding EU rules.

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.

We do not have any evidence of problems with the current arrangements for locational signals.

There is a risk that short-termism, driven by heavy discounts for short-term capacity, could mask long-term locational signals for new capacity.

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.

We do not think any further options need to be added regarding the use of locational signals.

9.4 Shorthaul as a form of 'locational signal' in e/e systems.

9.4.1. Should the FG have a tariff structure in place to avoid the incentive for inefficient building of pipelines (to avoid the entry-exit system charges) described above?

Yes, to the extent that the FG should allow for short-haul tariffs. These support efficient use of the system and avoid inefficient building of pipelines and have already been successfully used in a number of Member States. The precise design of short-haul tariffs could be agreed at local level, subject to the usual stakeholder consultations and NRA approval.

9.4.2. How could this tariff structure be designed?

Please propose wording for a policy option (if needed).

The precise design of short-haul tariffs could be agreed at local level, subject to the usual stakeholder consultations and NRA approval.

9.4.3. **Should there, in order to address risk of cross-subsidies and discrimination - be a limitation on the capacities that can be "shorthaul capacities"?** Based on expert advice on current EU-practices, following options are proposed:

a. Maximum 50 km (only distances of maximum 50 km can be considered as shorthaul capacities)
b. Max 20% of the average gas travelling distance in the E/E system
c. Max 10% of the total capacities of a E/E system can be considered as “shorthaul”
d. Other, namely:........

We do not believe any numerical criteria should be included in the FG. The NRA should instead ensure that short haul tariffs meet the objectives of the FG, such as non-discrimination and efficient use of the system.

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.

10. *Effects Entry-Exit Zone mergers & Virtual IPs* (no explicit chapter in FG, implications at least to chapters 2/3 foreseen).

In the CAM network code (art 5.1(10)) Virtual Interconnection points are addressed (see draft FG, chapter 5).

In EC letter ACER is invited to consider in IA if the effects of entry-exit zone mergers should be developed in the Network Code on transmission tariff structures. This could address, for instance, the topics of tariff alignment and the disappearance of interconnection points, and the corresponding cross-border tariffs, due to the zone merger’.

Both topics affect the setting of reserve prices at IPs and, more importantly, underlying cost allocation within and between entry-exit zones; as well as revenue recovery consequences.

10.1. Please provide evidence of concrete problems with the current arrangements for mergers of entry-exit zones at national level. Any quantitative evidence, tables and examples (if necessary, subject to confidentiality) are welcomed.

It is difficult to pre-empt the issues that could arise from the merger of specific entry-exit zones. We suggest that the costs and benefits of these are considered on a case-by-case basis.

10.2. Please advise, if there are alternatives or additional requirements within Tarification setting harmonization steps, to accommodate 'Effects Entry-Exit Zone mergers' (once there). Please consider the Initial (draft) Impact assessment, when answering.

We agree with ACER's decision not to include any additional requirements in the FG to accommodate entry-exit zone mergers.

11. **What additional tariff structure measures do you envisage could improve the network code?** Please give reasons for your answer, including any quantitative evidence, tables and examples. Please also, if relevant, suggest and explain reasons why any of the proposed measures should rather have been left to voluntary exchange of best practices at national level (e.g. via Guidelines of Good Practice)[6].

We believe that the choice of an NRA to offer significant discounts for short-term reserve prices compared with the reserve price for the annual product should be dependent on there not being any significant under-recovery. A mandatory trigger mechanism could be considered in the FG and developed further in the NC.

There should be greater harmonisation around the frequency and timing of tariff changes at cross-border points.

[6] Please e.g. specifically consider if the FG/NC should include an EU-wide provision providing for "incentives" for implementation of CMP measures, and or additional EU-wide provisions ensuring that transmission system operators do not experience detrimental effects as consequence of the roll-out of EU-wide implementation of the auctions under CAM NC and/or other NC.

The tariff NC should not prevent appropriate incentives on network users for the efficient and safe use of the network, such as an over-run regime that encourages network users not to flow above their entitlement.

12. **Please share below any further comments concerning the draft Framework Guideline.**

13. **Please comment on any factual incorrectness of the attached Initial (draft) Impact Assessment, if possible with specific page references, including** quantitative evidence, tables and examples from your experience in the gas market(s) (if necessary, subject to confidentiality).

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