

## ***Questionnaire for the Draft Framework Guideline on Harmonised transmission tariff structures<sup>1</sup>***

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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- a. National association

This response is not confidential

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<sup>1</sup> Further also referred to as “FG”. The resulting Network code on Harmonised transmission tariff structures is further also referred to as “NC”.

**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.**

### **General Comments**

Energy UK welcomes the opportunity to comment on the Draft Framework Guidelines for harmonising tariff structures. We recognise that diverse tariff structures exist across the EU and that the Brattle report provides a thorough analysis of the issues and interactions of the policy options. We therefore expect few new issues or examples to be raised through this consultation.

We note that the overarching objective is to harmonise the tariff structures to promote the efficient functioning of the market through non-discrimination and effective competition. We feel it is helpful to emphasise this such that the degree of harmonisation does not go beyond that required to support trade and to ensure that the features of the tariff structures are not interpreted too literally or in isolation from this overarching objective. In this context it is also important that tariffs are based on efficiently incurred costs and an explicit reference to this may be helpful.

Energy UK also notes the importance of establishing the key principles of the tariff structures at the outset but also recognises that at times additional issues and complexities may emerge when more detailed work is being progressed. We therefore consider that a process should be considered that could allow for revision or elaboration of the key principles in the Framework Guidelines should this become necessary during the code development process. Clearly transparency of process and stakeholder consultation should form part of such a process.

We would also like to note that whilst it is important to establish robust principles it may be challenging for participants to provide clear positions on these since a key factor will be how the principles translate into actual charges. Such that at some point later in the process, but before final sign off, we believe that TSOs will need to provide examples of how charges at all entry and exit points are likely to change should the principles be adopted. Such an exercise will also help to identify and unintended consequences of the proposals.

### **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 3<sup>rd</sup> Package objectives?**

It is not clear whether the aspiration is to apply the Tariff Framework Guidelines (TFGs) to existing bookings as well as future bookings based on the CAM Framework Guidelines product structures at interconnection points. If the intention is to amend existing contacts we are unsure how this can be enforced unless such contacts contain provisions to allow this. It is also the case that even once CAM is implemented other National entry / exit points which will fall within the scope of the TFGs are likely to have capacity bookings that extend beyond the implementation date, potentially for many years. In both these cases long term capacity bookings will have been made on different expectations of future charges so that retrospective changes to charge levels may undermine the original business case for securing the capacity. Where this effect is material, and subject to NRA approval, we believe the FG should allow for capacity to be surrendered.

It is also the case that if the new charging framework does not apply to existing bookings that there could be a risk of distortions being created arising from time discrimination, that is paying substantially different prices depending on when bookings were made. This is most likely to arise where Member States do not currently have a 50/50 entry exit split in charges. Since trading between markets only takes place when market price differentials exceed transportation costs it is possible that this could create a distortion in cross border trade.

We also consider that a 12 month implementation lead time may not be achievable, where TSOs and system Users need to amend systems to support the new tariff structures, a 24 month lead time may be more realistic.

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

Definitions can be a contentious area and there can be scope for alternative interpretations which could introduce risks that the TFGs are not fully implemented as intended, therefore any ambiguity should be avoided.

We note that there is no definition of multiplier.

Seasonal factor is defined but it calculated for each month, is the intention for this to be a monthly or seasonal factor? If seasonal then seasons will need to be defined.

Reference price is this used to set the reserve price for the firm annual product or is it the reserve price for this product?

Fixed costs may need further definition, for example should these include system operation costs, many of the costs are relatively fixed but in the purest sense if the system was not being operated those costs would not be incurred so they could be said to vary with flows. In GB 30% of TSO allowed revenues relate to system operation costs.

**1.3. Please suggest the top-5 *core indicators*<sup>2</sup> 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).

- Transparency – compliance with the guidelines in setting tariffs
- Level and trends in under / over recovery of allowed revenues
- Price differentials between hubs compared with transport costs and liquidity at those hubs
- Changes in booking behaviour
- Predictability of charges

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

### **2.1. Transparency provisions**

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<sup>2</sup> 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.

**2.1.1 Do you agree with the level of harmonization proposed for the transparency in relation to tariffication methodologies<sup>3</sup>?**

Yes, because this is a significant improvement on the current situation in many Member States. Additional transparency in the tariff formulation process will assist participants in understanding the process and provide for confidence in such processes. This will also facilitate benchmarking of tariffs to assist NRAs / ACER in determining if tariffs are based on efficiently incurred costs as this will ultimately promote cost reflective tariffs set at an efficient level an important element supporting trade.

The text proposed in the FGs is probably sufficient but additional detail should be provided in the Code and timescales for publication should be considered.

**2.1.2 Would you support additional requirement(s) to ensure “reasonable and sufficiently” detailed tariff information<sup>4</sup>? 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, such as the provision of information to explain tariff changes, irrespective of size as this would avoid the need to define ‘significant’.

TSOs should also be required to provide the following.

- Indicative charges for future charging periods for a number of years in advance, the NRA may determine the number of years.

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<sup>3</sup> 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.

<sup>4</sup> 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 model used to determine the charges, populated with the data assumptions so that participants can model the future evolution of charges
- All information relating to tariffs and methodologies in English as well as the national language.
- A minimum notice period in advance for changes to charges, so that suppliers can notify their customers of such changes where tariffs are passed through or adjust tariffs accordingly.

## **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?**

Yes, in principle using one methodology for all points within an entry-exit zone should minimise the potential for discrimination and cross subsidies. However provision should be made to allow for short haul tariffs and equalisation where applicable.

It also seems appropriate to set reference and regulated prices to cover at least the fixed costs, with costs that vary with flow being recovered through *capacity services* or a commodity charge. However we are not clear whether such costs that vary with flows can be recovered from the point where they are incurred or must be applied across all entry and exit points. The extract below from section 2 seems contradictory, the first sentence suggesting such costs may be targeted whilst the latter suggests otherwise.

*“The recovery of costs that are driven mainly by the volume of flows (such as compressor fuel costs) might, upon approval or determination by the NRA, be ensured either via the sale of capacity services or via a specific charge related to the volume actually flowed by shippers. Where applied, the chosen charge for the recovery of costs that are driven mainly by the volume of flows shall be levied at a TSO level and shall not be applied to specific entry or exit points”*

We consider it would be more cost reflective to target costs where appropriate. In GB a specific compression charge is levied at an entry point where the specific service is provided, whilst the costs of compression within the system to support system pressures is spread across all gas flows.

## **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?**

Yes, because setting charges based on the major cost driver is likely to lead to the most cost reflective charges. However setting the tariffs based on contract paths is not permitted under the gas Regulation and in any event is inconsistent with an entry – exit model. Rather the LRMC model used in GB requires assumptions about flows at entry and exit points to achieve a supply / demand balance such that distance implicitly becomes a factor in the tariffs.

**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?**

Yes, see above

**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?**

Yes, because this seems a reasonable way of avoiding undue discrimination and cross subsidies between entry and exit network users, any other split would be arbitrary. Also given the challenges of identifying which networks costs relate to entry and which to exit, particularly in meshed networks, it is also most likely to reasonably cost reflective. There may be a case for allowing for deviations from this rule if the resulting tariffs were inconsistent with the overarching objective of promoting trade. However this must be fully justified in a transparent manner with stakeholder consultation and CER oversight.

**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 this would avoid any undue discrimination.

**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, because this would add complexity to the TFGs beyond that which is required to promote cross border trade.

We believe that any discount should be a matter for national determination based on the characteristics of the national system and take account of other forms of system support and flexibility provided by other entry points (including LNG import points, exempted storage facilities) and exit points (such as those serving gas fired generation). It is also not clear how applying a discount to all storage across the EU is consistent with non-discrimination and avoiding cross-subsidy principles.

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

No, because harmonising such a discount would be overly prescriptive and will not represent national characteristics, nor the differences between different types of storage, whether that be seasonal, fast churn or peak system support.

If ACER considers some principles are needed in this area then perhaps this should be via guidelines for good practice.

**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?**

Energy UK does not consider harmonising an ‘adequate’ discount for storage should be a feature of the TFGs.

**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)?**



We do not fully understand this question. If it is suggesting prescribing tariffs for all storage points across the EU, then we do not support this as we cannot see how that would be compatible with the principle of cost reflectivity.

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

#### **3.1. General – interdependency questions.**

##### **Introduction.**

Revenue recovery (chapter 3), Reserve price for firm standard capacity products (chapter 4.1) and Payable price (chapter 7) cannot be considered separately. The main interaction is that a regime where auctions are used will have a greater level of uncertainty in revenues collected from auctions.

The use of specified in FG chapters 3, 4 and 7 policy options need to work together to meet the objectives of the FG whilst ensuring the TSO recovers their allowed revenues. There is a possibility that in practice there might be under- or over recoveries, especially as a consequence of policy options regarding short term reserve prices and payable price. Therefore there will need to be a Regulatory Account to ensure the TSOs recover their allowed revenues.

##### **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?**

We agree that a consistent set of proposals for these issues is required but have concerns over the payable price and complexity of the setting of reserve prices for short term products

##### **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?**

We are not convinced that the complexity of the short term reserve prices is consistent with facilitating short term gas trading, there is the risk of the charging structures limiting cross border trade at times. We are also uncertain as to how a charge can promote efficient investment unless it is derived from a LRMC methodology as opposed to a historic cost or equalization basis.

#### **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 we agree with this principle, whilst recognising that there are many ways to achieve this all of which will require many assumptions. Any deviations from these assumptions will then result in an under or over recovery. Whilst not mentioned explicitly we assume that the reserve prices for points where capacity is allocated by auctions, other than at IPs should also be included in paragraph 2.

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

No, because the proposals seem to contemplate there being only one regulatory account which we believe may lead to cross subsidies between entry and exit points. The regulated and reserve prices may be set in a different manner for entry and exit points even whilst using consistent assumptions and principles which could make one more susceptible to under or over-recovery. The current proposal would require that any shortfall or excess be recovered or distributed to all points with could well be discriminatory and lead to distortions.

We consider that it would be more appropriate for there to be separate regulatory accounts for entry and exit so that under and over recovery can be targeted back to those users where the issue arose. We consider this would be more cost reflective and less discriminatory, whilst continuing to be consistent with the 50 / 50 entry exit principle.

**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

**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.**

We consider this approach could have merits with the auction premium counting towards any economic test.

### **3.3. Reconciliation of Regulatory accounts.**

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

We seek some clarity over which points would be included in any redistribution, points others than IPs where auctions take place are not specifically mentioned, but we anticipate the intention is that they should be.

We also seek clarity over whether both options might be retained, so long as only one options is used for both sides of an IP.

#### **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?**

We would not support this approach since the charge would be difficult to predict

#### **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)?**

Yes, we can see no reason why some points should be exempted from contributing to the reconciliation of the regulatory account.

#### **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.**

No, because this could generate cross subsidies between entry and exit points. It would be more cost reflective to maintain the 50/50 split in revenues by ring fencing the revenue pots at entry and exit and making the adjustments to the entry and exit charges as appropriate.

This option does not seem to have been considered in the Brattle report.

If only one regulatory account is the option taken forward then a very detailed examination of the way in which regulated and reserve prices are set will be needed to ensure there is no bias towards under or over recovery built into these charges.

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

##### **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 these are identified as standard products in the CAM code, apart from backhaul but we agree rules for the pricing of this product should be included in the TFGs

##### **4.2 Reserve prices (firm)**

##### **4.2.1 Do you agree with proposed level of harmonization?**

No, because this seems to allow for NRAs either side of an interconnection point to determine different multipliers and seasonal factors which when applied to the bundled product could lead to some rather odd pricing. We consider it would be better if a set of rules regarding multipliers and seasonal factors was determined for each IP to avoid the risks of distortions from individual NRA decisions.

Some worked examples would aid understanding here

The drafting is also not entirely clear as to whether the reserve price for the annual product is the same as the reference price or just derived from it in some manner. If the two are not equal then in an uncongested system the prices for equivalent entry and exit products will be set in a different manner which could lead to cross subsidies if there is only one regulatory account.

**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?**

No, because the complexity of these arrangements with the risk of different NRAs setting different multipliers and seasonal factors creating distortions in the bundled prices and the risk of this unduly influencing booking decisions in search of the optimum combination on cost and duration grounds rather than requirements to support expected flows.

It could also create a scenario where under / over recoveries are exaggerated if booking behaviour varies from that assumed when the multipliers and seasonal factors are set. This could lead to an ongoing fluctuation or even oscillation in prices to correct for under / over recoveries. This would also reduce the predictability and stability of charges.

**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, although NRAs will need to consider whether it is discriminatory to apply different pricing principles to other points with the entry exit system where auctions are held.

**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?**

It would seem logical to say where there is a *significant* risk of underrecovery as currently drafted. But this requires *significant* to be defined which could be challenging and even if it is defined what will the potential under-recovery be measured against since it is not proposed to subdivide revenue into national and IP accounts?

We are not convinced this is the correct approach due to the complexities and interactions with setting of reference and reserve prices.

**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?**

We have concerns over this approach due to its complexity when used in conjunction with multipliers. Assumptions used to derive any factors will be historic which may not reflect future and actual flow profiles which may be driven by other external factors, such as prevailing weather conditions and local LNG deliveries. If seasonal factors are used we believe they should average to one across the year on a flow weighted basis.

It could also be the case that multipliers lead to short term winter capacity being the most expensive just when flows need to be the most responsive to ensure security of supply.

**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, because this is a requirement of regulation 1775, however it is difficult to reconcile this with principles of cost reflectivity when interruptible capacity is spare capacity not being used by firm capacity holders.

Setting the discount once a year seems a reasonable approach as levels of utilisation of firm capacity may change over time.

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

Since the CAM code does not require interruptible capacity to be released until firm capacity is sold then in principle interruptible capacity should be offered at 100% or almost 100% discount to the firm price, to cover the true variable costs of flowing gas. Where reserve / reference prices are set to recover allowed revenue then any revenue from interruptible products will lead to an over-recovery which could be difficult to predict and lead to instability in charges. We do not believe this method of

pricing would lead to a 'flight from firm' since there is little certainty over whether and how much interruptible capacity might be made available.

**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, although national arrangements may need to be reviewed in light of this

**4.4. Reserve price (backhaul)**

**4.4.1 Do you agree with proposed level of harmonization?**

Yes, because allowing for different arrangements between Member States could lead to inefficient outcomes if different principles for charging applied along a backhaul. Backhaul could just be considered as a type of interruptible product with a probability of interruption relating to the level of forward flows

**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)?**

Yes, because this would seem to be cost reflective. There may need to be some guidance of how the marginal costs are determined.

**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?**

Yes, see 4.3.3 above

**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.**

Yes, it would be logical to derive the reserve price for virtual interconnection points from the reserve prices for the points that applied previously. It may be appropriate for the Tariff

Network Code to include a default determination but provide for the relevant NRAs to agree an alternative so long as this is consistent with the tariff objectives.

## **6. Bundled capacity products**

### **6.1 Reserve price (Bundled)**

#### **6.1.1 Do you agree with proposed level of harmonization?**

Yes, we agree with the proposal to harmonise the reserve prices for bundled capacity, unbundled components and default arrangements for the allocation of revenue above reserve prices.

#### **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?**

Yes

#### **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?**

Yes

#### **6.2. Do you support the proposed option for Reserve price (if unbundled) as the EU-wide standard?**

Yes we support the reserve price of the unbundled product being equal to the reserve price of that element of the bundled reserve price, i.e. taking direction of flow into account. The drafting could be improved here as currently it could be interpreted as the unbundled exit reserve price could equal either the entry or exit reserve price. We would not support the unbundled reserve price being set higher than the appropriate element of the bundled reserve price. This would be arbitrary and not cost reflective.

#### **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?**

Yes,

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

Yes, this seems reasonable to define default allocation arrangements whilst allowing for alternative arrangements suitable for local circumstances and where these can be agreed between the NRAs

**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?**

Yes,

**7. Payable price**

**7.1.1 Do you agree with proposed level of harmonization?**

Yes, else there would be a risk of different approaches on either side of an IP which would add to complexity and potentially lead to market distortions

**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?**

There could be merits in this approach as allowed revenue can be more closely targeted with under / over recoveries minimised. However there are also potential downsides as parties making long term commitments will face uncertain charges in the future, which will be a further obstacle to them making those long term bookings. Further thought needs to be given to this and how it would fit with incremental capacity release which may only occur when signalled by bids above reserve prices. In addition whether this also risks time discrimination as some capacity is reserved for short term release which may subsequently be at lower prices than that required to trigger the release.

Parties will be looking to assess when or if congestion is likely to occur in assessing whether to book long or short term to manage the price risk associated with a floating payable price.

**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,

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

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

As a trade association Energy UK does not participate in capacity allocation processes. However we understand the main issues to be lack of transparency and uncertainty over tariffs structures and different approaches across the EU. Participants are likely to be unsure of the extent to which costs have been efficiently incurred over or over the tariffs that they will pay once capacity is delivered.

**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 ?**

Please refer to our response to the CEER consultation on ‘Market based investment procedures for gas infrastructure’ In summary we consider that there would be merits in harmonizing certain parameters of an economic test, such as which revenues contribute toward meeting the test and for there to be a default threshold above which investment is triggered whilst allowing NRAs discretion to set a lower threshold to account for specific local circumstances.

**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).**

This will depend on the approach adopted for the release of incremental capacity and is linked with whether the payable price is floating or fixed and how tariffs are set for existing capacity.

Clearly incremental tariffs and existing capacity tariffs will both need to be set in a manner that is consistent with the tariff principles but if vastly different approaches are used this could have unintended consequences.

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

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

We are not aware of specific problems with locational signals and consider that in larger meshed networks that charges should vary according to location. Where a LRMC methodology is used with distance as a cost driver then the resulting tariffs will reflect locational differences.

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

No

**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.**

Locational price variations will be derived if a LRMC methodology is used to determine charges, such a methodology may be more widely adopted across the EU in time but we are not convinced it should be mandated at this time.

Locational tariffs will not signal investment for gas-fired power plants, LNG or storage. Rather tariffs will be one factor that may influence the location of any such facility with the over ridding issues being other key factors such as the availability of cooling water and connection to the electricity network for gas-fired plant.

**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, we think it is important that the tariff framework guidelines allow for the possibility of short-hauls tariffs to avoid potentially inefficient bypass of the transmission system through building a direct pipe from an entry point to a gas-fired power plant.

**9.4.2. How could this tariff structure be designed?**

In GB such a tariff structure exists with the short haul charge being derived from the costs of an alternative pipeline. However the tariff FG or code may not need to prescribe how such a tariff is derived, NRAs could have discretion here.

**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)

The methodology used in GB usually works out to be self limiting at around 50km. The other options seem to be more arbitrary and could discriminate against the next load to connect that takes the total on a short haul arrangement over the threshold.

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

**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, we do not consider that LNG should be treated differently from other entry / exit points in the FGs rather this should be addressed at the national level  
See 2.4.1 above

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

**10.1. Please provide evidence of concrete problems with the current arrangements for mergers of entry-exit zones at national level.**

Where entry-exit zones merge interconnection points between the zone will disappear and the revenue that TSOs previously recovered from these points will need to be recovered by some other means, potentially from other points within the new merged zone. This may result in large step changes in charges at some points on the network.

**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.**

There are likely to be complex issues here and prescribing this in the Framework Guidelines could be inappropriate and risk unintended consequences. It may be more appropriate to consider these approaches on a case by case basis with ACER oversight.

**11. What additional tariff structure measures do you envisage could improve the network code?**

The FG should include a minimum notice period for changes to charges and a requirement to publish indicative charges for future revenue periods

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

We have no further comments on this at this time

**Please comment on any factual incorrectness of the attached Initial (draft) Impact Assessment,**

We have no further comments on this at this time