

Public Consultation on day-ahead and within-day multipliers

Based on Article 13(3) of the Network Code on Harmonised Transmission Tariff Structures for Gas

PC_2020_G_19

1. Objective

Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas ('NC TAR') entered into force in 2017 and it has introduced a number of provisions on multipliers that are applicable for the calculation of short-term capacity products (quarterly, monthly, daily and within-day).

The NC TAR provides the possibility for the Agency to issue a recommendation to cap the multipliers used to calculate the reserve prices of day-ahead ('DA') and within-day ('WD') capacity products to 1.5.

The objective of this consultation is to gather views and information from stakeholders on the impact of DA and WD multipliers in order to assess the possibility of issuing a recommendation to limit the level of these multipliers

The provision foreseeing this possibility is laid out in Article 13(3) of the NC TAR:

"By 1 April 2023, the maximum level of multipliers for daily standard capacity products and for within-day standard capacity products shall be no more than 1,5, if by 1 April 2021 the Agency issues a recommendation in accordance with Regulation (EC) No 713/2009 that the maximum level of multipliers should be reduced to this level. This recommendation shall take into account the following aspects related to the use of multipliers and seasonal factors before and as from 31 May 2019:

- *changes in booking behaviour;*
- *impact on the transmission services revenue and its recovery;*
- *differences between the level of transmission tariffs applicable for two consecutive tariff periods;*
- *cross-subsidisation between network users having contracted yearly and non-yearly standard capacity products;*
- *impact on cross-border flows."*

The Agency invites stakeholders to express their views on the points referred to in Article 13(3) of the NC TAR.

2. Target group

This consultation is addressed to European associations, national associations, TSOs, shippers or energy trading entities, end-users and others.

3. Deadline

Please provide your response by **9 December 2020**, 23:59 hrs (CET).

4. Identification data and confidential information

Please indicate the following data:

Name:

Position held:

Phone number and contact e-mail:

Name and address of the company you represent:

Your country:

Other country, if not in the list above:

Please indicate, if your company/organisation is:

- European association
- National association

- TSO
- Shipper or energy trading entity
- End-user
- Other (e.g. Power Exchanges, Storage Operator etc.).

If other, please specify below:

Energy Exchange

Any confidential information should be marked clearly as such, including the word 'CONFIDENTIAL' in the subject of the e-mail, as ACER will not treat e-mails which contain only a general disclaimer (usually automatically added) as containing confidential information. If respondents want to claim confidentiality, they should provide an explanation of their confidentiality interests and a non-confidential version of their response for publication. For more details on this, please see the Rules of Procedure of the Agency (Article 9 of Decision No 19/2019 of the administrative board of the European Union Agency for the Cooperation of Energy Regulators of 11 December 2019)

Is your input into this consultation confidential?

- Yes
- No

5. Publication of responses and privacy

The Agency will publish all non-confidential responses, and it will process personal data of the respondents in accordance with Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, taking into account that this processing is necessary for performing the Agency's consultation task. For more details on how the contributions and the personal data of the respondents will be dealt with, please see the Agency's Guidance Note on Consultations and the specific privacy statement attached to this consultation.

6. Related documents

- [Regulation \(EU\) 2019/942](#) of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators.
- [Commission Regulation \(EU\) 2017/460](#) of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas.
- ACER [Guidance Note on Consultations](#)
- Commission [Regulation \(EU\) 2017/460](#) of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas

7. Background

Multipliers are used to set tariffs for short-term gas transmission capacity products in comparison with the reference prices applied to yearly capacity products. Article 13 of the NC TAR sets out that the level for DA and WD multipliers for standard capacity products shall be *no less than 1 and no more than 3. In duly justified cases, the level of the respective multipliers may be less than 1, but higher than 0, or higher than 3.*

Overall, shippers use different capacity booking strategies taking into account their supply and demand portfolios, market dynamics and gas transmission tariffs both on yearly and short-term capacity products. For example, shippers may secure a certain amount of capacity with yearly capacity products while they cover the seasonal and short-term variations with short-term capacity products.

Multipliers can impact the gas market in various ways, depending on the balance between the short-term and the long-term:

On the first hand, relatively high multipliers on short-term products can deter network users from booking short-term capacity for trading or balancing purposes. On the other hand, high multipliers incentivises yearly bookings which are deemed favourable to TSOs revenue recovery and which allow shippers to flow gas across hubs even when spot market spreads are below the capacity reference price.

From a competition perspective, multipliers can also lead to different outcomes. They have a distributional effect, through the share of revenue recovered from users holding short-term or long-term capacity products. Multipliers can be set with the primary objective of avoiding cross-subsidisation between network users and enhancing the cost-reflectivity of reserve prices. In contrast, low short-term multipliers can be considered as a way to foster competition and to incentivise more dynamic booking strategies.

When setting multipliers, NRAs should consider these different interactions, as required by Article 28 of the NC TAR, to avoid a potential welfare loss for EU consumers.

8. Consultation topics and questions

For all the questions, **please provide supporting evidence**, which can include the identification of IPs where a referred event is relevant and/or a time period for the phenomena observed (how, when and for how long it applies). Supportive evidence can include data, tables and it can be accompanied by examples.

Factual evidence on the effects of the current provisions is highly relevant to evaluate their effectiveness and to assess whether a recommendation could lead to an improvement.

Topic 1: Changes in booking behaviour

1. What role do short-term capacity products (DA and WD) play in your capacity booking strategy (balancing activities, market arbitrage, supply profiling...)?

Short-term trading has become more relevant over the past years. This development is caused by a decreasing importance of long-term delivery contracts on the one hand side, and an increasing need for flexibility spreading from the electricity market to the gas sector, on the other.

On the background of the European decarbonization and climate goals, the gas sector is likely to undergo even bigger changes over the next years. It will integrate decarbonized and green gases and gas will, much more than today, serve as a flexibility source to the entire energy system. This will be reflected in a further

increasing need for short-term booking. To fulfill that role on a market-basis, short-term capacity bookings need to be economically viable and thus possible at a reasonable cost.

Furthermore, short-term capacity products are crucial for improving market integration and market price convergence between neighboring markets. Traders use short-term capacity products to trade the price spreads between neighboring markets as long transport costs do not exceed the price differences. Hence, low multipliers for short-term transport capacity products for DA and WD lead to low transport costs and supports gas market integration, but also the utilization of existing gas infrastructure for market-price driven cross-border gas transports is optimized.

2. Have you observed that DA and WD multipliers impact booking behaviour and booking strategies (could be your own booking strategy or those of other market players)? For instance, have you observed that low DA and WD multipliers can shift contracted capacity from yearly capacity products to shorter-term capacity products?

- Yes
- No
- Other

2.1 Please explain your reasoning:

In general, high DA and WD multipliers undermine the profitability of cross border short-term trading, hamper market integration and are likely to lead to a decreasing level of trading activity and flexibility provision on the short end of the curve.

In more detail, since January 2020 we observed within a pilot project for Implicit Transport Capacity Trading via EEX at the Austrian/German border that high multipliers for DA and WD hampered the respective "Implicit Allocation Operator (IAO)" to sell more DA and WD cross-border transport capacities between the German and Austrian markets. This leads to a lower utilization of unused gas transport capacities and consequently also to lower revenues for the IAO.

Topic 2: Impact on the transmission services revenue and its recovery

3. Have you observed that DA and WD multipliers impact transmission services revenue and its recovery? In particular, could low DA and WD multipliers induce under-recoveries of TSOs' revenues on a transitory basis (in most systems such under-recoveries are systematically rolled to next years by revenue reconciliation mechanisms)?

- Yes
- No
- Other

3.1 Please explain your reasoning:

Tariffs for short-term capacity-booking need to be high enough to allow for cost recovery but should not discriminate short-term bookings against long-term bookings.

In general, it is even financially interesting for TSOs to sell short-term transport capacity products because these are, due to the multiplier, higher priced than long-term capacities.

On the example of NCG (Germany):

- Short term allocation: $10 \text{ MW} \times 2 \text{ (Multiplier for NCG WD transport)} \times 3.77 \text{ €/MW/a} \times 8760 \text{ h/a} = 660,504 \text{ €}$

- Long term allocation: $10 \text{ MW} \times 1 \text{ (Multiplier for NCG annual transport)} \times 3.32 \text{ €/MW/a} \times 8760 \text{ h/a} = 330,252 \text{ €}$ i.e. roughly half of the revenues from short-term allocation.

TSOs face higher commercial risk to not sell short-term transport capacities if the market-price differences do not incentivize demand for cross-border gas transport capacities. However, a lively activity in short-term capacity bookings improves market efficiency by avoiding contractual bottlenecks as only those transport capacities are sold to and paid on the market that are really needed.

Topic 3: Differences between the level of transmission tariffs applicable for two consecutive tariff periods

4. Have you observed significant changes in DA and WD multipliers in the 2016-20 period?

- Yes
- No
- Other

4.1 Please explain your reasoning:

In Germany, a multiplier of 1.4 for WD and DA transport capacities used to be applied until end of 2019. From 2020 on, the multiplier for WD was raised to 2.0.

5. Have you observed that changes in multipliers have led to changes in the tariffs applicable for other capacity products (e.g. yearly capacity product)?

- Yes
- No
- Other

5.1 Please explain your reasoning:

Topic 4: Cross-subsidisation between network users having contracted yearly and non-yearly standard capacity products

6. Have you observed that DA and WD multipliers have placed or could place in the coming years excessive costs on short-term capacity compared to the costs recovered through yearly capacity products?

- Yes
- No

Other

6.1 In the affirmative, how could it affect competition and market integration?

Please refer to our response to 2.1.

6.2 Please explain how you evaluate if costs for short-term bookings are excessive compared to yearly bookings and on what criteria you base your argument.

Please see the example mentioned under 3.1.

Topic 5: Impact on cross-border flows

7. Have you observed that DA and WD multipliers have impacted or could impact in the coming years cross-border flows? Consider, in particular, situations where high DA and WD multipliers may prevent the use of available cross-border capacity or where high multipliers for DA and WD capacity product may negatively affect the correlation between gas prices in neighbouring hubs.

- Yes
 No
 Other

7.1 Please explain your reasoning:

Differing levels of multipliers harm cross-border trading. With an energy system increasingly in need of flexibility and the gas sector being an important flexibility provider, diversification becomes an important pillar to balance the entire European energy system. Unlevel multipliers lead to distortions and are likely to undermine the effectiveness of cross-border trading. Low and harmonized levels of multipliers allow for exploiting even small price differentials between EU member states and through that, for making full use of the existing transport capacity.

Please refer to our response to 2.1.

8. Have you observed that DA and WD multipliers can be a market barrier (for instance by granting an advantage to holders of long-term bookings)?

- Yes
 No
 Other

8.1 Please explain your reasoning:

Short-term multipliers are likely to be a market barrier where competitors do not enter a market if they face unfavorable short-term transportation costs compared to established market parties with long-term bookings.

Conclusion

9. From your perspective, what would be the advantages and disadvantages of capping DA and WD multipliers at 1.5 across Europe?

Capping the DA and WD multiplier at 1.5 would lead to a certain degree of European harmonization and as such supports cross-border short-term trading. (Please refer to our previous statements).

Thank you for your reply!

Contact

[Contact Form](#)