

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:

Power generation and supply company

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 capacity products are of the utmost importance for companies active in the electricity generation sector, operating gas-fired power plants. Being capable of supplying firm-capacity to the electricity network, such plants must counterbalance the volatility inherent in power generation from Renewables. Consequently, there is no alternative for gas-fired power plant operators other than relying to DA and WD capacity products to accommodate the resulting, inevitably unpredictable changes as regards their gas consumption. In that context, high DA and WD capacity prices do adversely affect generation costs, and consequently the

wholesale and retail electricity prices.

Moreover, we are always interested in taking advantage of competitively priced natural gas supply opportunities, deliverable both in long and short-term basis. In that context, the prices of short-term capacity products are really important for our gas portfolio strategy and, consequently for our average gas supply costs.

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:

Gas-fired power plant operators' strategy is striving towards minimizing their gas transmission costs through an optimal mix of available capacity products, also taking into account the higher risk associated with the unpredictability of their generation levels in the long-term. Lower costs of DA and WD capacity products would, reasonably, also result in the reduction of other short-term capacity products (such as the monthly and three-month products) as well, enabling power generators to opt for a higher percentage of short-term capacity contracts in their portfolio, thus reducing the risk undertaken by them and, consequently, the volumes of DA and WD products that they will inevitably have to rely on to meet any last-minute additional needs.

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:

The recovery of TSO's regulated revenues (based on their respective RABs) is mainly a function of the reference prices, calculated as set out in Chapter II of Regulation 2017/460. To the extent that the contracted capacities at each entry and exit point are correctly forecasted, the full TSO's regulated revenues will be recovered.

Multipliers for short-term contracts, calculated as set out in Chapter III of the aforementioned Regulation, should be mainly viewed as an incentive for users to choose between long-term and short-term contracts rather than a means of recovery of TSO's revenues. In that context, the level of multipliers should not, under all circumstances, be prohibitive for short-term capacity contracting.

In support of the above it should be pointed out that, as clearly derived from the relevant official documents of the Regulatory Authority for Energy of Greece, the current set-up of pricing of capacity products in Greece

has resulted over the last three years in significant over-recoveries, on top of the sum of TSO's regulated revenues for each year plus the rolled under-recoveries from previous years.

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:

DA and WD multipliers in Greece have significantly increased over the last few years. In particular, DA and WD multipliers at the entry points have more than doubled in 2020 as compared to 2019, while the DA multipliers at the exit points of the system exceed the "3,0" threshold for years 2020 and 2021. It should be mentioned that there is still no WD capacity product at the exit points of the Greek system. In case of a necessity to modify the capacity of a DA product within the delivery day there is a surcharge of 20% on top of the already expensive DA capacity product cost.

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:

Following considerable changes in both directions from year to year within the period 2016-2020, 2020 prices of yearly capacity products are eventually more than double the corresponding 2016 prices at all interconnection points, while the LNG terminal entry point yearly capacity products cost more than three times compared to 2016 (partially due to the reduction of the "Socialization" of the relevant costs of the LNG terminal), and will remain at high levels in 2021 (Decision 1038/2020 of the Regulatory Authority for Energy – RAE). It should be, however, mentioned that the prices of yearly capacity products at the exit points of the system have significantly reduced over the same period at the order of -40 to -55% as compared to 2016. It is not clear how the above changes are related (if they actually are) to the corresponding changes in the multipliers at the various entry and exit points of the system.

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?

If not properly justified, excessive prices for short-term capacity products are reasonably expected to adversely affect competition in several ways.

In the following paragraphs concrete information is provided on the actual adverse effects of the current excessive levels of multipliers on competition, market liquidity as well as on the operation of the electricity market in Greece.

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.

As regards the recovery of the capital invested in the RAB of the TSOs, which comprises a considerable part of the TSOs' annual regulated revenue allowance, there is no provision in Regulation 2017/460 concerning the way of splitting it between short- and long-term contracts.

Moreover, there are no significant, additional relevant operating costs of the TSOs, except for administrative costs, that may be attributed to short-term capacity products and, thus, be used in support of introducing high multipliers.

As explained earlier, the reference price, if determined on the basis of reasonable assumptions regarding the volume of capacity sales, is sufficient to recover the TSOs' revenues.

In view of the above, the short-term pricing schemes resulting from the current upper limit for short-term product multipliers lead in unjustified, excessive costs for network users, especially those active in the electricity generation sector. Since said users have no alternative other than relying on short-term capacity products to secure the smooth operation of the electricity markets, the corresponding excessive costs, which may be of the order of 20-25% of the total gas transportation expenses, have to be eventually borne by the final consumers, resulting in significant increases in the prices of electricity.

At this point it should be mentioned that there have been several instances within 2020, where the short-term capacity costs for LNG cargoes were up to 40% higher than the cost of the imported gas itself, a fact mainly attributable to the excessive level of the multipliers.

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:

High short-term multipliers resulting in considerable price differences between short- and long-term contracts have actually prevented the use of available cross-border capacity for the import of attractively priced gas to be delivered on short-term basis, since the short-term transportation costs were higher than the price spread of the gas over the Greek border.

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:

Market players already holding long-term capacity contracts have a competitive advantage against other potential suppliers of more attractively priced gas, who, however, face the considerably higher costs of short-term contracts. In that context, high multipliers act as a barrier against new entrants in the markets, and thus against the liquidity of the markets, by artificially and unjustifiably increasing the total cost of gas available in the market on short-term basis.

Conclusion

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

From our perspective, capping DA and WD multipliers at 1.5 across Europe will promote the liquidity of the markets and strengthen the competition by supporting the exploitation of short-term gas supply opportunities, thus favorably affecting market prices for the interest of both the users and the final customers.

Promoting the liquidity and competition in the gas markets by reducing DA and WD multipliers is also very important both for the security of supply in the electricity markets and the prices of electricity for the final consumer.

As already demonstrated, the lower cap on DA and WD multipliers is reasonably expected to have no adverse effect on TSOs, especially as regards the recovery of their regulated revenues.

Consequently, Public Power Corporation strongly supports the prospective reduction of DA and WD multipliers' cap down to 1.5 .

Thank you for your reply!

Contact

[Contact Form](#)

