

# 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

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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

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

## 3. Deadline

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

## 4. Identification data and confidential information

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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:

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

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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

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- [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

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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

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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

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

As a European business association, Eurelectric is not the best placed to set out specific booking strategies of individual gas market participants, however we can share the following thoughts on this topic.

The electricity generation mix has been significantly evolving in the last years, with a greater role for gas-fired power plants on flexibility delivery. The growing penetration of renewables makes more challenging the inheritance position of CCGTs as providers of base load electricity generation, even considering the gradual

phasing-out of coal fired generation and decrease of nuclear units in the coming years. Gas-fired power stations are nowadays operated with more volatile and unpredictable running patterns and its flexibility should be proper appraisal, owing to its relevance in the adequacy and safety of power systems.

Eurelectric clearly welcomes the major achievements reached in the last years with the deployment of various short term gas transport capacity products, on both interconnection & entry/exits points, thanks to the entry into force of the European tariff network code (NC TAR). NC TAR implementation contributes to profile capacity bookings for power station operators to better match their needs, with a positive impact in both the capacity factor of the plants and the overall gas sector.

Deployment of DA and WD gas capacity products at interconnection points (IPs) throughout Europe is a key driver for cross-commodity flexibility management and capacity booking strategy. They enable gas-fired power plants operators to better respond to changing circumstances in the wholesale electricity markets, whether it relates to physical constraints (e.g. power adequacy constraints, ancillary services) or to adaptation to volatile economic signals or environment. It contributes to both timely and spatial optimization of the system, supply profiling and can be as a successful example of sector coupling and system integration.

For instance, in the case of Spain, transport capacity for gas-fired power plants is booked on a daily basis (through daily capacity products). If intraday multipliers at IPs were lower than there are today in Spain (cf. average WD multiplier > 5 for entry capacity), Spanish CCGTs operators would more proceed with cross-borders booking strategies through intraday capacity products, enabling market participants to better match their capacity needs, either for balancing or arbitrage purposes. Eurelectric recognises however that in some member states, e.g. Ireland, the level of the multiplier does not influence cross-border bookings thus a one-size-fits-all approach across all member states is not necessarily optimum.

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:

Eurelectric notices that introducing multipliers for short term capacity products on IPs leads to a wide range of multipliers values, as set by NRAs throughout Europe. The second ENTSOG Report on Implementation and Effect Monitoring of the Tariff Network Code issued in March 2020 shows that DA multipliers exceed 3 in a few Member States, and 4 for WD multipliers. At EU scale, the average DA and WD multiplier increased within European TSOs from 2017 to 2019 to respectively (1.43 to 1.65 for DA) and (1.39 to 1.71 for WD). Therefore, the slight increase of short term multipliers observed in the last 3 years is not considered as a major game changer with regards interconnection capacity booking strategies, the global trend towards shorter term booking and hedging policies, compared to early 2010s, keep on prevailing.

Moreover, shift of booking strategies of shippers from yearly capacity products to shorter-term capacity products do not seem very different between IPs for which ST multipliers are low (i.e. near 1) vs. IPs for which DA or WD multipliers are close to the EU average levels. However, high short-term multipliers force shippers to book long-term capacity only, leading to capacity bookings exceeding shippers' needs, whereas low short-term multipliers allow them to optimize their capacity profile booked through combining both short-

term & long-term products. Some CCGT operators internalise capacity costs in their bids, and here excessively high multipliers can have a negative effect in their operations within their electricity market(s). Therefore, NRAs in consultation with TSOs and market participants need to have the discretion as to what level to reduce multipliers so as to avoid potential negative consequences in local markets.

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

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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:

Eurelectric does not think that low DA and WD multipliers at IPs would induce significant under-recoveries of TSOs' revenues on a transitory basis because most of the capacity is booked through long term products. If it was the case, such under-recoveries would be systematically rolled to next years by revenue reconciliation mechanisms.

However, the volatility impact that a move to a multiplier of 1,5 within two years would have on bookings would extend to the volatility and predictability of TSO revenues. If the multiplier cap was significantly reduced down to 1,5, as proposed in the last question of this ACER consultation, a heavy shift towards short term capacity bookings could be expected. With bookings closer to real-time, weather effects have to be taken into account. This adds another layer of volatility, e.g. when the weather is milder (resp. more severe) than expected, lower (resp. higher) short-term bookings than expected will be made: short term capacity product revenues to the TSO will therefore be reduced (resp. increased) too.

Therefore we believe the DA and WD multipliers range of 1-3, as framed by NC TAR, should be maintained with a fair level of discretion being retained by NRAs, in consultation with market participants including the TSO, to alter the tariff multipliers locally in line with market conditions and mitigating any unintended negative consequences which can vary market to market.

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

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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:

At EU scale, we notice that the average DA and WD multiplier increased within European TSOs from 2017 to 2019 to respectively 1.43 to 1.65 for DA and 1.39 to 1.71 for WD. However, the most significant changes relate to the implementation of very high DA multipliers (> 3) and WD multipliers (> 4) in a few Member States, i.e. out of the recommendations set by Article 13 of the NC TAR.

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:

Changes in tariffs applicable for transport capacity products at IPs may be driven by numerous factors, from which evolution of gas consumption, indigenous gas production - and their induced changes in transit or cross-border flows - can be the primary factors. As explained before, the capacity at IPs contracted through short-term products has currently little weight compared to the annual contracted capacity.

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

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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?

There are a number of factors that need to be borne in mind when addressing this question. A balance is required between ensuring equitable costs are applied to short-term capacity as well as long term or yearly capacity products. End-consumers should not be unduly burdened with costs some of which may be driven by a lack of stability or volatility in tariffs due to the imposition of a much lower cap on short term multipliers if this proposal proceeds.

The specific gas demand mix and usage patterns may necessitate more flexibility between markets in tools available to balance the aims of the short-term and long-term, and avoid cross-subsidisation, in order to reach a satisfactory equilibrium for stable TSO revenues and efficiency for all energy consumers (gas and power).

An example of one factor is the impact that weather can have on short term capacity bookings. If short term multipliers are drastically reduced more short-term bookings may arise. But in real-time, if the weather is mild and/ or wind speeds are higher than forecast, the demand for gas may be minimal with consequential minimal bookings of gas capacity. The stability of the TSOs' revenue stream could then be undermined. The stability of prices charged to end consumers could also be undermined. Both of these instances of instability

would likely be sought to be addressed by adjusting tariffs upwards in the following year – be they short-term or long-term capacity product tariff adjustments.

Further market factors in any particular market that may influence the scale of the multipliers can include the maturity of the market, whether the network is expanding, and the level of spare capacity available.

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.

## Topic 5: Impact on cross-border flows

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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 interconnection costs at IPs have undoubtedly an impact on geographical spreads between gas hubs. For instance, DA and WD multipliers will negatively affect cross-border flows between Spain, Portugal and France because they are too high (cf. example mentioned into answer to question 1).

In a more volatile energy market, combined with the growing importance of flexibility the gas system can provide, fostering competition and increasing liquidity within Europe implies a well-functioning short term gas market, for which short-term capacity products play a key role. Setting too high short term multipliers may be detrimental to an optimized use of cross-border transport capacity within Europe, whereas the significant decrease of European gas production may lead to higher long-distance transit flows in the coming years.

However, the level of the short-term multipliers does not impact always cross-border flows between non fully meshed countries. For instance, Ireland is reliant on gas imports through interconnectors from Great Britain. When gas is needed to meet demand in Ireland for example the price of the gas or its shipping cross-border cost does not deter its import.

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:

DA and WD multipliers can be a market barrier because can benefit larger suppliers or those with less seasonal demand compared to smaller suppliers or suppliers with seasonal demand. A balance is required to ensure equitable tariffs to long- and short-term capacity booking holders.

## Conclusion

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

On the one hand, capping DA and WD multipliers would benefit to gas market integration within Europe and contribute to a better optimization of the flexibility the gas system can provide. On the other hand, capping short term multipliers at a very low level would alter time-value of LT products, thus disincentive gas markets participants to proceed with risks mitigation. In other words, it may be detrimental to risk hedging activity.

Therefore, Eurelectric opinion is to maintain the current range of 1-3 as set by the NC TAR, that range being sufficient to achieve market integration. In other words, Eurelectric considers that capping DA and WD multipliers to 3, at EU level, would be a first appropriate achievement.

If the multiplier cap was reduced by ACER as to 1.5 at EU level, a heavy shift towards short term capacity bookings could be expected in the coming years. While TSOs revenues certainty can be undermined, such a low cap would have consequential impacts on the stability of tariffs that market participants can offer consumers. The uncertainty and volatility that such a shift in multiplier would introduce would feed into end consumer prices.

In this context, we believe that a balanced approach to multiplier setting is required and that the range of 1-3 enables the NRA, in consultation with market participants and TSOs, to decide what multiplier, within the 1-3 range, best fits with their market and best mitigates potential unduly negative consequences. As a "one size fits all" approach to the cap on short term tariffs may not be optimal, and considering that the level of DA and WD multipliers inevitably influence trading habits, markets and NRAs should be allowed to retain some divergence to establish the multiplier levels, within the existing range of 1-3.

Thank you for your reply!

## Contact

[Contact Form](#)

