ACER

Agency for the Cooperation of Energy Regulators

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Agency Report

Analysis of the Consultation Document on the Gas Transmission Tariff Structure for Sweden

NRA: Energimarknadsinspektionen
TSO: Swedegas

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Contents

1. ACER conclusions

(1) The Swedish Transmission System Operator ('TSO'), Swedegas, proposes a postage stamp methodology. Swedegas proposes to apply a 100% discount at entry points from, and exit points to, the (mothballed) storage facility, no commodity charges, and two non-transmission charges. The Agency for the Cooperation of Energy Regulators ('the Agency') appreciates that Swedegas conducts the consultation in English, since this provides transparency also to non-Swedish stakeholders.

(2) The Agency, after having completed the analysis of the consultation documents pursuant to Article 27(2) of Commission Regulation (EU) 2017/460 of 16 March 2017 establishes a Network Code on Harmonised Transmission Tariff Structures for Gas ('NC TAR'), concludes that:

- The proposed Reference Price Methodology ('RPM') does not comply with the principle of cost-reflectivity, as it does not take distance into account, which is a main cost driver in the Swedish transmission network.
- The postage stamp methodology does not comply with the principle of avoiding undue cross-subsidies, because the RPM, not complying with the cost-reflectivity criterion, creates cross-subsidies from network users connected in the south of the transmission network to the benefit of those connected in the north of the transmission network. There are no cross-subsidies between intra-system users and cross-system users, since the Swedish transmission system does not allow cross-border flows. The RPM is non-discriminatory.
- Network users can easily reproduce the calculation of the reference prices for the current tariff year, but it is not as easy to forecast the reference prices for the next ones.
- There is no need to ensure that the final users are protected from any transit volume risk, as there are no transits through the Swedish system.
- The reference prices do not distort cross-border trade.
- The consultation document contains all required information, with the exception of the elements listed in paragraph (4).

(3) The Agency considers that the tariffs for both non-transmission services (the pressure reduction service and the administrative charge) satisfy the criteria of Article 4(4) since they are cost-reflective, non-discriminatory, objective and transparent, and are charged to the beneficiaries of the services.

(4) The Agency recommends that the National Regulatory Authority ('NRA'), in its final decision:

- Provide relevant evidence to justify that the postage stamp methodology provides a reasonable level of cost-reflectivity. If such evidence could not be provided, the Agency recommends that the NRA switch to a distance-related methodology.
- Provide relevant evidence, including a quantitative assessment, explaining why recovering the full allowed revenue, instead of 85%, would endanger the gas market.
- Ensure that the TSO inputs in the RPM the share of the allowed revenue it intends to recover and use the resulting value to set the transmission services revenue.
- Ensure that the TSO provides additional clarity on the methodology used to forecast booked capacity.

- Ensure that the TSO upgrades the publicly available simplified tariff model to allow network users to input different values of forecasted capacity and allowed revenue.
- Include all three services that were not included in the consultation document ('Extra Omradeskapactiet', 'Kapacitetstilldelningsavgifter', and 'Dygnsbokningsavgift') and assess if the services qualify as transmission services or non-transmission services. If the services qualify as transmission services, they should be included in the RPM and should not be recovered via separate charges.
- Consider the possibility that the proposed LNG terminal is operational, as expected, by 2020 and its impact on the tariff structure.

2. Introduction

(5) Commission Regulation (EU) 2017/460 of 16 March 2017 establishes a Network Code on Harmonised Transmission Tariff Structures for Gas.

(6) Article 27 of the NC TAR requires the Agency to analyse the consultation documents on the reference price methodologies for all entry-exit systems[1]. This Report presents the results of the analysis of the Agency for the transmission system of Sweden.

(7) Swedegas launched the consultation on 30 April 2018, which remained open until 30 June 2018[2]. The consultation took place in English.

(8) Swedegas published the consultation responses and their summary on 6 July 2018. The Agency has taken these into consideration for this analysis. Within five months following the end of the final consultation, and pursuant to Article 27(4) of the NC TAR, the Swedish NRA Energimarknadsinspektionen ('EI') shall take and publish a motivated decision on all the items set out in Article 26(1).

Reading guide

(9) Chapter 3 presents the analysis on completeness, namely whether all the information referred to in Article 26(1) has been published. Chapter 4 focusses on compliance, namely whether the RPM complies with the requirements set out in Article 7 of the Code, whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met, and whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met. Chapter 5 includes other comments. This document contains two Annexes: the Legal framework and a List of abbreviations.

3. Completeness

3.1 Has all the information referred to in Article 26(1) been published?

(10) Article 27(2)(a) of the NC TAR requires the Agency to analyse whether all the information items referred to in Article 26(1) of the NC TAR have been published.

(11) Article 26(1) of the NC TAR requires that the consultation document be published in English, to the extent possible. The Agency remarks, and welcomes, that the consultation document was published in English.

(12) The Agency concludes that, overall, the TSO has published all the information in Article 26(1) of the NC TAR, as noted in Table 1 below, with the observation formulated therein.

[1] With the exception of Article 10(2)(b), when different RPMs may be applied by the TSOs within an entry-exit zone.

[2] On 4 May 2018, Swedegas notified the Agency via email about the opening of the consultation.

Table 1 Checklist of the information referred to in Article 26(1) of the NC TAR

Article	Information	Published: Y/N/NA
26(1)(a)	The description of the proposed reference price methodology	Yes
26(1)(a)(i) **26(1)(a)(i)(1)** **26(1)(a)(i)(2)**	The indicative information set out in Article 30(1)(a), including: • the justification of the parameters used that are related to the technical characteristics of the system • the corresponding information on the respective values of such parameters and the assumptions applied	Yes, but the methodology used to forecast booked capacity should be explained.
26(1)(a)(ii)	The value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9	Yes
26(1)(a)(iii)	The indicative reference prices subject to consultation	Yes
26(1)(a)(iv)	The results, the components, and the details of these components for the cost allocation assessments set out in Article 5	Yes
26(1)(a)(v)	The assessment of the proposed reference price methodology in accordance with Article 7	Yes, but see recommendations in Chapter 4.
26(1)(a)(vi)	Where the proposed reference price methodology is other than the CWD reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii)	Yes
26(1)(b)	the indicative information set out in Article 30(1)(b)(i), (iv), (v)	Yes
26(1)(c)(i) **26(1)(c)(i)(1)** **26(1)(c)(i)(2)** **26(1)(c)(i)(3)**	Where commodity-based transmission tariffs referred to in Article 4(3) are proposed • the manner in which they are set • the share of the allowed or target revenue forecasted to be recovered from such tariffs • the indicative commodity-based transmission tariffs	Not applicable
26(1)(c)(ii) **26(1)(c)(ii(1)** **26(1)(c)(ii)(2)** **26(1)(c)(ii)(3)** **26(1)(c)(ii)(4)**	Where non-transmission services provided to network users are proposed: • the non-transmission service tariff methodology • the share of the allowed or target revenue forecasted to be recovered from such tariffs • the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3) • the indicative non-transmission tariffs for non-transmission services provided to network users	Yes
26(1)(d)	The indicative information set out in Article 30(2)	Yes, but the simplified tariff model does not allow to modify the allowed revenue nor the forecasted capacity.
26(1)(e) **26(1)(e)(i)**	Where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity:	Not applicable

26(1)(e)(ii) **26(1)(e)(iii)** **26(1)(e)(iv)**	• the proposed index • the proposed calculation and how the revenue derived from the risk premium is used • at which interconnection point(s) and for which tariff period(s) such approach is proposed • the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed	

4. Compliance

4.1 Does the RPM comply with the requirements set out in Article 7?

(13) Article 27(2)(b)(1) of the NC TAR requires the Agency to analyse whether the proposed RPM complies with the requirements set out in Article 7 of the NC TAR. This Article refers to Article 13 of Regulation (EC) 715/2009 and lists a number of requirements to be taken into account when setting the RPM. As these overlap, in the remainder of this Chapter the Agency will take a closer look at the five elements listed in Article 7 of the NC TAR.

(14) Since the concepts of **cost-reflectivity**, **non-discrimination**, **cross-subsidisation, cross-border trade, and transparency** are closely related[3], the Agency has performed an overall assessment.

(15) It is worth highlighting at the beginning of this section that the consultation document is based on two key choices that Swedegas has taken with the declared aim of preserving-the sustainability of the national gas market:

- The RPM does not include distance as a cost driver.
- Only 85% of the allowed revenues are recovered.

(16) In the Agency's view, Swedegas does not adequately motivate these choices. As they reduce cost-reflectiviy and result in cross-subsidies, the Agency concludes that the proposed RPM methodology is not compliant with the NC TAR.

4.1.1 Transparency

(17) Article 7(a) of the NC TAR requires that the RPM aim at ensuring that network users can reproduce the calculation of reference prices and their accurate forecast.

Simplified tariff model

(18) Swedegas publishes on its website a simplified tariff model[4], with basic simulation features[5]. The simplified tariff model allows to input alternative values neither of allowed revenue nor of forecasted

[3] The principle of cost-reflectivity is related to the principles of cross-subsidisation and non-distortion of cross-border trade. Tariffs that are fully cost-reflective do not result in any form of cross-subsidisation (and hence they do not distort cross-border trade), as they charge users for the exact costs they cause to the system. Following this reasoning, tariffs that are less cost-reflective may result in cross-subsidisation between users.

[4] As required by Article 30(2)(b) of the NC TAR.

[5] https://www.swedegas.com/Our_services/services/transmission/tarrifkalkylator

capacity. The model allows estimating the transmission tariffs for the current tariff period. However, this is not so easy for future tariff periods. To calculate the indicative transmission tariffs for future tariff periods, network users have to apply the indicative price changes as shown in the consultation document[6] to the current tariff obtained through the simplified tariff model.

(19) The simplified tariff model allows adequately to calculate the two non-transmission charges.

(20) Network users can additionally access a more sophisticated tariff calculator[7] (in Swedish only), which the Agency has not assessed.

(21) The Agency recommends that the simplified tariff model is upgraded to allow network users to input different values of forecasted capacity and allowed revenue.

Allowed revenue[8]

(22) Swedegas plans to recover only 85% of the allowed revenue in the first (current) regulatory period from January 2015 to December 2018. Similarly, Swedegas does not plan to recover the full allowed revenue in the second regulatory period either, which will cover the period from January 2019 to December 2022. Swedegas indicates that a full recovery of the allowed revenue would imply even higher tariffs than the existing ones[9], which would lead to a decrease in market volumes[10], followed by higher tariffs to compensate for the lower flows. Swedegas wants to avoid this vicious circle that may have negative impacts on the gas market as a whole[11,12].

(23) The Agency considers that the choice of Swedegas to recover only 85% of the allowed revenue implies that efficient costs are not recovered. Therefore, this choice is not cost-reflective. The Agency recommends that the NRA, in its final decision, provide an explanation on why it is necessary that Swedegas does not recover the full allowed revenue.

(24) The Agency notes that the reference prices resulting from the RPM formula, where the full allowed revenue is inputted, do not provide network users with 'the price for a capacity product for firm capacity with a duration of one year' (Article 3(1)). The Agency therefore recommends that the NRA use in the RPM formula the share of the allowed revenue the TSO intends to recover and use the resulting value to set the transmission services revenue.

4.1.2 Cost-reflectivity

(25) Article 7(b) of the NC TAR requires that the RPM take into account the actual costs incurred for the provision of transmission services, considering the level of complexity of the transmission network.

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[6] See page 12, figure 6, of the consultation document.

[7] https://www.swedegas.se/-/media/Files/Lagervillkor/Kostnadskalkyl-1718-Uttag.ashx?la=sv-SE

[8] Although this section is included under transparency, it also addresses cost-reflectivity concerns.

[9] Swedegas reported that the tariff, currently around 5 EUR/MWh, is already rather high compared to other Member States.

[10] See page 2 of the consultation document. Swedegas provided additional oral explanations to the Agency.

[11] Despite its intention not to recover the full allowed revenue, Swedegas inputs in the RPM formula the allowed revenue of the first period since the allowed revenue for the second regulatory period will be decided only in October 2018. The Agency has understood from Swedegas that the intention is to update this figure once the decision of the NRA is available.

[12] The NRA, following court proceedings, has recently changed the allowed revenue for the first regulatory period. The first regulatory period allowed revenue is 2,014 MSEK instead of 1,826 MSEK. The main reason for the allowed revenue increase is a higher WACC. Swedegas still used the value of 1,826 MSEK in the consultation document.

(26) Following the reasoning laid out in paragraphs (29) to (38), the Agency concludes that the RPM is not compliant with the principle of cost-reflectivity.

Description of the transmission system

(27) The Agency finds that the description of the national gas system provides an appropriate level of detail. The transmission system in Sweden is a simple pipeline stretching from south to north, with a few short lateral branches. A share of 99.5% of all gas transported is imported from Denmark and enters from a single point, Dragør. The Dragør point is not bookable and the national gas act establishes that bookings of capacity shall only occur at the exit of the transmission network[13]. This means that there will be no entry tariff set for the Dragør point. The remaining 0.5% of transported gas enters the network from the biogas facility in Trelleborg, also in the south of the country. The network transports on average 800 mcm of gas every year, very little compared to most other natural gas networks in the EU. The transmission network serves five Distribution System Operators ('DSOs') and five directly connected consumers (in the northern part of the network).

Swedegas' choice for the postage stamp methodology

(28) Swedegas proposes a postage stamp RPM. Swedegas justifies the choice for a postage stamp methodology by:

- The simplicity of the methodology and its calculation.
- The continuity with the current methodology, which is already a postage stamp.
- The cost-reflectivity of the chosen RPM and its inputs.
- The potential negative economic effects on the whole gas market that could arise if a method having distance as a cost driver were chosen: the resulting high reference prices in the north could lead to overall decreased volumes, which would also cause the prices in the south to increase[14].

(29) The Agency agrees that there is a merit in the simplicity of the postage stamp methodology and in continuing using the same methodology. On the other hand, the Agency is of the view that cost-reflectivity is not sufficiently ensured by the proposed method and that Swedegas does not provide enough evidence on the potential negative effects of including distance as a cost driver in the RPM.

Comparison with Capacity Weighted Distance methodology

(30) The postage stamp method leads to a uniform reference price for all exit points. Given the shape of the network and the fact that there is entry only in the south of the network, the Agency notes that distance is a key cost driver, while the postage stamp methodology does not include distance as a cost driver. Therefore, a methodology such as the CWD methodology would be more cost-reflective and would reduce the level of cross-subsidies between network users within Sweden.

[13] At the Dragør interconnection point, the CAM NC does not apply; yet it applies on the Danish side of the border, where PRISMA is used as the capacity booking platform. The DSOs and the end-consumers directly connected to the transmission network perform the capacity bookings for the Swedegas' network, having the possibility to choose, beyond yearly products, also 7-, 5-, 3- and 1-month, and daily products. Short-term multipliers apply (but they are out of the scope of this Report).

[14] As explained on page 2 of the consultation document. Regarding the risk of decreased volumes, Swedegas explained to the Agency that natural gas covers only 2%-3% of the national energy mix, but 25% in the areas where it is available. Swedegas argues that natural gas competes with alternative fuels in all segments.

Furthermore, the Agency is of the view that, in a simple network like the Swedegas' one, the calculation of CWD methodology would not be too complicated.

(31) Swedegas has compared the postage stamp methodology with the CWD methodology using two different entry-exit splits (0-100 and 50-50), given that the 50-50 split prescribed in the NC TAR is not suitable for the comparison[15]. When applying the CWD methodology using a 0-100 entry-exit split, the northernmost area faces reference prices which are six times higher than those resulting from the application of the postage stamp methodology[16]. If it were possible to book capacity at the Dragør entry point, the CWD methodology using a 50-50 split could be considered as an option. Such a methodology would allocate revenues on the basis of distance and would therefore be more cost reflective and lead to lower cross-subsidies than the postage stamp methodology. At the same time, it would result in smaller differences between reference prices in the north and in the south of the network than the CWD methodology applied using a 0-100 entry-exit split. According to Swedegas, the CWD methodology applied using a 50-50 split would result in two-fold tariff differences between users connected in the north and those connected in the south of the network.

(32) The Agency understands Swedegas' reasoning about the need to avoid the risk of vicious circles which may have negative impacts on the whole gas market. On the other hand, the Agency points out that Swedegas does not provide, in the consultation document, a sufficient analysis of the effects of applying a CWD methodology instead of a postage stamp methodology in terms of the consequences to the overall gas market. Swedegas also does not provide an analysis of the distributional effects between the northern and southern regions. Therefore the Agency recommends that the NRA, in its final decision, provide appropriate quantitative evidence to back its choice of the RPM, or, alternatively, switch to a methodology that includes distance as a cost driver.

Inputs to the methodology

(33) The postage stamp methodology formula needs only three inputs: the transmission services revenue, the entry-exit split and the forecasted contracted capacity (the only cost driver). Swedegas provides a justification of the parameters used as input to the postage stamp methodology.

- *Transmission services revenue*: this is the part of the allowed revenue which is recovered by transmission tariffs. On the allowed revenue, see paragraphs (22) to (24).
- *Entry-exit split*: Swedegas proposes a 0-100 entry-exit split. Since Dragør, where 99.5% of the gas enters the transmission grid, is not a bookable point, revenues cannot be recovered at entries. The Agency considers the proposed split suitable, given the specificities of the Swedish network regarding the points which are bookable. If the national gas act allowed to book entry capacity at Dragør, then a different split could be considered. Moreover, given that Swedegas' network has no exits to neighbouring systems, the choice of the entry-exit split does not affect cross-subsidisation between intra-system users and cross-system users.
- *Forecasted capacity:* forecasted capacity bookings are based on historical demand, which includes past trends and already expected future changes. The Agency notes that Swedegas

[15] The CWD methodology calculated using a 50/50 split allocates revenues to entries. This is not compatible with the Dragør entry point not being bookable and thus not allowing to recover revenues.

[16] Appendix III of the consultation shows detailed results of the comparison of the CWD methodology with the postage stamp methodology.

provides little information on how this forecast is calculated and recommends that the NRA provide, in its final decision, additional clarity on the methodology used for this purpose.

Adjustments to the application of the RPM

(34) Swedegas proposes the application of a 100% discount on the entry from and exit to storage facilities. The only existing storage facility in the system is mothballed[17]. For this reason, the adjustment has no impact on the cost-reflectivity of the RPM[18].

(35) The Agency finds Swedegas' application of discounts in line with the requirements of the NC TAR.

Conclusions

(36) The Agency notes that the choice of the postage stamp methodology, despite it being simple and easy to understand, may not be the most appropriate considering the stretched structure of the network. The application of a CWD methodology, or another methodology that includes distance as a cost driver, would better reflect the actual transmission costs and the complexity and topography of the network.

(37) On the other hand, the Agency takes note of Swedegas' concerns regarding a distance-based methodology. However, the consultation document does not properly motivate why a more cost-reflective methodology, such as the CWD methodology, would create problems to the national gas market functioning.

(38) On the basis of these arguments, the Agency concludes that the proposed RPM is not in line with the principle of cost-reflectivity. Cost-reflectivity is not the only objective in choosing the RPM. However, the reasoning on the choice of RPM is only partly backed by quantitative evidence that can support the other principles in Regulation (EC) No. 715/2009. The Agency therefore recommends to include a more extensive reasoning on why a methodology that takes into account distance would not be appropriate or, alternatively, to switch to a method which is more cost-reflective, such as the CWD methodology or another distance-related methodology.

4.1.3 Discrimination and cross-subsidisation

(39) Article 7(c) of the NC TAR requires the RPM to ensure non-discrimination and prevent undue cross-subsidisation. One instrument to evaluate this is the Cost Allocation Assessment ('CAA') (Article 5 of the NC TAR).

(40) For this analysis, the Agency defines 'cross-subsidisation' as a deviation from cost-reflectivity whereby users of the entry-exit system are charged tariffs that differ from the costs they cause to the system.

[17] The storage is in a "light" mothball status since 1 May 2018: in case of need, it can restart full operation within one month. On the other hand, there is no expectation that it will restart operations in the short-term, given the present and forecasted market conditions.

[18] If the storage were restarted, any potential under recovery caused by its transmission related operational cost would be reconciled in the following period. The Agency notes that if the storage restarted operations, the 100% discount would create a very limited cross-subsidy from storage users to non-users, because the storage capacity (90 GWh) is only 1% of the total transmission volume and there are no compressor stations.

Cross-subsidisation between cross-system network users and intra-system network users

(41) The Agency agrees with Swedegas' analysis that the chosen RPM does not create undue cross-subsidies between intra-system users and cross-system users, because the transmission network does not have any cross-system users (since there are no exit points into other entry-exit systems).

(42) For the same reason, the CAA cannot be meaningfully applied[19].

(43) The CAA only assesses cross-subsidisation between intra-system use and cross-system use, and no other potential forms of internal cross-subsidisation.

Cross-subsidisation between different network users within Sweden

(44) Swedegas claims that the chosen RPM does not create undue cross-subsidies between different types of users within Sweden, because they all pay the same reference price based on the capacity they book.

(45) The Agency considers that the chosen RPM creates cross-subsidies between users within Sweden. The use of a postage stamp methodology that averages reference prices on the basis of total booked capacity[20] creates a cross-subsidy because the network is stretched and all gas enters the national network in the south of the network. Therefore network users active in the south of the transmission network subsidise those active in the north of the transmission network. Given the specific type of users connected to the network, users connected to the DSOs network subsidise end-users directly connected to the transmission network (in the north).

(46) The Agency considers the cross-subsidisation between users within Sweden relevant. For the same reasons according to which the Agency concludes that the chosen RPM is not compliant with the principle of cost-reflectivity[21], the Agency considers the described cross-subsidisation undue. The cross-subsidisation could be justified in case Swedegas provided adequate quantitative evidence supporting the choice of a RPM that does not include distance as a cost driver.

(47) As a conclusion, the Agency recommends the NRA, in its final decision, to provide additional quantitative evidence to motivate the choice of the postage stamp methodology so as to prove that the cross-subsidisation it generates is not undue; or, alternatively, to switch to a method which creates less cross-subsidies, such as the CWD methodology, or another distance-related methodology.

Discrimination[22]

(48) Swedegas considers that the chosen RPM is non-discriminatory because it provides the same reference prices to all users who book the same capacity product.

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[19] Swedegas provides detailed calculation of the CAA in Appendix III of the consultation, both for the postage stamp and the CWD methodology. Since two terms in the formula in Article 5(3)(c) of the NC TAR are indeterminate, the whole formula is indeterminate.

[20] And not using distance as a cost driver.

[21] See Section 4.1.2 for a detailed description and analysis.

[22] The Agency defines discrimination as applying different rules to comparable situations or the same rule to different situations, e.g. when network user A would be charged a different price than network user B while buying the same product, such as a one year firm capacity product at interconnection point X.

(49) The Agency finds that the proposed RPM is non-discriminatory simply because it addresses a comparable situation in the same way. The Agency remarks that it would consider the CWD methodology non-discriminatory as well.

4.1.4 Volume risk

(50) Article 7(d) of the NC TAR requires the RPM to ensure that significant volume risk, related particularly to transports across an entry-exit system, is not assigned to final customers within that entry-exit system.

(51) The consultation document does not address this risk, because there is no possibility to transport gas across the entry-exit system.

(52) The Agency considers the consultation document compliant in this respect.

4.1.5 Cross-border trade

(53) Article 7(e) of the NC TAR requires the RPM to ensure that the resulting reference prices do not distort cross-border trade.

(54) Swedegas addresses the issue of non-distortion of cross-border trade in its consultation document[23] and concludes that there is no transit in Swedegas' network.

(55) Since there is only one point where gas enters the system and no points where gas exits to other transmission systems, there is no concern regarding the distortion of cross-border trade.

(56) The Agency considers the consultation document compliant in this respect.

4.2 Are the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) met?

(57) Swedegas considers that capacity is the main cost-driving factor and therefore proposes not to apply commodity-based transmission tariffs. The criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are therefore not analysed.

4.3 Are the criteria for setting non-transmission tariffs as set out in Article 4(4) met?

(58) Swedegas proposes to apply two non-transmission tariffs[24]: a tariff for the pressure reduction service and an administrative charge. The two services combined amount to 2% of the total allowed revenue. The costs of both services are not caused by capacity and distance and can therefore be attributed to non-transmission tariffs.

(59) The tariff for the pressure reduction service covers the costs for providing lower pressure (compared to the pressure in the transmission network) to network users. Network users pay for the service depending on the number of pressure reduction steps needed.

[23] See page 10-11, section A.5.E of the appendix IV to the consultation document.

[24] These are described at page 10-11 of the consultation document.

(60) The administrative charge is charged to all transmission costumers in proportion to the number of connection points and reflects the administrative work required at each connection point.

(61) Swedegas describes clearly and transparently what drives the cost of both non-transmission services in the consultation document and provides examples on how the services are charged, as well as the indicative non-transmission tariffs formulas. Network users can simulate their total non-transmission cost using the simplified tariff model.

(62) The Agency considers that both non-transmission services satisfy the criteria of Article 4(4)(a) since they are charged in a cost-reflective, non-discriminatory, objective and transparent way.

(63) The Agency considers that both non-transmission services satisfy the criteria of Article 4(4)(b): they are charged to the beneficiaries of the services and therefore they do not create subsidies between network users within or outside Sweden.

(64) The Agency concludes that the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.

5. Other comments

(65) Firstly, the Agency notes that there are at least three services for which tariffs are set that are not included in the consultation document. These are:

- 'Extra Omradeskapactiet' (extra area capacity fee).
- 'Kapacitetstilldelningsavgifter' (capacity allocation fee for summer and winter periods).
- 'Dygnsbokningsavgift' (capacity allocation fee for daily capacity products).

(66) The Agency considers that these services fall within the scope of the NC TAR and therefore should have been included in the consultation document and shall be included in the final NRA's decision.

(67) The NRA has to assess if these services qualify as transmission services or non-transmission services following Article 4(1). If the services qualify as transmission services:

- The revenue from these services shall be included in the transmission services revenue ('single pot') (Article 3(6) and 3(7)).
- The ('single') same RPM shall be applied to the transmission services revenue (Article 3(2)).
- The application of the RPM shall provide a reference price (Article 6(2)).
- The reference price is the price for a capacity product for firm capacity with a duration of one year (Article 3(1)).

If the NRA decided to consider these services as non-transmission services, their revenue should be recovered according to Article 4(4).

(68) As a second point, the Agency notes that the Gothenburg LNG Terminal is planned to be commissioned in 2020[25]. This will create a new entry point into the Swedish network. The year 2020 falls within the period covered in the consultation document. Therefore, the Agency recommends

[25] A final investment decision is still pending, this is why Swedegas has not considered the Gothenburg LNG Terminal in the consultation document.

the NRA to take this facility into account in the final decision and to consider its impact on the tariff structure.

Annex 1: Legal framework

(69) Article 27 of the NC TAR reads:

1. Upon launching the final consultation pursuant to Article 26 prior to the decision referred to in Article 27(4), the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority, shall forward the consultation documents to the Agency.

2. The Agency shall analyse the following aspects of the consultation document:

(a) whether all the information referred to in Article 26(1) has been published;

(b) whether the elements consulted on in accordance with Article 26 comply with the following requirements:

(1) whether the proposed reference price methodology complies with the requirements set out in Article 7;

(2) whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met;

(3) whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.

3. Within two months following the end of the consultation referred to in paragraph 1, the Agency shall publish and send to the national regulatory authority or transmission system operator, depending on which entity published the consultation document, and the Commission the conclusion of its analysis in accordance with paragraph 2 in English.

The Agency shall preserve the confidentiality of any commercially sensitive information.

4. Within five months following the end of the final consultation, the national regulatory authority, acting in accordance with Article 41(6)(a) of Directive 2009/73/EC, shall take and publish a motivated decision on all items set out in Article 26(1). Upon publication, the national regulatory authority shall send to the Agency and the Commission its decision.

5. The procedure consisting of the final consultation on the reference price methodology in accordance with Article 26, the decision by the national regulatory authority in accordance with paragraph 4, the calculation of tariffs on the basis of this decision, and the publication of the tariffs in accordance with Chapter VIII may be initiated as from the entry into force of this Regulation and shall be concluded no later than 31 May 2019. The requirements set out in Chapters II, III and IV shall be taken into account in this procedure. The tariffs applicable for the prevailing tariff period at 31 May 2019 will be applicable until the end thereof. This procedure shall be repeated at least every five years starting from 31 May 2019.

(70) Article 26(1) of the NC TAR reads:

1. One or more consultations shall be carried out by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority. To the extent possible and in order to render more effective the consultation process, the consultation document should be published in the English language. The final consultation prior to the decision referred to in Article 27(4) shall comply with the requirements set out in this Article and Article 27, and shall include the following information:

(a) the description of the proposed reference price methodology as well as the following items:

(i) the indicative information set out in Article 30(1)(a), including:

(1) the justification of the parameters used that are related to the technical characteristics of the system;

(2) the corresponding information on the respective values of such parameters and the assumptions applied.

(ii) the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9;

(iii) the indicative reference prices subject to consultation;

(iv) the results, the components and the details of these components for the cost allocation assessments set out in Article 5;

(v) the assessment of the proposed reference price methodology in accordance with Article 7;

(vi) where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii);

(b) the indicative information set out in Article 30(1)(b)(i), (iv), (v);

(c) the following information on transmission and non-transmission tariffs:

(i) where commodity-based transmission tariffs referred to in Article 4(3) are proposed:

(1) the manner in which they are set;

(2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;

(3) the indicative commodity-based transmission tariffs;

(ii) where non-transmission services provided to network users are proposed:

(1) the non-transmission service tariff methodology therefor;

(2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;

(3) the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3);

(4) the indicative non-transmission tariffs for non-transmission services provided to network users;

(d) the indicative information set out in Article 30(2);

(e) where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity:

(i) the proposed index;

(ii) the proposed calculation and how the revenue derived from the risk premium is used;

(iii) at which interconnection point(s) and for which tariff period(s) such approach is proposed;

(iv) the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed.

(71) Article 7 of the NC TAR reads:

The reference price methodology shall comply with Article 13 of Regulation (EC) No 715/2009 and with the following requirements. It shall aim at:

a) enabling network users to reproduce the calculation of reference prices and their accurate forecast;

(b) taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;

(c) ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;

(d) ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;
(e) ensuring that the resulting reference prices do not distort cross-border trade.

(72) Article 13 of Regulation (EC) No 715/2009 reads:
1. Tariffs, or the methodologies used to calculate them, applied by the transmission system operators and approved by the regulatory authorities pursuant to Article 41(6) of Directive 2009/73/EC, as well as tariffs published pursuant to Article 32(1) of that Directive, shall be transparent, take into account the need for system integrity and its improvement and reflect the actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator and are transparent, whilst including an appropriate return on investments, and, where appropriate, taking account of the benchmarking of tariffs by the regulatory authorities. Tariffs, or the methodologies used to calculate them, shall be applied in a non-discriminatory manner.
Member States may decide that tariffs may also be determined through market-based arrangements, such as auctions, provided that such arrangements and the revenues arising therefrom are approved by the regulatory authority.
Tariffs, or the methodologies used to calculate them, shall facilitate efficient gas trade and competition, while at the same time avoiding cross-subsidies between network users and providing incentives for investment and maintaining or creating interoperability for transmission networks.
Tariffs for network users shall be non-discriminatory and set separately for every entry point into or exit point out of the transmission system. Cost-allocation mechanisms and rate setting methodology regarding entry points and exit points shall be approved by the national regulatory authorities. By 3 September 2011, the Member States shall ensure that, after a transitional period, network charges shall not be calculated on the basis of contract paths.

2. Tariffs for network access shall neither restrict market liquidity nor distort trade across borders of different transmission systems. Where differences in tariff structures or balancing mechanisms would hamper trade across transmission systems, and notwithstanding Article 41(6) of Directive 2009/73/EC, transmission system operators shall, in close cooperation with the relevant national authorities, actively pursue convergence of tariff structures and charging principles, including in relation to balancing.

(73) Article 4(3) of the NC TAR reads:
3. The transmission services revenue shall be recovered by capacity-based transmission tariffs.
As an exception, subject to the approval of the national regulatory authority, a part of the transmission services revenue may be recovered only by the following commodity-based transmission tariffs which are set separately from each other:
(a) a flow-based charge, which shall comply with all of the following criteria:
(i) levied for the purpose of covering the costs mainly driven by the quantity of the gas flow;
(ii) calculated on the basis of forecasted or historical flows, or both, and set in such a way that it is the same at all entry points and the same at all exit points;
(iii) expressed in monetary terms or in kind.
(b) a complementary revenue recovery charge, which shall comply with all of the following criteria:
(i) levied for the purpose of managing revenue under- and over-recovery;
(ii) calculated on the basis of forecasted or historical capacity allocations and flows, or both;

(iii) applied at points other than interconnection points;

(iv) applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points.

(74) Article 4(4) of the NC TAR reads:

4. The non-transmission services revenue shall be recovered by non-transmission tariffs applicable for a given non-transmission service. Such tariffs shall be as follows:

(a) cost-reflective, non-discriminatory, objective and transparent;

(b) charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both.

Where according to the national regulatory authority a given non-transmission service benefits all network users, the costs for such service shall be recovered from all network users.

Annex 2: List of abbreviations

Acronym	Definition
ACER, the Agency	Agency for the Cooperation of Energy Regulators
CAA	Cost Allocation Assessment
CWD	Capacity Weighted Distance
DSO	Distribution System Operator
EI	Energimarknadsinspektionen
EU	European Union
NC TAR	Network code on harmonised transmission tariff structures for gas
NRA	National Regulatory Authority
RPM	Reference Price Methodology
TSO	Transmission System Operator

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