

ACM
Muzenstraat 41
2511 WB The Hague

22 March 2021

Subject: EFET¹ reaction to the 2022 GTS tariff proposal

EFET requests that ACM considers the following comments when making a final decision on the tariffs for GTS to apply from 1 January 2022.

1. Introduction

EFET is concerned that the proposed tariffs submitted by GTS to ACM to apply from 2022 represent an inequitable distribution of costs arising from the energy transition, which will raise the costs that will ultimately be borne by Dutch consumers above efficient levels, in several ways. Furthermore, the proposed tariffs fail to promote efficient gas trade, represent a cross-subsidy between groups of network users and will contribute to the early demise of liquidity of TTF, in contravention of Article 13 of Regulation 715/2009. As we've mentioned previously, we consider ACM to be held by article 13(1) to impose a methodology that leads to tariffs that reflect the cost of an efficient TSO. Any future cost or other concerns aren't part of the tariffs and ought to be left out of the methodology. How gas transport can remain affordable in the future is a matter of political nature, which discussion and decision ACM shouldn't pre-empt.

Accordingly and given our serious and extensive concerns on the methodology (paragraph 2) and on the application by GTS of the methodology (paragraph 3), we propose that the decision on these tariffs is deferred and that current tariffs are rolled forward until these issues can be considered more thoroughly. This would also allow for a longer period of notice prior to introduction such that appropriate changes can be made to gas sale and purchase agreements and to transportation capacity holdings to take account of remaining variations.

2. Concerns on applying the new methodology

Mainly as a consequence of the new methodology, GTS has presented a proposed increase in tariffs for 2022 over 2021 of 22% for Entry and 12% for Exit, representing an average increase of 19.5%², with a further 6% per annum increase on Entry capacity charges for the remainder of the regulatory period. This not only places an unfair burden on shippers currently using the GTS network, the burden is ultimately shifted to gas users in The Netherlands, like household users who are tied into their energy source and should therefore be protected by ACM in the first place.

¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

² Explanation GTS Tariff Proposal 2022, 24th February 2021, slide 25

We recognise and accept the desire of the Dutch government to accelerate decarbonisation of the energy sector, which will in turn lead to a decline in the use of unabated natural gas and the demand for its transportation. This is a deliberate consequence of government policy. Yet the Regulated Asset Base of the natural gas system has not been revalued to take account of this. Full value has been maintained on assets that were invested to enable continuation of offshore production development, the future of the Netherlands as an international gas transit network, the creation of a gas roundabout with the TTF at the centre, and the improvement of energy supply security. Given the revision in policy, with the benefit of hindsight, these past investments can no longer be considered to have been made efficiently. The assumed long term benefits of these past investments are not recognised by stakeholders or valued by the market. However, the RAB has not been revalued downwards to take account of this. The effect of maintaining the RAB at current levels increases the burden of costs that falls on gas consumers and some other stakeholders only, yet protects GTS exclusively.

Degrassive depreciation compounds this by making GTS customers pay not only for their own share of these obsolete investments of the past, but also a substantial proportion of what would otherwise have had to be borne by network users in future years, creating a double hit for current users. This also represents temporal cross-subsidisation, that could not have been taken into account by capacity holders signing purchase or supply contracts more than one year out.

The combined effect of this will additionally create incentives for cost avoidance, as there are no plans currently in place to prevent the last users bearing the entire cost of the system. While this may appear desirable from the viewpoint of the energy transition, the accelerated stranding of the gas network will ultimately increase the costs of transition to the Dutch taxpayer.

This will additionally affect liquidity on the TTF through perception of increased risk. Uncertainty of future tariffs are likely to discourage parties from quoting prices for longer term delivery and offtake from TTF, or to increase the bid/offer spread to account for the greater risk. There will also be reduced arbitrage between TTF and neighbouring hubs as a greater spread must be achieved to make such a trade worthwhile, which will further reduce utilisation of the network, liquidity, and depth of price formation. These will result in costs that must again ultimately be charged to consumers.

We conclude therefore that instead of enabling the prolonged use of the grid for transport of low carbon gasses while protecting current and future users from overly high tariffs, the new Methodology only contributes to the early demise of the TTF and places the burden entirely with the captive gas consumers.

As a consequence of the Methodology we believe the energy transition will be less controlled and assured, and that costs to consumers will be increased beyond what is necessary. Trying to force a relatively narrow group of current network users to bear a disproportionate amount of the costs of this policy change does not make these costs disappear, but affords a real case for socialisation of some of these costs by preserving tariffs around current levels for example by progressive devaluation of the RAB. This would also facilitate repurposing of the grid by enabling lower transfer values into hydrogen networks.

3. Concerns on the application of the methodology

With regards to the application by GTS of the new Methodology, for a large part, the increases are the consequence of reconciliations. GTS mentions that 30% of its cost base is subject to

reconciliations. It is entirely unclear however how GTS comes to this percentage and forecasts these reconciliations. We'd like to draw your attention to the following matters:

1. Despite the restriction on degressive depreciation of assets that can be used for hydrogen transport (see paragraph 66 of ACM Methodebesluit GTS 2022 – 2026) GTS intends to implement reconciliations for degressive depreciation for 90% of its RAB, though Gasunie (Han Fennema) recently mentioned that the hydrogen backbone is likely to be based for 75% on existing gas transport infrastructure³. This seems to contrast the 10% GTS uses.
2. To gas grid users the means and assumptions on basis of which GTS comes to the reconciliations is entirely opaque.
 - a. What part of the grid considers GTS for hydrogen transport for instance, at what term and what is the book value of the individual elements?
 - b. Which part of the so-called disinvestment actually account as assets that are up for early depreciation (at once) in this regulatory period as a consequence of the Methodology decision and which investment aren't?
 - c. How are the new security of supply investments over the closure of the Groningen Field taken into consideration, and on basis of which depreciation term?

The current degree of transparency doesn't seem fit for the purpose of imposing these tariffs and their very considerable increases to the burden of tied in consumers. For GTS to impose such a drastic tariff increase we expect more transparency to be provided to gas grid user up front, on at least above matters.

3. Moreover, we also want to argue that other means introduced in the new methodology aimed to future gas transport expenses should not be levied over assets that will be used for hydrogen transport in the future, to prevent cross commodity subsidization. In line with the reasoning on this matter in paragraph 66 of ACM' Methodology Decision GTS 2022-2026 therefore the nominal WACC (including the application of the risk free rate) and any early depreciation of assets should neither be applied to assets that can be used for hydrogen transport in the future.

More generally, with respect to the reconciliations and their increased relevance to the tariffs, we believe that the amount of corrections and reconciliations to be recovered (+/- 40 million Euro) should be collected from the network over a longer period of time in order to reduce and mitigate the negative implications for the network users and for the market and in order to maintain tariff increases within reasonable boundaries, for the sake of tariff stability and predictability. This possibility is clearly provided by ACM's decision "*Methodebesluit GTS 2022-2026*" which states at par. 96 "*Indien deze verschillen te groot zijn en daarom zouden leiden tot grote tarieffluctuaties, worden deze verwerkt in de tarieven van meerdere jaren*"; furthermore, this option would be quite similar to the way under-recoveries or over-recoveries are managed in the regulatory framework of other European countries and, if needed, could be developed in a way that avoids any negative implication for GTS, also with respect to financial burdens coming from the dilution of the collection over a multi-year period. We'd like

³ Though this statement doesn't appear on Gasunie's website, it can be read at <https://www.rtvnoord.nl/nieuws/795010/Gasunie-investeert-7-miljard-euro-om-het-bedrijf-klaar-te-stomen-voor-de-toekomst>

to ask you to take the provision in the Methodolgy Decision in consideration in your assessment of the 2022 Tariff proposal from GTS.

An even larger part of the increase is due to GTS' assessment of forecasted contracted capacities (FCC). In particular, in its presentation, the TSO foresees a decline in total yearly FCC with a particular sharp decrease in storage capacity bookings in the lead: -17% on entry and -12% on exit. GTS therefore deems a 14.1% average tariff increase warranted. The order of magnitude of the presented FCC figures make us question whether GTS has made sound assumptions given the fact that no signals were given by GTS neither were observed beforehand and the market could impossibly foresee. Because of the relevance of the FCC to the tariffs, that are ultimately born by gas grid users, we believe that a transparent and detailed assessment of the FCC, especially including the Dutch gas storage situation should be made available so that the stakeholders have a better visibility of the FCC and future tariffs. In general, we are of the opinion that assumptions on FCC should be handled with utmost care and transparency because, as it stands now, it reduces the predictability of tariffs even more.

1. It seems to us that GTS has taken a very or even too cautious approach in determining the decrease in storage capacity bookings, also affecting the non-storage tariffs to a very relevant extent, through the applied methodology and the discount foreseen on storage entry/exit tariffs. To our understanding, GTS has assumed that nearly zero new storage bookings will be made in the coming years, both long and short term, to replace the previous long-term booking that will come to an end. Why aren't LT storage capacity bookings not expected, when storage is deemed to play such an important role in security of supply according to GTS's forecasts?
2. To what extent is the forecast robust, in the way the different expectations and assumptions over future developments are treated? If something is likely to happen in 2022 with 50% certainty, is that element already taken into consideration fully?
3. How is the 6% expected increase in gas consumption for electricity generation in Germany and in the Netherlands (as mentioned by Han Fennema to Energieia (see Eneeria March 5th 2021) taken into consideration and how are the consequence of the coal phase out (also due to Urgenda rulings) and increased relevance of intermittency in electricity production in The Netherlands taken into consideration?
4. How is previously 'over sold' capacity (LT capacity contract that have become abundant due to Groningen closure and which have become increasingly expensive due to ACM new Methodology Decision and implement of NCTAR), which might be given up for early termination upon implementation of an amendment in the Transportcode LNB, taken into consideration?
5. How is the demand from the transport of alternative gasses, green gas, decarbonised gasses and blended in hydrogen assessed for 2022 and further forward?
6. How is the decrease in Groningen Production compensated for by import of H-gas?
7. How are these forecasts impacted by the slow down in conversions in surrounding countries and the stalling of household conversions in The Netherlands?

We take the opportunity to raise two more issues in relation to the tariffs.

- On 15 October 2020, EFET made an enforcement request to the ACM on the Neutrality Charge for 2021, together with Energie Nederland, VLNG, VGN, VEMW and NOGEP. ACM has not yet decided on this enforcement request. EFET urges the ACM to take a

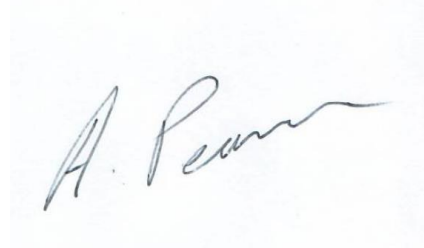
decision at short notice now and would appreciate a reimbursement of this charge to network users as soon as possible, but no later than the tariffs for 2022.

- We urge to introduce more flexibility in the long term capacity contracts by (i) providing the possibility to terminate them (similarly to what is already provided in Germany), in order to limit the negative implications of this change in tariffs (+22% for entries and +12% for exits) and (ii) introducing reshuffling windows for network users whereby they are allowed to shift their booked capacities at other points in the system in a cash neutral way for GTS.

As we move towards the goal of zero emissions by 2050 we recognise that utilisation the gas grid will decline. However, by placing unreasonably high tariffs on network users in the near future, network utilisation will drop faster than originally envisaged, shippers will look to alternative routes and markets to transport and trade their gas. We would also like to highlight that the tariffs, in their current form, proposes to deviate from the principle whereby the tariff level reflects the efficient costs incurred by the TSO. We find that very surprising, especially in view of decisions taken by the ACM in previous years, where the interest of efficiency was narrowly defined.

Accordingly given increased risks to network users and expected increases in the costs of transition that will ultimately be borne by Dutch consumers, we propose that ACM withholds approval of the methodology at this time, until an alternative approach can be devised that better facilitates achievement of the relevant objectives.

Kind Regards,
On behalf of EFET TF BeNeLux



Andrew Pearce,
Chairman of EFET TF BeNeLux



Doug Wood
Chairman of Gas Committee, EFET