

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

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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:

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Pawel Lont

Position held:

European Gas Markets Manager

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Name and address of the company you represent:

European Federation of Energy Traders, Amstelveenseweg 998, 1081 JS Amsterdam

Your country:

PL - Poland

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

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...)?

EFET cannot comment on the capacity booking strategies of its individual members. However, it is clear that across Europe shippers are increasingly relying on short-term capacity products to underpin their physical portfolio trading and supply positions and that the price of such products influences the price spreads between traded market areas.

Irrespective of multipliers, in liquid established and advanced markets shippers are less inclined to book capacity to underpin location spread trades, as it is relatively easy to unwind those trades and positions.

Where they do, this is more likely to be day-ahead or within day capacity on days where high volatility is expected, not monthly, quarterly or yearly capacity. However, in emerging and illiquid markets the tendency to book capacity is greater, as unwinding trades is not always straightforward. Here, providing the spread is sufficient to cover the cost of capacity, bookings are more likely to reflect the duration of the trade. So monthly, quarterly and even yearly capacity booking is more prevalent, even though this may not be fully utilised.

Multiplier caps in the NC TAR overlay these tendencies and affect both the quantity of capacity bought and the relative mix of annual and short term capacity bookings. However, they are not the sole drivers affecting this relative mix as the uncertainty and seasonality of gas demand, lack of congestion and credit provisions are influencing factors too.

Also, whilst they apply only at EU interconnection points, they are often replicated at other national entry and exit points. So ACER should recognise its decision on whether to tighten multiplier caps may, ultimately, have wider implications on the pricing of transmission capacity at other entry and exit points, for example storage and LNG facilities and gas-fired power stations.

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:

The decision to book capacity and for what duration is influenced by the nature of a shipper's trading activity and portfolio, its appetite for risk and a strong commercial incentive to minimise its costs of operation. The relativity of day-ahead and within day capacity prices to monthly, quarterly and yearly prices is a crucial factor in this decision. But one thing is for sure, shippers will not book capacity of any duration if they do not believe they can recover the cost through their portfolios and trading activities. High day-ahead and within day multipliers will reduce the likelihood of day-ahead and within day capacity being purchased, but this does not necessarily mean that monthly, quarterly or daily capacity will be purchased instead. Having said that, cost reflectivity of tariffs is also important, so finding the right balance to ensure a level playing field between different shippers on a network should be taken due account of when setting multipliers.

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:

In order to recover its allowed revenue, a TSO has to forecast the booking behaviour of shippers. Irrespective of the level of multipliers, it will under or over recover if this forecast is wrong. Whilst instances of under recovery have been observed, these are likely related to the ability of shippers to now book capacity on a flexible basis, consistent with their actual requirements. However, the ability of TSOs to accurately anticipate and forecast shippers' changing capacity booking patterns seems to be improving. We are not aware of any instances where TSOs or regulators have linked under recoveries specifically to the level of day-ahead and within day multipliers, although these may have been contributing factors as to why some TSOs underestimated the fall in annual capacity bookings.

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:

Whilst quarterly and monthly multipliers have generally fallen slightly in this period, in line with the 1 – 1.5 range under the NC TAR, day-ahead and within day multipliers have not. ENTSOG's NC TAR monitoring reports for 2017 and 2019 show that the average of day-ahead multipliers among non-outlier TSOs rose from 1.43 to 1.65 and from 1.39 to 1.71 for within day multipliers. So TSOs and NRAs are using the leeway in the NC TAR to set higher day-ahead and within day multipliers which are detrimental to trading (for example in Germany the within day multiplier was increased from 1.4 to 2 as of 1/1/20). Our analysis shows that thirteen member states (BG,DK,IE,EL,ES,HR,HU,NL,PL,PT,RO,SI,SK) appear to routinely apply day-ahead multipliers between 1.5 and 3 at all IPs and one member state (AT) appears to apply day-ahead multipliers within this range at a single IP. In the case of within day multipliers, eighteen member states (AT, BG, CZ, DK, DE, EE, IE, EL, FI, HR, HU, LV, NL, PL, PT, RO, SI, SK) appear to routinely apply multipliers within this range at all IPs and one member state (ES) appears to apply multipliers at all IPs which are higher than 3. However, this does not tell the full story as ten member states (BE, BG, DK, IE, HR, HU, NL, PL, RO, SI) apply seasonal factors, the effect of which is to push some day-ahead and within day multipliers toward the top of the 1.5 to 3 range in certain winter months, and in some cases well above 3 (IE and RO have effective day-ahead and within day multipliers of around 8 in certain winter months).

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 the tariffs for yearly capacity products are determined through multifaceted tariff methodologies and these tariffs, in turn, determine short term capacity tariffs through multipliers and seasonal factors. Under (and over) recoveries are one such factor and, all other things being equal, will increase yearly

capacity tariffs which, in turn, increases short term capacity tariffs. As previously stated, we are not aware of any instances where TSOs or regulators have linked under recoveries specifically to the level of day-ahead and within day multipliers and it is rare to attribute changes in yearly capacity tariffs to a single factor.

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?

TSOs efficiently incurred costs must be recovered annually from all shippers who use capacity, in an equitable manner. Revenue from existing long-term contracts, which may have underwritten TSO investment, will continue contributing towards TSO cost recovery alongside revenue from new yearly, quarterly, monthly, day-ahead and within day capacity bookings. Once these contracts expire shippers will be free to book new capacity as they so choose, but any aggregate revenue under (or over) recovery will feed into future tariffs for the next year(s). Short term multipliers should not be set disproportionately high in an attempt to reduce the risk of under recovery as this will reduce wholesale market efficiency and ultimately reduce the attractiveness of the gas market overall. In the search for higher revenues from short term booking, which currently dominate market participants' portfolios, there is a risk that in combination with high absolute reference prices the cost of delivering gas to consumers will become so high that this will not happen, either via short-term or long-term capacity.

High day-ahead and within day multipliers have, or could, place excessive costs on short term capacity compared to costs recovered through yearly capacity. But if short term capacity is too expensive it will not be booked, so any resulting under recovery will mean more cost is attributed to yearly capacity in future, through tariff increases.

A greater risk is that capacity holders, particularly existing long-term capacity holders, may have excessive costs placed on them as a result of reducing gas demand brought about by decarbonisation and the strict separation of tariffication between gas and electricity networks. In such cases serious consideration should be given to reforming tariffication of gas networks to make usage more sustainable and future proof.

Additionally, some form of capacity reset or offsetting mechanism, to avoid any undue discrimination, could be useful.

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.

Whilst multipliers are not the only relevant factor as to why emerging and illiquid markets struggle to develop it is no coincidence that these markets are typically ones where day-ahead and within day multipliers are set at the upper end of the NC TAR range. As liquidity typically starts to develop from shippers balancing their portfolios and responding to TSO balancing actions, high day-ahead and within day multipliers impede this, which limits the scope for forward trading to develop. A good basis for evaluating whether the costs of short term capacity booking are excessive or not is to assess the short term spreads between connected markets,

how much short term capacity is being sold and how liquidity develops in markets with multipliers outside the 1 to 1.5 range. However, such analysis needs to take account the relative costs of yearly entry and exit capacity in connected markets as these can be substantially different.

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 day-ahead multipliers influence day-ahead spreads between markets, but shippers will not trade location spreads and book day-ahead capacity unless this is profitable. High day-ahead multipliers discourage location spread trading, which makes spreads higher than they need be and increases volatility, due to low liquidity. Ultimately, this is detrimental to efficient price setting in both interconnected markets. High within day multipliers reduce balancing efficiency as the cost of addressing imbalances becomes higher. Also, the time it takes for imbalances prices to rise to a level where within day capacity becomes profitable delays trading activity to resolves imbalances. Going forward, as gas systems are expected to have to become more flexible than they are now, to accommodate new sources of renewable and decarbonised gases and greater penetration of renewable generation in electricity grids, this could result in system instability.

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:

High day-ahead and within day multipliers, compounded by seasonal factors, can be a market barrier and a benefit to dominant incumbents with legacy capacity bookings. Legacy capacity bookings represent a sunk cost, so the marginal cost of flowing gas from/to a lower/higher priced interconnected market is lower for a dominant incumbent than for a new entrant. So dominant incumbents may be able to nominate against their capacity in such a way as to keep the spread between markets just below the cost of cost of day-ahead and within day capacity. This reduces the prospect of new entrants competing in the market and allows the dominant incumbent to benefit from charging higher prices to its captive customers. Legacy capacity bookings may also be charged at lower tariffs than new capacity bookings although, hopefully, instances of this are now rare.

Conclusion

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

Whilst some would argue that any day-ahead and within day multipliers which push the cost of short term capacity above its short run marginal cost are inefficient, a consensus seems to have been reached by shippers that short term multipliers in the range of 1 to 1.5 represent an appropriate balance of interest between network users. Where this range has been applied, typically in the more established and advanced markets, no material problems have arisen and TSOs have learned to anticipate and manage any potential impact this may have on under recovery.

Capping multipliers within this range has the advantage of providing greater consistency in the level of multipliers either side of the IP, although seasonal factors will still interfere with this. Some member states currently with high multipliers will also benefit from increased competition and liquidity through greater cross-border trading, improved balancing efficiency and flexibility and reduced short term price volatility.

As for disadvantages, we struggle to identify any whatsoever.

Thank you for your reply!

Contact

[Contact Form](#)