

CNMC second consultation on gas tariffs (TAR NC) - *Circular de Peajes Gas*



EFET response – 13 April 2020

The European Federation of Energy Traders (EFET)* welcomes the opportunity to provide comments on the CNMC second consultation on gas tariffs and the implementation of EU regulation 2017/460 (TAR NC), following MITECO, the Council of State and ACER reports.

There are remaining concerns about the proposals including the wide variation in entry charges which are no longer justified by potential congestion, though we appreciate measures to smooth the introduction of large changes. High intraday multipliers unnecessarily transfers costs and risks onto consumers, where they can easily be borne by the TSO. Retrospective setting of tariffs or discounts will increase uncertainty and delay the passing of reductions through to consumers.

It would be helpful for Enagas to publish a clear implementation roadmap as soon as possible for the new tariffs starting from the 1st October 2020, as some contracts have already been concluded for the period in question and the proposed *Circular* will have extensive commercial impacts on market players¹.

We appreciate that the CNMC published the consultation also in English, which supports transparency and allows more stakeholders to take part in the consultation. Web streamed workshops in English are also increasingly offered by other TSOs in EU, and workshops with simultaneous translation, and it would be appreciated for Spain to move in this direction also.

1. Quantitative dispersion of Entry-Exit Tariffs

EFET acknowledges that CNMC has followed the Capacity Weighted Distance (CWD) mechanism foreseen in the European Regulation to calculate the applicable tariffs to the entry and exits points of the Spanish system. The resulting quantitative figures proposed show a significant range of values for each entry point (as per Sheet “Final Tariff” of the Excel file “*Propuesta Circular*”). This wide range of values deserves some additional considerations, particularly with regard to the impact on neighbouring markets and the incentives on market participants.

We note that the application of the Capacity Weighted Distance (CWD) mechanism to entry and exit points has created a wide range of values that will incentivise changes to locations of gas flow. It is not clear if this is intended or how this will improve efficient utilisation of the

¹ In this regard, we note that Article 29 of the TAR NC requires that “*the reserve prices applicable until at least the end of the gas year beginning after the annual yearly capacity auction*”...“*shall be published before the annual yearly capacity auction*”; this means that the tariffs applicable in the GY20 have to be published beginning of June 2020.

system and could possibly lead to greater likelihood of congestion at some points and underutilisation of others.

2. Differences between tariffs resulting from the application of the *Circular* and current tariffs and evolution of the tariffs during the Regulatory Period (RP)

Considering the significant increase of Gas Year 2020-2021 entry tariffs for all entry points vs the current tariffs that is mainly a result of the variation of the entry-exit split, we support CNMC's proposal included in the *Memoria* under consultation that considers the possibility of a gradual increase of the current entry-exit split (28/72) to reach the target 50/50 ratio at the end of the convergence period contemplated in Royal Decree-Law 1/2019.

In addition, as we proposed in our previous response, due to the prominence that year-on-year demand assessment will have in determining tariffs, it is important that this volatility is smoothed. This could be done by limiting tariff increments by a cap of 10%. In particular, the impact of demand reduction as a result of the current COVID19 crisis may also need to be spread over a longer period rather than risk a substantial increase in tariffs during a period of economic recovery.

3. Proposal on Multipliers

We appreciate that intraday multipliers are now simpler, compared to the previous consultation and we support this change in the proposal. However, we note that multipliers for intraday LNG products are still above the 3 time the multiplier which is set for pipeline connections and this creates a distortion between the two source types of gas to the PVB.

We propose that it should be possible to acquire a daily capacity contract within-day, based on the hourly flow rate multiplied by 24 as an equivalent to a multiplier of 1 for intraday capacity.

The setting of multipliers more generally is a contentious issue: whether entry points that have lower load factors should attract higher multipliers to compensate, or whether multipliers should be levelled across entry types and high use entry points should subsidise low use entry points. We make the following general notes:

- Low multipliers will commoditise entry charges making revenue recovery for the TSO more variable from year to year, and less predictable. This may not be consistent with increasing efficient utilization of the pipeline.
- Low multipliers for pipeline gas will lead to greater adjustment of tariffs from year to year to correct for variations in utilization.
- Lower multipliers for LNG will make Spain cheaper to access for spot cargoes. Reflecting the nature of the increasingly competitive spot LNG market, therefore, supporting an increased utilization of LNG infrastructure in accordance with the CNMC stated aims, in particular in the context that Spain has the highest LNG capacity in Europe.

4. Proposal on gas tariffs – fixed/variable split

The Circular proposes an allocation of costs between the fixed and variable terms which has a higher fixed cost element, which is more reflective of the underlying costs. There is an option to consider semi-fixed (e.g. maintenance and IT improvements) costs as variable, which is more favourable to spot-trading, which increases the overall level of competition and of efficiency, not least by reducing costs as a barrier to market entry and exit.

We therefore propose that additional costs associated with operations, maintenance and regulated margins be placed onto the variable terms of the tariffs.

5. Proposal on gas tariffs – value of security of supply (SoS) and historic overinvestment

1. It is important to remember that a significant over-investment on Spanish LNG infrastructure was done by the government, on behalf of consumers, ahead of the financial crisis of 2008 based on diversifying Spain's supply and by default reinforcing its security of supply. On that basis we consider that parts of the costs associated with this investment should be recovered through a final-consumer levy as the ultimate beneficiary. In relation to the proposed discount, we agree with the justification provided for the discounts in the *Memoria*. The reasons being:
2. LNG has diversity of supply and entry which piped gas doesn't have. There are multiple sources of supply increasing its SoS value.
3. Barcelona terminal – This is known to be the N-1 infrastructure upon which Spain's SoS is quantified.
4. The ultimate beneficiaries of SoS are final consumers.

6. Other remarks

In relation to interruptible capacity, we consider that an ex-ante discount provides a more valuable commercial incentive as enables pricing of commercial contracts more accurately. Instead, an ex-post discount has less value as the discount has to be priced-in as a probability of interruption. Retrospective discounts are also less likely to be passed through to the consumers (e.g. especially if a consumer changes suppliers and the contract is terminated before the shipper receives the refund).

The draft *Circular* proposes a new structure of tariffs for the exit of the local networks to customers. The current structure is based on pressure and consumption levels. Also, the draft *Circular* establishes that customers should be reallocated every year in the appropriate consumption level (and that all customers should be re-invoiced for the whole year considering the consumption of last year). While this makes sense for domestic and small commercial users, it is less appropriate to industrial and power generation consumers who manage peak and average usage carefully.

In relation to the management of congestion and/or capacity hoarding for LNG slots, a balance must be struck between the rights of the capacity holder who is being asked to sacrifice part of the option that they paid for, and the increased efficiency arising from increased utilisation of existing capacity. In any event, when a landing slot is not committed at (say) two months ahead of usage and is released to be remarketed, then the original holder of capacity should be able to take back any unsold slot if it obtains a late cargo. There is also a question of what price the slot may be resold at and whether any income received should be repaid to the original holder.

Finally, there is a question whether the capacity holder should be able to continue to offer the slot for sale in the secondary market alongside the TSO.