



**EFET Response to ACER Consultation on
Scope and Main Policy Options for Framework Guidelines on
Harmonised Transmission Tariff Structures**

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**EFET Gas Committee
19th March, 2012**

INTRODUCTION

The European Federation of Energy Traders (EFET) ¹ welcomes the opportunity to respond to the ACER consultation on the Scope and Main Policy Options for Framework Guidelines on Harmonised Transmission Tariff Structures.

Tariffs are the essential link between the various elements of the EU grid codes. They are the financial and economic signals which influence the behaviour of those using the system, as well as the behaviour of the TSOs who own and operate the system. It is, therefore, essential that there is in-depth discussion with market participants as to the objectives we are trying to achieve through tariff design. This consultation is a useful first step in that process.

The issues raised in the consultation are complex and inter-related. As a result of the limited time available to respond, we have not been able to consider them as carefully and deeply as we would have liked, and there are still differing views on certain issues within our members. As such, this response should be seen as our preliminary views on the issues raised by ACER, which will need to be tested and refined further as the discussion progresses.

At this stage we would like to emphasize the following principles that should be applied when developing harmonised tariff structures at interconnection points:

- The price paid for capacity should be known for the entire period of allocation;
- The tariff structure should facilitate the expansion (merger) of balancing zones, where this is technically and economically viable;
- Once cross-border tariffs have been paid, gas should be tradable at a virtual point without incurring further charges;
- Capacity is sold as products with defined rights and obligations, so that capacity products can be freely traded between network users;
- Network users should be entitled to trade bundled capacity bilaterally on any organised/multilateral trading facility that they wish and at prices agreed between themselves.

We remain ready to engage in discussion with ACER on these issues, and wish you success in formulating the EU Framework Guidelines on Transmission Tariff Structures.

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information, please refer to: www.efet.org.

PART I: SCOPE AND OBJECTIVES

ISSUES, OBJECTIVES AND ACER APPROACH

Question 1: What other issues should be dealt with in this Framework Guideline? What is the evidence for including these issues? Please provide justification.

The Network Code on Capacity Allocation provides for capacity at interconnection points² to be allocated as a bundled product, with bundled capacity being sold on a firm or interruptible basis in either direction. To this extent we think the Framework Guideline on Tariff Harmonisation should harmonise rules about which of the two TSOs either side of an interconnection point should charge shippers for the capacity they have been allocated, how the charging TSO reimburses the other TSO for the entry/exit component of the bundled capacity charge and how the charging TSO compensates the shipper for any non-compliance with the capacity contract or other obligations of either TSO. Bearing in mind there will be currency differences either side of some cross-border interconnection points, the Framework Guideline should also harmonise how these are managed.

With regard to incremental capacity, EFET welcomes the fact that ACER is going to take this forward in detail during in the coming months as part of its work on the Gas Target Model. Whilst the mechanism for releasing incremental capacity may be considered outside the scope of this Framework Guideline, we believe it is essential to harmonise the principles of how incremental capacity reserve prices are determined. As such we think these should be included within the scope of this Framework Guideline and make reference to them below.

The Framework Guideline should also seek to develop a harmonised approach, structure and methodology for any other services that affect interconnection capacity. For example, these might include quality conversion services, such as L-gas to H-gas and vice versa, that TSOs are required to provide under the Interoperability Framework Guideline.

Additionally, the Framework Guideline needs to consider the issue of how risks associated with booking and providing capacity are shared between network users and TSOs, and measures that could help to provide appropriate degrees of protection for both parties.

Question 2: What are the most important problems that relate to tariff structures? Do the problems identified by you relate to the lack of harmonised approaches?

In our opinion, the most important problems relating to tariff structures are twofold.

The different approaches to short term firm and interruptible tariffs for forward flow and virtual backhaul act as a disincentive to cross border trade, leading to price differentials between wholesale markets that are artificially high. Different approaches to capacity allocation are also relevant in this regard, which will hopefully be improved following implementation of the Capacity Allocation Network Code.

² Both interconnection points between Member States and between market areas within Member States

Relying on traders and network users to efficiently arbitrage gas between market areas is the most efficient solution to achieving price correlation and convergence of wholesale gas prices across Europe. However, undue price differentials will persist as long as the rules relating to market operation and cross-border transportation charging differ, so harmonising tariff structures is very important in this regard.

Lack of transparency over the magnitude of a TSO's investment costs and how specifically they are determined, along with inconsistent tariff structures and methodologies either side of a border are major barriers to incremental investment. These should be addressed in this Framework Guideline to underpin the work being undertaken by ACER in developing a mechanism for releasing incremental investment. In our opinion, the estimated costs of a TSO's investment to provide incremental capacity should be published, including details of the specific infrastructure considered necessary to deliver varying ranges of incremental capacity. Stakeholders should be consulted on these costs and the methodology used to determine auction/OSP reserve prices. ACER should intervene to settle disputes between TSOs and NRAs about the magnitude and efficiency of neighbouring TSOs efficient investment costs, using benchmarking techniques and independent engineering advice where necessary.

Question 3: Based on the Gas Regulation, are there further principles to be added?

No, provided that there is a fully transparent approach.

Question 4: How would you interpret the above principles and objectives? Which objective would you consider to be the most important for achieving an EU internal market for gas? How would you rank the rest of the objectives? Please provide justification.

The principles and objectives in the consultation are adequately described.

Whilst all the objectives are important in their own right, we believe the objective of promoting efficient gas trade and competition is the most important for achieving an EU internal market for gas. Tariff methodologies inevitably involve trade-offs between objectives and can never conclusively satisfy them all. However, the desire to promote efficient gas trade and competition across the EU is the fundamental tenet underpinning both the Third Energy Package and the drive for a single EU market for gas. Logically therefore it should be the primary objective of all EU Network Codes, with other objectives being secondary objectives.

Promoting efficient gas trade and competition will generate welfare benefits which are likely to exceed any inefficiencies arising from apparent cross subsidies, or lack of cost reflectivity. Enhancing competition will also create a climate for efficient investment in new capacity, as demonstrated by the extensive investments in the interconnection and LNG capacity in North West European gas market over the last 10-15 years.

Of the remaining objectives the next most important in our opinion is allowing new and efficient investment. Highly competitive and liquid wholesale gas markets will help facilitate efficient investment in new capacity through demand security. However, how incremental tariffs are structured and determined, and the extent to which future

charges are known in advance, will heavily influence a shipper's decision to commit to booking the proportion of long term capacity necessary to underpin new investment.

The two separate objectives of avoiding cross subsidy and undue discrimination whilst ensuring cost reflectivity and recovery of allowed revenue could be seen as one objective, as they are inextricably linked

As for the objective of transparency, this should be seen as a fundamental prerequisite to ensure that the other objectives can be achieved. TSOs should be required to consult with stakeholders on their tariff setting methodology and provide sufficient information to enable market participants to reproduce the TSOs tariff results and to follow the full logic and assumptions in the complete approach. This will enable NRAs, who will ultimately be required to approve the methodology, to get a wider perspective of whether it meets the primary and secondary objectives, rather than having to rely only on just a TSO's narrow view. Transparency should extend to TSOs publicly making available versions of their transportation charging models, to allow shippers to better understand and predict tariff evolution.

PROPOSED SCOPE AND APPLICATION

Question 5: What are your views on the proposed scope and application regarding:

- **Entry and exit points**
- **Determination of the annual reference price**
- **Mechanisms to deal with over- and under-recovery of allowed revenues and the definition of the clearing price?**

Please justify your answer.

Article 8.6k of Gas Regulation 715/2009 envisages EU wide Network Codes being developed which cover rules regarding harmonised tariff structures. Article 8.7 goes on to make clear that these network codes shall relate to cross-border network issues³ and market integration issues.

In our view this scope is clear, and the Framework Guidelines should not set out to define the scope further as this might either widen or narrow the practical application of the Network Code in a way that would make it inconsistent with the CAM Network Code.

We also note that should undue discrimination result from implementation of harmonised tariff structures at cross-border points then NRAs could address this by changing tariff structures or levels in national systems.

Determination of annual reference price, mechanisms for dealing with under/over recovery and definition of clearing price should be within the scope of the Framework Guideline. Discrepancies in how these are treated will restrict the potential for efficient cross border trade, price correlation and price convergence throughout the EU.

³ Including between different balancing zones.

Question 6: Regarding the issue of compensation payments between TSOs within cross national entry-exit zones, do you consider that:

- i. No harmonisation is required.**
- ii. The rules establishing compensation payments should be harmonised at EU level.**
- iii. Guidelines of good practice on the issue would suffice. Please provide guidelines suggestions.**
- iv. Other option: _____ . Please provide justification.**
- v. I don't know**

Several cross-national entry/exit zones are being considered but none yet exist within the EU. As highlighted by the Gas Target Model discussions, establishing them is an important goal but will be complicated, time consuming and legally challenging. Considerable political momentum will be required for effective zones covering more than one Member State to be established.

It might therefore be premature to try and define harmonised rules for how compensation payments between TSOs should be managed, so we think this issue should be out of scope for these Framework Guidelines, but given the potential future importance, consideration should be given to Guidelines for Good Practice on this issue when priorities permit.

PART II: POLICY OPTIONS

REGULATED TARIFFS: DETERMINATION OF A REFERENCE PRICE

Question 7: Do you agree that reserve prices shall be based on reference prices as described above?

Yes, provided that the way the reference price is determined is fully transparent.

Question 8: Which option would you find appropriate to determine the reference price? Please justify your answer.

Ensuring that there is full transparency in the way that the reference price is determined and costs are efficiently incurred is at least as important as the choice of methodology. This fundamental requirement must not be overlooked.

Long Run Marginal Cost (LRMC) is considered to be an economically efficient basis for determining the reference price of cross-border capacity and some of our members prefer this methodology. It also has the advantage of providing locational price signals about where it would be most advantageous for gas to flow into and out of a TSO's system, which is particularly important with regard to incremental investment.

That said, LRMC is not without its difficulties. As the consultation points out, if applied strictly it could result in negative charges and a scaling mechanism is invariably needed to recover allowed revenues. It also requires complex modelling of predicted load flows (which will inevitably be wrong) and assumptions to be made about the supply merit order of interconnection points (and potentially other entry points), so there is a danger that this methodology would become less transparent. Small changes in these assumptions can significantly impact resulting entry/exit prices, as witnessed in the GB market. For cross-border capacity an LRMC approach to tariff calculation really requires that the assumptions are shared and the combined TSO systems are modelled. This cooperation between TSOs is essential if a shared understanding of the most efficient combined system operation is to be achieved. Whether or not combined LRMC modelling is required, this process of information exchange and analysis needs to be developed.

An actual cost methodology may be less reflective of efficiently incurred costs and might dampen locational price signals, but does have the advantage of simplicity. If calculated at individual entry/exit point level then older assets which have depreciated may end up being significantly cheaper than new assets. Other methodologies may be necessary therefore to allocate actual costs to entry/exit points, e.g. applying the same price to all entry and/or exit points or allocating costs based on historic or projected flows.

The fact that the Framework Guidelines will impact Member States either side of the cross-border interconnection point will be a key consideration, which may favour a simple approach.

Question 9: Regarding the cost concepts, do you consider that:
i. No harmonisation is required.

- ii. The rules should be harmonised, along the following lines:
_____. Please provide justification.
- iii. Guidelines of good practice would suffice, along the following line:
_____. Please provide justification.
- iv. Other option: _____ . Please provide justification.
- v. I don't know.

The process for allocating incremental capacity should be incorporated into the long-term capacity auction procedure. The work about to be undertaken by ACER on harmonising incremental capacity allocation procedures needs to be taken forward quickly. Tariff setting is inextricably linked to efficient incremental investment. Therefore, whether the LRMC methodology could be used as the basis for determining capacity reserve prices and incremental price steps needs to be carefully considered and further consulted upon, with more detailed information being provided alongside examples of where it is proven to be working now.

Currently, only existing or committed interconnection capacity will be allocated under the new EU Network Code process. In such circumstances, we do not think that it is essential to adopt a harmonised approach. However, greater harmonisation will be required if efficient solutions are to be found for investment in incremental capacity, which we believe should become integrated into the long-term allocation process.

The pragmatic way forward, therefore, is that Member States could continue to determine the entry/exit elements of bundled reserve prices using existing national methodologies. A Guideline of Good Practice may be helpful in defining best practice in relation to each methodology and describing how to address any obvious distortion arising from different methodologies being used either side of an interconnection point. The requirements could also be reviewed once progress has been made on the issue of incremental cross-border capacity.

Question 10: Could two different cost concepts be applied on the two sides of an interconnection point without hindering cross-border trade? Please justify your answer.

This is a complex question to which the simple answer could be misleading. We believe that there are some examples of efficient cross-border trade already taking place in North West Europe despite different charging concepts and methodologies. There are however also interconnection points where different cost concepts are probably hindering cross border trade, or would do so once nascent markets develop further.

COST ALLOCATION

Question 11: Regarding the issue of cost allocation, do you consider that:

- i. No harmonisation is required.
- ii. Methodologies for allocating a TSO's costs between cross-border and domestic usage should be harmonised across Europe.
- iii. Methodologies for allocating a TSO's costs between cross-border and domestic usage should be established on a more local basis, in combination with guidelines of good practice.

iv. Are there any other ways of allocating the TSO's costs in a harmonised or local way which should be considered, focusing on the allocation of costs between cross-border and domestic usage?

v. If cost allocation methodologies are to be set on a local basis, do you agree with the criteria set out above for assessing the methodologies?

We believe there should be a harmonised basis for determining the total amount of revenue to be collected from cross border entry and exit points. A simple approach, where the revenue to be collected from cross border entry and exit points is based on the percentage of the total aggregate system entry and exit capacity which they represent, would seem appropriate, but other methods may be appropriate.

Question 12: Do you consider potential cross-subsidies as a concern in relation to the coexistence of different cost allocation methodologies? Please provide justification.

Yes, cost allocation methodologies could be intentionally or inadvertently designed to allow revenue to be disproportionately recovered from national transmission flows compared to cross border transit flows, or vice versa. They could also allow cross border revenue to be disproportionately recovered from entry flows compared to exit flows, or vice versa.

RESERVE PRICE

Question 13: Regarding the issue of reserve prices for short term products, do you consider that:

i. No harmonisation is required.

ii. The rules should be harmonised, along the following lines:

_____. **Please provide justification.**

iii. Guidelines of good practice would suffice, along the following line :

_____. **Please provide justification.**

iv. Other option: _____ . Please provide justification.

v. I don't know.

We believe the rules for setting reserve prices for short term firm capacity auctions should be harmonised across the EU. This will ensure short term trading of gas between Member States is carried out on a consistent basis. Price differentials will still exist and will reflect supply and demand fundamentals. But these differentials will, at least, be based on consistent assumptions about how the price of transport capacity necessary to trade gas between markets is determined.

For efficient trade without market distortions it is important that the market is able to reveal the value of short-term capacity. The lower the reserve price the more likely it is this will happen. Having said this, many EFET Members favour harmonising reserve prices based on option 1, whereby short term reserve prices are proportional to the yearly reference price. Under this option, the unit price per kWh of capacity per day will be the same, regardless of whether capacity is bought in a daily, monthly, quarterly or annual strip. Overall we are minded to agree that within-day capacity should have a zero reserve price (albeit with the possibility of a small commodity

component if this is included in the charging regime). Whether or not the Day Ahead price should be zero or 'flat' requires much more detailed analysis and debate, not least because of different starting points across Europe.

Interconnection capacity plays an important role in stimulating competition, price correlation and price convergence, both in the short, medium and long term. Applying the same reserve price to capacity regardless of duration recognises the importance of each of these roles, without attempting to incentivise or rank their importance in one timeframe over another.

Question 14: What are your views on the proposed policy options? Would you suggest other options? Please provide your reasons.

The proposed policy options seem comprehensive. Whilst there may be other options we believe those referenced in the consultation are appropriate ones to choose from.

Question 15: What are in your view the advantages/disadvantages of each of the options?

Option 1 has the advantage of placing equal importance on the role of short, medium and long term competition whilst avoiding some of the disadvantages associated with other options. Also, the fact that different TSO's may be using different methodologies for setting the entry and exit elements of cross border reserve prices (see Question 9) may lead to inefficiencies, and Options 2 – 4 risk compounding these inefficiencies further.

Option 2 has the advantage of potentially increasing short term trading between markets and reducing price differentials between them to a minimum, as daily reserve prices for firm capacity will be close to zero. In the absence of congestion, prices should converge. It is also the option most likely to reveal the value of short term capacity. However, this might result in under-recovery of TSO allowed revenue, particularly if the level of existing capacity booking is low, necessitating complicated inter-TSO compensation schemes or the introduction of under recovery mechanisms, some of which are detrimental to short term trading (e.g. if commodity charges were used for recovery purposes) and distort the market through cross subsidies.

Option 2 might significantly undermine medium/long term bookings thereby dampening investment signals. It also makes the role of interruptible capacity redundant when there is spare capacity at an interconnection point.

Option 3 has the same advantages and disadvantages to Option 2 but to lesser degree. A notable example of where this option has been used is the GB entry capacity auction regime, where day ahead firm capacity reserve prices are offered at a 33% discount to monthly, quarterly and yearly reserve prices and within day firm capacity is auctioned at a zero reserve price. Largely as a consequence of these discounts, the TSO has experienced persistent and significant under recoveries in its allowed revenue. This has led it to impose a commodity charge on all entry flows which adversely impacts imports of gas through cross-border interconnection points. The TSO has also seen a notable switch away from long-term to short-term capacity bookings, in particular towards bookings of within day firm capacity. The risk of incremental capacity not being available when short term price signals do materialise is therefore heightened.

Option 4 may have the advantage of being the least likely option to result in under recoveries but it will significantly distort short term cross border trading, as short term prices will be higher than under any other option. As a result, price convergence and correlation is likely to be less under this option. It may also result in over recovery which could have a distorting impact, depending on the mechanism adopted for the TSO to adjust tariffs accordingly, and could give TSOs windfall cash flow benefits. Establishing revenue equivalence from a combination of higher priced short/medium term capacity products and lower priced long term capacity products will require assumptions to be made. These are unlikely to exactly match shippers' behaviour in optimising their commercial positions in dynamic competitive EU gas markets.

Whatever approach is adopted there may be pressure to introduce complexities to accommodate differences of opinion; we suggest striving for a simple option that bears in mind the wider interests of achieving a consensus that can be implemented across the whole EU gas market.

Question 16: Should seasonal factors be applied?

No.

Whilst it might appear obvious that capacity has a greater benefit and higher value in one seasonal period compared to another (e.g. Q1 v Q3), TSOs should not pre-judge the market value. Existing capacity represents a sunk cost and there is no economic logic in assuming the unit cost of capacity should be greater because the capacity is being used more intensively. Such differences would be reflected in operational costs where appropriate. Seasonal factors risk creating foreseen and unforeseen market distortions and should be avoided.

To the extent TSO's desire for revenue equivalence is to be accommodated under Option 4, this should not extend to seasonal reserve price multipliers. TSOs preferences should not be of paramount consideration as they will always be allowed to recover their regulated costs/revenues whichever option is chosen.

INTERRUPTIBLE RESERVE PRICE

Question 17: Regarding the issue of reserve prices for interruptible and non-physical backhaul capacity, do you consider that:

- i. No harmonisation is required.**
- ii. The rules should be harmonised, along the following lines:**
_____. **Please provide justification.**
- iii. Guidelines of good practice would suffice, along the following line:**
_____. **Please provide justification.**
- iv. Other option:** _____. **Please provide justification.**
- v. I don't know.**

We believe the rules for setting reserve prices for interruptible and virtual backhaul capacity should be harmonised in parallel with the standardisation of interruptible capacity products throughout the EU.

At this stage we favour Option 2 for simplicity and because the risk of interruption can only really be properly assessed in the short term (day ahead and within day). We do not think it is practical to change the reserve price for interruptible capacity day by day and have reservations about estimating the likelihood of interruptions any further in advance (see comments below).

We are also unsure exactly how interruptible capacity or virtual backhaul will be released under the CAM Network Code as it appears it can be allocated both by auction and by a shipper re-nominating in excess of its capacity entitlement (booked capacity including that which has been restricted through short term UIOLI measures under the CMP Guidelines). In any case, different allocation mechanisms should not lend themselves to different ways of setting reserve prices.

Option 2 increases the potential for under recovery, and may be more appropriate for virtual backhaul capacity compared to interruptible capacity made available when firm capacity remains un-booked. With regard to the potential for under recovery, a rule which prevents interruptible capacity being made available whilst firm capacity remains un-booked could be another way of mitigating against under recovery.

Option 1 requires assumptions to be made about the likelihood of interruption in advance based on historic gas flows. These may quickly prove to be unrealistic in dynamic competitive gas markets, for example during the recent unforeseen supply disruptions in Europe.

Option 3 conceptually, we favour mechanisms where shippers are able to assess the risk of interruptible capacity being interrupted in advance, and attribute a value at which it is prepared to acquire capacity and transact the commodity (Option 2). Under Option 3 the shipper still has to assess the risk but is required to buy capacity as though it were firm, knowing only that they will not be charged anything if they are interrupted.

Question 18: Would you suggest other options?

No, but we urge greater effort to ensure that there are standard interruptible capacity products throughout the EU

Clearing price

Question 19: What are your views on the proposed policy options? Would you prefer one option over the other? To what extent can this preferred option be uniformly applied? Please explain.

The options described are comprehensive.

We would prefer Option 4 where the clearing price in each capacity auction is fixed for the duration of the capacity acquired.

This option provides shippers with certainty about the price they will pay for capacity going forward and allows them to factor this into their commercial decisions about acquiring capacity in the short, medium and long term. Bearing in mind the uncertainty that already exists regarding medium and long term commodity prices compounding this uncertainty, by allowing cleared capacity auction prices to vary

over time, will further discourage long term booking and investment. It also gives traders certainty that where they acquire capacity to lock in a spread between two market areas, this commercial decision will not be undermined by future changes in cleared capacity prices.

We do not think Option 4 will disproportionately increase the likelihood of under or over recovery in future years. At the point in time a shipper commits to acquire medium/long term capacity in an auction it is unlikely to be able to predict the future direction of capacity charges with any reasonable degree of certainty.

We do not support either Option 1 or 2. Both of these options will disproportionately add to the risks faced by shippers and traders, discouraging medium/long term capacity booking and hence medium/long term liquidity in commodity markets.

Option 3 could be an appropriate option and would at least provide some understanding of how cleared prices will change over the duration of a medium/long term capacity booking. It may also be an appropriate option where an average cost methodology is used to determine reserve prices, although indexation could also be built into the charging models based on LRMC methodologies.

Question 20: Do you consider that different approaches could be applied for one bundled capacity product?

In theory they could, but it would add significant complexity to the invoicing and settlement processes for bundled capacity, particularly if the frequency by which capacity reserve prices are amended is not harmonised.

Overall the trend should be to reduce complexity.

RECOVERY OF ALLOWED REVENUE

Question 21: Regarding the issue of recovery of allowed revenues, do you consider that:

- i. No harmonisation is required.**
- ii. The rules establishing this relation should be harmonised at EU level. Please provide harmonisation suggestions.**
- iii. Guidelines of good practice on the issue would suffice. Please provide guideline suggestions.**
- iv. Other option: _____ . Please provide justification.**
- v. I don't know.**

We think the rules about how under/over recovery of allowed revenue is managed should be harmonised to some degree across the EU.

Option 1, where under or over recoveries of cross-border allowed revenue in any year is included in a regulatory account, is our preferred approach. Revenues in the regulatory account should not be recovered by way of a commodity charge (see Question 22 below) but through adjustments to future capacity charges. However, we do not think it is necessary for harmonised rules to be applied about how this is done. For example Member States could seek to recover or redistribute these revenues

over a number of years, or partly through national transmission tariffs. To this extent a Guideline of Good Practice may be helpful in providing clarity on this issue.

Option 2 is not acceptable as a commodity charge for this purpose risks distorting the market. Under or over recoveries of what are essentially fixed costs should not be dealt with using a variable cost recovery mechanism, such a commodity throughput charge, as this is not cost reflective and would inevitably result in cross-subsidisation and discrimination between network users.

Option 3 is marginally more preferable than Option 2 but would have the same disadvantages of Option 1 under Question 17, so we do not support it.

Whilst under/over recovery could feed into the cross-border capacity reserve prices in future years, there may be important exceptions to this. One particular case is where over recovery occurs where because the clearing price at an interconnection point has been well in excess of the reserve price but the investment on incremental capacity has not been triggered. These extra revenues (sometimes termed congestion rents, or auction premium) should be set aside by the TSO as part of the funding for incremental capacity at that interconnection point.

Question 22: Should there be a cap on the percentage of revenues to be recovered through a commodity charge? If so, then please provide proposals for how this could work in practice.

We do not think any under or over recovery revenues should be recovered through a commodity charge and therefore the cap should be 0%.

FURTHER SUGGESTIONS

We also invite any further suggestion you may have concerning the Framework Guidelines on harmonised transmission tariff structures relating to issues which are either not considered in the scoping document or mentioned but not considered for further analysis. Please reason your answer.

The Framework Guideline should clearly state that bundled capacity is a tradable right which can be efficiently traded, assigned or novated bilaterally to another registered network user without any obligation to use a particular platform, subject only to compliance with TSO's prevailing credit arrangements.

The Framework Guideline should also cover the relationship between cross-border tariffs, national entry/exit tariffs and other national transportation charges. Once cross border tariffs have been paid, gas should be tradable at the relevant virtual trading point without payment of any other national transmission tariffs. An exception to this could rule be national commodity charges which are set to recover the efficient operating costs of transporting gas within a national system, such as fuel gas. However, it might be desirable to incorporate these in capacity reserve prices, making capacity charges the sole basis for charging network users for hub to hub trading. Whether this represents an efficient and cost reflective solution requires further consideration and is linked to the issues of clearing price and reserve price.

Other issues that might need to be addressed, if they are not explicitly dealt with elsewhere, include:

- Publication of information in English, both by TSOs and by Regulators
- A specific list of the actual types of information on tariff methodologies, revenue models, cost recovery, accounts, LRMC assumptions, method of approval and reasoning, price controls etc.
- Other TSO services and charges that could relate to cross-border activities need to be addressed elsewhere if they are not included in the Tariff network code. These might include cash-out services for balancing and any non-standard charges, short haul charges and gas quality conversion services etc.
- Whilst not directly relevant to cross-border tariff harmonisation, the wider question of what is an appropriate apportionment of costs between entry and exit is one which could have significant impacts on the development of liquid, efficient and transparent trading hubs. It is worth noting that in the electricity market tariffs are, in the main, charged on load rather than generation, which is particularly advantageous in facilitating cross-border trading. Clearly this issue has major implications on national tariff setting, capacity allocation and incremental capacity provision.