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Response to the Consultation Document of ACER on *"Scope and main policy options for Framework Guidelines on Harmonised transmission tariff structures"*

Uprigaz notes that, in line with its efforts to promote the "Gas target model", ACER is actually consulting not on how to harmonise the transmission tariff structures in the EU but, more obviously, on how to get rid of cross border transmission tariffs by introducing auctions as standard capacity allocation procedure in the European Union in the future.

This means that ACER wishes to substitute the concept of "pricing" to the transparent notion of "tariff", which implies that, for the sake of facilitating gas trading, tariffs would only stay as a notional benchmark for long-term shippers, while short-term shippers would benefit of "market conditions".

Uprigaz does not agree with this approach, for the following structural reasons:

- *The security of supply of the EU is predominantly dependant on the long-term "take-or-pay" contracts. The development of new infrastructures is necessary to reach the stage of "hub to hub" flexibility and fluidity expected in the target model. Long-term shippers willing to take capacity reservations through open seasons procedures mainly back up such development. Weakening the long term signals in the transmission tariffs by granting massive discounts to short notice/short term shippers would be therefore be, at the end of the day, detrimental to the consumers;*

- *TSOs have the obligation to recover the allowed regulated costs and any under recovery occurring from short-term auctions revenues would have to be made up from long-term shippers by raising unit prices. This would constitute an additional deterrent for long term shippers;*

- *Under the future EU network code, Regulators will have already the ways and means to remedy to situations of contractual congestions attributable and to transfer to short notice/short term shippers the unused long-term capacity reservations. It seems therefore unadvisable to add a* *financial penalty for the long-term shippers by imposing that they make a systematic loss on the surrendered capacities.*

Uprigaz sees it as essential that the introduction of auctions for bundled "hub to hub" capacity reservations should not be detrimental to long-term shippers who are giving the right signals to TSOs for new investments and ensure the bulk of their revenues.
Uprigaz reminds that transmission tariffs across the EU do not exceed 5 to 10% of the price of gas on the market places and that the consequences of a possible "tariff jungle" that would deter long-term capacity bookings would be much detrimental to the final consumers in terms of security of supply and fair trade in the EU.

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

It is quite paradoxical that the consultation document identifies a series of difficulties that might result from the introduction of auctions on capacity pricing, but does not suggest any indication on how they could be overcome.

The issue of the allocation of auction revenues between adjacent TSOs for hub to hub cross border bundled products should also be considered as a major issue.

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?

Uprigaz considers that it is the responsibility of each National regulatory authority (NRA) to ensure that the tariff structures comply with the objectives set forth in the consultation document (facilitation of trade and competition, avoidance of cross subsidies, cost-reflectivity, promotion of new investments and transparency).

Uprigaz thinks however that implementing an harmonisation of the main tariff structures (fixed and variable terms, main commercial terms and conditions) coupled with a computerized system of hub to hub capacity reservations and auctions would be a major step forward.

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

Non-discrimination between long and short-term shippers is to be addressed.

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.

Regulated tariffs should remain the rule for transmission pricing and auctions should be priced according to regulated rules and pricing methodologies, as provided for in the EU Gas Regulation (Art 13 and 14 (2)).

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.

The consultation document clearly identifies, in its § 4.1. and 4.2., the issues to be discussed and agreed upon between NRAs with a view to fostering internal UE gas trade.

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.

Uprigaz considers this issue as a major difficulty to be overcome: rules granting regulated revenues to TSOs, including compensation payments between adjacent TSOs should be addressed and some harmonization introduced at EU level.

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

Uprigaz requests that reserve prices should derive from regulated tariffs (actual costs or LRMC).

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

See answer to question 7 above.

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.

Uprigaz thinks that harmonisation is not necessary, provided however that a non-discriminatory access is granted to all shippers and that all the regulated costs of TSOS can be recovered under the tariffs. As a consequence, each national regulator should choose its best fitted for purpose tariff option.

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.

Uprigaz thinks it advisable to foster a convergence of the methodologies for cross border tariffs.

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?

Uprigaz considers that methodologies for allocating a TSO's costs should not discriminate between users (local distribution networks, LNG infrastructures, storage, cross border exchanges…).

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

Using different cost allocation methodologies for different kind of shippers (LT vs CT) or for cross-border vs domestic usage will always present the risk of cross subsidies.

Uprigaz recommends harmonising the methodology across the board and differentiating between users/shippers by the application of a grid of multiplying factors that should also be harmonised.

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.

Uprigaz suggests that the regulated average price of annual capacity products should serve as a reference for reserve prices including for short term products.

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

Uprigaz in favour of Option 4 (Pricing with multipliers higher than one for short-term products).
This option is advisable to foster the development of new infrastructures and to ensure security of supply.

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

Pricing of day ahead capacity at short term marginal cost (or even at zero cost) would send wrong messages to shippers. Uprigaz knows, from the experience of Britain and Germany, that this leads to a flight from longer term bookings to short term bookings, resulting in TSO under recovery, which then has to be recovered somewhere else (e.g. from users of longer term capacity by raising unit shipping price).

Question 16: Should seasonal factors be applied?

Seasonal factors may be applied to the regulated tariffs, with a view to reflecting the use of the infrastructure. This means, as an example, that, during the summer season, reserve prices may be than the regulated tariffs, or even higher, if the flow is constrained by underground reservoirs injection flows.

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.

Uprigaz thinks that the issue of reserve prices for interruptible or reverse flow (backhaul) capacity should be left at the initiative of NAR, under guidelines of good practice.

Question 18: Would you suggest other options?

Uprigaz is in favour of Option 1 (2.4.1.) i.e. pricing interruptible/backhaul capacity services at a rate in direct connexion with the probability of interruption.

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.

See answer to question 18.

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

Uprigaz considers that the same approaches could be applied for bundled capacity products.

Question 21: Regarding the issue of recovery of allowed revenues, do you consider that:
i. No harmonisation in 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.

Uprigaz is in favour of Option 1 (§4.1.) i.e. Recovery of allowed revenue through a regulatory account. The regulatory account offers security for the TSO of its allowed revenues and makes it possible to compensate balances between actual and regulated revenues from one year to the following one.

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.

Uprigaz thinks that tariffs should be determined with a view to covering 100% of TSOs' regulated costs. In the event of an over (or under) recovery occurs during year n, a regulated compensation mechanism should ensure compensation during year n+1.

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