EFET European Federation of Energy Traders
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The final consultation document on information referred to in Article 26(1) of the Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (TAR NC)

EFET[1] comments – 21 December 2018

EFET[2] welcomes the opportunity to respond to the above consultation and that Eustream has published the document both in English and Slovakian. This promotes transparency in tariff setting and enables non-Slovakian market participants to engage in the consultation process. It would also be desirable to make the final decisions bilingual.

We are disappointed that despite the clear requirements specified in Articles 26 and 30 of the TAR NC, Eustream has failed to provide any meaningful information which market participants can use to judge whether transmission services in Slovakia (both for transit and domestic transmission) are being provided efficiently, based on a reasonable return on investment.

Whilst we recognise that transit represents a high proportion of the transmission services provided by Eustream, this cannot be an excuse for a complete lack of transparency about Eustream's assets, costs and target revenue for providing transit services. Similarly, for domestic transmission, whilst the consultation does include the average annual target revenue to be recovered over the next five year regulatory period, along with the methodology for apportioning this across interconnection points (IPs) within the EU, there is no information about how this revenue has been determined.

Slovakia is not unique in experiencing significantly higher transit flows than flows for domestic transmission. However, in other countries, such as the Czech Republic, more extensive information has been provided on transit and domestic transmission costs, assets and rates of return, as per the TAR NC obligations.

[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 a competitive economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

[2] The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information, visit our website at www.efet.org.

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Eustream should carefully consider the impact its choice of methodology has on tariffs at Baumgarten to avoid delinking the Slovakian market from its closest most liquid market, along with any possible impact these may have on hub pricing and liquidity. Also, whilst legacy contracts remain carved out from any tariff modification, Eustream must clearly demonstrate this does not place an excessive burden on other shippers and is legally tenable under the current regulatory framework.

With respect to the forecasted capacity booking the levels used seem excessively low, with the consequence that tariffs may be unduly high. Also, it is unclear why bookings at the IP with Poland are assumed equal to 0 throughout the regulatory period considered.

We question Eustream's assertion that derivation of the reserve price for "non-IPs" is not subject to the TAR NC and that this can be set according to a separate methodology based on national legislation. Article 6.3 of the TAR NC requires that "the same reference price methodology shall be applied to all entry and exit points in a given entry/exit system." Non-EU IPs and entry/exit points to the distribution system ("domestic entry/exit points") are clearly part of the single Slovakian entry/exit system. So they should, presumably, be set using the same methodology as for EU IPs.

Eustream states that the flow based commodity charges (which are recovered in kind) must be the same at all entry and exit points and, in this case, proposes applying these at domestic entry/exit points (and presumably at non-EU IPs too). However, it then goes on to say it intends to apply a discount mechanism for domestic entry/exit points commodity charges, before the start of the next tariff period. It is not clear from this consultation why such a discount mechanism is warranted or what impact this will have on the commodity charges applying at other entry/exit points. To the extent such a mechanism is compliant with the TAR NC, it should be fully consulted upon before being applied in future.

The consultation refers to a complementary revenue recovery charge that is currently applied at entry/exit points for increasing the level of security of supply. It proposes that the current level (€0.08 MWh escalated from 2016) and the method for adjusting it be maintained during the next tariff period. Unfortunately however, there is no supporting information explaining why this charge increases Slovakian security of gas supply. So we cannot judge whether it is still appropriate or necessary going forward.

Eustream has decided not to apply the minimum 50% storage entry/exit capacity discounts to Slovakian storage facilities. This is because they are all connected to the

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Austrian transmission network and so could be used to compete with the Baumgarten IP. Whilst this is provided for in the TAR NC it is worth nothing that Slovakian storage plays a crucial role supporting the distribution system. It also has a system value to the transmission system, as where it does not exist the exit points from the transmission system would, presumably, have to be sized bigger.

Eustream should therefore consider introducing a mechanism whereby storage could be accounted for separately between these two roles, as has been done in Germany and Austria. Here, users of storage with access to more than one transmission system automatically receive entry capacity discount from the TSO in which the storage facility is located. However, in the event they decide to withdraw the gas in another market area this reimburse is reimbursed.

Such “ex-post” optionality allows storage users to maximise the value of their storage within a market area, while limiting the use of storage in competition with IPs to cases of extreme market conditions. In past years, the mechanism has proven to be efficient, purposeful and widely accepted by market parties and storage operators alike.

EFET has previously expressed concerns about the detrimental impact title transfer fees have on liquidity at the Slovakian virtual trading point. So we are surprised the consultation makes no mention of these. We consider the title transfer service to be a non-transmission service, as defined in the TAR NC. So it should have been included in this consultation, as it has been in the Hungarian TAR NC consultation.

The consultation also makes no reference to how interruptible reserve prices are set, either on an ex-ante or ex-post basis. Whilst interruptible capacity may not be offered currently, the consultation should have included this. EFET has a strong preference for interruptible discounts to be set ex-ante, not ex-post.

Because of Eustream’s somewhat perfunctory approach, this consultation falls well short of the level transparency we expected to see under the TAR NC, which undermines trust in the tariff setting process. As the tariff period covered by this consultation is not due to start until 1 January 2022 there is still time to address these concerns. As a minimum, Eustream should provide more information to enable network users to make a meaningful link between the tariffs they are being charged and the component costs and return on capital which determine them, acting as an efficient monopoly transmission system operator.

For any question or clarification we would be very happy to engage in future conversations with you on this topic.