

Energy Traders Europe comments to the consulted tariff methodology in Slovakia

Energy Traders Europe welcome the opportunity to comment on the proposed change to the tariff methodology in Slovakia and that the consultation was offered in English from the outset. We believe that further clarifications are necessary for network users to be able to evaluate the appropriateness of the methodology proposed.

Key messages

- Although market participants were expecting an increase in tariffs, the size of the spike is distortive and will increase the costs of supplying gas to the region even further; thus, negatively impacting Security of Supply
- It is difficult to understand to what extent long-term booked capacities and the related revenues have been factored in the calculations;
- The document does not specify against which transit routes benchmarking has been performed and whether the adjusted reference tariffs allow Eustream to collect the target revenues.
- The floating price system set to apply from 2025, which encompasses all entry and exit points, should undergo further tariff consultation before it is implemented.
- A timely decision on any tariff change is needed, sufficiently in advance of the annual auctions in July. Once approved, further changes and adjustments to the reference prices should be avoided at all costs to ensure regulatory stability.

Below we present some more detailed comments on the different sections of the proposal.

Forecasted contracted capacity and flows of natural gas

We note the formulas in the RPM are set to treat the long-term bookings in a different manner under different calculations. In particular, for the purpose of calculating the forecasted contracted capacities, only the long-term booked capacities on the Veľké Kapušany - Baumgarten route are subtracted from the total capacities. To calculate the average capacity part of the target revenues, the overall long-term averaged planned capacity revenues are subtracted from the average planned capacity revenues instead. It is therefore unclear on what basis the reference is chosen (i.e. sometimes to the long-term contracts as a whole and sometimes only to those related to the Veľké Kapušany-Baumgarten route).

We also understand that additional capacity will be offered on IPs Veľké Kapušany and Baumgarten, although the TSO did not explain how this is going to be achieved.

Benchmarking

While we appreciate that the TSO has performed benchmarking for the tariff levels acquired in the initial calculation to increase its competitiveness, we note that **no price assumptions for competing routes have been presented**. This is all the more important, since, as we note, the exercise results in lower tariffs for domestic points (even though the document highlights that such points in other networks were excluded from the benchmarking exercise).

Finally, while we appreciate the positive impact that the benchmarking exercise had on the calculated tariff levels, we note that **the results imply that a considerable share of Eustream's revenues would be missing** at the end of the regulatory period. If this is the case, we would like to understand how this underrecovery would be addressed. We also believe that the respective ratios of the transmission service revenue (section 4.3) should be also recalculated for reference prices resulting from the benchmarking exercise.

Floating price system

We recognize that the potential cessation of Ukrainian transit in January 2025 will impact Eustream tariffs, and we seek greater clarity and transparency in this regard. It's important to note that the **Slovakian route serves as the primary conduit for injecting gas into Ukrainian storages** for European companies. However, there are uncertainties surrounding the reverse flow in 2025, which need to be addressed well in advance. We hope that Slovakia will seek to continue functioning as a transit country and support the security of supply in the region. Therefore, we believe that **procedures/formulas underpinning the floating price system should be disclosed and consulted on for better transparency**.

Proposed timing

As mentioned in EURSTREAM's consultation document, the current regulatory and tariff period runs from Jan 2023 to Dec 2027. We believe such a drastic change in the middle of the regulatory period is difficult to tolerate, as it significantly erodes the confidence that shippers have in the stability of tariffs and ultimately brings negative unintended consequences to the Slovak supply security and end-consumers.

Certainty and stability of transmission tariffs is important. That is why additional clarifications are sought before proceeding with the proposal. That said, should this tariff amendment proposal go ahead with the intended implementation timeline of 1st January 2025, a timely decision would be needed to provide certainty to network users and their customers, preferably sufficiently ahead of annual auction in July.

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