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Nr. R1-7266

Märt Ots
Konkurenciamet
Auna 6
10317 Tallinn

18.07.2017 No. 1.1-11/2017/666

Answer to Estonian, Latvian, Lithuanian and Finnish regulators' public consultation on main principles of future regional entry-exit tariffs in gas

Dear Märt Ots,

Elering welcomes the progress by regulators and the public consultation on the future regional gas transmission tariffs. Elering shares the vision of Baltic and Finnish gas market with harmonised rules and entry-exit zone by 2020, together with the commissioning of Balticconnector.

Following are suggestions and comments by Elering to the principles set out by the regulators. The answer is structured to list the general proposals first, followed by more detailed comments and proposals.

General proposals:

1. Based on the recommendation in TAR NC, Elering suggests entry-exit split of 50/50, instead of 20/80. Elering does not see a reason to deviate from the TAR NC default proposal.
2. Elering considers it very important to have different treatment for domestic and cross-border exit points. First, having same exit tariffs on domestic and cross-border points will hinder transit gas flows through Baltic gas system, as transit would be too expensive. Secondly, transit flows can be very volatile and connecting large part of allowed revenues with volatile transit flows imposes major financial risk on the TSOs. Elering proposes to set cross-border exit tariffs at 10% of domestic exit tariff.
3. Considering the time of tariff publishing notice from the national legislation and the number of outstanding open questions regarding the tariff and ITC methodologies (refer to the following points), Elering does not deem it achievable to start with regional tariffs from January 2018.

Detailed proposals:

4. Considering point 2. Elering finds it useful to differentiate between 1) cross-border entry points, 2) cross-border exit points, 3) domestic entry points and 4) domestic exit points. 1) and 2) would be subject to harmonisation and revenue redistribution in the region, while 3) and 4) would not be subject to revenue redistribution.
5. The interim and the long-term tariff solution must have a methodology for tariff changes agreed by regulators. The methodology should describe the timely process of regional entry and exit

- tariff modification after a regulator has confirmed new allowed revenue for one or more of the TSOs.
6. Consultation document discusses ITC methodology considering collected revenue redistribution and compensating hosting of flows. However, the document is not clear on the matter, especially: 1) what constitutes a transit flow and 2) how funds for compensation of hosting of flows would be collected. For the timely introduction of harmonised regional tariffs, it is important that main principles of ITC mechanism are agreed between regulators, together with agreement on tariff methodology.
 7. Elering proposes to clearly differentiate in the future discussions between inter-TSO compensations for 1) redistributing the collected revenues from entry and exit points and 2) hosting of flows.
 8. Consultation document proposes compensating variable costs of hosting of flows. Document states the actual incurred costs shall be compensated. Elering notes that these would mainly be costs of running compressor stations, which might not be located in countries hosting the transit flows.
 9. From the consultation document, it is not clear what constitutes a transit flow in connection to hosting of flows. From this it follows, that it is not clear how the funds for such compensation would be collected.
 10. The redistribution of revenues from cross-border exit points (e.g. Misso and Sakiai) is not clearly addressed in the consultation document.
 11. The consultation document states that 80% of allowed revenue for each TSO shall be recovered from national exit tariffs. However, the calculation example appears not to support this approach as “Revenue from exit” is not 80% of “Revenue set by the regulator”.
 12. According to Estonian Natural Gas Act, regulator is responsible for developing and publishing the tariff calculation methodology. The consultation document does not cover, how the tariffs should be calculated, considering that the products shall be capacity based. The tariff calculation methodology should at least specify the methods for estimating the demand for entry and exit products, also considering the transit with third countries and use of storage facilities.
 13. The consultation document mentions short-term capacity products, multipliers and seasonal factors. The product types as well as the calculation and application of multipliers and seasonal factors should be part of the tariff calculation methodology. Considering the short application period and relative simplicity, Elering proposes no multipliers and seasonal factors for the interim solution.
 14. Elering stresses that as described in the consultation document, Misso entry and exit point is Estonian relevant point and Elering shall collect revenues on the point.
 15. The consultation document states that: “annual allowed revenue for Latvian TSO will also be covered from Exit tariff applied for Misso exit point if gas is transported from Latvia to Russia.” Elering agrees that part of the revenue from Misso exit point shall be allocated to cover allowed revenue of Latvian TSO.
 16. Elering proposes that over or under recovery of allowed revenue after considering redistributing the collected revenues shall be reconciled *ex post* while confirming new allowed revenue for the TSO.

17. The consultation document states: “The annual total allowed revenue for TSO should be published 3 months before the tariffs enter into force.” The same applies for transmission tariffs, at least in Estonia.
18. The consultation document does not include domestic entry points for gas production. Such domestic entry points should be added. Further, Narva and Värskä exit points should be added as well for Estonia.
19. The consultation document does not specify the process of capacity nomination, allocation and booking. Elering assumes that on the Baltic and Finnish balance zones shall stay separated until 2020 and on the internal borders, the capacity procedures will stay the same until the introduction of single Baltic and Finnish balancing area. This includes the capacity booking procedures and implicit allocation of capacity on GET Baltic gas exchange. Further, we assume that tariff for Karksi IP and Kiemenai IP will not be concluded to entry-exit tariffs system and tariff should be set to “zero”?
20. Elering notes that removing entry and exit fees on internal borders of the zone can lead to contractual congestion, because market participants have incentive to overbook capacity. Elering proposes an underutilisation fee as a mitigating measure. Underutilisation fee would be paid as a fine for booking but not using capacity.
21. The consultation document states that long-term solution will apply “after 2020”. Elering expects that the long-term solution starts with commissioning of Balticconnector in the beginning of 2020. Elering proposes that the long-term solution would comply with TAR NC as much as feasible, also regarding the publication and consultation processes. The tariffs should be published in time for the yearly capacity booking of October 2019-September 2020.
22. The consultation document states that discount is applied on entry tariffs from storage facilities according to TAR NC. There is no mention of the size of the discount or the potential discount on exit point. Elering proposes 100% discount rate on both entry and exit, in order to facilitate the use of storage facilities.
23. Elering proposes postage stamp methodology as the long-term Reference Price Methodology, due to its simplicity. Tariffs methodology shall be simple to understand, replicate and forecast for the market participants.
24. Regional tariff methodology and ITC methodology are considerable change from present status. Elering would like to point out that the change could require legislative changes. This topic is not thoroughly analysed by Elering, yet.

With best regards,

Taavi Veskimägi
Chairman of the Board

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Elering answer - Gas tariff consultation.pdf

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