

**ERSE's comments to CNMC's public consultation on the  
implementation of the Network Code on harmonised  
transmission tariff structures for gas**

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Rua Dom Cristóvão da Gama n.º 1-3.º  
1400-113 Lisboa  
Tel.: 21 303 32 00  
Fax: 21 303 32 01  
e-mail: [erse@erse.pt](mailto:erse@erse.pt)  
[www.erse.pt](http://www.erse.pt)

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## 1 INTRODUCTION

On 31 July 2019, ERSE received CNMC's notification to respond to its public consultation (CIR/DE/003/19) on the "*Regulation establishing the tariff structure and the price methodology to set up transmission, regional network and regasification tariffs of natural gas*", in line with the Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (hereafter: NC TAR).

This appendix provides ERSE's comments to said consultation. Section 2 presents comments on the topics referred to in Article 28(1) of the NC TAR, while Section 3 includes comments on other topics, namely regarding the reference price methodology and its consequences for the interconnection transmission tariffs.



## 2 COMMENTS ON THE TOPICS REFERRED TO IN ARTICLE 28(1) OF THE NC TAR

Article 28(1) of the NC TAR specifies that each national regulatory authority shall conduct a consultation with the national regulatory authorities of all directly connected Member States and the relevant stakeholders, namely as regards the level of the multipliers, the level of seasonal factors and the levels of the discounts set out in Articles 9(2) and 16.

On the level of the multipliers, ERSE considers that the approach to arrive at the multipliers is solid and does not present an obstacle to an appropriate balance of the aspects listed under Article 28(3)(a). Although the reasoning behind this approach seems robust, the absent computations underlying the computation of the multipliers do not allow for a more thorough analysis.

On the level of seasonal factors, since these will not be applied at interconnection points, ERSE does not provide any comments on the level of seasonal factors applied to the transmission tariffs at domestic exit points.

On the discounts set out in Articles 9(2) and 16, ERSE provides the following comments:

- Article 9(2): although the public consultation does not include any discount under Article 9(2), ERSE invites CNMC to consider it as one of the possible instruments to decrease the price differentiation of transmission tariffs across the interconnection points, in particular for the Iberian VIP.<sup>1</sup>
- Article 16: the application of the *ex-post* discount seems to be based on an incorrect translation of the NC TAR from English to Spanish in Article 16(4).<sup>2</sup>

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<sup>1</sup> More on this point can be found in section 3.

<sup>2</sup> English version: "Such *ex-post* discount may only be used at interconnection points where there was no interruption of capacity due to physical congestion in the preceding gas year."

Spanish version: "Este tipo de descuento *expost* solo podrá utilizarse en los puntos de interconexión en los casos en que la interrupción de la capacidad se haya debido a la congestión física en el año previo de gas."





### 3 COMMENTS ON OTHER TOPICS

Overall, ERSE acknowledges that the public consultation document is sufficiently detailed to allow for a clear understanding of the proposals, in particular regarding the proposed reference price methodology (RPM).

#### 3.1 ALLOWED REVENUES ALLOCATED THROUGH THE RPM

ERSE welcomes the decision only to allocate through the RPM the transmission revenues related to the trunk transmission network. That decision is important in order to avoid cross-subsidisation, as it ensures that interconnection points used for cross-system use will not be charged transmission costs related to transmission assets that they do not use.

As an additional remark, the underlying reasons for the expected evolution of the allowed revenues are not clear. Table 22 of the public consultation document indicates annual reductions close to 10% until gas-year 2024-2025, but the source of the decrease is not explained.

#### 3.2 COMPARISON WITH THE ENTRY/EXIT TRANSMISSION TARIFFS FOR THE PREVAILING TARIFF PERIOD

Although ERSE understands that a comparison with transmission tariffs for the prevailing tariff period is difficult because the current tariff system does not separate transmission from distribution, it would have been preferable to conduct a comparison at least for the interconnection points, as these points do not include a distribution component.

Figure 1 below compares the capacity-based tariffs for the prevailing tariff period<sup>3</sup> in 2019 with the capacity-based tariffs resulting from the new tariff methodology applied in CNMC's public consultation document, both for interconnection points and for LNG plants.

Figure 1 highlights that, under the new methodology, the Iberian VIP will experience a huge increase in its entry price, resulting in less favourable transmission tariffs when compared to the other interconnection points. ERSE acknowledges there will be a reduction on exit prices, but again the Iberian VIP will be the

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<sup>3</sup> Based on information provided at [https://www.enagas.es/enagas/en/Transporte\\_de\\_gas/Servicios\\_GNL\\_y\\_GN/Tarifas/SimuladorServicios](https://www.enagas.es/enagas/en/Transporte_de_gas/Servicios_GNL_y_GN/Tarifas/SimuladorServicios).

highest price when compared to Pirineos VIP. The same figure also shows that the Iberian VIP will have a larger entry tariff increase when compared to the LNG plants.

Figure 1 - Comparison of the capacity-based transmission tariffs at ES interconnection points and LNG plants between the prevailing tariff period and the new tariff methodology

Prevailing tariff period (Year 2019)					
€/MWh/d/y		Yearly	Quarterly	Monthly	Daily
Entry	CI Tarifa	130.2	180.9	189.8	392.7
	CI Almería	130.2	180.9	189.8	392.7
	VIP Pirineos	130.2	180.9	189.8	392.7
	VIP Ibérico	130.2	180.9	189.8	392.7
	LNG plants	130.2	180.9	189.8	392.7
Exit	VIP Pirineos	240.7	334.6	351.0	726.1
	VIP Ibérico	240.7	334.6	351.0	726.1

New tariff methodology (Year 2020)					
€/MWh/d/y		Yearly	Quarterly	Monthly	Daily
Entry	CI Tarifa	291.0	349.2	378.3	465.5
	CI Almería	262.4	314.9	341.2	419.9
	VIP Pirineos	202.0	242.4	262.6	323.2
	VIP Ibérico	334.4	401.3	434.7	535.1
	LNG plants	226.9	272.2	294.9	363.0
Exit	VIP Pirineos	167.6	201.1	217.8	268.1
	VIP Ibérico	178.2	213.9	231.7	285.1

New tariff methodology (Year 2020) vs Prevailing tariff period (Year 2019)					
YoY %		Yearly	Quarterly	Monthly	Daily
Entry	CI Tarifa	+123.5%	+93.0%	+99.3%	+18.6%
	CI Almería	+101.6%	+74.1%	+79.7%	+6.9%
	VIP Pirineos	+55.2%	+34.0%	+38.3%	-17.7%
	VIP Ibérico	+156.9%	+121.8%	+129.0%	+36.3%
	LNG plants	+74.3%	+50.5%	+55.4%	-7.6%
Exit	VIP Pirineos	-30.4%	-39.9%	-37.9%	-63.1%
	VIP Ibérico	-26.0%	-36.1%	-34.0%	-60.7%

Note: The values presented do not include the effect of the energy-based transmission tariff. Given the presence of seasonal factors in the prevailing tariff period for non-yearly capacity products, a flat capacity profile was assumed.

### 3.3 REFERENCE PRICE METHODOLOGY

CNMC proposes to apply the Capacity Weighted Distance (CWD) methodology defined under Article 8 of the NC TAR, applied to a physical representation of the trunk transmission network.<sup>4</sup>

The applied methodology yields the highest transmission tariffs at the Iberian VIP, relative to the tariffs applied at all the entry and exit points of the trunk transmission network. Compared to the average tariffs resulting from a postal methodology, the CWD methodology implies the following results for the Iberian VIP:

- +37.1% in the direction PT->ES compared to a postal tariff, which represents the highest price among all Spanish entry points;
- +19.0% in the direction ES->PT compared to a postal tariff, which represents the highest price among all Spanish exit points.

More specifically, for entry tariffs which are currently equal across all interconnection points, the CWD methodology introduces a significant price differentiation. The entry tariff is 66% higher at the Iberian VIP when compared to Pirineos VIP, at least 15% higher when compared to the entry tariffs at the other interconnection points (Almería and Tarifa) and 47% higher when compared to LNG facilities entry points.

ERSE believes that the high capacity-based transmission tariffs for the Iberian VIP are a result of its peripheral position in the network, in particular when using the concept of average distance weighted by capacity as is the case for the CWD methodology.

Notwithstanding the fact that CNMC applies the methodology defined in the NC TAR, which can be understood as a benchmark methodology in the context of the network code, one must not forget that the methodology uses simplified assumptions to allocate transmission revenues. In particular, it assumes that each entry point provides gas to all exit points and that each exit point receives gas from all entry points, as long as there are bidirectional pipelines. Hence, under the CWD methodology a peripheral network point with low forecasted contracted capacity (as is the case for the Iberian VIP compared to the other IPs) will have a high transmission tariff.

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<sup>4</sup> The use of a physical representation of the network results in a total of 19 entry points and 259 exit points.

Although every methodology will rest on certain assumptions to model reality, one must be particularly cautious when a new methodology yields results that are very different from the status quo or from the results of competing methodologies. In this case, the CWD methodology introduces a significant price differentiation when compared to the postal methodology or when compared to the current equalisation applied at interconnection points. ERSE invites CNMC to review the reasonability of these results and to measure the allocation of transmission costs of the Spanish system imposed onto Portuguese suppliers and consumers. ERSE is concerned about the effects that these results may have on the development of MIBGAS. Within the context of ACER's South Gas Regional Initiative, ERSE and CNMC have been working together for the implementation of an Iberian gas market. The studies and actions taken by both regulators in cooperation have made it possible to reach important milestones.

Moreover, the interconnection point Tuy at the Portuguese-Spanish border has been very relevant for Enagas to manage the transmission network in Galiza.

Having due regard to these concerns, ERSE invites CNMC to limit the price differentiation across Spanish entry and exit points, in particular for interconnection points. Possible instruments to limit the price differentiation include the equalisation of entry and exit tariffs under Article 6(4)(b), a discount for network points developed with the aim of ending the isolation of Member States under Article 9(2) or adjustments to the distance matrix of the CWD methodology:

- The equalisation of entry and exit tariffs under Article 6(4)(b) could be justified due to the current practice of equalisation across interconnection points and due to the meshed network design that results for several entry-exit combinations in multiple paths that can be used for a given gas flow.
- Applying a discount under Article 9(2) at entry points from and exit points to infrastructure developed with the aim of ending the isolation of Member States in respect of their gas transmission systems would be another instrument to be used as a way of reducing the degree of price differentiation, in particular at the Iberian VIP (having in mind that Portugal only has two entry points for natural gas, namely the LNG facility at Sines and the Iberian VIP).
- A third way of decreasing the price differentiation using the CWD methodology could be achieved by adjusting the distance matrix to reflect the fact that it is unlikely that gas flows crossing the Iberian VIP will use the full trunk transmission network. In cases where there is no relevant entry-exit flow due to dominant gas flows in a certain direction, those distances could be set to zero, hence decreasing the average distance weighted by capacity for those points.

As a final remark, ERSE wishes to note some assumptions used by CNMC that may require a revision:

- Forecasted contracted capacity and forecasted gas volumes suggest that Portugal will be a net exporter of gas to Spain in the forthcoming years. This assumption is disputable for several reasons:
  - In the past, Portugal has always been a net importer as regards the Spanish gas system, with the exception of the first months in 2019.
  - The 'single storage tank model' envisaged for Spanish LNG facilities is likely to decrease the competitiveness of Portuguese exports.
  - Given the high transmission tariffs foreseen by the CWD methodology for the Iberian VIP, this will also decrease the competitiveness of Portuguese exports.
- Although ERSE agrees with the assumption of using technical capacity to separate demand forecasts at the level of the Iberian VIP and the Pirineos VIP, ERSE must mention that the break-down of the Iberian VIP in the direction PT->ES is of 55 GWh/d at Badajoz and 25 GWh/d at Tuy (instead of a division of 80 and 0, respectively).