equinor

Attn Energy Department
ACM
PO Box 16326
2500 BH The Hague
The Netherlands

Our reference: NC TAR implementation consultation
Your reference: ACM/14/023224
25 May 2018

Dear Sirs,

It is with great consideration that we have read the draft decision with regards to the NC TAR implementation.

We support the response as submitted by Energie Nederland but *additionally* want to address that we as Equinor, do not support the proposed Entry/Exit split of 50/50 for the following reasons:

- First, there is no obligation in the NC TAR to make the suggested changed to the network tariffs, it apply a possibility. Moreover a 50/50 split is only compulsory for the counter factual or Capacity Weighted Distance methodology and not for the postage stamp methodology.

- Secondly, the TSO, Gasunie Transport Services (GTS), has performed a cost assessment which concludes that a 50/50 Entry/Exit split leads to the highest tariffs for transit routes, whereas 0/100 leads to the lowest tariffs for transit routes. At the same time Industry and LDC tariffs remain around the overall 3€ Entry Exit Tariff. This demonstrates that a 50/50 split has no added value in moving costs away from the consumer, as long as the overall transportation costs are not reduced. It is fair to suppose that this will lead to higher TTF hub prices, less transparency in the cost components of the commodity, and potentially less liquidity.

- Thirdly, ACM assumes that a 50/50 split will lead to an equal and balanced allocation of costs:
    a) This foregoes the difference between the high-pressure grid (the HTL grid) and the intermediate pressure grid (RTL grid). In the current proposal users of the HTL grid are subsidising the users of the RTL grid, as gas cannot move back to the HTL grid. Bearing the above in mind, and if you were to follow the high-level distribution of costs (as seems to be applied by ACM) then the HTL system should be 50-50. However, in such case the RTL system should be allocated to Exit.
    b) Although we could agree to item 63 of the draft proposal, a 50/50 split is not an equitable split, first of all most entry points are located in the northern part of The Netherlands (and therefore contributing less to the system cost), secondly there are considerably less Entry versus Exit points meaning that Entry points would carry more of the cost burden than Exit points in absolute terms, thirdly a difference of 6.3% of cross-subsidisation after allocation of cost does have a huge impact when one appreciates that in the whole range between trading and bilateral and retail contracts have margins that range between a few cents to 40 cents on the commodity. More importantly, depending on the Entry point the tariff is not increasing by less than 10 %

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(as is suggested in the text under item 57). For example, for the Entry point Emden it is at least doubling for the annual booking tariff and increasing by +170% for the Day ahead tariff when compared to current tariffs. This will discourage flows at this IP.

- Furthermore, the implementation on NC TAR and setting tariffs should be based on a set of principles as laid down the Regulation 715/2009, including cost reflectiveness but also "provide incentives for investments". Investments in networks have been done by shippers underwriting the capacity. This is done in acceptance of certain risks, such as change in overall usage of the grid. However, it also requires that the Regulators aims at maintaining a Stable Regulatory Regime. An almost 50% increase in tariffs based on an assumed cost split cannot be considered as incentivizing investments.

- Additionally, under Dutch administrative law a number of general principles of good administration are laid down. These are party codified in the General Administrative Act (Awb), including the principle of careful preparation (section 3:2 Awb), the principle of proportionality (section 3:4 Awb), and the principle of proper reason (section 3:46 Awb). We argue that,
    1) The increase in tariffs based on an assumption is not in line with "proper reasoning" and careful preparation
    2) The drastic increase in tariffs dis-incentivizing investments is not in line with the principle of proportionality
    3) Finally, then we encourage ACM to revisit their up-front decision not to take Benchmarking into account.

- Also, we do not agree to the statement made in item 66 that a benchmark exercise is not necessary, because of the unequal tariff increase per Entry point versus the current tariff methodology (as stated above Entry points like Emden actually face a doubling of the annual tariff and an increase of +170% of the Day ahead tariff versus todays tariffs) Our analysis show that the tariff increase would lead to a significant reduction of imports from the Norwegian Continental Shelf.

For these reasons Equinor believes that:

- the proposed split, in combination with the postage stamp methodology, is not equitable and represents a drastic, unforeseeable and unreasonable increase of the Entry Tariff at among others Emden;

- our analysis show that - without a market reaction to changing tariff differentials - the tariff increase would lead to a significant reduction of imports from the Norwegian Continental Shelf, potentially reducing (day-ahead) liquidity at TTF;

- GTS has made projections on different levels of Entry/Exit split this has demonstrated that a 50/50 split has the adverse effect of actually increasing the energy cost for consumers;

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- ACM should revise if not the methodology then at least the Entry-Exit split to show an equal burden of the cost per connection point, be it Entry or Exit and preferably below 35/65.

Yours sincerely,

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For and on behalf of Equinor Energy Trading Limited