English summary of GTS' written view to the NC TAR draft code amendment decision as published on 5 March 2018 by ACM. GTS submitted its formal view in Dutch to the ACM on 25 May 2018. This English summary is for information purpose only.

1. Introduction

GTS has reviewed ACM's draft code amendment decision ("draft decision") as published on 5 March 2018. GTS generally agrees with ACM's approach and believes the draft decision will lead to a tariff structure that is more accessible, understandable and more transparent than the current structure:

- **One all-in-tariff** for the transmission service; shippers, on the moment they contract entry- or exit capacity, automatically also pay for system services like balancing and quality conversion;
- **A reference price methodology which leads to a postage stamp tariff**, with equal tariffs for entry points on the one hand and equal tariffs for the exit points on the other hand. A postage stamp tariff fits well, contrary to a capacity weighted distance tariff, in a more and more virtual system use;
- **Multipliers** and **seasonal factors** which contribute to cost reflective tariffs and which are high enough to resemble the current situation.
- A **discount for storages of 50%** (GTS has no reason to plead for a higher discount) and a discount of **0% for LNG terminals** (GTS has no reason to plead for a discount).

However, the draft decision contains one point on which GTS fundamentally disagrees with ACM, namely to collect the allowed revenue via the entry points on the one hand and via the exit points on the other hand through an "**entry/exit split**" of 50%/50% (before the application of tariff discounts, such as for gas storage). GTS will explain in Chapter 2 that ACM arrived at this entry/exit split on an incorrect basis and that it was not properly substantiated.

In addition to this fundamental point of the incorrect entry/exit split, there are less significant points on which GTS is of the opinion that adjustments to the draft decision are necessary, see Chapter 3. Finally, GTS makes suggestions in Appendix 1 regarding points on which GTS agrees (in terms of content) with ACM in itself, but for which clarifications are desirable. ***This Appendix has not been translated.***

During the hearing of 14 May 2018, GTS presented its view (with regard to the entry/exit split) orally, in broad terms. The notes from GTS for the hearing are attached as Appendix 2 in the formal Dutch view.

GTS is happy to answer questions or organize consultations on the basis of its opinion. This view does not contain any confidential information.

2. Entry/exit split 50/50 incorrect

2.1. Introduction

In the proposed article 3.2.2.3 of the amended Tariff Code, ACM determines the distribution of the allowed revenues over the entry and exit points (the entry/exit split) at 50/50. This means that 50% of GTS' allowed revenues will be allocated to the entry points and the other 50% will be allocated to the exit points (allocation before tariff adjustments like storage discount).

However, ACM uses an incorrect basis for this entry/exit split and it is not properly motivated. The basis and reasoning of the entry/exit split - and the resulting distribution of the allowed revenues (from entry and exit tariffs) over the entry and exit points - must be reconsidered.

2.2. Incorrect basis and reasoning

ACM states in the explanatory notes to the draft decision (section 64) to opt for this entry/exit split, because (summarized):

(a) it assumes that the costs incurred by GTS to offer entry capacity at entry points are more or less equal to the costs incurred to offer exit capacity at exit points and therefore a 50/50 split from a cost reflectivity perspective seems obvious;

(b) this split corresponds to the reference price methodology for capacity-weighted distance, in which the 50/50 split is made obligatory;

(c) this split would be close to the current split which is about 40/60;

(d) the choice for a 50/50 split has been discussed extensively in the consultation meetings in autumn 2017 and opinions of market parties appear to be divided; and

(e) it sees no reason whatsoever to decide on a split other than 50/50.

None of these arguments do support the choice of ACM for this entry/exit split. GTS explains this per argument below.

Ad a - ratio to the costs GTS makes.
The assumption in the draft decision that the costs GTS makes for entry capacity are more or less equal to the costs incurred for exit capacity has not in any way been substantiated by figures, reports or other substantiation by ACM. It is simply an assumption made by ACM without any factual basis.

More importantly, it is simply incorrect:

GTS operates two types of grids: the high-pressure transmission grid (HTL grid) and the regional transmission grid (RTL grid). The HTL grid is characterized by pipes with large diameters for both entry and exit points. The RTL grid, on the other hand, is characterized by pipes with a smaller diameter and almost exclusively exit points. The numbers of entry and exit points per distinguished

network (NB: the cost levels per network point differ for HTL and RTL) forms a relevant indication for the distribution of costs between entry and exit capacity in each grid.

Based on the numbers from the TSC 2018, this yields the following image:

- HTL grid: 67 entry points versus 81 exit points, and
- RTL grid: 2 entry points versus 445 (!) exit points.

In other words: the majority of the points in the HTL grid are exit points (55%). In the RTL grid there are even almost exclusively (for more than 99.5%) exit points. There is, therefore, by no means a more or less equal distribution.

This is (logically) also visible in the costs in accordance with the annual reports. Looking at the costs of the HTL grid and the RTL grid in the years 2016 and 2017, it appears that more than 20% of the costs are related to the RTL grid, which, as shown by the aforementioned number of exit points, is almost completely used to provide exit capacity. The costs of the HTL grid can be allocated to both the provision of entry and exit capacity in accordance with the distribution of the number of entry and exit points. The total distribution of costs between entry and exit points appears to be approximately 35% / 65%, see the table below.

This distribution is determined as follows: in the annual reports of GTS B.V. and (at that time) GGS B.V. the values of fixed assets (to be found on the balance sheet), depreciation costs and other operating expenses (both of which can be found on the profit and loss account) are included. The costs can then be approximated by the formula fixed assets x WACC + depreciation costs + other operating expenses (OPEX). OPEX consists of the other operating expenses and capital costs comprise the other components together. The WACC is the regulatory WACC as determined in the relevant method decision.

Using these costs and the ratio of the number of bookable points between the entry and exit side, the entry/exit distribution can be determined. The table shows the data from the annual reports and the translation to the entry exit distribution.

Entry exit distribution on the basis of HTL- RTL cost allocation and number of entry and exit points:

WACC 2016	3,6%					
WACC 2017	4,0%					
2016 (in EUR mio.)						
Annual report 2016	HTL (GTS)	RTL (GGS)				
Fixed assets	5.324	1.165				
Depreciation costs	198	38				
OPEX	560	169				
	CAPEX	OPEX	Entry %	Exit %	Entry	Exit
HTL	390	560	45%	55%	430	520
RTL	80	169	0%	100%	1	248
Total					431	767
Entry exit split					**36%**	**64%**
2017 (in EUR mio.)						
Annual report 2017	HTL (GTS)	RTL (GGS)				
Fixed assets	5.336	1.218				
Depreciation costs	205	39				
OPEX	458	169				
	CAPEX	OPEX	Entry %	Exit %	Entry	Exit
HTL	418	458	45%	55%	397	480
RTL	88	169	0%	100%	1	255
Total					398	735
Entry exit split					**35%**	**65%**

Ad b - reference price methodology for capacity-weighted distance.
The provision on the reference price methodology ("RPM") for capacity-weighted distance quoted by ACM is not relevant for the entry/exit split. After all, not the RPM for capacity-weighted distance from Article 8 of NC TAR is used, but the entirely different method of a postage stamp tariff, and that is why the relevant provision is not applicable. NC TAR requires that the chosen RPM meets the requirements of Article 7 and the 50/50 split is not formulated as a requirement or as default. NC TAR only requires that any other RPM, including the chosen postage stamp methodology, is compared with the capacity-weighted RPM in Article 8 NC TAR. In other words: the 50/50 is nothing more than a part of a counterfactual, or a basis for comparison, not a normative starting point or default, let alone a '50/50, unless'. Moreover, the fact that there is a counterfactual indicates that it is not intended as the basis.

Ad c ratio to current distribution.
That the split chosen by ACM would be close to the current entry/exit split is also difficult to sustain. The current split is (based on an all-in service and before application of the storage discount) approximately 42/58 and is therefore far from the 50/50 ACM proposes. To illustrate: this involves a shift of allowed revenue from the exit points to the entry points of 8%, or a redistribution of costs of approximately EUR 70 million. This is in any case substantial and cannot be ignored. If ACM values the current distribution (GTS can understand such a reasoning), then this pleads for more costs to exit points than to entry points.

In this context, the developments concerning the Dutch gas production are also important. Not only has the production from the so-called small fields been declining steadily for years, the Dutch government has recently decided to drastically reduce the production for the Groningen field to a maximum of 12 BCM in 2022 to 0 in 2030. This means that additional gas imports are necessary, at least 100 BCM for the next decade. Increasing the costs of import, which will be the result of implementing a 50/50 entry/exit split – is not appropriate here.

Ad d - no consensus in consultations.
ACM is in itself right that the opinions were different regarding the 50/50 split (the same applies to the 0/100 split). But that is no reason to implement the 50/50. The fact is that there is no consensus about any distribution, as was also the case during the hearing.

Ad e - no reason for a split other than 50/50.
This argument by ACM builds on its earlier - incorrect - arguments and is therefore also incorrect. It builds on the misconception that the 50/50-split for capacity-weighted distance would have some normative value for the entry/exit split of a different methodology, while in fact it is irrelevant (see Ad b). In addition, as stated above, this statement is based on incorrect factual principles, such as that the costs are evenly distributed over entry and exit points (see Ad a) or that the distribution is in line with the current distribution (see Ad c). Finally - and above all - it is not a question of why it becomes 'something different than 50/50', but ACM must substantiate independently, properly and on a factual basis why it chooses a certain split (in this case apparently 50/50 according to ACM); that basis and reasoning is missing for the 50/50 split. Contrary to what ACM is considering, this 50/50 is by no means "balanced".

2.3. How to achieve a correct entry/exit split

Above we have argued that ACM did not motivate the entry/exit split on a proper and sound basis. This raises the question: how to do it right?

Market parties have made various substantiated proposals to this end. GTS, as ACM points out in the draft decision, has previously advocated a 0/100 distribution with an extensive reasoning. GTS still considers this a well-defensible approach. This is endorsed by various parties and is also not without precedent: for example, the electricity sector also has a 100% allocation to exit points.

ACM disagrees with GTS' proposal. It points out possible disadvantages of the split proposed by GTS and the alleged failure to resolve certain effects. Apart from the fact that these disadvantages can be put into perspective and there are indeed solutions available, the point is not whether the 0/100 split as proposed by GTS has disadvantages or whether it does not solve certain effects. Just like any other distribution, the 0/100 distribution has advantages and disadvantages. Moreover, it is not necessarily 50/50 or 0/100, there is a world between them (other distributions are conceivable); in doing so, ACM's criticism of GTS's proposal does not detract from the fact that there are better distributions than the - arbitrary - 50/50.

What matters is the basis and the substantiation of the split. With the criticism of the split proposed by GTS, whichever comes from it, it has not yet been shown what it should be. Regardless of which split ultimately yields, there are various starting points for arriving at another - well-substantiated – split, such as the fact that more costs are incurred for exit capacity than for entry capacity, that there are more exit points than entry points, that the existing distribution attributes more to exit points, that a different distribution prevents a cost increase for the end-user, the increasing importance of import and transit flows and so there are still more factors that lead to a different - and sustainable – split than the 50/50 split, which as such does not have a sound basis or substantiation.

GTS is happy to explore - together with the sector and ACM - the possibilities for a different split.

3. Other adjustments

In chapter 3 of our written view we have stated several topics which in our opinion should be changed:

3.1. Entry into force and applicable date

In order to be able to take the tariff decision for 2020 (as required by NC TAR) in spring 2019 (based on the tariff structure modified under NC TAR), ACM will have to build on the amended Tariff Code. At the same time, the first tariff period under the tariff structure modified as a result of NC TAR starts as of 1 January 2020. Until then, GTS and its customers still have to operate under the "old" tariff structure and make use of the unchanged Tariff, Transmission and Definitions Gas Codes. A full entry into force of the amended Tariff, Transmission and Definitions Gas Codes by spring 2019 would lead to practical problems.

To overcome these problems, GTS proposes that ACM should include a transitional provision in all three amended codes on the basis of which the codes that have been withdrawn (at the time of the final decision) continue to apply to services, products and activities up to and including 31 December 2019. In other words: despite the fact that ACM's final decision will come into force (because of the possibility to take tariff decisions), GTS and its customers operate under the (currently) existing codes up to and including 31 December 2019; From 1 January 2020 onwards, GTS and its customers will operate under the new codes (regardless of when it is contracted).

3.2. GTS revenues not generated from entry- and exit tariffs

The allowed revenues of GTS consist to a large extent of revenues achieved on the basis of capacity-based entry and exit tariffs. However, GTS also obtains other (allowed) revenues. This is also recognized in the explanatory notes to the draft decision. Yet, this is not reflected in the draft decision leading to the possible misconception that GTS is only allowed to earn revenues from the entry and exit tariffs.
For explanation the following. Article 3.1.1 of the amended Tariff Code stipulates that the allowed revenues of GTS as defined in NC TAR are the allowed revenues as determined by ACM in the yearly tariff decision. According to Article 3.1.2 of the amended Tariff Code, the allowed revenues of GTS (as referred to in Article 3.1.1) are exclusively and only 'collected' through capacity-based entry and exit tariffs.

Article 3.1.1 and Article 3.1.2 seem to suggest that under the amended Tariff Code GTS is no longer allowed to earn revenues other than on the basis of capacity-based tariffs. After all, the allowed revenues as determined annually for the benefit of the tariff decision, may only be achieved through capacity-based entry and exit tariffs.

As a transmission system operator, GTS also obtains revenues by other means than capacity-based tariffs. For example, GTS obtains revenues from the line pack flexibility service (article 4.1.7 of the Transmission Code), from auction fees or from capacity exceedings.

The explanatory notes to the amended Tariff Code makes clear without a doubt that it is not the intention of ACM that GTS is no longer allowed to earn these revenues (see, for example, section 3

and footnote 8 of the draft decision). However, the explanatory notes are not legally binding and due to the interplay of articles 3.1.1 and 3.1.2, doubts can arise as to whether this form of revenues can still be earned.

For the avoidance of doubt, GTS proposes to replace the text of Article 3.1.2 with the following text: *"The capacity-based entry and exit tariffs as referred to in Article 3.1.1 shall be based on the allowed revenues of the network operator of the national gas transmission grid as referred to in the same provision"*

With this text, article 3.1.2 (in accordance with the explanatory notes in the Draft Decision) allows ACM to include the earned revenues by other means than based on capacity-based tariffs in the determination of the allowed revenues in the yearly tariff decision, as is practice now already and will be the intended new situation (as GTS understood from discussions with ACM).

In addition, there may be uncertainty about the income from the peak supply task as mentioned by ACM in article 3.1.1. Peak supply can be seen as a service where GTS is designated as shipper who provides gas supply and gas transport in the temperature range from -9°C to -17°C. Peak supply therefore consists of gas supply and transport. The involved revenues are covered by both the non-tariff regulated task (peak supply) and tariff-regulated tasks (transport, balancing, quality conversion, existing connections, and connection points). From discussions with ACM, GTS has understood that the distribution of tariff-regulated and non-tariff-regulated revenues remain unchanged in the new situation. This means that the tariff-regulated revenues will be covered by the transmission service and are therefore part of the allowed revenues. The non-tariff related income is not part of the allowed revenue. GTS agrees.

3.3. Shifting capacity

ACM has chosen to no longer qualify the current “shifting capacity service” as a service, but as a right granted to the transmission service entry- or exit capacity. The costs are reimbursed in the (only) entry or exit tariff and a separate (customized) fee for the shifting of exit capacity is no longer applicable. Now that shifting of capacity has become a 'free of charge' right whereby the distance over which is shifted no longer plays a role, this can lead to unbridled use of this right. Unbridled or unqualified use of this right would de facto lead to free capacity pooling between different exit points within a portfolio, and in combination with a transfer of capacity rights to free capacity pooling between portfolios. This leads to a cost increase for other net users (after all, in cases without such possibilities for shifting capacity, parties would have to contract additional capacity). Shifting of capacity would thus lose its current character and intention and for that reason should be removed.

From the fact that ACM has made additional remarks to prevent unbridled use of this right, GTS concludes that abolition is not the desired solution. In principle, GTS can agree with ACM’s proposal. However, GTS is of the opinion that the conditions of shifting capacity "if and only if exceptional and temporary circumstances of an operational nature justify the shifting referred to here" should be specified; GTS proposes the following (inseparably linked) specifications:

- Shifting capacity should only be linked to maintenance and incidents on the part of network users that lead to an appreciable limitation of technical and temporary nature in the ability to withdraw the exit capacity contracted by the network user at an exit point;
- the network user can fully or partially use the contracted exit capacity at the exit point relating to the noticeable limitation at another exit point within its portfolio;
- the shifting capacity right can only be used at domestic exit points (as is the case now);
- the network user can make use of the right at a specific exit point for a continuous period of no more than 1 month at a time, twice a year;
- the capacity to be shifted must be available at the other exit point (to be shifted to);
- the multipliers and seasonal factors of the exit capacity to be shifted, are transferred unchanged to the other exit point;
- the network user must submit the application for use of the right to GTS as soon as possible after it has been informed of the (imminent) noticeable limitation.

By means of this further elaboration it is clear in advance under which conditions the net user can use the right of shifting capacity and how GTS will assess and execute this.

It goes without saying that a shift of capacity (in view of the minimum period, time of notification and handling time for GTS) must at all times remain operationally executable. GTS requests ACM to express this in the final decision.

3.4. Tariff optimization

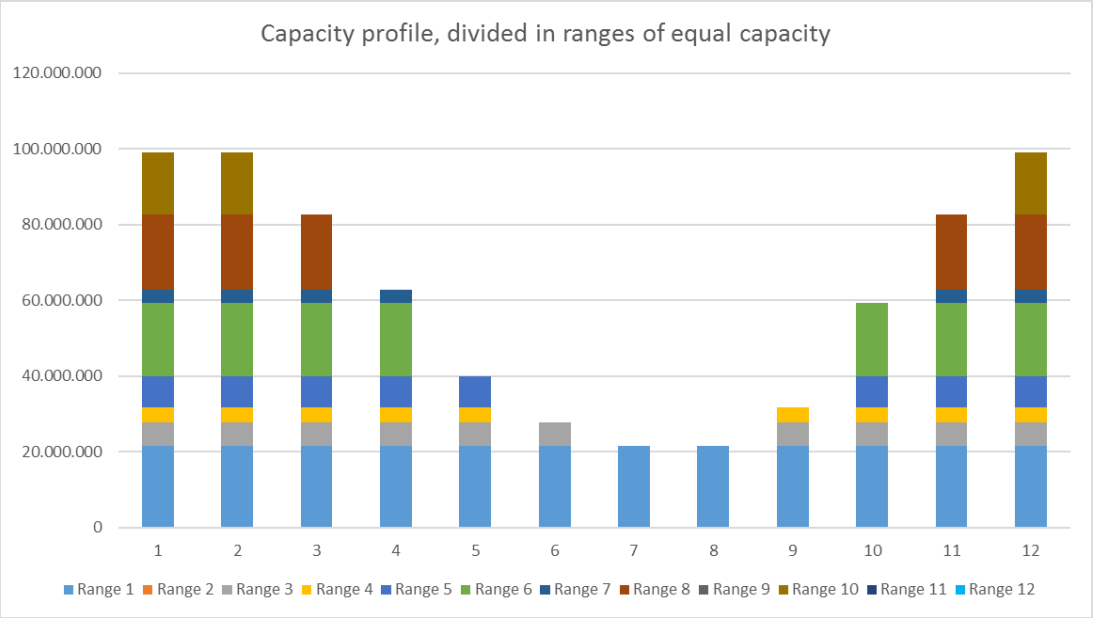
In the Tariff Code by means of Article 3.2.3.8, ACM has aimed to convert the current tariff optimization to the new tariff structure. GTS understands this line of thought but has a number of objections to the proposed solution. It is a complex solution, which only provides a limited financial advantage for parties that contract a combination of capacity products at the same time.

GTS has carried out a first impact analysis for the proposed tariff optimization. The conclusion is that this tariff optimization will lead to complex and expensive IT adjustments.

The first market reactions (on 13 April 2018) were that shippers also find it a complex solution and also incomprehensible that they had to pay the price of a longer-term capacity product while that capacity product was not contracted ("if we still have to pay the annual tariff, then we also want to be able to contract the annual capacity product"). In addition, this tariff optimization leads not only to standard prices but also to non-standard composed prices for the same standard capacity products, which gives (unnecessary) confusion and variation.

For example, shippers who want to contract a capacity profile themselves via the so-called range methodology can always achieve the cheapest solution themselves using standard capacity products with a standard price. In doing so, they will choose a longer-term capacity product per

range if the sum of the shorter-term capacity products is more expensive than the longer-term capacity product (even though they were not planning to use that capacity in all months in advance). See below for a typical RNB profile the "grey" range (range 3).



If this grey range 3 had to be contracted according to the capacity profile with quarterly products (Q1, Q2, Q4) and monthly products (September), this would cost approximately 1.14 * the annual tariff. The shipper who has the choice himself then proceeds to purchase the annual capacity product for that range. The same mechanism can be used for the other ranges. De facto this 'product optimization' leads to an optimal booking consisting of standard capacity products with standard prices. In short: the shipper is able to realize the tariff optimization proposed by ACM through product optimization. GTS sees one possible "disadvantage" being the fact that for financial reasons capacity is booked that may not be used (possible hording). However, if we look at the current profile and period bookings, we can distinguish three groups:

1. Local distribution companies (LDC)
2. Small fields (SFA)
3. FCFS

The LDC points are only booked by GTS (on behalf of the shipper), so the problem of possible hording is not present there. SFA bookings are only optimized by GTS after the end of the contract period, so here, too, there is no chance of capacity hording (the capacity cannot be used differently). For FCFS bookings the shippers can carry out the optimization themselves, but GTS can never determine in advance which capacity may not be used. This is therefore not a problem.

Since GTS is not allowed to discriminate, it will automatically contract the LDC group and the SFA group according to the same optimal range method as those market parties will use for FCFS network points.

GTS concludes that tariff optimization through product optimization can be done "automatically" via the range methodology with the additional advantage that the contracted capacity products always have a standard price. This product optimization thus achieves the same optimization effect as ACM wants to achieve, without the adverse effects of that solution mentioned above.

The way in which GTS determines the LDC exit capacity per shipper per network point for both the group of profiled customers and the group telemetered large consumers will not change by introducing NC TAR. This means that on the basis of Article 2.1.2d and 2.1.2e from the Transmission Code, the LDC exit capacity per shipper per network point is determined unchanged. This yields one capacity value per shipper per network point per gas month. This so-called capacity profile (consisting of 12 monthly values, for each gas month 1 value) is thus set unchanged.

What will change as a result of the introduction of NC TAR is:

- how that capacity profile is contracted, and
- how the price of that capacity profile is calculated.

As GTS has indicated above, the LDC profile will be contracted based on product optimization, in order to guarantee that the capacity is optimally contracted for this group.

GTS, on the basis of the above analysis and consideration, proposes the following text changes:

Article 3.2.3.8 (Tariff Code):
"In case a network user on the same day contracts entry or exit capacity at domestic entry and exit points in any combination of quarterly, monthly and daily capacity products, and at request of the network user, GTS will handle as follows per capacity range:
a. If the price to be paid for the combination of quarterly, monthly and daily capacity products is higher than the price of an annual capacity product, the annual capacity product will be contracted for that range;
b. If the price to be paid for a combination of monthly and daily capacity products within one gas quarter is higher than the price to be paid for the relevant quarterly capacity product, the relevant gas quarter product is contracted; and
c. If the price to be paid for a combination of daily capacity products within one gas month is higher than the price to be paid for the monthly capacity product for the relevant gas month, the relevant monthly product is contracted."

Article 3.2.3.9 (Tariff Code):
The LDC exit capacity established per network point per month per shipper on the basis of 2.1.2d and 2.1.2e of the LNB Transmission Code shall be contracted in accordance with article 3.2.3.8 of the Tariff code.

Article 2.1.2b (Transmission Code)
The text of the current code should not be changed, but the following sentence should be added:
"The LDC exit capacity determined in accordance with 2.1.2d and 2.1.2 shall be contracted in the form of firm exit capacity using the cheapest combination of annual, quarterly and monthly products."

3.5. Article 3.2.2.4 – formulas for discount storages

The formulas used in the Tariff Code for the application of the discount for gas storage on the non-adjusted reference price are incorrect. For a discount other than 50%, for example 80%, the unadjusted reference price must be adjusted by a factor of 0.2; the factor should be (1 - GK).

The correct formulas are:

$$T_{EN}^{G} = (1 - \ GK) \times c \times \tilde{T}_{EN}$$

$$T_{EX}^{G} = (1 - \ GK) \times c \times \tilde{T}_{EX}$$

4. Conclusion

GTS requests ACM to adopt the final code amendment, taking into account GTS' comments. GTS is happy to provide additional explanations and consultations.

Appendix:

In the appendix GTS has suggested several clarifications and some text improvements.