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Authority for Consumers and Markets
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Shell Energy Europe response to ACM draft code amendment decision for the implementation of NC TAR

Dear Sir/Madam

General

SEEL agrees with the ACM that multipliers, seasonal factors and interruptible capacity for domestic entry and exit points should be applied on an equal basis to interconnection points and domestic entry and exit points, for the same reasons of cost-reflectivity stated by the ACM, in as much that the use of the network from either a domestic entry point or an interconnection point will be the same.

Postage stamp RPM

We support the ACM's draft decision to implement a postage stamp methodology as it ensures that the share of allowed revenue collected from each entry and exit point is proportionate to its contribution to the costs of the provision of system capacity, where using only capacity as a cost driver.

Proposed 50-50 entry-exit split

According to the NC TAR, the purpose of the entry-exit split, is to avoid barriers to cross-border trade and cross-subsidises between types of network user. In our view, a 50-50 split does not achieve either of these two objectives, for the reasons set out below.

The costs GTS incurs to provide capacity at entry points are not equal to the costs GTS incurs to provide capacity at exit points and so a 50-50 split is not cost-reflective as it does not take into account the actual division of costs between entry and exit points. As per GTS's submission to the ACM hearing on 14 May, GTS analysis has demonstrated that the division of costs between entry and exit points is far from equal and that the costs associated with exit capacity are significantly

higher than the costs for entry capacity. According to this analysis, the overall entry-exit split based on costs would result in approximately a 35-65 split. It follows that a 35-65 entry-exit split would constitute a more appropriate revenue recovery cost allocation.

We do not agree with the ACM's view that Article 6.4 of the NC TAR, which allows adjustments to the reference price for benchmarking, is a more appropriate tool for addressing uncompetitive high import tariffs. Benchmarking was introduced to attract greater gas flows, limited to a specific point, whereas a 35-65 entry-exit split ensures that all entry tariffs reflect the costs GTS incurs in providing entry capacity. This will better facilitate a balanced distribution of transmission costs, whilst also ensuring that the resulting reference prices do not distort cross-border trade, in line with Article 7 of the NC TAR.

As production from Groningen rapidly declines and the Dutch gas market increases its reliance on imports, it is imperative that transit flows are not unduly hampered. Changing to a 50-50 split would increase the cost of Dutch transit flows, which could be detrimental to TTF liquidity.

We accept that transmission tariffs are not the only factor that network users consider when transmitting gas via particular routes, however, imported gas could become the marginal source of gas in the Netherlands and as a result, will have a significant impact on the gas price. According to the Brattle report, 'Gas Transport Tariffs and the Dutch Gas Market'[i], this means that 'the cost of importing gas to the Netherlands will not only affect the cost of imported gas, but the cost of all gas consumed'. Brattle suggests one option to mitigate the effect of becoming a net importer is to reduce the price of cross-border capacity, 'which would have a consequential impact of decreasing domestic gas costs'.

Introducing a 50-50 split would, conversely, increase the price of importing gas, which, in the situation where the Netherlands is a net importer, would increase the cost of gas, ultimately to the detriment of Dutch consumers.

Multipliers and seasonal factors

High multipliers for short-term capacity products act as a barrier to trade. The potential detrimental impact on booking behaviour and cross-border flows, amongst other issues, is recognised in the NC TAR, with the option to cap multipliers for daily and within-day capacity products at 1.5 in the future, should some of these risks materialise. A more rational approach would be to prevent these risks at the onset and for this reason, SEEL would strongly urge the ACM to review their draft decision to implement a multiplier of 2.5 for daily and within-day capacity products and instead implement a multiplier of 1. This is more in line with the CAM network code to promote short-term capacity products to facilitate trading and market liquidity.

A value of 1 places no preference between incentivising long or shorter-term capacity bookings and has been proposed in the UK on the basis that higher multipliers put too much downward pressure on the capacity charges, thereby driving recovery of revenues elsewhere into the methodology. This could lead to less cost-reflective charges and create unintentional cross-subsidies. Where there is little scarcity of capacity, incentivising either long or short-term bookings for the purposes of signals for investment is less necessary. A multiplier of 1 gives those who book the capacity choice of booking long or short term without any cost differential, giving network users the choice of when to commit, with the same liability.

A multiplier of 1.4 has been implemented in the German gas market, which was deemed to strike the right balance between ensuring network users pay their fair share of the costs for the provision of

capacity, whilst keeping in line with requirements to incentivise network users only to book the required volume of capacity.

We would strongly urge the ACM to take a similar approach to the UK and Germany, amongst other markets, as a multiplier of 1 strikes the right balance between facilitating short-term gas trade and providing long-term signals for efficient investment. In any case, a multiplier of 2.5 seems excessive and would have the opposite impact to that intended, that is increasing cost-reflectivity and avoiding cross-subsidisation.

A rapid decline in Groningen production could lead to greater volumes of gas kept in store to meet peak demand, which could reduce the use of fast-cycling storage for trading and liquidity and consequently limit the purpose and usage of such facilities, which are intended to facilitate short term trading and provision of volumes at short notice when demanded by the market. A multiplier of 2.5 for daily and within-day capacity products could further exacerbate the situation as it places a disproportionate cost on shippers optimising their portfolio on the day.

A multiplier of 1 further ensures that the premise of a floating price approach is upheld to the extent that network users who buy capacity at a given point, pay the same as each other, regardless of when they purchased the capacity; the aim of which is to reduce cross subsidies between network users.

Should a multiplier of 1 be implemented, then the negative impact of any further tariff increases or of seasonal factors will be less. We are, however, concerned that the cost and complexity resulting from the combination of a change to the revenue split, multipliers, seasonal factors for quarterly capacity products, monthly, daily and within day capacity products could lead to the unintended consequence of downgrading the current attractiveness and liquidity of the TTF. These changes could result in significant increases of up to three times the current costs for purchasing daily capacity. Moreover, the added complexity involved with calculating and invoicing the different prices will add to administrative burden in booking capacity.

Ex-post discount for interruptible capacity

Market participants will not be able to assess the 'economic value of the capacity' if the discount is ex-post. This in turn limits the incentive and optionality to book interruptible capacity and has a consequential negative impact on operating an economic and efficient network.

Please do not hesitate to contact me, should you wish to discuss any aspect of this response.

Yours sincerely

Shell Energy Europe Ltd

[redacted]

Commercial Regulatory Affairs Manager North West Europe

[i] https://www.gasunietransportservices.nl/uploads/fckconnector/ddf4beae-24cc-4c24-8c83-71140bd45f0b/3008880098/20171024%20Brattle%20report%20Gas%20Transport%20Tariffs%20and%20the%20Dutch%20Gas%20Market%20final.pdf?lang=en