Clarity on the future Inter-TSO Compensation Scheme is needed

Energy Traders Europe welcome the opportunity to comment on the consulted change proposal to the inter-TSO compensation scheme (ITC) between BBL and GTS after the removal of Julianadorp IP. While we understand the prolongation of an ITC was envisaged under the *sector agreement* from October 2023, we note that the new proposal introduces a far more complex methodology, the consequences of which are difficult to anticipate by the market. **Below we provide an overview of our understanding of the proposed mechanism along with questions that arise.**

Key messages

1. New approach empowers the ACM to enforce revenue transfers between TSOs according to a new methodology, based on a calculation relating to maximum daily flows. This methodology will replace the ITC scheme in force until the end of 2024.
2. The revenue transfer is by default a settlement between TSOs with no outright (not least retroactive) impact on tariffs charged by either BBL or GTS.
3. It is difficult to understand the reasoning behind changing from a very straightforward ITC methodology onto the proposed calculation simulating the "notional interconnection point".

We understand that the new approach mentioned in point 1 above will replace the existing ITC referring to the transfer of 25% of BBL revenues. While we understand the intention to make the mechanism reflective of actual network use and thus prevent cross-subsidization, we note that the underlying goal of removing Julianadorp IP was to integrate the two systems and improve overall network utilization. With the new approach it is not clear how this integration will effectively be facilitated, not least in terms of potential impact that the new ITC might have on cost of shipping gas through both the systems of BBL and GTS (as per point 2 above).

In the context of the new ITC we like to understand whether the new mechanism is expected to have an impact on tariffs, the magnitude of potential adjustments and how these were forecasted. In particular, we would like to seek clarity whether BBL should be expected to adjust its charging policy in view of the less predictable revenue sharing methodology. We are concerned that a material change to tariffs may reduce the network utilization, ultimately damaging the financial position of both BBL and GTS.

We would also like to understand the reasons behind introducing a far more complex ITC in the process that, in our understanding, was set to facilitate smoother integration of the two systems. While we appreciate that the calculation aspires to reflect the actual revenue loss at Julianadorp to avoid cross-subsidization, we note simulation of IP's continued existence would be at odds with the underlying goals of the integration process. Therefore, if our understanding is correct and the decision is for the ITC to effectively reintroduce a split between the two systems in order to prevent cross-subsidization, we note that it would probably be more prudent to have the Julianadorp IP reestablished in the system.

Finally, we note that the tariff setting procedures should ensure a degree of stability and predictability for the network users and this should not be affected by the new ITC. Within the time left for taking the decision on the ITC that may then be challenged by the TSOs, the very process will inevitably increase uncertainty about tariffs charged by both GTS and BBL. Regardless of the decision, both TSOs will likely need to adjust to the new conditions that will likely be announced only in 2025 and this will also affect the network users.

Contact

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