



GTE comments on ERGEG Public Consultation Paper

“Principles on calculating Tariffs for Access to Gas Transmission Networks”

TABLE OF CONTENTS

| | | |
|-----------|-------------------------------------------------------------------|----------|
| 1. | EXECUTIVE SUMMARY | 2 |
| 2. | GENERAL FINDINGS | 3 |
| 3. | COST PRINCIPLES | 3 |
| 4. | TARIFF PRINCIPLES | 5 |
| 5. | INCENTIVES FOR NEW INFRASTRUCTURES..... | 6 |
| 6. | CRITERIA TO ASSESS EFFECTIVE PIPE TO PIPE COMPETITION..... | 6 |

1. EXECUTIVE SUMMARY

This paper describes GTE's position on the ERGEG public consultation document related to "Principles on calculating tariffs for access to gas transmission networks". This paper has been developed with a view to actively contributing in the process.

GTE welcomes the opportunity to provide its view on this important matter. In this respect, GTE is of the opinion that ERGEG activity should be focused on specific cross border issues, as envisaged in article 3 of Regulation 1775/2005/EC: this part of the regulation, in fact, do not address any provision concerning the harmonization of methodologies and parameters to be used in setting the level of allowed costs.

Nevertheless, GTE appreciates ERGEG's efforts to find general principles related to the definition of tariffs for the access to transmission networks, in the view to provide a common base at the European level both for TSO's and relevant national authorities. In this perspective, GTE believes that a constructive cooperation between relevant authorities and TSOs, at national level, is in any case required to identify the regulatory framework which suits the historical, geographical and structural features of gas transmission networks in each country.

As far as cost principles are concerned, GTE believes that regulatory frameworks should be clear, stable and transparent, that they should ensure long term visibility for shippers and investors, that they should guarantee a fair return on investments – in the sense of minimum allowed rate of return – and that they has to provide sufficient incentives to ensure that appropriate investments are made.

As far as tariff principles are concerned, GTE believes that tariff structures should be simple and transparent, that they should be designed in order to facilitate the development of the European market and its liquidity, encouraging an efficient use of the network, allocating total costs among users in a non-discriminatory way and avoiding, as much as possible, cross-subsidies.

Finally, GTE believes that in the view to avoiding a restriction of market liquidity and distortions of trade across borders of different countries an higher convergence should be envisaged on tariff principles rather than on cost methodologies and parameters, which should be designed taking into account the specificities of the different systems. In this view, GTE considers that the harmonisation of transmission tariff principles should duly take into account the several features of the transmission services currently provided by TSOs.

2. GENERAL FINDINGS

GTE welcomes ERGEG's willingness to deal with the harmonization of common general principles related to the definition of tariffs for access to gas transmission networks. Harmonised tariff principles might contribute to the development of the Internal Gas Market, ultimately leading to an improvement of free circulation of gas flows and of the TSOs business environment. GTE welcomes the opportunity to take actively part in this process.

Nevertheless, GTE believes that, even if a consensus on some common general principles could be envisaged, both for TSOs and relevant national authorities, the identification of a detailed reference model for defining allowed costs and tariffs both in terms of methodologies and parameters would be inappropriate, in the view of taking duly into account the specificities of the different systems and legal obligations of each country. In particular, GTE believes that TSOs and NRAs should entail, on the basis of common general principles, a proactive cooperation aimed to identify the tariff regulatory framework that better suits to the historical, geographical and structural characteristics of each transmission system. GTE moreover would like to emphasise that a clear distinction between cost and tariff principles should be made.

Furthermore, aiming to avoid a restriction of market liquidity or distortion of trade across borders of different transmission systems, a research of a higher convergence should be focused more on tariff and charging principles, according to the provisions of Regulation 1775/2005/EC, than on costs principles which are more affected by the specificities of each single transmission system. In this respect the consultation document seems to be unduly focussed upon the determination of the level of revenues rather than on the tariff structure features.

In addition, GTE considers that the harmonisation of transmission tariff principles should duly take into account the several features of the transmission services provided by TSOs. In this perspective, GTE is actively working on capacity product coordination with a view to further increasing capacity trade and access to transmission networks. Increase coordination on product offers among the different European grids can facilitate capacity trading by streamlining the access to the different European TSOs which constitute the backbone of the Internal Gas Market.

3. COST PRINCIPLES

GTE believes that NRAs and TSOs should identify, at national level, the regulatory frameworks that suit the cost specificities of each transmission system, according to some fundamental principles, of general application, which are herewith recalled:

- The clarity, transparency and stability of the regulatory framework should be pursued in order to create certainty both for the investors and the network users, striking the right balance between the TSO's regulatory risk and the level of allowed return.
- The long term visibility on the methodologies defined by the relevant authorities with particular reference to those used to assess the asset value and the related return, both on existing infrastructures and on new investments, improve the predictability of level of costs for network

users and of revenues for TSOs and increases the quality of the price signals that shippers and investors use to undertake their decisions.

- A fair rate of return on invested capital should be allowed to TSOs in order to adequately reflect the risk related to the gas transmission activity and to attract capital for the huge investments required in the near future to meet the significant gas demand increase in Europe. Moreover the allowed return should provide investors with an adequate profile of earnings not only in the long term but also in the short term.
- Attractive incentive schemes should be provided by the relevant authorities to foster the operational efficiency and infrastructure developments in a balanced way. Incentive-based regulation, where applicable, should bring advantages both to customers via more efficient services and scale effects and to TSOs via the increase of the return on capital and the company value .

As defined in the European legislation and previously highlighted, GTE believes that the detail of the specific methodologies to define the level of allowed costs should be left at national level between the relevant authorities and TSOs. Therefore, GTE prefers not to comment on specific items described in the paper – leaving aside discrepancies on methodologies and parameters – that seem more focused on the definition of a cost-based method (asset base, depreciation, operating expenditures including fuel gas, cost of capital and additional spread). Nevertheless, some common practices could be developed in order to provide clarity, visibility and stability, in the case of cost based method.

With reference to the asset base, GTE believes that it has to be determined, through transparent and clear methodologies, in order to reflect the current industrial value of the assets and not the historical book value, considering the inflation rate related to the activity of TSOs and taking duly into account also those assets that are completely depreciated but still in operation. Furthermore, in case of removal of assets, due to regulation changes or network optimisation for example, the cost of depreciation should be taken into account until the end of the initially defined depreciation period.

With respect to the cost of capital, GTE would like to point out that there exist any investors taking a decision by considering a maximum return on its investment. An attitude directed to define the minimum rate of return, instead of the maximum rate of return, that TSOs could expect for a specific investment will contribute to enhance the investors' confidence in transmission infrastructure financing. Furthermore, the mere comparison of allowed WACC, without considering possible different evaluations of other parameters, such as the asset base to which this rate is applied, could produce inappropriate conclusions.

With reference to the operating costs, GTE believes that all justified costs a regulated company actually bears to offer the transmission service, should be recognized and not only those incurred by a theoretical efficient operator, eventually introducing mechanisms that provide incentives to pursue efficiency gains. In this respect the efficiency targets required to TSOs must be realistic and must take into account the efficiency gains already achieved. All costs that cannot be completely controlled by the TSOs, such as fuel-gas costs, should be fully recognized as pass-through costs.

4. TARIFF PRINCIPLES

GTE believes that NRAs and TSOs should identify appropriate tariff structures for the development of the European gas markets. In the past years several steps in this direction have been made e.g. by introducing Entry-Exit tariff systems in major European transmission networks. GTE believes that tariff structures should be designed taking into account the specificities of each transmission system and the following fundamental principles:

- The Tariff structure should be simple and transparent contributing to the development of the European market and its liquidity.
- Tariffs structure should support efficient development and operation of the network by the TSOs.
- The tariff structures should encourage the efficient use of the network, by all users and should deliver predictable results.
- The tariff structures should allocate total costs between users in a non-discriminatory and transparent manner.
- Tarification should avoid as much as possible cross-subsidies among network users. A limited level of cross-subsidisation of course can be justified if other advantages are introduced by a specific tariff model.

GTE would like to point out that the Entry-Exit model is one of the possible mechanisms for tariff derivation. Other models, as e.g. point-to-point, may be applied. It has to be noticed that, in deriving transmission tariffs through an Entry-Exit model, several approaches can be used as well, ranging from the determination of Entry and Exit charges equal for all the points to more sophisticated methods (e.g. LRMC method, Average Cost method, etc.). In addition, point-specific auctions may be used to sell capacity.

As far as the capacity utilisation issue is concerned, GTE's understanding of the paragraph is to provide guidance on reference capacity and volume figures that should be used by TSOs in determining the unit capacity and commodity charges of transportation tariffs. In this respect, GTE believes that unit transmission tariffs should be determined on the basis of booked capacity, either forecasted or actual, and transported volumes, taking into account the commitments resulting from transparent and public procedures (e.g. auctions, open seasons, etc.).

GTE believes that transmission tariffs for short term capacity services should be relatively higher than annual tariffs and should reflect the different level of utilization of the infrastructure during the year in order to incentive a regular use of the network by shippers. As far as interruptible services are concerned, GTE shares the principle that the likelihood of interruption should be reflected in tariffs.

As far as the OBA topic is concerned, GTE would like to outline as this topic is out of the scope of the consultation paper because it is an operational agreement between TSOs on a specific cross-border point.

Finally, concerning the use of auction revenues and overrun fees, GTE generally shares what is stated in the consultation document provided that it is made in a manner that least distorts the efficiency of decisions by shippers, including their participation in auctions and their use of networks.

5. INCENTIVES FOR NEW INFRASTRUCTURES

GTE appreciates that ERGEG recognises that a recommendation for a specific approach is not appropriate, mirroring the correct nature of a document which should aim at defining principles and not methods. In this view, GTE supports the proposal of decisions taken by NRAs on a case by case basis, since this represents a correct way for recognising the relevance of specificities at Member State level.

As a general principle GTE believes that incentives should be designed by NRAs in order to attract the capital required for the new investments that should be required in the following years to meet the market development. In particular, GTE believes that in those countries where it should have to carry out huge investments it is necessary to foresee specific incentive mechanisms allowing an appropriate return not only in the medium and long term but also in the short term. In addition, GTE believes that also operating costs related to new infrastructures should be duly taken into account.

In case of cross-border investments, appropriate guaranties should be provided to TSO in order to assure the full recovering of its investments and costs, included the portions related to the neighbouring network(s).

Moreover, with reference to long term commitments, GTE would like to highlight the need that the regulatory framework allows TSOs to subscribe with network users long term transportation contracts under transparent and non-discriminatory conditions, before the start of the construction.

6. CRITERIA TO ASSESS EFFECTIVE PIPE-TO-PIPE COMPETITION

As a general principle, GTE believes that when pipe-to-pipe competition is effective, the benchmarking of tariffs approach, admitted by article 3(1) of Regulation 1775/2005/EC, could be considered as a real alternative to cost-based tariffs. As far as the criteria to assess pipe-to-pipe competition is concerned, GTE believes that the relevant authorities and TSOs should identify the appropriate methodology at national level.