Trans Austria Gasleitung

Statement:

Public Consultation – Implementation of the network code on harmonised transmission tariff structures for gas

February 21st, 2024

1. GENERAL CONTEXT

The national gas sector, embedded in the broader context of the European single market and the international gas market, is going through a phase of profound change. National and European energy policies are showing increasing attention to environmental issues, with a strong push towards rethinking the mix of primary energy sources to be used. In this evolving scenario, regulation has the task of supporting change and allowing for the coherent development of markets, supply sources and technologies, avoiding providing signals or introducing distortions that could induce economic agents to make inefficient choices. The opportunity to develop a strategic role for Austria in Europe's energy supply takes on even greater significance in view of the path initiated by the European Commission's Green Deal in which special emphasis is placed on the development of renewable gases. In particular, renewable hydrogen produced in Mediterranean countries (potentially also transformed into synthetic methane) could be transported to Europe via transit through Austria and supply other EU countries, demonstrating the strategic nature of Trans Austria Gasleitung GmbH's infrastructure, also in view of the challenging European decarbonisation targets.

The consequences of Russia's invasion of Ukraine have caused a major shift in the European gas sector. In light of the profound changes induced by the energy transition, of the difficulties of reconciling the stability of the regulatory framework with the increasingly high volatility of market dynamics, it is believed that the role of the infrastructures will be crucial to limit as much as possible the effects of this conjuncture and maintain the economic and energy system in conditions, if not of complete "normality", at least of less tension.

The tariff regulation of the 5th Period will therefore have a fundamental function in creating the necessary conditions to preserve the infrastructures that are essential to guarantee (i) the security of supplies for the Austrian domestic market and for the neighbouring countries, (ii) to enable the transition to a low-carbon economy based on the development of renewable gases.

2. COMMENTS ON THE PROPOSED TARIFFS METHODOLOGY

The revision of the methodology of reference prices and of the criteria for the allocation of transportation costs, also in application of the European regulations, is part of a context in which the transportation tariffs of the national gas system constitute one of the most relevant factors capable of affecting the strategic choices of natural gas supply by the operators of the sector. These regulatory criteria, in addition to guaranteeing the requirements of transparency

and predictability of the transportation tariffs required by European legislation and useful for the purposes of defining the strategies of the operators, will have to combine the principle of cost reflectivity (i.e. allocation to the users of the costs underlying the service) with the need to incentivise an efficient use of resources, in a sector characterised by a growing demand for flexibility in the use of infrastructures. In particular the significant changes occurred, leading to a more short-term booking behaviour, where the availability of the system has to be still guaranteed can be better reflected with the new proposed methodology.

With reference to the market changes that have occurred in recent years, the expiration of significant long-term contracts by virtue of which the current market structure was determined implies a fundamental review of the current RPM that was applied to calculate transmission tariffs for the past two regulatory periods (i.e., since 1 January 2013). The current RPM was developed and successfully applied under the predominant use of the Austrian gas transmission system for Russian gas flows (transit and domestic consumption), where Baumgarten took the role of the dominant node for gas flows. Now, in a completely changed situation, gas is entering the Austrian system from multiple directions (Germany, Italy and Slovakia).

In general terms, the choice for a distance-based method was appropriate for unmeshed gas systems, like the Austrian system, where distance is a cost driver. The VPB approach with Baumgarten as a dominant node of the system fit the reality of the years before Russia's invasion of Ukraine in February 2022 very well. The majority of entry capacities were booked at the IP Baumgarten and exited the system at the exit point Arnoldstein, the distribution area exits points or the western exit points (Oberkappel and Überackern). With the reduction of Russian transit flows to Italy and the fact that Germany also has further diversified its sources of gas supply, IP Baumgarten ceases to qualify as a real dominant node; hence, the VPB methodology with IP Baumgarten as a dominant node does not reflect the reality of the transmission system anymore.

In determining the tariffs for the service, the Authority has to carefully weigh up the various requirements, e.g. maintaining an adequate minimum technical standard in order to continuously guarantee safe operation and, not least, the need to take into account the economic-financial equilibrium of the transmission system operators.

The proposed CWD reference price methodology is the benchmark reference price methodology according to Article 8 TAR NC and as such the most cost-reflective approach, capable of ensuring cost recovery for the TSO. In fact, locational signals resulting from the CWD reflect the relative distance between each entry/exit point and an average location, weighted by the

forecasted booked capacity: in principle, the farthest the distance, the highest the charge, ensuring a high degree of cost reflectivity.

While discussions on the definition of the cost base are ongoing, TAG GmbH considers the proposed CWD methodology appreciable, for several reasons set out below.

- Resulting capacity tariffs that adequately take into account the underlying costs of providing transport services, in order to allocate costs to transport network users, guarantee non-discrimination between users, prevent undue cross-subsidisation and therefore, consequently, ensure cost reflectivity. As the methodology takes distance as a relevant cost driver, the degree of cross subsidisation should be very limited. Concerning the equalisation of delivery points, some degree of cross-subsidisation between final customers in different areas could result, but it must be considered that it avoids outliers in the tariffs as a result of the CWD, which do not seem reasonable in terms of cost-reflectivity.
- Greater simplicity and transparency, making it easier for network users to understand and replicate the calculation of tariffs in order to obtain an accurate forecast, also with a view to better assessing their own market choices.
- Pricing structure that allows flexible and efficient use of infrastructure by service users, with particular reference to short-term products.
- Requirement of non-distorting cross-border trade fulfilled by the cost-reflectivity of the CWD methodology and resulting tariff.

An adequate infrastructure coverage and valorisation is crucial to maintain a strategic asset in order to ensure, with a medium-term vision, the development of a Pan-European grid to secure the domestic and foreign market for the supply and transport of green molecules.

In the proposed methodology the annual update of the tariffs is foreseen. In the current volatile market situation this is a well-proven solution in order to avoid leaps in tariffs and to increase cost-reflectivity.

With reference to the entry-exit split, in the method under consultation a 50%-50% split, as also proposed in TAR NC, is applied. This approach serves well the current pattern of flows.

It is also supported to maintain the approach of defining a separate commodity-tariff that should cover all cost elements linked to the transport, since it refers to costs that are not controllable by the TSO depending widely on network daily operations, increasing cost reflectivity.

Due to the time schedule defined in the TAR NC and taking into account the yearly definition of the tariff, it shall also be considered to follow the timing set out in the attachment 3 to GSNE VO currently in force (1.1.2021 until 30.9.2024) and move to a tariff period starting with the 1st of October, so for the first time with 1st of October 2024, using forecasted contracted capacity for the following gas year. In this way, the annual tariffs update would be aligned with CAM NC products and auctions logic.