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Subject: Shell response to consultation on gas transmission capacity tariff

Dear Mag. Andreas Eigenbauer,

Dear Dr. Wolfgang Urbantschitsch,

Dear Mag. Painz,

Thanks for giving us the opportunity to comment on the Austrian gas transmission capacity tariffs valid from January 1st 2017. In the past Shell, together with the European Federation of Energy Traders (EFET), has expressed a number of concerns in this regard and we would like to add the comments below to what has already been communicated.

We also note that in the past five months Shell has been in dialogue with the Austrian Chamber of Commerce and we have therein expressed similar views. This conversation has been held both verbally and in writing and it is ongoing. However, we have seen limited or no ability to contribute to the process leading to the definition of the RAB and of TSOs' allowed revenues. Neither have we been allowed to access any information in this regard. Please find all previous correspondences on the matter attached to this letter.

On this background we have taken stock of your explanatory note which motivates the changes in the tariff level on the basis of a) a recalculation of the entry-exit split; b) a new volume scenario; c) a partial reduction of the WACC; d) the inclusion of additional investment in the RAB; e) the recovery of carry forward losses of TSOs from 2015; and the changes to multipliers by the willingness to i) increase liquidity; ii) create an incentive towards long term bookings while still allowing cross-border trading; iii) comply with the TAR code.

However, we note that **without access to the details of the underlying regulated asset base no technical verification or comment on the above are actually possible**. In this context our comments rest more on the commercial impact on the market as opposed to the regulatory principles of cost-reflectivity and fairness.

Also, **without a more detailed itemization of costs incurred by Austrian TSOs and without the publication of the rationale supporting TSOs' remuneration levels – differently from what happens in other European countries – it is difficult to carry out any fully accurate assessment or benchmark exercise**. If E- Control has carried out such an exercise, we note that sharing its results would provide stakeholders with better understanding of the proposed changes and more confidence in the tariffs review process.

As the limited availability of information constraints our possibility to constructively contribute to E-Control's review process, we would encourage E-Control to run a more inclusive and transparent process in order to increase the quality of stakeholders' engagement in the Austrian regulatory framework and their active contribution to the development of the market. In this respect we note that the EU Tariff Harmonization Network Code has now been approved and the market would have applauded the early implementation of its core parts, including the provisions of Chapter VII on Consultation Requirements and Chapter VIII on Publication Requirements.

With the above in mind we would like to highlight that:

- We are glad that some elements of cross-subsidisation between the transit and the domestic system has been corrected;
- We are glad that, although marginally, transmission tariffs have in general decreased;
- We are glad that, although marginally, tariffs for cross-border use of storage have decreased;
- We regret to note an increase in the system utilisation charge for storage system operators for firm freely allocable capacity, however we understand that this is due to an increase in the underlying costs;

However, two comments remain of utmost importance for us and must be addressed:

- **We have evidence that Austrian TSOs continue to be overcompensated** and that, according to some analysis done on the basis of publicly available information (i.e. TSOs' balance sheets), this puts Austrian TSOs in an exaggeratedly privileged position compared to TSOs in other countries (Austrian TSOs have a ratio EBITDA/Total Asset which is much higher than other TSOs in Europe – see Annex I). This means that their shareholders have a net economic return which is unmatched by any other comparable entity in Europe;
- On the basis of the information available, it appears that Austrian TSOs largely rely on long term ship-or-pay bookings (and one of them entirely) that extend beyond the duration of the

next regulatory period. **This consideration implies that there is no basis to include a risk volume premium in the tariff calculation and its inclusion unduly increases tariffs.** Please note that some sensitivity analysis we have run, again based on publicly available information, show that such volume risk premium inflates tariff of up to 20%.

While we understand that this consultation is not on the definition of TSOs' regulated asset base and their allowed revenues we cannot avoid stressing that here lie the main concerns we have with respect to Austrian gas transmission tariffs. **This situation ultimately exists at the expenses of Austrian consumers as unduly high transport tariffs ultimately result in higher costs for them.**

We look forward to continuing our dialogue with a view to improve the fairness and competitiveness of the overall gas industry in Austria.

Yours sincerely
Shell Energy Europe Limited

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Annex I.

COUNTERPARTY	Total Turnover € (1)	Total Assets € (2)	EBITDA € (3)	EBIT € (4)	NET PROFIT/LOSSES € (5)	Ratio (3/2)	Comments
GAS CONNECT AUSTRIA GmbH Vienna, Austria VAT no: ATU 51687900	274,804,000	725,699,242	168,707,668	119,437,870	79,014,833	23%	Based on December 2014 Financials
Trans Austria Gasleitung GmbH Vienna, Austria VAT ATU 52744909	306,095,440	658,620,380	189,296,450	117,412,630	83,820,070	29%	Based on December 2015 Financials
Snam Rete Gas SpA Sede Legale in San Donato Milanese VAT 13271390158	2,307,965,000	13,903,816,000	1,693,532,000	1,164,734,000	658,651,000	12%	Based on December 2015 Financials
Fluxys TENP GmbH Düsseldorf, Germany VAT DE 813651000	63,017,590	77,661,010	1,925,130	981,620	8,043,690	2%	Based on December 2014 Financials
Fluxys Belgium SA Brussels VAT BE 0402.954.628	593,111,000	3,037,352,000	294,870,000	150,640,000	61,096,000	10%	Based on December 2015 Financials