ARERA
Autorità di Regolazione
per Energia Reti e Ambiente

The President

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Commission de Regulation de l'Energie
Rue Pasquier 15
By e-mail only: dr.cp2@cre.fr

Milan, 3rd October 2019

Subject: public consultation n° 2019-013 of 23 July 2019 relating to the next tariff for the use of natural gas transmission networks of GRTGAZ and TEREGA

Dear colleagues,

we welcome the opportunity to provide some comments on the main elements of the gas transmission tariffs (ATRT7) whose adoption is scheduled before the end of 2019 and that will apply as of April 2020.

ARERA considers the proposed methodology critical in terms of cost-reflectivity, thus representing a serious barrier to cross-border trade and negatively impacting downstream markets. ARERA also highlights that in 2020 the tariff at Oltingue will be 4 times higher than the French domestic exit tariff to regional networks, and this fee alone will represent ca. 50% of the total costs of flowing gas from PEG to PSV. This is particularly important for the Italian wholesale gas market given the current situation of partial unavailability of the TENP pipeline, as the Oltingue interconnection point could increasingly become the marginal source of supply, and therefore its tariff level may directly affect the gas price formation in Italy in a significant number of days.

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Based on the information provided, ARERA acknowledges CRE's intention to confirm the main principles of the current methodology which sets a very high tariff at the interconnection point towards Switzerland and Italy, while setting very low domestic exit tariffs. From our understanding this difference is due to the application of two different methodologies to calculate tariffs at cross-border and domestic exit points potentially in contrast to the provisions of article 7 of the TAR NC. Although for both exit points distance is the main driver, we understand that in case of cross border exit points the distance is measured from Dunkerque entry only, which is the remotest entry point for both downstream relevant markets (i.e. Italy and Spain) while the distance for domestic exit points is measured from the closest entry point. Therefore, in the case of Oltingue exit point, the distance from Dunkerque is 762 km, *de facto* as if an obsolete point-to-point transit contract was still in place, while distance for domestic exit points is set, on average, equal to 237 km.

ARERA considers that the proposal of using two different methodologies to calculate distances for transit and domestic exit points creates a potentially discriminating tariff system whereby network points located close to each other (i.e. domestic exit points located near the transit exit points Oltingue and Pirineos) are subject to extremely different tariffs, and such difference does not seem to be duly justified under a proper cost allocation methodology.

ARERA understands that CRE justifies the application of a point-to-point approach for calculating the distance on the assumption that Dunkerque is the only relevant entry point for gas transiting towards downstream gas systems, thus adopting a principle of "commercial" flow scenario clearly differing from the "physical" flow scenario principle used for domestic exit points. In this respect, ARERA deems that CRE avoids to consider that gas is mostly traded and exchanged at virtual hubs, like PEG which is increasing its liquidity, therefore its origin can well be from a variety of markets and sources other than Dunkerque (e.g. PEG itself, TTF, NCG) depending on the short term price signals.

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ARERA further notes that CRE fails to provide enough transparency on the results and components of the cost allocation assessment pursuant Article 5 of TAR NC, which is aimed at indicating the degree of cross-subsidization between intra- and cross-system network use based on the proposed reference price methodology.

We will be pleased to further discuss these issues with you.

Yours sincerely,

Stefano Besseghini