



Public consultation no. 2019-013 of 23 July 2019 relating to the next tariff for the use of natural gas transmission networks of GRTgaz and Teréga

REN's Comments

Context

REN group, integrates the Portuguese Natural Gas TSO, LNG terminal operator and underground storage operator, and welcomes CRE initiative to promote the Public consultation no. 2019-013 of 23 July 2019 relating to the next tariff for the use of natural gas transmission networks of GRTgaz and Teréga.

The relevance of France, as the key interface between the Iberian Peninsula and continental Europe, and the reciprocal influence of France in Iberian Gas markets, makes tariff setting mechanisms in the interconnections an essential tool in building the internal energy market. This also applies to the interconnection between Portugal and Spain and the Iberian Gas Market.

As a general statement, REN supports all the measures that lead to a proper functioning market and provide a level playing field to all, in the benefit of market efficiency. In this context, the network code on Harmonized Transmission Tariff Structures (Tariff Code) is relevant to provide transparent prices and adequate cost allocation, as these have a direct influence on the costs born by consumers in each country.

Given the relevance of market integration and the potential issues affecting its performance related to tariff decisions, REN recommends that as standard procedure, all the decisions potentially affecting gas trade between the relevant markets involved, should include a formal consultation of the NRAs of these markets member states, and not only the adjacent ones. This is particularly relevant for Portugal as its access to the EU markets crosses a sequence of borders, starting in one single border with Spain.

Regulated infrastructure use should be cost reflective and competition between regulated infrastructures must not be the aim of the regulatory decisions.

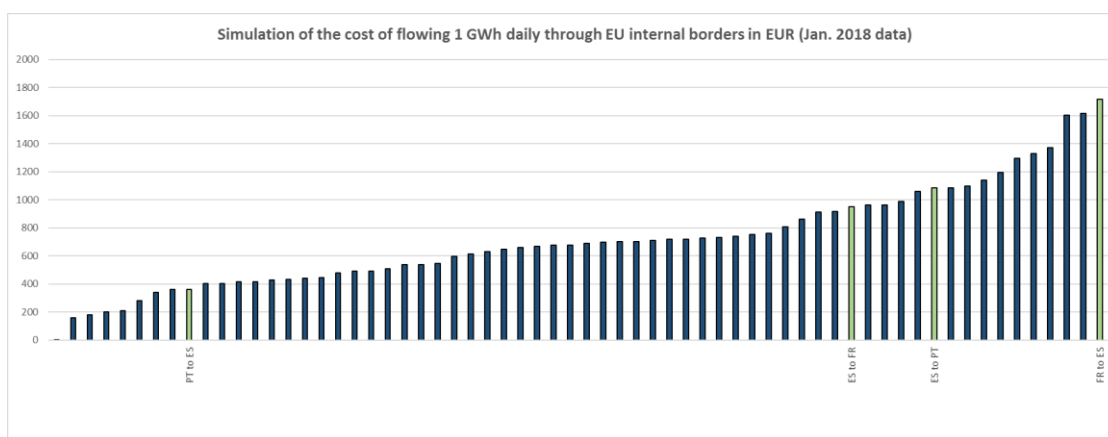
Specific comments

REN understands the required NRAs amplitude of decision to accommodate the country specific adjustments, however, these should not hinder the effective use of the Tariff code. The Network Code methodology implementation foreseen in the public consultation document has some issues that have an impact on tariff prices and we suggest that they should be discussed with the relevant NRAs before a decision is reached.

1. **Price Methodology** - The TAR NC requires the use of the same price methodology to all entry and exit points in a given entry-exit system and should apply to both IPs and non-IPs. CWD (Capacity Weighted Distance) is apparently used by CRE in the proposal, however, the way it is applied, leads to different prices for transit and domestic consumption deliveries, although both are using the same network.

2. **Flow Scenarios** - CRE is considering that all the gas that exits via the Pirineus interconnections, enters the French system at Dunkerque but the rationale to justify this assumption is not presented. Since the French network is meshed, there is not a dedicated pipeline route to connect these two points, it is our understanding that this hypothesis must be discussed and justified as apparently it does not reflect the so called “most likely scenario”, the one that must be used. The flow assumption from Dunkerque crossing most of France, will reflect negatively in deliveries to the Iberian market since it assumes a longer distance to their supply, compared to what could be the most plausible one. This hypothesis contributes significantly to the proposed IP tariff to be applied at VIP Pirineus which is close to the one currently applied, but is still the highest in Europe.

Cross border costs EU



Source: ACER Market Monitoring Report and self-made

Conclusion

REN considers that in CRE’s proposal, there is a different treatment concerning transits and national consumption in the sense that IPs tariffs applied at VIP Pirineus are significantly higher than the ones applied to national consumers, namely in southern France. In this sense, REN considers that CRE’s decision concerning the flow scenarios is not reflecting the network code on harmonized transmission tariff structures¹.

REN urges both CRE and the related markets NRAs to discuss and coordinate the interconnections price levels so these may reflect an agreement to achieve efficient gas market prices to the different countries. The interconnections must reflect the fair price for the incurred infrastructure costs, under the Tariff Code. The present and forecasted future tariff prices, in

¹ According to art 3 of the Tariff Code the relevant flow scenario for the application of the reference price methodology “means a combination of an entry point and an exit point which reflects the use of the transmission system according to likely supply and demand patterns (...)”.

Additionally, art 8 establishes that “The parameters for the capacity weighted distance reference price methodology shall be as follows: (...) where entry points and exit points can be combined in a relevant flow scenario, the shortest distance of the pipeline routes between an entry point or a cluster of entry points and an exit point or a cluster of exit points”.

particular, those related with France-Spain and Portugal-Spain interconnections in both directions, reach levels that have a significant impact on final gas prices. As seen in the graph above, all but one of the 2018 interconnection tariffs under discussion, between Spain and France and Spain and Portugal, can be regarded as high when compared with the majority of the tariffs of the remaining EU internal borders.

Portugal and Spain although being similar in the share of gas and LNG imports are clear examples where a possible cross-border price distortion may affect each country differently. In fact, Portugal being the last in the cross-border supply path and the smaller country, will be the most affected. If issues with Tariff Code implementation occur, this will induce an adjustment to the cost efficient country LNG/NG supply mix, due to magnitude of the cross-border cost versus the price difference between both types of commodity. This is a potential source of inefficiency, transferred to the most exposed consumers.