



**CNMC consultation on the regulation establishing the tariff structure  
and the price methodology to set up transmission, regional network  
and regasification tariffs of natural gas**

**Eni's statement**

Eni would like to take the opportunity to provide to the CNMC its comments on the draft circular establishing the methodology for the calculation of the transmission, regional network and regasification tariffs, focusing in particular on the proposals for the implementation in Spain of the EC network code on harmonised transmission tariff structures for gas (TAR NC).

We acknowledge that CNMC proposals for the transmission tariffs are generally compliant with the TAR NC and appreciate that the relevant section of the consultation document has been published also in the English language.

On the other hand, however, we regret having noticed that the published documents are missing some information and data that are of utmost importance for system users. We refer specifically to:

- An explanation of the difference in the level of transmission tariffs, for the same type of transmission service, applicable for the prevailing tariff period and for the tariff period for which the information is published. We acknowledge that - since the methodology for the calculation of current tariffs is not public and since current tariffs include both transmission and distribution activities - it is very difficult to analyse the differences between tariffs resulting from the application of the *Circular* and current tariffs. Nevertheless, considering that a rough comparison between, e.g., the tariff currently applied at European IPs for entry to PVB (equal to 130,18 €/(MWh/day)/year) and the corresponding ones resulting from the Circular (202,01 €/(MWh/day)/year for VIP Pirineos and 334,41 €/(MWh/day)/year for VIP Ibérico, before escalations as per paragraphs VIII.1.2, VIII.1.3 and VIII.1.4 of the *Memoria*) shows significant increases respectively of 55% and 157%<sup>1</sup>, we deem that at least a qualitative explanation and justification of these substantial variations should have been provided.
- The lack in the English document of the parts regarding the non-negligible tariff increase (it is higher than 5%) arising from the application of the rates described

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<sup>1</sup> The actual global increases are even higher, since on top of the mentioned increase of the capacity charges the proposed introduction of a commodity charge has to be considered.



in the mentioned paragraphs VIII.1.2, VIII.1.3 and VIII.1.4 of the *Memoria* in Spanish.

Considering the above, and the lack of sufficient information allowing market participants to fully assess the proposed methodology and its impact on the market (mainly due to the lack of certainty in relation to allowed revenues and to the future charges that will be set by the government), we strongly recommend the CNMC to run a second consultation on the tariffs proposal once more reliable data will be available<sup>2</sup>.

Getting more into details, with regard to the differences between tariffs resulting from the application of the *Circular* and current tariffs and to the anticipated evolution of the tariffs during the regulatory period, we consider that, also in light of the importance of tariff stability and predictability for the market operators<sup>3</sup>, **the choice of establishing an initial high level for the entry transmission tariffs followed by a gradual decrease in the next years of the regulatory period should be reassessed.**

In fact, **more generally, the level of tariffs at entry and exit IPs should be carefully looked at, taking into account possible impacts on efficient market functioning and integration. In this respect, we believe that also the choice to set the entry/exit split at 50/50 should be reviewed** taking into account:

- the impact that this choice has on the level of entry tariffs to the Spanish market<sup>4</sup>, that could represent a real barrier to import and transit flows, with a consequent detrimental impact on the attractiveness, competitiveness and liquidity of the Spanish market;
- the fact that **a part of the costs related to the overabundant entry capacity to the Spanish system with respect to the internal demand needs may be dealt with as costs serving i) the purpose of granting flexibility and security of supply (SoS), in particular in short-term peak demand situation, and ii) the purpose of safeguarding a sufficient and efficient level of competitiveness, both in sourcing and in trading activities on the market. Such costs could be more properly allocated to the final users that actually benefit from SoS and competitiveness in the market**, e.g. by means of a specific tariff component as the one we understand it is proposed in the *Circular* for

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<sup>2</sup> We note the example of E-Control Austria, that, following a first market consultation for the implementation of TAR NC in Austria, has decided to issue the reasoned decision pursuant to Article 27 (4) TAR NC only after a new (final) consultation.

<sup>3</sup> In this regard, we note that Article 29 of the TAR NC requires that "*the reserve prices applicable until at least the end of the gas year beginning after the annual yearly capacity auction*" "*shall be published before the annual yearly capacity auction*" and that said yearly capacity auction for GY19 already took place on 1 July 2019.

<sup>4</sup> As per our understanding, this 50/50 split is the main cause of the steep increase of the entry tariffs proposed for 2020 vs. the current ones.



the coverage of the *otros costes de regasificación*. This different cost allocation would promote a more efficient use of existing transport infrastructures, avoiding possible underutilization and stimulating competitiveness.

We deem in fact that **an alternative method to define a proper entry/exit split is based on a preliminary allocation of network costs according to their nature**. TSO investments meet indeed several goals and the **shippers have to pay (at IPs) only for the costs strictly related to the transmission service**. **Investment costs that are relevant for competitiveness and/or SoS – such as the ones linked to overabundant infrastructural capacity - have instead to be charged directly to the final users that benefit from the related infrastructure**.

In greater detail, we deem that in such an alternative method TSO's costs should be split as follows:

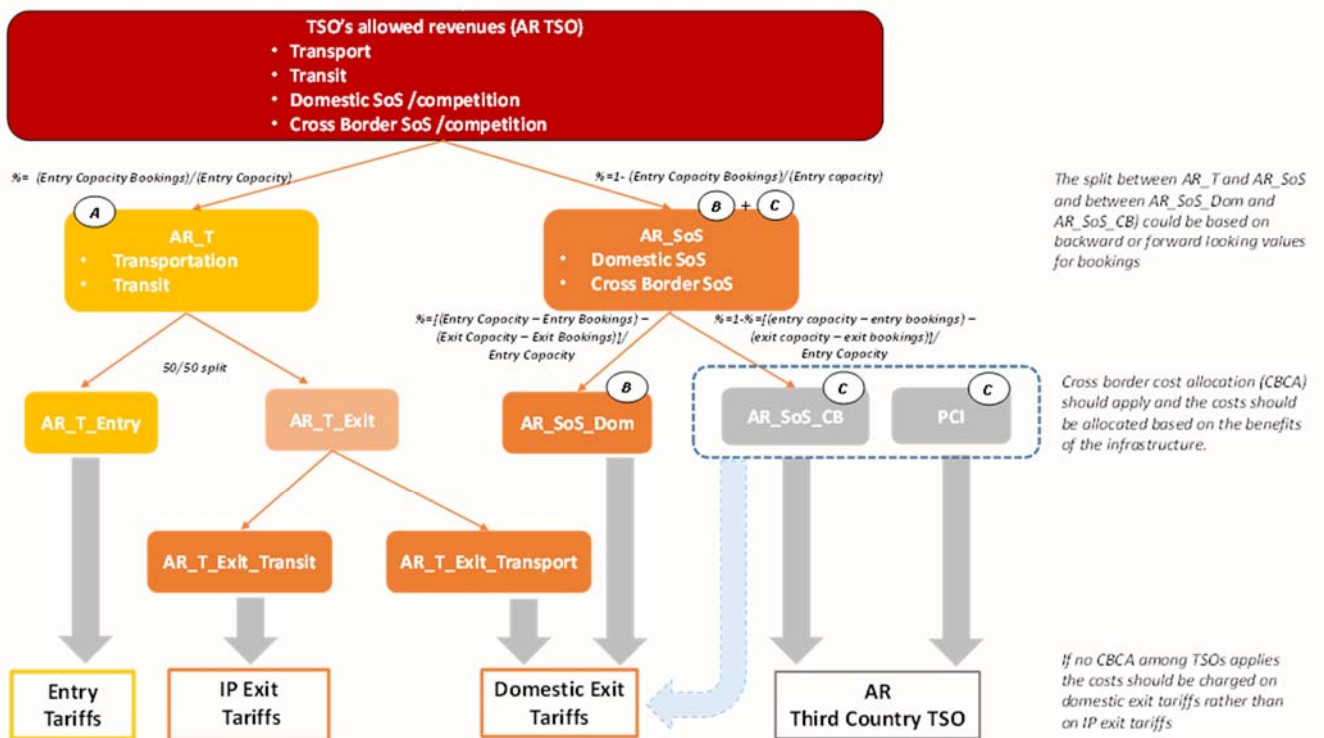
- A. "Transportation and transit costs": Costs related to infrastructures dedicated to the transportation of gas in the domestic system (to be covered through tariffs paid by network users supplying domestic final customers and/or by domestic final customers) or to transit gas to other countries (to be paid by shippers using infrastructures to supply downstream countries);
- B. "Costs for internal SoS and market competitiveness": Costs linked to infrastructures aimed at granting the domestic SoS and competitiveness (to be covered by the tariffs paid directly by the final customers that benefit from SoS and competitiveness)
- C. "Costs for SoS and market competitiveness of other EU countries", i.e. costs linked to new investments (PCI) and to existing infrastructures with limited value for the national system in which they are located but still useful for the SoS of other countries and for the related competition upsides. Such costs, with cross-border relevance, should be covered through cross-border cost allocation mechanisms by the end users benefitting from the relevant infrastructure.

**The determination of the share of Allowed Revenues (AR) related to the transportation and transit costs on one side and to the security of supply and market competitiveness on the other side, could be based on the share of capacity booked (or on actual flows / capacities utilization, either backward looking or forward looking) at entry points as compared to the total available capacity (i.e. the spare capacity at entry is relevant for SoS and competitiveness).**

A full scheme of the alternative model we propose, representing the way network costs could be allocated by their nature in order to determine transportation tariffs, is



reported in the graph here below: in such graph, just as an example reference is made to the share of entry capacity bookings as a driver to calculate the split ratios, but same graph would apply if the driver would be based on actual flows / capacities utilization at the entries.



About this alternative method to allocate TSO's costs by their nature, we would like to mention that **the Italian regulator ARERA has recently made choices in line with the model described above**: for the years 2018 and 2019, ARERA has modified the entry/exit split of the allowed revenues of the national transmission network from the original 50/50 to 40/60 in order to take into account that the capacity surplus at the Italian entry points (total available vs booked capacity) is beneficial for the end-users in terms both of modulation and SoS. Said choice has been then confirmed in setting the new CWD tariff methodology for the next Italian regulatory period (2020-2023) under the TAR NC provisions.

**Looking at the Spanish gas system, it seems to us that the application of the above described reasoning would result, e.g., in allocating the *Retribución por continuidad del suministro* embedded in the AR of the TSO - and possibly also the *Anualidades para la recuperación de los déficits de ejercicios anteriores* y**



***resto de coste a recuperar por los cargos - directly to the final consumers at the domestic exit points*** or at downstream delivery points into the system.

**Another possible solution we would propose to solve the criticalities of the proposal of establishing an initial high level for the entry transmission tariffs, with a subsequent progressive decrease during the regulatory period, is to apply to the transmission entry tariffs the smoothing mechanism proposed in the *Circular* for access tariffs to LNG terminals, in compliance with the *disposición final tercera of Real Decreto-ley 1/2019*.**

As far as Regasification tariffs are concerned, we would like to highlight that the tariff structure should be designed taking into account the need to avoid entry barriers for new entrants and/or operators with smaller portfolios. While, on the one hand, we understand the reasons why from a cost reflectivity perspective some costs should be recovered through capacity-based charges, on the other hand we deem that any tariff should be set in such a way not to strengthen further the favored position of larger operators. This is particularly true for LNG storage, whose operations can be strongly optimized by operators with large LNG portfolios, leading to a unit cost that can be considerably lower than the one faced by a smaller operator. This discriminatory effect could be limited by setting a variable tariff for LNG storage, as already happens today.

On the above topics, we remain available for any question or clarification and we would be very happy to engage in future conversations with CNMC.

San Donato Milanese, 30 September 2019