Ofgem – Call for evidence on Gas Transmission Charges Review

Eni S.p.A. (hereinafter **eni**) thanks for the possibility to participate to this consultation.

eni welcomes Ofgem's decision to initiate a review of current gas transmission arrangements, taking into account also the potential implications of the European Framework Guidelines on Tariff (FGs) that should be finalized by the end of 2013.

By means of this answer, **eni** would take the opportunity to provide its views in particular with reference to the questions Q2 and Q8 of the call for evidence.

In **eni**'s opinion this review should address the issues rising from the implementation of new transmission charging arrangements on capacity contracts already in place.

In particular, three provisions if applied to capacity already booked are likely to trigger significant changes in the economical conditions of contracts already stipulated:

- the revision of the split between capacity and commodity charges at entry points, so as the commodity charge could be established only to cover costs that are mainly driven by the volume actually flowed, as for the draft FGs;
- the consequent revision of the methodology to set the reserve price of entry capacity products which might then be calculated in order to cover TO entry allowed revenues, since as for the draft FGs the collection of revenues should be primarily based on capacity charges;
- the European provision of the endorsed part of the draft FGs which requires that the *payable price* of capacity booked in previous years through long-term capacity allocation is set – for the reserve price - at the time of use.

Considering that currently at entry points in the GB system the proportion of TO allowed revenues to be recovered from TO commodity charge is raising, as the trend of capacity sales is reducing and the reserve price of capacity products is not set to cover TO allowed revenues, the implementation of the above provisions is likely to result in a significant increase of the capacity charge to be paid by network users who have already contracted long-term capacity rights.

These network users would find themselves in the position to pay a price for the contracted capacities substantially higher than the one agreed at the time of stipulation.

As **eni** already stated in its answer to ACER's public consultation on the "*Draft Framework Guidelines on rules regarding harmonised transmission tariff structures for gas*" held in November 2012, when introducing a new tariff framework an adequate transition period should be provided for, in order to let network users adapt to the new framework. In addition, <u>shippers should be given the possibility to adapt their booked capacity or to terminate their capacity contracts when the adoption of the new tariff regime causes disproportionate effects</u>.

Considering in particular the GB system, **eni** would like to propose that a Capacity Reduction Application is incorporated in the Entry Capacity Auctions so that shippers could review their long-term capacity contracts in light of any unexpected change to essential contractual terms (like e.g. new transmission charging conditions) and also producers and storage developers can align their Entry Capacity financial commitments to delayed or changed investment needs.

This also considering that shippers who secure long-term entry capacity help NGG to plan its network and, where additional capacity is required, to plan investment. When shippers book long-term capacity they become liable for a financial user commitment on that additional capacity.

Currently Exit Capacity Auctions allow shippers to apply to reduce their capacity bookings to adjust them to their changed investment needs in case of delay or cancellation of investment. Therefore, one can argue that Exit Capacity Users currently have preferential treatment. This objection would be overcome introducing Entry Capacity Reduction Application. Allowing shippers to adjust their capacity booking to their changed capacity needs would also lead to more efficient allocations of costs between shippers.

The shippers' concern on the impact of new rules modifying tariff levels of existing contracts have been addressed by ACER in the currently endorsed part of the Draft FG on tariff where they stated that *"To prevent or limit undue negative repercussions resulting from individual tariff changes, the NRAs may implement mitigating measures before October 1, 2017. Such measures may be extended beyond October 1, 2017, by a period not exceeding a total of twelve months, in the case of exceptional circumstances that affect the effective or appropriate execution of specific contracts, or to coincide with the commencement of the gas year or tariff setting cycle."*