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Agency Report

Analysis of the Consultation Document on the Gas Transmission Tariff Structure for Croatia

NRA: Hrvatska energetska regulatorna agencija (HERA)
TSO: Plinacro

17 April 2019

Contents

1. ACER conclusion

(1) The Croatian NRA, Hrvatska energetska regulatorna agencija (HERA), proposes a postage stamp reference price methodology ('RPM') with a 60/40 entry-exit split for the regulatory period 2021-2026. HERA proposes to apply discounts of 90% and 100%, respectively, to the entry and the exit from and to the storage facility, and of 15% to the entry from the future LNG terminal. Neither commodity-based transmission tariffs nor non-transmission tariffs are proposed (although the classification of some services provided by the Croatian TSO is discussed in this document).

(2) The Agency, after having completed the analysis of the consultation document pursuant to Article 27(2) of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a Network Code on Harmonised Transmission Tariff Structures for Gas ('NC TAR'), concludes that:

- The consultation document contains the required information listed in Article 26(1) of the NC TAR;
- The choice of the postage stamp methodology as the proposed RPM is overall compliant with the requirements set out in Article 7 of the NC TAR;
- The results of the comparison with the counterfactual Capacity Weighted Distance ('CWD') methodology show a reasonable level of cost-reflectivity;
- The simplified tariff model is in line with the requirements of Article 30(2)(b) of the NC TAR;
- Network users would be able to reproduce and forecast the reference prices using the tariff model provided in the consultation document;
- According to HERA, several services provided by the Croatian TSO, including connection services, are neither transmission services nor non-transmission services. The Agency considers that at least some of these services should be considered as non-transmission services and therefore should fall under the scope of the NC TAR. .

(3) The Agency recommends that, in its final decision, HERA reassess the classification of the services provided by the TSO and which are currently considered neither as transmission services nor as non-transmission services.

2. Introduction

(4) Commission Regulation (EU) 2017/460 of 16 March 2017 establishes a network code on harmonised transmission tariff structures for gas (NC TAR).

(5) Article 27 of the NC TAR requires the Agency to analyse the consultation documents on the reference price methodologies for all entry-exit systems[1]. This Report presents the analysis of the Agency for the transmission system of Croatia.

(6) On 24 December 2018, HERA forwarded a consultation document to the Agency proposing a RPM for the Croatian transmission system for the period 2021-2026. The consultation was launched on 18 December 2018 and remained open until 18 February 2019. On 18 March 2019, the consultation responses and their summary were published. The Agency has taken these into consideration for this analysis. Within five months following the end of the final consultation, and pursuant to Article 27(4) of the NC TAR, HERA shall take and publish a motivated decision on all the items set out in Article 26(1).

(7) In parallel with the public consultation on the RPM, LNG Croatia and Plinacro organised a coordinated Open Season (' Open Season') to validate the creation and the connection of an LNG terminal on the island of Krk and the development of new transmission capacities to Hungary at the Drávaszerdahely interconnection. This Open Season ended on 31 January 2019 and its results had a significant impact on the RPM proposed by HERA and the underlying forecasts of capacity bookings. Following the Open Season, HERA informed the Agency how its results would be taken into account and shared new and updated tariff files.

(8) This Report discusses both the RPM and the accompanying information published in the public consultation document and the new information provided by HERA following the Open Season.

Reading guide

(9) Chapter 3 presents the analysis on completeness, namely whether all the information referred to in Article 26(1) has been published. Chapter 4 focusses on compliance, namely whether the RPM complies with the requirements set out in Article 7 of the Code, whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met, whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met and whether the criteria for setting fixed payable prices as set out in Article 25 are met. Chapter 5 includes other comments. The document contains two annexes, respectively on the legal framework and a list of abbreviations.

3. Completeness

3.1 Has all the information referred to in Article 26(1) been published?

(10) Article 27(2)(a) of the NC TAR requires the Agency to analyse whether all the information referred to in Article 26(1) of the NC TAR has been published.

[1] With the exception of Article 10(2)(b), when different RPMs may be applied by the TSOs within an entry-exit zone.

(11) Article 26(1) of the NC TAR requires that the consultation document be published in the English language, to the extent possible. The Agency confirms that the consultation document was published in English.

(12) Overall, the information in Article 26(1) of the NC TAR has been properly published.

Table 1 Checklist information Article 26(1)

Article	Information	Published: Y/N/NA
26(1)(a)	the description of the proposed reference price methodology	Yes
26(1)(a)(i) **26(1)(a)(i)(1)** **26(1)(a)(i)(2)**	the indicative information set out in Article 30(1)(a), including: • the justification of the parameters used that are related to the technical characteristics of the system • the corresponding information on the respective values of such parameters and the assumptions applied	Yes
26(1)(a)(ii)	the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9	Yes
26(1)(a)(iii)	the indicative reference prices subject to consultation	Yes
26(1)(a)(iv)	the results, the components and the details of these components for the cost allocation assessments set out in Article 5	Yes
26(1)(a)(v)	the assessment of the proposed reference price methodology in accordance with Article 7	Yes
26(1)(a)(vi)	where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii)	Yes
26(1)(b)	the indicative information set out in Article 30(1)(b)(i), (iv), (v)	Yes
26(1)(c)(i) **26(1)(c)(i)(1)** **26(1)(c)(i)(2)** **26(1)(c)(i)(3)**	where commodity-based transmission tariffs referred to in Article 4(3) are proposed • the manner in which they are set • the share of the allowed or target revenue forecasted to be recovered from such tariffs • the indicative commodity-based transmission tariffs	Not applicable
26(1)(c)(ii) **26(1)(c)(ii(1)** **26(1)(c)(ii)(2)** **26(1)(c)(ii)(3)** **26(1)(c)(ii)(4)**	where non-transmission services provided to network users are proposed: • the non-transmission service tariff methodology therefor • the share of the allowed or target revenue forecasted to be recovered from such tariffs • the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3) • the indicative non-transmission tariffs for non-transmission services provided to network users	Partially. The Agency considers some services provided by the TSO should be classified as non-transmission services and should comply with these publication obligations (see Section 4.3)

26(1)(d)	the indicative information set out in Article 30(2);	Yes
26(1)(e) **26(1)(e)(i)** **26(1)(e)(ii)** **26(1)(e)(iii)** **26(1)(e)(iv)**	where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity: • the proposed index; • the proposed calculation and how the revenue derived from the risk premium is used • at which interconnection point(s) and for which tariff period(s) such approach is proposed • the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed	Yes

(13) HERA considers that a number of services provided by the TSO, including connection services, are neither transmission services nor non-transmission services. In the consultation document, HERA explains that the regulatory framework applied to these services is set by the Croatian Gas Market Act and the Croatian network rules and that they are not covered by the public consultation launched by HERA, in accordance with Article 26 of the NC TAR. HERA, nonetheless, published in its consultation document both the list of these services and an explanation of how they are remunerated.

4. Compliance

4.1 Does the RPM comply with the requirements set out in Article 7?

(14) Article 27(2)(b)(1) of the NC TAR requires the Agency to analyse whether the proposed reference price methodology complies with the requirements set out in Article 7 of the NC TAR. This article refers to Article 13 of Regulation (EC) 715/2009 and lists a number of requirements to take into account when setting the RPM. As these overlap, in the remainder of this chapter, the Agency will take a closer look at the five elements listed in Article 7 of the NC TAR.

(15) While respecting the principles of Article 7 of the NC TAR, HERA aims at transmission tariffs which reconcile different objectives: they must be simple and stable enough, and their evolution must be able to be predictable by network users. The transmission tariffs must also be non-discriminatory, especially between Croatian consumers in different parts of the country. They must be compatible with Croatia's security of supply and market integration objectives. According to HERA, Croatia will indeed experience a gradual exhaustion of its domestic production[2] in the next decade and will have both to import more gas through cross-border interconnections and to be able to export it when an LNG cargo is unloaded at the LNG terminal.

(16) A postage stamp RPM has been selected as the proposed methodology to meet these objectives. In its consultation document, HERA justifies this choice for a strong level of socialisation by mentioning the Regional Development Strategy of the Republic of Croatia, which “aims to contribute to the establishment of activities needed for strengthening development potential of all Croatian regions, reducing regional disparities, and strengthening and developing undeveloped parts of

[2] 11,2 GWh in 2017, 34,5% of the gas transmitted on the Croatian network

Croatia and all with the goal of overall growth and economic progress". The choice of a methodology allowing a sufficient level of cost socialisation is also explained by HERA considering that other Croatian gas infrastructures (LNG terminal, storage facility) must have access to the network at a reasonable price to be competitive, even when the booking level is low. In particular, the tariffs for the connection of the LNG terminal and exit capacities to Hungary must not undermine the competitiveness of LNG compared to other gas sources supplying Central Europe.

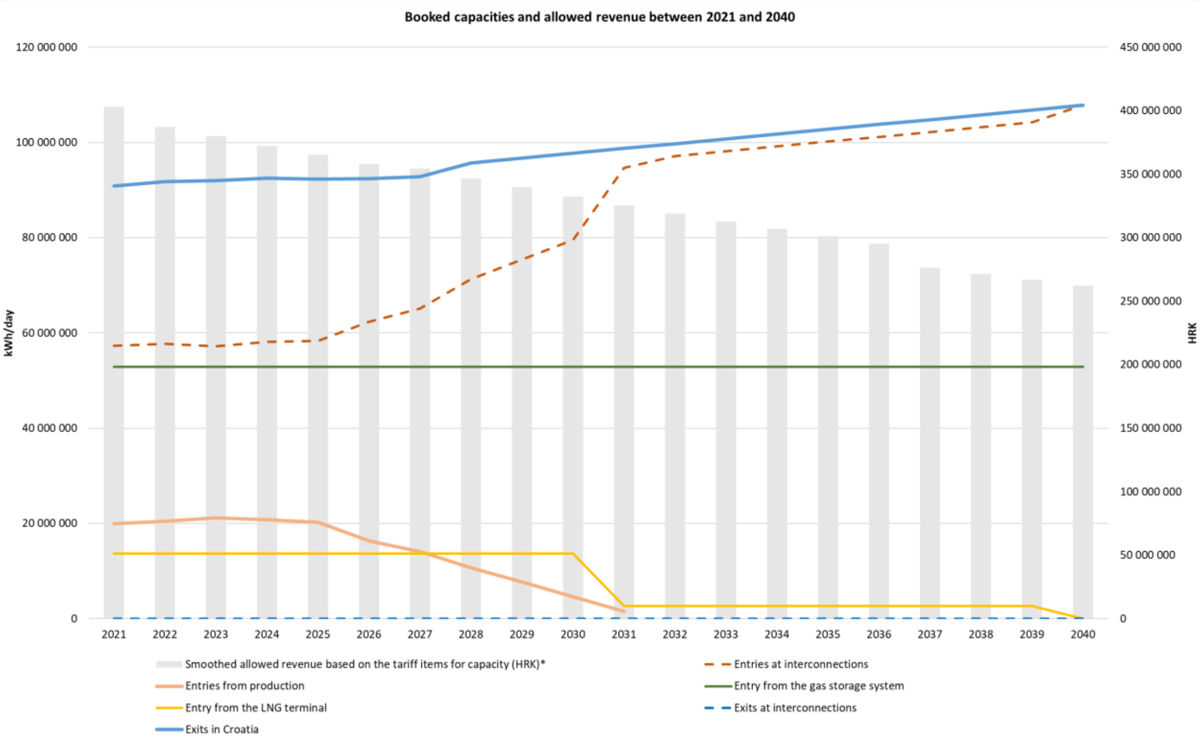
4.1.1 Transparency

(17) **Article 7(a)** of the NC TAR requires that the RPM aim at ensuring that network users can reproduce the calculation of reference prices and their accurate forecast.

(18) The consultation document published by HERA is transparent and provides all the information required by the NC TAR. HERA even publishes more data than the network code requires: in particular, forecasts of capacity bookings and allowed revenue are provided to the network users up to 2040. This allows them to anticipate developments in the Croatian market, with a gradual decrease in domestic gas production and a greater use of interconnections during the next decade. Moreover, HERA shared with the Agency detailed calculations allowing a thorough analysis of the comparison between the chosen RPM and the CWD methodology, of the cost allocation assessment ('CAA')[3] and of the main components of the allowed revenue. HERA provided updated data to the Agency after the end of the Open Season binding procedure for the LNG terminal on the Island of Krk and for the cross-border interconnection of Drávaszerdahely, from Croatia to Hungary[4].

[3] Throughout this document, 'CAA' is used to refer to the capacity cost allocation comparison index described in Article 5(3)(c) of the NC TAR.

[4] 0.52 bcm/y has been booked at the terminal and at the connection with the transmission network for 10 years from 2021. No exit capacity to Hungary has been booked. With regard to the financing of the terminal, the total capital expenditures should amount to € 233.6 million. The European Commission and the Croatian government provided grants of, respectively € 101.4 million and € 100 million.



Booked capacities and allowed revenue between 2021 and 2040 forecasted by HERA

(19) The Agency considers that the data set and the simplified tariff model published by HERA allow network users to understand and reproduce the reference prices and their forecast. In addition, network users can change the input variables and input their own scenarios. When issuing its final tariff decision, HERA should however publish an updated set of data and a new version of the simplified tariff model, taking into account the results of the recent Open Season.

(20) The Agency finds the simplified tariff model in line with the requirements of Article 30(2)(b) of the NC TAR.

4.1.2 Cost-reflectivity

(21) **Article 7(b)** of the NC TAR requires the RPM to take into account the actual costs incurred for the provision of transmission services, considering the level of complexity of the transmission network.

(22) HERA proposes to use a postage stamp RPM and a 60-40 entry-exit split.

(23) HERA does not intend to implement commodity-based transmission tariffs during the next regulatory period.

4.1.2.1 Description of the network

(24) The transmission system network in Croatia can be considered relatively meshed in its northern and north-eastern parts and is made up of an unmeshed branch on the southern part.

(25) The transmission network has the following cross-border interconnection points: the Rogatec IP (with Slovenia) and the Drávaszerdahely IP (with Hungary). Both points are mainly used to import gas to Croatia.

(26) The transmission network is also connected to a storage facility (Okoli, operated by Podzemno skladište plina LLC) and six gas production facilities[5].

(27) There are currently 194 domestic exit points, 36 of which directly connecting end consumers to the transmission system and 158 connecting distribution systems.

(28) Finally, LNG Croatia LLC. (the project owner) adopted its final investment decision on 31 January 2019 for the construction of a new LNG terminal on the island of Krk. The terminal should be connected to the Croatian transmission network by 2021.

4.1.2.2 Calculation of the tariffs and adjustments to the application of the RPM

(29) The proposed postage stamp RPM only uses forecasted booked capacities as a cost driver.

(30) HERA proposes to apply discounts of 90% and 100%, respectively, to the entry and the exit from and to the storage facility, and 15% to the entry from the future LNG terminal.

(31) The Agency finds HERA’s approach to discounts compliant with Article 9 of NC TAR.

4.1.2.3 Mitigation of tariff volatility

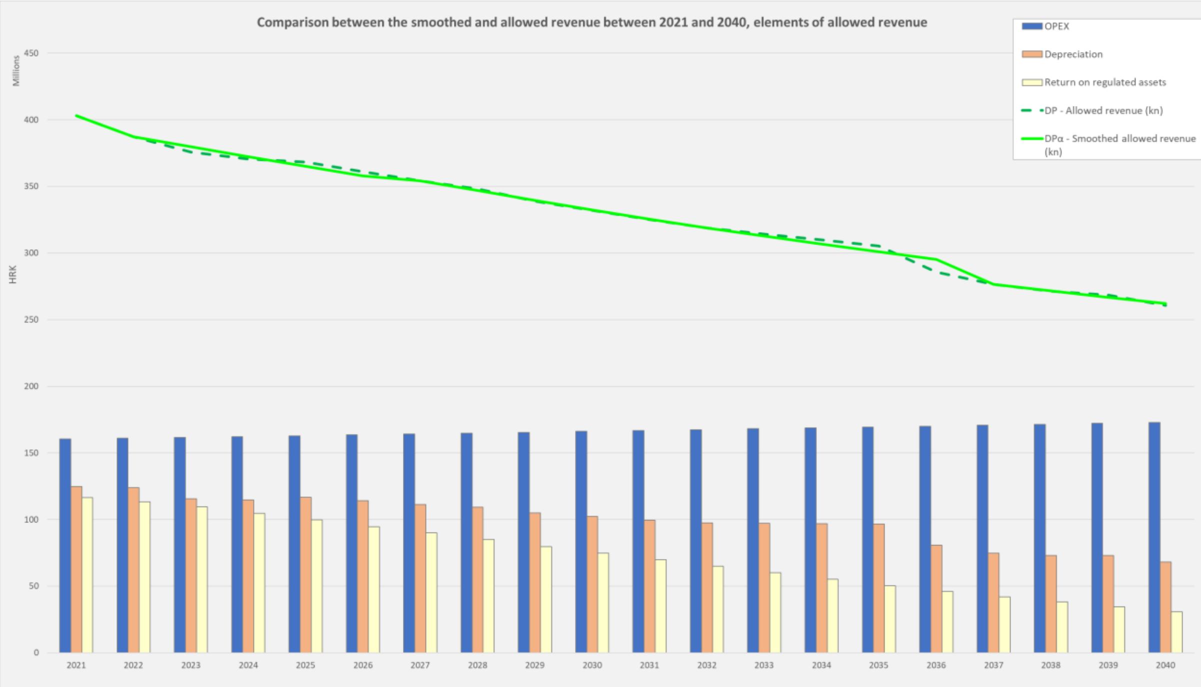
(32) HERA proposes a mechanism to mitigate large oscillations in allowed revenues and consequently in reference prices. HERA calculates a “smoothed allowed revenue” in such a way that:

- this smoothed revenue is equal to the actual allowed revenue during the first year of the regulatory period;
- it would evolve linearly from one year to the next within the regulatory period;
- the total smoothed allowed revenue for a certain regulatory period is equal to the total actual allowed revenue over the same regulatory period[6].

(33) The Agency considers, in principle, that this kind of mechanism could induce distortions, for instance, by making network users pay a higher tariff that anticipates an allowed revenue increase based on investments that are not yet commissioned. Nonetheless, in this particular case, the mechanism is limited to a given regulatory period and it does not alter the allowed revenue during the first year of the period. Moreover, the quantitative analysis shows that the impact of this mechanism remains reasonable: there are no major revenues that are shifted across years. The Agency considers that, overall, the benefits in terms of tariff stability and predictability outweigh the potential risk of distortion.

[5] Six production facilities are operated by INA (UMS CPS Molve, UMS Etan, Ivanić Grad, UMS PS Ferdinandovac, UMS PS Gola, UMS PS Hampovica and UMS Terminal Pula).

[6] More precisely, the respective summed net present values of the smoothed allowed revenue and the actual allowed revenue over the regulatory period are equal.



Comparison between the smoothed and allowed revenue between 2021 and 2040.

4.1.2.4 Comparison with capacity weighted distance methodology

(34) HERA provides a very detailed comparison of the postage stamp reference prices with those from the counterfactual CWD methodology in Section 3.3 of the consultation document and in the full tariff model.

(35) After taking into account the consequences of the results of the Open Season, the application of the CWD methodology with a 50-50 entry-exit split would result in more expensive exit tariffs (25% more expensive at domestic exit points and 125% at cross-border exits). Symmetrically, reference prices at entry points would be lower (-64% from the storage facilities, -20% from production facilities, -14% from cross-border IPs, and almost equivalent from the LNG terminal).

(36) In the consultation document, HERA was assuming higher levels of booking before the end of the Open Season. The reference prices resulting from both the postage stamp and CWD methodologies were then supposed to be lower.

(37) The most important outcome of the two RPMs are that

- the chosen postage stamp RPM leads to an equalised tariff for domestic exits and to lower tariffs at cross-border exits.
- on the contrary, the CWD methodology would lead to differentiated tariffs across the network that would be higher for the most peripheral regions and the cross-border exit capacities.

(38) The Agency understands the objectives HERA aims to reconcile:

- in terms of regional development within Croatia, the equalised tariffs should contribute to reducing regional disparities.

- in terms of security of supply and market integration objectives, the new LNG terminal should provide an additional alternative supply source to Central Europe, mainly built on subsidies.
- other gas infrastructure (storage and LNG terminal) should benefit from a transmission tariff that allows them to be competitive with other gas sources and other sources of flexibility.

(39) Overall, the higher level of cost socialisation may lead locally to a higher tariff, but that is intended to favour an efficient use of the Croatian gas infrastructure, in particular by allowing LNG unloaded in Croatia to compete with other gas sources supplying Central Europe. The combination of these two effects could eventually allow lower tariffs in the future, and is not detrimental for the neighbouring countries[7].

4.1.2.5 Comparison between the tariffs for the prevailing tariff period and the tariffs for the first tariff period for which tariffs are proposed

(40) Compared to the tariffs for the current period[8], the proposed RPM brings significant changes, in terms of:

- the entry-exit split, which will evolve from 70/30 to 60/40;
- an equalisation of exits (domestic and cross-border exit points);
- the end of a discount of 10% applied to the tariffs for lines connecting production facilities. Cross-border entries and entries from production facilities will be equalised;
- the non-renewal, for the next regulatory period, of the current commodity-based charge, covering 10% of the allowed revenue.

(41) Other changes (e.g. new entry capacities) are direct consequences of new investments, mostly linked to the new LNG terminal.

(42) Quantitatively, the three most significant consequences will be, between 2020 and 2021, the abolition of the commodity-based charge, the sharp reduction of reference prices for cross-border exits (-68%) and the sharp increase of reference prices for domestic exits (+115%). The same comparison published in HERA's consultation document, before the end of the Open Season, led to similar results.

(43) The Agency considers these changes as beneficial. When Croatia imports gas from the neighbouring countries, the more balanced entry-exit split and the equalised tariffs for cross-border entries and production IPs will allow a more efficient competition between domestic production and imported gas. The tariff changes seems as well favourable to the regional market integration and security of supply (in particular the decrease of cross-border exit tariffs). The proposed RPM should allow Croatia to rely on and to contribute to the regional gas system.

(44) Following the reasoning laid out in the previous paragraphs, the Agency concludes that the application of the proposed RPM is compliant with the principle of cost-reflectivity.

[7] A positive effect can be expected on security of supply and competition in countries that can import LNG unloaded in Croatia. In addition, the Croatian LNG terminal is not in competition with any other terminal in the region (there is therefore no risk of distortion of competition between such facilities).

[8] The prevailing tariff period coincides with the gas year 2017-2020.

4.1.3 Cross-subsidisation and discrimination

(45) **Article 7(c)** of the NC TAR requires the RPM to ensure non-discrimination and prevent undue cross-subsidisation.

4.1.3.1 Cross-subsidisation

(46) For this analysis, the Agency defines ‘cross-subsidisation’ as a deviation from cost-reflectivity whereby users of the entry-exit system are charged tariffs that differ from the costs they cause to the system. One instrument to evaluate cross-subsidisation is the CAA.

(47) HERA calculates the CAA of its postage stamp RPM, using forecasted capacity bookings as the only cost driver. The result is slightly above the threshold of 10% mentioned in the NC TAR (13.9% in the consultation document, 12.8% taking into account the results of the Open Season).

(48) The Agency would consider more meaningful to take into account both capacity and distance as cost drivers in the CAA, as this would make the comparison with the CWD methodology more instructive. Nonetheless, in this particular case, even if the proposed RPM tends to reduce the reference prices of cross-border exits and to increase the reference prices of domestic exits, the risk of undue cross-subsidisation between intra-system and cross-system use seems very limited: Croatia is not currently a transit country, a competitive tariff for the LNG terminal and for the cross-border exits favours additional capacity bookings, which could eventually allow lower tariffs for all network users and benefit the neighbouring markets.

(49) The Agency agrees with HERA’s assessment that the proposed RPM does not lead to undue cross-subsidisation. In this particular regional context, the choice of a postage stamp methodology does not induce excessive transfers at the expense of a specific category of network users.

4.1.3.2 Discrimination

(50) For this analysis, the Agency defines ‘discrimination’ as ‘applying different rules to comparable situations or the same rule to different situations’. The Agency, based on the information provided in the consultation document, has not identified any discrimination resulting from the application of the RPM.

4.1.4 Volume risk

(51) **Article 7(d)** of the NC TAR requires that the RPM ensures that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system.

(52) Given that Croatia is not a transit country, the Agency did not identify any volume risk that might be unduly assigned to Croatian final customers.

4.1.5 Cross-border trade

(53) **Article 7(e)** of the NC TAR requires that the RPM ensures that the resulting reference prices do not distort cross-border trade.

(54) As explained in Section 4.1.2, the proposed RPM will make it possible to keep the tariffs for cross-border interconnections and the connection of the LNG terminal at a reasonable level. Since the Croatian domestic production will gradually decrease, this choice seems appropriate.

(55) The Agency considers HERA's approach transparent and sensible, as it aims at reconciling the objectives of market integration and security of supply by choosing an appropriate RPM that would allow an efficient use of the Croatian infrastructure in a context of supply pattern undergoing change.

(56) The Agency considers that the proposed RPM does not distort cross-border trade.

4.2 Are the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) met?

(57) HERA proposes not to apply commodity-based transmission tariffs. The criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are therefore not applicable.

4.3 Are the criteria for setting non-transmission tariffs as set out in Article 4(4) met?

(58) Article 27(2)(b)(3) of the NC TAR requires the Agency to analyse whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.

(59) As explained in Section 3 of this Report, HERA considers that several services provided by the Croatian TSO, including connection services, are neither transmission services, nor non-transmission services. These services relate, for instance, to connection or disconnection of gas consumers, metering, maintenance and access to the secondary market.

(60) HERA explains that a national regulatory framework applies to these services (the Croatian Gas Market Act), that a specific consultation process is dedicated to them, and that they do not fall under the scope of the NC TAR.

(61) The Agency considers that at least some of these services should be considered as non-transmission services, insofar as they form part of the TSO's regulated activity (which is a monopoly situation for this specific service), and it is possible to identify the beneficiaries and charge them the corresponding costs (as provided for in Article 4(4) of the NC TAR).

(62) Nonetheless, HERA provided in its consultation document both the list of these non-standard services and a clear explanation of how their costs are covered.

(63) In view of the information provided by HERA, the Agency considers that there is no risk of undue additional revenue for the TSO or of cross-subsidisation between users resulting from these services and does not consider the current situation as detrimental.

(64) Yet, the Agency recommends that, in its final decision, HERA reassess the classification of the services provided by the TSO, which should be considered either as transmission services or as non-transmission services (except in the case of a competitive and non-regulated activity).

4.4 Are the criteria for offering a fixed payable price as set out in Article 25 met?

(65) In its consultation document, HERA initially planned to set fixed payable prices for the capacities sold during the Open Season (entry from the LNG terminal and exit to Hungary). Article 25(1)(b) of the NC TAR allows in some cases to offer a fixed price for incremental capacities.

(66) However, the capacity bookings made during the Open Season were significantly lower than those anticipated by HERA in its consultation document. The defined conditions[9] for implementing the fixed payable price approach were not fulfilled.

(67) As a result, HERA informed the Agency that only the floating payable approach will be used or all points in the Croatian transmission system.

[9] 171 223 m^3/h and 114 155 m^3/h had to be booked, respectively, at the entry from the LNG terminal and at the exit to Hungary at the Drávaszerdahely interconnection.

Annex 1: Legal framework

(68) Article 27 of the NC TAR reads:

1. Upon launching the final consultation pursuant to Article 26 prior to the decision referred to in Article 27(4), the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority, shall forward the consultation documents to the Agency.

2. The Agency shall analyse the following aspects of the consultation document:

(a) whether all the information referred to in Article 26(1) has been published;

(b) whether the elements consulted on in accordance with Article 26 comply with the following requirements:

(1) whether the proposed reference price methodology complies with the requirements set out in Article 7;

(2) whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met;

(3) whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.

3. Within two months following the end of the consultation referred to in paragraph 1, the Agency shall publish and send to the national regulatory authority or transmission system operator, depending on which entity published the consultation document, and the Commission the conclusion of its analysis in accordance with paragraph 2 in English.

The Agency shall preserve the confidentiality of any commercially sensitive information.

4. Within five months following the end of the final consultation, the national regulatory authority, acting in accordance with Article 41(6)(a) of Directive 2009/73/EC, shall take and publish a motivated decision on all items set out in Article 26(1). Upon publication, the national regulatory authority shall send to the Agency and the Commission its decision.

5. The procedure consisting of the final consultation on the reference price methodology in accordance with Article 26, the decision by the national regulatory authority in accordance with paragraph 4, the calculation of tariffs on the basis of this decision, and the publication of the tariffs in accordance with Chapter VIII may be initiated as from the entry into force of this Regulation and shall be concluded no later than 31 May 2019. The requirements set out in Chapters II, III and IV shall be taken into account in this procedure. The tariffs applicable for the prevailing tariff period at 31 May 2019 will be applicable until the end thereof. This procedure shall be repeated at least every five years starting from 31 May 2019.

(69) Article 26(1) of the NC TAR reads:

1. One or more consultations shall be carried out by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority. To the extent possible and in order to render more effective the consultation process, the consultation document should be published in the English language. The final consultation prior to the decision referred to in Article 27(4) shall comply with the requirements set out in this Article and Article 27, and shall include the following information:

(a) the description of the proposed reference price methodology as well as the following items:

(i) the indicative information set out in Article 30(1)(a), including:

(1) the justification of the parameters used that are related to the technical characteristics of the system;

(2) the corresponding information on the respective values of such parameters and the assumptions applied.

(ii) the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9;

(iii) the indicative reference prices subject to consultation;

(iv) the results, the components and the details of these components for the cost allocation assessments set out in Article 5;

(v) the assessment of the proposed reference price methodology in accordance with Article 7;

(vi) where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii);

(b) the indicative information set out in Article 30(1)(b)(i), (iv), (v);

(c) the following information on transmission and non-transmission tariffs:

(i) where commodity-based transmission tariffs referred to in Article 4(3) are proposed:

(1) the manner in which they are set;

(2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;

(3) the indicative commodity-based transmission tariffs;

(ii) where non-transmission services provided to network users are proposed:

(1) the non-transmission service tariff methodology therefor;

(2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;

(3) the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3);

(4) the indicative non-transmission tariffs for non-transmission services provided to network users;

(d) the indicative information set out in Article 30(2);

(e) where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity:

(i) the proposed index;

(ii) the proposed calculation and how the revenue derived from the risk premium is used;

(iii) at which interconnection point(s) and for which tariff period(s) such approach is proposed;

(iv) the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed.

(70) Article 7 of the NC TAR reads:

The reference price methodology shall comply with Article 13 of Regulation (EC) No 715/2009 and with the following requirements. It shall aim at:

a) enabling network users to reproduce the calculation of reference prices and their accurate forecast;

(b) taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;

(c) ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;

(d) ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;
(e) ensuring that the resulting reference prices do not distort cross-border trade.

(71) Article 13 of Regulation (EC) No 715/2009 reads:
1. Tariffs, or the methodologies used to calculate them, applied by the transmission system operators and approved by the regulatory authorities pursuant to Article 41(6) of Directive 2009/73/EC, as well as tariffs published pursuant to Article 32(1) of that Directive, shall be transparent, take into account the need for system integrity and its improvement and reflect the actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator and are transparent, whilst including an appropriate return on investments, and, where appropriate, taking account of the benchmarking of tariffs by the regulatory authorities. Tariffs, or the methodologies used to calculate them, shall be applied in a nondiscriminatory manner.
Member States may decide that tariffs may also be determined through market-based arrangements, such as auctions, provided that such arrangements and the revenues arising therefrom are approved by the regulatory authority.
Tariffs, or the methodologies used to calculate them, shall facilitate efficient gas trade and competition, while at the same time avoiding cross-subsidies between network users and providing incentives for investment and maintaining or creating interoperability for transmission networks.
Tariffs for network users shall be non-discriminatory and set separately for every entry point into or exit point out of the transmission system. Cost-allocation mechanisms and rate setting methodology regarding entry points and exit points shall be approved by the national regulatory authorities. By 3 September 2011, the Member States shall ensure that, after a transitional period, network charges shall not be calculated on the basis of contract paths.

2. Tariffs for network access shall neither restrict market liquidity nor distort trade across borders of different transmission systems. Where differences in tariff structures or balancing mechanisms would hamper trade across transmission systems, and notwithstanding Article 41(6) of Directive 2009/73/EC, transmission system operators shall, in close cooperation with the relevant national authorities, actively pursue convergence of tariff structures and charging principles, including in relation to balancing.

(72) Article 4(3) of the NC TAR reads:
3. The transmission services revenue shall be recovered by capacity-based transmission tariffs.
As an exception, subject to the approval of the national regulatory authority, a part of the transmission services revenue may be recovered only by the following commodity-based transmission tariffs which are set separately from each other:
(a) a flow-based charge, which shall comply with all of the following criteria:
(i) levied for the purpose of covering the costs mainly driven by the quantity of the gas flow;
(ii) calculated on the basis of forecasted or historical flows, or both, and set in such a way that it is the same at all entry points and the same at all exit points;
(iii) expressed in monetary terms or in kind.
(b) a complementary revenue recovery charge, which shall comply with all of the following criteria:
(i) levied for the purpose of managing revenue under- and over-recovery;
(ii) calculated on the basis of forecasted or historical capacity allocations and flows, or both;

(iii) applied at points other than interconnection points;

(iv) applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points.

(73) Article 4(4) of the NC TAR reads:

4. The non-transmission services revenue shall be recovered by non-transmission tariffs applicable for a given non-transmission service. Such tariffs shall be as follows:

(a) cost-reflective, non-discriminatory, objective and transparent;

(b) charged to the beneficiaries of a given non-transmission service with the aim of minimising cross-subsidisation between network users within or outside a Member State, or both.

Where according to the national regulatory authority a given non-transmission service benefits all network users, the costs for such service shall be recovered from all network users.

Annex 2: List of abbreviations

Acronym	Definition
ACER	Agency for the Cooperation of Energy Regulators
CAA	Cost Allocation Assessment
HERA	The Croatian NRA, Hrvatska energetska regulatorna agencija
CWD	Capacity Weighted Distance
EC	European Commission
EU	European Union
IP	Interconnection Point
MS	Member State
NC TAR	Network code on harmonised transmission tariff structures for gas
NRA	National Regulatory Authority
RPM	Reference Price Methodology
TSO	Transmission System Operator

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