

## CONSULTATION DOCUMENT 512/2018/R/GAS

### TARIFF REGULATORY CRITERIA FOR THE NATURAL GAS TRANSMISSION AND METERING SERVICE FOR THE FIFTH REGULATORY PERIOD (SPRT)

#### Summary of responses received from stakeholders pursuant Article 26(3) of Regulation (EU) 2017/460

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*La presente sintesi in lingua inglese delle risposte ricevute al documento di consultazione 512/2018/R/GAS è pubblicata ai sensi dell'Articolo 26(3) del Regolamento (EU) 2017/460.*

*La sintesi è relativa esclusivamente alle risposte pervenute riconducibili alle tematiche oggetto degli specifici spunti di consultazione, con l'obiettivo di fornire una panoramica generale delle posizioni dei soggetti interessati.*

*Per un maggiore approfondimento in merito a specifiche posizioni, si rimanda alla lettura delle osservazioni nella loro forma integrale disponibili sul sito web dell'Autorità.*

*The following summary in the English language of the consultation responses to consultation document 512/2018/R/GAS is published pursuant Article 26(3) of Regulation (EU) 2017/460.*

*The summary only relates to responses received on topics related to specific consultation questions, with the aim of providing a general overview of the stakeholders' opinions.*

*For a more detailed assessment of specific stakeholders' views, please refer to the consultation responses documents published on ARERA website.*

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Responses were received from 25 stakeholders:

A2A (energy company), Adriatic Lng (LNG operator), Aiget (traders association), Anigas (gas industry association), Assocostieri (energy terminal operators association), BP (energy company), Comitato Consultazione attività di Trasporto (technical committee for gas transmission), Confindustria (manufacturing and service companies association), Consumerismo (online magazine), Edison (energy company), EFET (traders association), Enel (energy company), Energia Libera (energy companies association), Eni (energy company), EP Produzione (energy company), Fluxswiss (gas TSO), ITG (gas TSO), Netenergy (gas TSO), OLT (LNG operator), SGI (gas TSO), Shell (energy company), Snam (gas TSO), Sorgenia (energy company), Terna (electricity TSO), Utilitalia (local utilities association).

***S 1. Comments on the duration of the regulatory period, with particular reference to the advisability of envisaging a shorter period, of three years, which could be linked with the possibility of introducing totex-oriented regulatory schemes in the subsequent regulatory period.***

All respondents (12) support the proposal of a 4-year period, with one respondent also suggesting a 5-year period.

***S 2. Comments on the criteria for the definition of the allowed cost.***

9 respondents support ARERA proposals. 1 respondent does not support the introduction of a monitoring report (§5.2.b).

***S 3. Comments on the criteria to be used to determine the RAB.***

3 respondents support ARERA proposals. On the allowance of investments based on CBA (§6.3), 2 respondents suggest this measure to be implemented following an adequate transitory period.

On the treatment of assets under development (§6.7), 3 respondents propose to apply the WACC instead of an ad-hoc rate of return. On incentives to obtain funding (§6.11.b.i): 4 respondents propose the value not to be deduced from depreciation be lower than 10% (one respondent suggesting zero), while 3 respondents propose a value higher than 10%.

***S 4. Comments on the rate of return on the RAB, and in particular on the definition of the  $\beta$  asset.***

3 respondents support ARERA proposals. 1 respondent deems that the proposed value for the beta asset is exceedingly high and proposes a value of about 0.3. 5 respondents propose to use market values for the debt/equity ratio instead of book values as proposed. Of these, 3 respondents propose a higher level for the beta asset (of around 0.4), arguing that there is currently a higher degree of risk in the transmission sector with respect to the previous regulatory period.

***S 5. Comments on the determination of the depreciation allowance.***

4 respondents support ARERA proposals. 1 respondent suggests a shortening of regulatory asset lives. 1 respondent suggests the introduction of new asset categories related to tangible fixed assets, with regulatory asset lives shorter than 10 years.

***S 6. Comments regarding the determination and updating of allowed operating expenditure.***

3 respondents support ARERA proposals. 7 respondents do not agree on the proposal to determine the actual operating expenditure in the reference year based on 2017 actual costs (§9.2) and suggest using 2018 data (5 respondents) or an average of 2015-2017 data (2 respondents).

On the level of OPEX for 2020 (§9.8), 2 respondents propose that companies who have not achieved previous efficiency targets are at least entitled their actual costs.

On efficiency targets for 5PRT (§9.9), 2 respondents do not agree on the proposal to set the X-factor to give back efficiencies over a 4-year period, and propose an 8-year period.

***S 7. Comments on costs related to the Emission Trading system.***

3 respondents support ARERA proposals. 3 respondents do not agree on the proposal to determine the driver for quantifying the ETS needed upon the proposal of the TSO, and suggest that the amount of ETS needed be based on an average of previous years. 2 respondents propose the TSO should be neutral with respect not only to price risk, but also to volume risk related to ETS procurement.

***S 8. Comments on the proposals for network gas losses, fuel gas and unaccounted-for gas.***

4 respondents support ARERA proposals. 4 respondents propose the TSOs to be covered against price risk.

***S 9. Comments on the incentive criteria.***

2 respondents support ARERA proposals. 1 respondent suggests that the difference, if any, between the actual and the forecasted investment cost should be remunerated at a rate of return lower than the WACC. 1 respondent suggests that new incentive criteria should not have effect on past investment decisions. 2

respondents: (i) suggest that output-based incentives should not overcome input-based incentives, as the two should be complementary; (ii) do not agree on the period of 10 year for which the additional remuneration of 1% is granted (§12.2), and propose it to be 12 years; (iii) do not agree on the application of the additional remuneration to the lowest value between the investment cost actually incurred and the estimated investment cost.

***S 10. Comments on revenues for the balancing service.***

4 respondents support ARERA proposals. 3 respondents propose to include, within the costs for operational balancing, also the costs related to storage capacity and to storage injection and withdrawal capacity. 1 respondent advocates for special care in limiting costs arising from balancing activities.

***S 11. Comments on the criteria for the determination of target revenues for new TSOs.***

2 respondents propose that operational expenditures be based on accounting data not necessarily after two years, but only upon completion of the start-up phase.

***S 12. Comments on identification of the services provided by the TSOs for tariff purposes and definition of the transmission service.***

4 respondents do not agree with ARERA proposal to include the allowance for operational balancing service in the revenue relating to the transmission service to be recovered by capacity-based tariffs (§17.5), and propose to recover the related costs through a dedicated non-transmission charge; 2 of those respondents also propose to use a dedicated non-transmission charge to recover accessory services (§17.7).

***S 13. Comments on the scope of application and the driver of the commodity-based charge.***

3 respondents do not agree on ARERA proposal to cover allowed operating expenditure with the commodity-based charge (§19.1.a), and propose to recover those costs (at least the share of fixed costs) through capacity-based charges.

1 respondent supports ARERA proposals. 10 respondents do not agree with ARERA proposal to apply the commodity-based charge also at exit points to storage facilities (§19.2.b), and propose that storage points be excluded from such application; 5 of those respondents also propose to apply the commodity-based charge to physical flows only, excluding virtual flows (or, alternatively, to apply virtual flows a discounted charge). 3 respondents do not agree with ARERA proposal to apply to commodity-based charge at exit points only, and propose that entry points be included in such application.

On the driver to set the commodity-based charge, 2 respondents do not agree with ARERA proposal to consider an average of past years (§19.4), and propose to consider an estimate by the TSO subject to NRA approval.

***S 14. Comments on the complementary revenue recovery charge.***

1 respondent do not agree with ARERA proposal to introduce a complementary revenue recovery charge. 8 respondents do not agree with ARERA proposal to apply the complementary revenue recovery charge also at exit points to storage facilities (§19.5.b), and propose that storage points be excluded from such application. 2 respondents do not agree with ARERA proposal to apply to complementary revenue recovery charge at exit points only, and propose that entry points be included in such application.

On the driver to set the complementary revenue recovery charge, 2 respondents do not agree with ARERA proposal to consider an average of past years (§19.6), and propose to consider an estimate by the TSO subject to NRA approval.

On the corresponding topic of rescaling, see answers to S 17 below.

***S 15. Comments on the entry/exit split.***

2 respondents support ARERA proposals of a 28/72 entry/exit split. 3 respondents propose a 50/50 split. 2 respondents propose a 20/80 split. 2 respondents suggest the split not to be an ex-ante input of the RPM, but rather a parameter to be updated over time in relation to market conditions and in particular to the load factor of entry points.

***S 16. Comments on the CWD reference price methodology.***

3 respondents support ARERA proposals.

On the capacity cost driver, 1 respondent suggests that, to improve tariff stability, technical capacity should be used instead of forecasted contracted capacity, with missing revenues recovered by the complementary revenue recovery charge.

2 respondents note that the increase of entry tariffs from Northern Points (namely Passo Gries and Tarvisio) compared to the current situation may endanger the competitiveness of the route connecting the Italian market to most liquid European hubs; 1 of those respondents do not agree with the choice of a CWD methodology and propose to keep the current matrix methodology, and (together with one more respondent) also notes that the increase of cross-border exit tariffs compared to the current situation would reduce the potential export flows to Western European markets.

1 respondent suggests that differences in entry points tariffs should be further reduced; the same respondent (together with one more respondent) also notes the potential negative effects of an increase of LNG entry tariffs compared to the current situation.

2 respondents do not agree with ARERA proposal to apply a single cost allocation methodology to both the national and the regional network (§21.3), and propose to apply a CWD methodology to the national network and a postage-stamp methodology to the regional network.

On the scope for capacity allocations, and the corresponding elimination of capacity allocations at national domestic exit points serving offtake areas (§21.4), 9 respondents ask for the application of a single “bundled product” of the exit capacity and of the delivery capacity not before 1<sup>st</sup> October 2020.

As a general remark, 3 respondents consider that costs for infrastructures aimed at ensuring security of supply should be allocated directly to the beneficiaries, hence outside the scope of the reference price methodology, on the basis of a cost-benefit analysis.

***S 17. Comments on adjustments of the transmission charges.***

1 respondent supports ARERA proposals.

2 respondents do not agree with ARERA proposal of a 50% discount to points related to storage (§21.13), and propose a 100% discount. 3 respondents suggest that the discount to storage should not be covered by an increase of capacity tariffs (through rescaling), but through the complementary revenue recovery charge.

7 respondents do not agree with ARERA proposal not to apply a discount to entry points from LNG facilities (§21.14), and propose a discount at least equal to the discount applied to points related to storage facilities (50%). 2 respondents suggest evaluating the introduction of an LNG discount also based on the benefits of better usage of existing infrastructures. 2 respondents suggest that, similar to the provision of the storage service, transmission tariffs from LNG facilities be paid by LNG operator but not included in the reserve price for LNG services.

1 respondent proposes a full equalisation of entry tariffs; the same respondent (together with one more respondent) also proposes the application of rescaling by adding (rather than multiplying by, §21.15) a constant. 2 respondents propose an equalisation of entry tariffs from LNG facilities.

On rescaling, and the corresponding topic of the complementary revenue recovery charge, 11 respondents do not agree on ARERA proposal to (§31.3.b and Table 7 footnote) to exclude, from the forecasted contracted capacities considered for rescaling, the capacities undergoing remodulation of the transmission rights over time (reshuffling) pursuant to Resolution 666/2017/R/gas (insofar as these capacities do not contribute to the obtaining of target revenues of the TSO), and they suggest to recover the corresponding missing revenues through the complementary revenue recovery charge; 1 of these respondents also suggest, as an alternative, to recover the corresponding missing revenues both at entry and exit points.

***S 18. Comments on the reference price methodology.***

5 respondents support ARERA proposals. On the reduction of the charges for delivery points located close to the national network (§21.18), 8 respondents advocate for a higher level of discount compared to what proposed by ARERA, in particular for points located at a shorter distance from the national network (e.g. within 5 km).

***S 19. Comments on multipliers, seasonal factors and interruptible capacity.***

2 respondents support ARERA proposals.

On the level of multipliers (§22.4), 5 respondents do not agree with ARERA proposals: 3 respondents advocate for lower multipliers, in particular those applied to delivery points serving power plants; 2 respondents advocate for higher multipliers, and possibly to differentiate between entry and exit points.

3 respondents do not agree with ARERA proposal to apply multipliers also at entry points from LNG facilities, with 1 respondent also not agreeing on the proposal to apply multipliers at cross-border exit points.

***S 20. Comments on tariff aspects related to transmission networks not interconnected with the national transmission network.***

3 respondents support ARERA proposals. 3 respondents do not agree with the principle that the costs of transmission networks not interconnected with the existing transmission network are allocated exclusively to the respective transmission service users, and advocate for a socialisation of the respective costs. 2 respondents propose the entry-exit system to be kept single at national level.

***S 21. Comments on the metering service tariff structure.***

5 respondents support ARERA proposals. 2 respondents note that the proposal of two separate charges (§25.2) might result in an unduly complex system. 1 respondent advocates for the introduction of incentives for end-users to transfer the ownership of the metering station to the TSO.

***S 22. Comments on the revenue compensation criteria.***

3 respondents support ARERA proposals. 2 respondents do not agree with ARERA proposal to manage some compensations between TSOs through contractual agreements (§26.7), and propose such compensations to be managed by the Cassa per i Servizi Energetici e Ambientali, with monthly settlement.

***S 23. Comments on the functioning of reconciliation mechanism.***

All respondents (7) support ARERA proposals.

***S 24. Comments on the management of past regulatory accounts.***

All respondents (6) support ARERA proposals; on the management of past regulatory accounts (§27.7), 2 of those respondents support the option to reconcile the sums in years 2020 and 2021, while 1 of those respondents supports the option to reconcile the sums in year 2020 only.