Consultation on discounts, multipliers and seasonal factors in accordance with Article 28 of the Regulation (EU) 2017/460 of the 16th March 2017, establishing a network code on harmonised transmission tariff structures for gas

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Consultation Document

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Qormi, June 2020

PURPOSE OF THIS CONSULTATION

The Regulator for Energy and Water Services (REWS) is following the approval process of the Melita TransGas Pipeline (MTGP) project PCI 5.19, consisting of a 159km submarine pipeline connecting Delimara in Malta to Gela in Italy. The MTGP was identified as a Project of Common interest (PCI) under the priority corridor "North-South gas interconnection in Western Europe" in the first PCI list, and subsequently confirmed in the second, third and fourth PCI lists, in 2015, 2017 and 2018 respectively, and is a candidate for inclusion in the fifth PCI list in 2020. On the 4th June 2019, following the submission of an investment request by the project promoter Melita TransGas Co., the REWS, together with the Italian regulator *Autorita' di Regolazione per Energia Reti e Ambiente* (ARERA), issued a Cross-Border Cost Allocation (CBCA) decision with respect to the MTGP.

The materialisation of the MTGP would establish the first natural gas transmission infrastructure in Malta and therefore a tariff methodology is required to regulate the access to this infrastructure. Commission Regulation (EU) 2017/460[1] (TAR NC) sets out the rules on harmonised transmission tariff structures for gas, including rules on the application of a reference price methodology, the associated consultation and publication requirements as well as the calculation of reserve prices for standard capacity products. Although the TAR NC does not apply to Member States granted a derogation under Article 49 of Directive 2009/73/EC, and Malta has a derogation from Article 9 of Directive 2009/73/EC, the tariff methodology for the MTGP will follow the TAR NC as far as applicable. The MTGP would connect Malta to the European grid through an interconnection point that would be established Gela (Italy) and its capacity booking would be subject to auction. It is therefore deemed appropriate that for harmonization purposes, the tariff methodology should follow the reference price methodology prescribed by the TAR NC. This applies also for other relevant requirements of the TAR NC.

The Regulator for Energy and Water Services has entrusted the project promoter and prospective TSO Melita TransGas Co. to develop the tariff methodology and carry out the consultation required by Article 26 of the TAR NC. This consultation will be carried out separately by the project promoter.

In accordance with Article 28(1), at the same time as the final consultation pursuant to Article 26, the National Regulatory Authority (NRA) is obliged to carry out a consultation with the NRAs of all directly connected Member States and the relevant stakeholders on the following items:

1. the level of Multipliers;
2. if applicable, the level of Seasonal Factors;
3. the level of Discounts set out in Art. 9.2 of the TAR NC (at entry point from Liquified Natural Gas (LNG) facilities, and at entry points from and exit points to infrastructure developed with the purpose of ending the isolation of Member States in respect of their gas transmission systems);

[1] Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas

4. the level of Discounts set out in Art. 16 of the TAR NC (for standard interruptible capacity products).

With this document the REWS is launching the consultation in accordance with Article 28 of the TAR NC.

1. The level of Multipliers

It is a requirement of the TAR NC that multipliers should be applied for non-yearly capacity products. Multipliers are multiplicative factors that to be applied to the reference price in order to obtain the price for non-yearly standard capacity products for firm capacity, namely, quarterly, monthly, daily and within-day products.

According to Article 28(3)(a) of the TAR NC, multipliers should represent a balance between two opposite purposes. On the one hand, multipliers should be high enough such that long-term reserves are not discouraged given that investments in transmission assets have a long-term perspective. On the other hand, multipliers should be low enough to not hamper the presence for short-term contracts and foster market flexibility and the entry of new players into the market. Other objectives that should be taken into consideration while setting multipliers are the avoidance of physical or contractual congestion and the promotion of cross-border flow with interconnected countries (Italy in this case). Moreover, the magnitude of multipliers should increase as the duration of the product type decreases, encouraging predictability in the capacity bookings and improving the management of the system.

Considering the above-mentioned objectives, the REWS proposes the use of the following set of multipliers:

- For quarterly products: 1.2;
- For monthly products: 1.3;
- For daily and intra-daily products: 1.5.

The proposed levels of multipliers fall within the ranges set out in Article 13 of the TAR NC.

2. The level of Seasonal Factors

Seasonal factors are introduced into the TAR NC to differentiate the reserve prices of capacity products across the year. They should be adopted, according to Article 28(3)(b), in order to facilitate the economic and efficient utilisation of the gas infrastructure and to improve the cost-reflectivity of reserve prices.

The REWS proposes not to charge seasonal factors for non-annual transmission capacity products over the first gas years (i.e. the seasonal factor should be 1 for all products). This proposal is motivated by the fact that, according to the Market Testing performed in 2018, the maximum expected gas flow during the lifetime of MTGP would be 5.4 TWh/y, with a relatively stable gas consumption rate throughout the year, when the pipeline technical capacity is planned to be 12.0 TWh/y. These projections indicate that a significant amount of spare capacity would remain available at any time. For this reason, the adoption of seasonal factors other than 1 is not deemed necessary at this stage since these would not have any material effect in facilitating the economic and efficient utilisation of the gas infrastructure.

3. The level of Discounts set out in Article 9 of the TAR NC

Article 9(1) requires that discounts shall be applied to capacity-based transmission tariffs at entry points from and exit points to natural gas storage facilities. At present there are no natural gas storage facilities or plans for the development of such infrastructure in Malta.

Article 9(2) of the TAR NC allows the setting of discounts to be applied to capacity tariffs at the entry points to the transmission system from LNG facilities and at entry points from and exit points to infrastructure developed with the purpose of ending the isolation of Member States in respect of their gas transmission systems.

At present, the MTGP project does not foresee the integration with any LNG facility. The existing LNG facility in Malta is directly connected to the power plants that it is supplying gas and it is not presently foreseen that this LNG facility would be connected to the gas transmission infrastructure.

The MTGP could qualify as infrastructure developed with the purpose of ending the isolation of Member States in respect of their gas transmission systems, since it will connect Malta with the European natural gas network through the Italian transmission system. Nonetheless, the application of this kind of discount to this interconnection point would not find scope given that the gas transmission infrastructure that would be established by the MTGP would not have other entry or exit points that would subsidize such discount.

For the afore-mentioned reasons, the REWS does not propose to set discounts for the purposes of Article 9(1) or Article 9(2) of the TAR NC.

4. The level of Discounts set out in Article 16 of the TAR NC

In Article 16, the TAR NC provides the method for the calculation of reserve prices for standard interruptible capacity products. This method involves the application of an adjustment to the reserve prices of corresponding standard firm capacity products. The adjustment can be applied either *ex-ante* (before the event) or *ex-post* (after the event).

Given the fact that no interest in interruptible products has been shown during the Market Testing performed in 2018 and that it would not be possible to accurately determine the probability of interruption in the absence of historical data, the REWS proposes to apply an *ex-post* discount, according to the procedure established in Article 16(4) of the TAR NC. Following this type of approach, in the event of an actual interruption of transmission capacity the users of the system would be compensated. The amount of compensation is regulated by Article 16(4) of the TAR NC and is equal to three times the reserve price for daily standard firm capacity products for each day of interruption following the purchase of firm capacity products at a given entry/exit point.

HOW TO SUBMIT CONTRIBUTIONS

The REWS is inviting the submission of contributions/feedback from relevant stakeholders on the issues highlighted in this consultation document. Such contributions need to be sent to the REWS via email at **regulator@rews.org.mt** by not later than the 16th August 2020 close of business.

Relevant stakeholders are entitled to ask the REWS to keep their responses confidential. Any respondent/stakeholder who prefer their submission or part of to be kept confidential, should state this clearly and indicating also to which extent providing reasons for such request.

After this consultation, the REWS intends to take a motivated decision on the aspects referred to in Article 28(1), taking into account the consultation responses and the aspects listed in Article 28(2) of the TAR NC.