Summary of the comments received in connection with the Consultation under Art. 26 of Regulation (EU) 2017/460

Regarding a final consultation held by Bulgartransgaz under Art. 26 of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas with a duration of two months and a deadline 12 February 2020 one opinion of a gas transmission system user has been received.

In compliance with the requirements of Regulation (EU) 2017/460 within one month following the end of the consultation, Bulgartransgaz publish a summary of the received opinions under the consultation.

Regarding a draft amending a Methodology determining prices for access and transmission of natural gas through the gas transmission networks owned by Bulgartransgaz (Draft Methodology), the user's position is that paragraphs § 3 and § 5 of Transitional and Final Provisions contradict Art. 13 of Regulation (EC) 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks. The provision of the Regulation requires tariffs or the methodologies used to calculate them, which are applied by transmission system operators and approved by the regulatory authorities, to be applied in a non-discriminatory manner, and methodologies must be applied equally to all users of the gas transmission system in the respective Member State.

The company expresses concerns regarding § 3 Transitional and Final Provisions (TFP) of the draft Methodology that it complies with the provisions of Regulation (EC) 715/2009, enabling different price regimes in respect to long-term contracts concluded and the entry-exit tariff model introduced. According to the user, the pricing of provided services is carried out only on the basis of the available capacity of the network, without providing for a possibility of providing in the same capacity procedure, booked capacity under the existing long-term contracts.

In respect to § 5 of TFP, the company's position is that the wording contradicts Regulation (EC) 715/2009 as it allows for determining transmission tariffs under contracts after 3 September 2011 as well. According to the user, it is forbidden to set prices for natural gas transmission under long-term contracts beyond the above-mentioned date.

We believe that the allegations are unfounded.

Art. 35 of Regulation (EU) 2017/460, which builds upon Regulation 715/2009 as regards to the applicable tariffs for the natural gas transmission allows the possibility of contracts concluded before the entry into force of the respective Regulations to remain under the agreed tariff conditions. On the other hand, according to Art. 25 of Regulation (EU) 2017/460, fixed tariffs may apply to parts of a gas transmission infrastructure where there is an alternative capacity allocation mechanism in force.

From this point of view, the concluded long-term contracts, including contracts concluded as a result from the application of an alternative allocation mechanism, have a different price regime, from the introduced entry-exit tariff system, which is not contrary to the tariff regulation and references to discrimination cannot be made.

The user expressed an opinion that the change of the entry point under the Natural Gas Transit Transmission Contract to Turkey, Greece and North Macedonia, aims to reduce the total revenue from the transmission of those quantities. The company assumed that when transiting the quantities in question, the ship-or-pay clause was in force therefore, the decrease in revenue is a direct result of the voluntary refusal of the transmission system operator to apply the clause. The user's point of view is that the refusal of this revenue should not be recovered from all other users, respectively their clients, on the basis of the procedure established in the Methodology. Based on this understanding, the company has proposed a wording to be included in the amended Methodology regulating a prohibition on the operator, where the TSO voluntarily waives its right under the ship-or-pay clause, to reallocate this revenue to other users of the gas transmission system.

In this case the total revenue from transit transmission of natural gas under concluded long-term contracts is not reduced, on the contrary it has increased and in the long run, when applying the draft methodology, they would have a favourable effect on the applicable prices under the introduced entry-exit tariff model.

Regarding the Final Consultation Document under Art. 26 of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas, the user ascertains that, in the matrix method, the capacity products for natural gas consumers from Bulgaria with an entry point Strandzha/Malkoclar and exit point Exit Zone Bulgaria are more expensive than the Capacity Weighted Distance Methodology (CWD).

We believe that no analogy can be made of the specific calculated reference prices for capacity allocation in the two methods for particular point due to the difference in the cost allocation approach of the Matrix Method and the Capacity Weighted Distance Methodology (CWD), since the Matrix Method reflects the actual costs incurred in the gas transmission infrastructure to a much greater extend. It should be noted that considerable investments are made in the national gas transmission network, and at present the utilization of the network remains at a relatively low level.

The user notes the lack of justification for the used ratio for allocation of the required revenue (85/15) between the capacity price and commodity price and the degree of the Bulgarian gas market development has not been taken into account. The company claims that it is a worldwide practice to start with a higher share of the commodity component and gradually reduce it to reach 100% capacity price.

It should be noted that for the year concerned, the allocation ratio of the required revenue between the capacity price and commodity price is (75.8/24.2). The ratio (85/15) indicated in the Final Consultation Document treats only the total transmission component which excludes the technological component of the commodity price. Although, the European natural gas transmission operators' practice shows a tendency for the prices to be 100% capacity based, the commodity component is rather an exception and if it exists, it reflects only the variable technological costs, in the consultation we have considered the position expressed by stakeholders when discussing the new tariff model, offering a ratio for the year concerned of (75.8/24.2) for the revenue generated from capacity booking and the revenue generated from commodity prices.

The opinion emphasizes that there is no justification for the proposed ratio of allocation of the required revenue from capacity price at entry/exit points in the ratio of 50:50, and the proposal fails to take into account the specifics of the Bulgarian market.

Bulgartransgaz in its proposal has complied with the good practice offering a base ratio introduced with Regulation (EU) 2017/460 where costs for capacity prices at entry points equal to the costs for capacity prices at exit points. Such a ratio is fair to the users who intake and offtake natural gas quantities in/from the gas transmission system.

The user notes that the estimated indicative commodity price, taking into account the total transmission component and the technological component for Gas Year 2020/2021, is higher than the one for Gas Year 2019/2020.

We confirm the above, stating that the increase is due to the difference in the revenue ratios paid by the commodity price and capacity price, as well as the different required revenues calculated for the two tariff periods.

The user raises the question what is the reason for the envisaged increase in "Revenues covered by the entry-exit tariff system".

The indicative required revenue for Gas Year 2020/2021 shown in the consultation are 16.19% higher than the required revenue for Gas Year 2019/2020. The increase is mainly due to the forecast investment programme for the regulatory period 2020-2024 as well as the increase in the estimated operational costs mainly due to the inflation process.