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**18.05.2020**

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**EFET Deutschland response on the draft determination "REGENT 2021"**

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Dear Sir or Madam,

Thank you for the opportunity to respond to the above consultation. REGENT 2021 will continue the existing system of tariffs at the transmission level. This means that a good and proven regulatory framework such as the introduction of the postage stamp methodology, as opposed to the capacity-weighted distance as the reference price methodology, the storage discount of 75 percent, the exemption of storage and interconnection points from market area conversion levy and the monitoring of volume risk will be continued. EFET Deutschland also welcomes the fact that, in the context of REGENT 2021, methodologies other than the standard postage stamp are being considered and evaluated by the Federal Network Agency (BNetzA).

As a European trading association, we assess the steering effects of tariffs at the transmission level: on the liquidity of virtual trading points, the utilization of the gas infrastructure, decisions on investments and European gas flows. From the perspective of wholesale energy trading, the Federal Network Agency (BNetzA) has failed to take this connection into account when assessing the design of tariff structures.

All gas infrastructures at the wholesale level are in competition with each other in Europe. EFET Deutschland therefore calls for the avoidance of charging methods that tend to lead to national cross-subsidization between different network levels. Instead, EFET encourages BNetzA to take measures that allocate the costs of the individual network levels according to their cause, strengthen the liquidity of the future trading point THE, while not hindering European cross-border trade. It should also be avoided that a tariff spiral is set in motion, which could be caused by decreasing cross-border flows and thus lower transport bookings, to which the remaining fixed costs must be allocated.

In view of this, we would like to comment on the individual points as follows:

**I Reference price methodology (No. 1)**

**"Postage stamp" is generally favoured as a reference methodology**

EFET Deutschland supports in principle the concept of the uniform postage stamp methodology for gas pipelines compared to the method of capacity-weighted distance. The postage stamp methodology allows traders to understand the derivation of the tariff more easily and therefore increases the level of predictability.

### **More appropriate separation of the transmission network and the regional network is needed**

In Germany the different grids declared as transmission networks are very heterogeneous. These differences between cross-system transport tasks and regional supply are also highlighted in the two reports by Frontier Economics and DNV GL. This socialises the costs of regional distribution to the cross-system transmission grid and leads to market distortions on the European internal market.

The problem could have been avoided in advance if the certification of transmission system operators had also taken into account their network characteristics in the early stages of unbundling. Nevertheless, we acknowledge that a subsequent change would have been too time-consuming and resource-intensive. A similar effect could be achieved by the concept of the combined network operator equivalent to the transmission system operator "Ferngas". The example of "Ferngas" shows that the allowed revenue within a company can very well be divided between the transmission and distribution function. Such a division is a good solution to enable cost-reflective tariffs for all capacity users. The criteria proposed in the DNV GL study, such as pressure stage or diameter, could be a starting point for this. However, further considerations are also necessary. EFET Deutschland therefore also supports other options that would have a comparable effect.

### **Concerns of cross-subsidisation are supported by ACER**

EFET Deutschland thus expressly supports the recommendations of ACER to examine whether a regional network exists in Germany and to systematically quantify the costs associated with internal distribution, the intra-system grid, and those associated with the cross-system grid. According to ACER, such an analysis should be based on the most important cost drivers, such as booked and/or technical capacity, distance, diameter of pipelines and pressure. The conclusions of the analysis should make it possible to understand to what extent the applied charging methodology is cost-reflective and to assess whether alternative reference pricing methods or reallocation better reflect the costs of the infrastructure.

### **Potential consequences of inappropriate cost allocation**

If there is no cost allocation, potential cross-subsidisation will occur. Potential cross-subsidisation of regional supply distorts competition at wholesale level in various ways:

1. *Cross-border transport is becoming more expensive:* cross-subsidisation via the transport stages distorts this competition in the European internal market to the disadvantage of the German gas market. Already today the feed-in tariffs to Germany are 2-3 times higher than the tariffs of neighbouring countries (e.g. the Netherlands) on an annual basis. For cross-border transport between different VTPs, EFET Deutschland currently sees comparatively high network fees at German border points, which make trading with neighbouring markets more expensive and create negative incentives for trading. In addition, cross-border flows also serve as a supply to our neighbouring countries. Cross-subsidisation of national gas distribution networks to the detriment of transmission system customers is not solidarity in the European sense.
2. *The level of feed-in tariffs has an impact on the attractiveness of the commodity market:* the German gas market competes with other European trading hubs. For importing countries like Germany, feed-in tariffs also have an impact on the gas price and the attractiveness of the hub. The trading hub at which the difference between trading prices and transport costs is the greatest will remain attractive for gas flows. If feed-in tariffs rise relative to neighbouring markets, then the trading price should also tend to rise. Therefore, increased transport costs between trading points will not only lead to price increases for imported

gas, but for the entire German gas market. One way to counteract price increases for German end consumers could therefore be to reduce transport costs between trading points. Feed-in tariffs should therefore be continuously monitored in relation to our neighbouring markets.

3. *Distortions between different sources, routes and technologies in the European internal market:* the most efficient way to ensure fair competition between different sources, routes and technologies is to offer the infrastructure used for this purpose on the basis of cost-reflective tariffs. This requires that price differences only reflect the actual, underlying cost difference. This applies to
- the transport costs between different VTPs in order to promote cross-border trade,
  - the transport costs to and from storage facilities in order to use the infrastructure efficiently,
  - as well as between sectors (e.g. via PtG or GtP plants) in order to promote trade between commodities.

Cross-subsidisation via the transport stages distorts this competition in the European internal market to the disadvantage of the German electricity and gas market.

### **Gas storage facilities and gas power plants take over European system functions**

Gas storage facilities and gas-fired power plants compete in Europe and provide system services beyond national borders. Therefore, if their grid connection should be allocated to the regional grid in the course of a possible future separation between the cross-system transmission grid and the regional grid, it should be considered whether gas storage facilities and gas-fired power plants should be allocated to the cross-system grid either generally or through the corresponding gas pipeline.

### **Macroeconomic analysis required**

For the reasons set out above, EFET Deutschland is in favour of the postage stamp, but without it bearing the costs from the regional network. BNetzA should carry out a detailed examination of the costs of the transmission network and the regional network. The costs of the regional network should be allocated to the distribution grid. The criteria proposed in the DNV GL report offer a possible starting point here but should be checked and supplemented in detail.

When comparing different postage stamp methodologies, we call on BNetzA not only to compare the level of the forecasted charges, but also to take into account, as a matter of urgency, the connection with the aspects of trade, i.e. which additional cross-border transports will be available as cost units for the TSOs and to what extent the volumes offered and demanded at THE will be positively influenced by the respective charging methodology. The relative level of the feed-in tariffs compared to neighbouring markets plays a decisive role in this respect. These questions have not yet been examined in the discussion to date on the uniformed postage stamp methodology established by the current REGENT regulation compared to the two-postage stamp model proposed by DNV GL.

## **II Discount DZK-Product (No. 3 / Workshop from 05.05.2020)**

### **Strict cost separation more appropriate than stronger discounting DZK**

At the workshop on 05.05.2020 there was also a discussion about a stronger discount for DZK products. Theoretically, distortions at the transmission level, which are caused by the inclusion of the costs of regional distribution, could also be neutralised by a stronger discounting of transit DZK. However, only cross-border transports would benefit from this option. Gas storage facilities, gas-fired power plants and the virtual trading point would face disadvantages due to higher tariffs and the associated competitive disadvantage at European

level. Moreover, this option promotes point-to-point connections rather than the European target model, in which liquidity should be concentrated at the virtual trading points.

For these reasons EFET Deutschland, as explained under I, prefers to review the costs at transmission level and, if necessary, separate the transmission level from regional distribution. This benefits all sources of supply and the German hub.

#### **Clarification necessary for DZK**

Apart from this, EFET Deutschland, in accordance with our [response on KASPAR](#) last year, agrees in principle to the discount of the DZK product in accordance with REGENT 2021. In return, however, it must be ensured that the allocation requirements for DZK products apply across all points at least partially. It is not understandable why the allocation requirement of a DZK is drawn at the Entry Point before all interruptible Entry Capacities at the DZK Exit Point have been interrupted. Yet, it is expressly pointed out that the alternative transport route offered for the case of interruption within the DZK product generates further costs for the shipper which may exceed the costs of a FZK multiple times. Without the clarification that both points of the point-to-point connection must always be considered together in the case of DZK, it will still be in the hands of the transmission system operator whether he first serves the DZK or the uFZK. If an uFZK becomes less interruptible than a DZK, the stipulation that DZK must always be priced between firm and interruptible capacity would no longer be tenable.

#### **Improvements needed in the calculation of the discount for interruptible capacity**

As already stated in our opinion on [MARGIT 2021](#) and the implementation of [NC TAR 2018](#), the formula for calculating the discount for interruptible capacity, especially for seasonal use, should be improved by increasing the adjustment factor and reducing the safety margin in return. This could better reflect the decreasing value of interruptible capacity as the risk of interruption increases. Furthermore, when considering the historical interruption probability, the limitation of conditional capacity products (bFZK/DZK) should also be taken into account, as these reduce the interruption frequency of the bFZK and thus limit their own discount.

### **III Continuing the discount for storage points is supported (No. 2)**

We welcome the fact that the storage discount will be continued by BK9. The contribution of storage facilities to security of supply and system flexibility for the German and European gas market could justify an even higher discount.

### **IV Exemption of interconnection points and storage facilities from the market area conversion fee welcomed (No. 5a)**

EFET Deutschland welcomes the continued application of the exemption of the market area conversion fee for interconnection points and storage points, as they do not benefit from the market area conversion and, thus, double burdens can be avoided.

### **V Provision of the documents in English**

EFET Deutschland expressly welcomes the renewed provision of the consultation documents of the BNetzA in German and English. We will also be happy to provide a translated version of this statement afterwards.

## **VI Monitoring of impacts is supported (No. 10b)**

EFET Deutschland welcomes the examination and assessment of the volume risk. As stated under I, a detailed macroeconomic assessment would be necessary here. In this context, greater cost transparency and the regulated cost basis per network operator would also be desirable.

## **VII REGENT 2022 (No. 11 / Workshop 05.05.2020)**

During the workshop on 05.05.2020 a possible revision of the specification in the form of a "REGENT 2022" was discussed. The stability of the regulatory framework is of great importance for the market. Only in the event of unforeseeable negative developments should timely countermeasures be taken. From EFET Deutschland's perspective, the analytical report on the volume development of 2020 is a good opportunity to discuss the developments jointly and in detail with the market.

In case any further questions or explanations of this position is required, please do not hesitate to contact us.

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