

Input to the periodic consultation on the network code for tariffs and the Swedish tariff model

Scope

The Swedish TSO, Swedegas, has announced a consultation on the European Commission Regulation 2017/460 on network code for harmonized transmission tariff structures for gas (TAR NC). This letter contains the input from Uniper and its Swedish subsidiary Sydkraft Thermal Power AB.

Summary

Uniper does not agree with the proposal presented by Swedegas in the following points:

- Since distance is a fundamental cost driver for transmission services, using the CWD method rather than the proposed postage stamp method would lead to a more cost reflective reference price and, at the same time, bring balance in the allocation of costs between the different offtake areas.
- The additional tariff component “Extra Områdeskapacitet” is not representing factual cost and is discriminating. While being a major cost component it is not addressed or explained by Swedegas in the consultation documents. On the presentation of consultation documents on the 9th of May, Swedegas has on request stated its intention to continue applying “Extra Områdeskapacitet unchanged.
- The additional tariff components “Kapacitetstilldelningsavgifter” and “Dygnsbokningsavgift” are not mentioned in the consultation documents. They represent a hinder to new market entries and discriminate customers with irregular operation.

Background

Uniper is a major electricity producer, with power plants in several European countries. The CCGT combined heat and power plant Öresundsverket in Malmö (legal entity Sydkraft Thermal Power AB), is connected to the Swedish gas transmission system through a 50 bar pipeline owned by a DSO. Öresundsverket has been a major gas consumer and producer of electricity and district heat in the Swedish system. As such, Uniper would like to give the following input to the on-going periodic consultation on the network code for tariffs (TAR-NC).

Reference price methodology

In the consultation documentation, Swedegas suggests to use the postage stamp method as the reference price methodology. Comparison is made with the capacity weighted distance (CWD) method.

We miss in the consultation material a clear presentation of data to support the statement that the CWD method would lead to a *“decrease in market volumes and a higher reference prices for the remaining transmission customers”*. Majority of consumption is located in southern Sweden, amongst others with our power generation consuming e.g. in average 39 000 Nm³/h/y during the

years 2010-2011. Consumption decreased during the last years, due to low electricity prices and gas transmission costs significantly above the level in other European countries.

With current price levels the Swedish gas grid is having prices which are not allowing competitive operation of gas reliant industries exposed to international markets.

The tariffs do not reflect the costs occurring from gas consumption in southern Sweden. Since distance is a fundamental cost driver for transmission services, using the CWD method rather than the proposed postage stamp method would lead to a more cost reflective reference price and, at the same time, bring balance in the allocation of costs between the different offtake areas. The PS method, on the other hand, leads to an unfair cost allocation that decreases the competitiveness of natural gas in southern Sweden, with the risk of overall negative volume effects. This is however not mentioned in the consultation material. CWD would allow the southern Swedish industry to operate without competitive disadvantage while contributing to the Swedish grid operations in an appropriate relation to the costs occurring.

Taking distance into account in the tariff structure would act to support development of new offtakes/consumers close to the existing transmission system, rather than at locations further away from the entry point, increasing efficiency of the system. Further, it is possible that a CWD based tariff might trigger interest for additional entry points to the Swedish system, especially in the northern part (e.g. LNG import). If this happens, it will act to decrease the difference in reference price between different areas and increase the security of supply for the whole system.

Additional tariff components: “Extra områdeskapacitet”

“Extra områdeskapacitet” (Additional Area Capacity) is a major cost component in Swedegas tariff model but is not addressed or explained by Swedegas in the consultation documents. On the presentation of consultation documents on the 9th of May, Swedegas has on request stated its intention to continue applying “Extra Områdeskapacitet”.

Extra Områdeskapacitet is applied for customers/DSO with multiple connection points. It is calculated by multiplying a price factor with the number of connection points and the customers total maximum daily consumption under a month. For a single day operation it is in the same order of magnitude as the remaining tariff payment.

The tariff is not in relation to the costs arising from multiple connection points. It's discriminating customers, especially in our case with a setup of a DSO with many connection points (11) and very uneven extraction from the different connection points. In our case of energy production it is causing significant market distortion for the electricity and heat market.

“Kapacitetstilldelningsavgifter” and “Dyngsbokningsavgift”

Even the additional tariff component “Kapacitetstilldelningsavgifter” and “Dyngsbokningsavgift” are not mentioned in the consultation documents. **Kapacitetstilldelningsavgift** is an additional annual capacity reservation fee again taking into account maximum capacity and connection points.

Dyngsbokningavgift is an extra fee required to book yearly in order to get access to daily capacity bookings. It is calculated by multiplying a price factor with the maximum capacity.

We evaluate that these components are not reflecting any factual cost. They are a hinder to new market entries and thus market development. They are discriminating customers with rare or irregular consumption.

Market situation

In European comparison the general level of the transmission tariff in Sweden is significantly high. This applies both to the basic tariff and to the factor for daily bookings. Corresponding power plants in other parts of Europe have basic tariffs below 1/3 of the present level in Sweden, and the multiplier for daily bookings in Germany are for example around 1.2-1.3 rather than 3.5 as is the case in Sweden. As this Swedish gas tariffs are having a distortive influence on electricity markets and Sweden based electricity production.

Reasons for these significant deviations in tariffs and the underlying regulated income limitations in European comparison have not been studied by us in this statement. However they seem key to an open market.

On behalf of Uniper/Sydkraft Thermal Power AB

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