

Views of market participants on Elering AS’s request for approval of the standard terms and conditions of the domestic network contract for gas and prices of the gas transmission network service

Period of consultation on the standard terms and conditions: from 4 July 2024 to 18 September 2024.

Period of consultation on network service prices: from 18 July 2024 to 18 September 2024.

As part of the consultations, three professional associations and two gas distribution network operators submitted their views.

In summary, the market participants consider that Elering AS’s request to establish a capacity-based exit price for intra-system network use, with a charge that is not dependent on the quantity of gas consumed, is not justified.

The views of the market participants are presented below:

Market participant	Feedback
Market participant 1	
1.	<p>The energy consumption of the food industry is highly seasonal (in a short period of time, industrial enterprises have to intensively produce the entire output for the following year). However, under the new standard terms and conditions, food producers would be deprived of the flexibility to use gas according to the specificities and needs of their production processes. The approach applied in the standard terms and conditions would require establishing the maximum hourly gas capacity and paying a corresponding consistent network charge throughout the year, without taking into account the actual nature of consumption.</p> <p>Such pricing would certainly have a negative impact on both the cost level of gas (increasing the cost of gas consumption) and the competitiveness of companies in Estonia compared to those in neighbouring countries.</p>
2.	<p>The pricing mechanism laid down in the new standard terms and conditions would impose an obligation to predict hourly consumption very precisely in the future, as exceeding the prescribed limit would result in an exceptionally high penalty rate. A continuous recalculation of the hourly maximum capacity would impose a considerable administrative burden on the producer and lead to additional costs due to the need to acquire significantly more accurate measuring instruments. Moreover, such a mechanism does not in fact exclude the possibility of incurring a penalty, which, according to the draft standard terms and conditions, would be as high as €22,000 for exceeding 1 MWh.</p> <p>The rationale for the penalty is completely incomprehensible – what damage would it cause to the owner of the transmission network if a company were to use 1 MWh more gas in one hour?</p>

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3.	Regarding the capacity-based mechanism laid down in the draft standard terms and conditions, there is also a risk that if consumers start to constantly change their hourly maximum capacities, the amount of the network charge for the company will change accordingly. A stable and predictable price of energy carriers is a very important production input for the food industry. Conversely, the unpredictable and uncertain price of gas would certainly have a negative impact on the competitiveness of companies and the attractiveness of the Estonian economic space.
Market participant 2	
4.	From the point of view of Elering AS, this is a very convenient and simple way of collecting charges, targeted at distribution network operators. The risks are fully mitigated and the necessary amount of money is collected from the market, without considering how this method of revenue generation and the additional conditions will affect the gas market as a whole.
5.	Capacity-based charging imposes on distribution network operators the obligation to collect a charge, the amount of which depends on the maximum hourly consumption. Such actions give the impression that the distribution network operator is able to predict the maximum hourly consumption of consumers and to book capacities accordingly.
6.	It is completely unacceptable for a distribution network operator to be obliged to forecast the consumption of its customers, since for every MWh exceeded, Elering wants to impose a disproportionately high and confusing penalty of €22,000 per 1 MWh exceeded.
7.	No network operator could agree to meeting such requirements; consequently, similar principles would need to be applied to customers. However, this would create even more confusion in the market and affect the competitiveness of companies already using gas, as the principles of charging differ radically from those in neighbouring countries. This creates an additional tax burden on businesses, leads to constant changes in network charges, and does not have a positive impact on the economy.
8.	Such a way of charging creates an additional administrative burden on regulated undertakings and the Competition Authority, because every time the capacity charge is changed, regulated undertakings are forced to apply for tariff changes.
9.	It is unclear what problem would be solved with such an approach. If the system operator is trying to adopt an approach similar to the one used for electricity, then connecting additional consumers to the system is not a problem in the gas market – on the contrary, consumption growth should be encouraged, making it possible to keep the networks in operation and charges to customers low.
10.	<p>Proposals:</p> <ol style="list-style-type: none"> 1) The transmission network tariff and the distribution network operator's tariff should be separated, so that customers would have a clear understanding of network charges. This would make it possible to find the optimal solution for collecting network charges, similar to the approach used in our neighbouring countries, such as Finland, Latvia and Lithuania. 2) Since Elering AS entered into a contract with the consultancy firm Civitta to forecast gas consumption in Estonia until 2050, the new charging mechanism should not be discussed yet. The study, which will be completed by the end of this year, will feed into the long-term planning of the gas transmission network, the co-ordination of developments in the

Market participant	Feedback
	single gas market and subsequent analyses of the energy system. We believe it is crucial that we understand future market developments and are able to estimate our future outlook, so the principles of the current hasty, destabilising and counterproductive charging mechanism should be completely re-evaluated in co-operation with market participants. In addition, the emergence of potential gas-fired power plants on the market and the impact of the charging mechanism on the price of electricity, including in the context of reserve capacities, should be taken into account.
11.	<p>If the charging mechanism of Elering AS is established and these principles also reach stove users and apartment associations through gas distribution network operators, then:</p> <p>1) What will be the annual charge for a stove user compared to the current network charge? 2) What will be the annual charge for a gas-using apartment association compared to the current network charge?</p>
Market participant 3	
12.	Gas is an important peak and reserve fuel for the district heating sector both today and in the future. Heating undertakings must ensure the continuity of heat supply at all times, making gas-based generating installations important for ensuring reserve capacity in exceptional circumstances. Thus, it is not possible for heating undertakings to reduce the contractual connection capacity in order to optimise the network charge.
13.	However, market participant 3 estimates that the transition from a consumption-based network charge to a capacity-based charge will increase the cost for the district heating sector, at least in the long term.
14.	The changes reduce the competitiveness of district heating and run counter to climate objectives.
15.	The changes may lead to the use of more polluting fuels. If the use of such fuels as a backup fuel instead of gas becomes economically more advantageous due to the significant increase in the network charges for gas, this could lead to a preference for more polluting, cheaper alternatives to mitigate the price pressure and maintain the competitiveness of district heating.
16.	The contractual penalty imposed by the proposed amendments to the standard terms and conditions is disproportionately high and should not apply to providers of vital services. Alternatively, providers of vital services should be able to use other pricing packages allowing for an exceptional temporary increase in capacity on a more flexible basis than once a year.
Market participant 4	
17.	<p>The need to change the methodologies developed in accordance with the Natural Gas Act and the law:</p> <ul style="list-style-type: none"> - subsection 1 of § 23² of the Natural Gas Act provides that the price of the network service is calculated on the basis of the average (arithmetic mean) sales quantity of the last three calendar years, which would not be the case if the capacity charge is imposed. As established by law, the same is provided for in the transmission network methodology, which therefore also needs to be changed; - according to the distribution network methodology, the cost of the outsourced network service is a variable cost, which depends to a significant extent on the change in the sales quantity. If the network service charge is no longer dependent on the sales quantity, it can no longer be included in the variable cost;

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	<ul style="list-style-type: none"> - according to the explanation of operating costs specified in the distribution network methodology, the charge for the transmission service is also not included in the operating costs of the distribution network operator, as according to the methodology, an undertaking can influence its operating costs through more efficient economic activities. However, the capacity charge would be a cost that the distribution network operator cannot control or influence even with the best efforts; - given that the costs of the transmission service represent the majority of the costs of the distribution network operator, they cannot possibly fall under the category of non-controllable costs, since non-controllable costs cannot constitute a significant part of the network service charge.
18.	<p>The fundamental difference between the draft amendments to the prices and standard terms and conditions of the transmission network service of Elering AS and those of neighbouring countries is that neither Finland, Latvia nor Lithuania include the gas transmission network charge as part of the distribution network charge. In Finland, for example, traders pay for the use of the transmission network by purchasing capacity products for different periods (annual, quarterly, monthly, daily and intraday) to cover the consumption needs of their customers, ranging from long-term annual products to daily products to cover peak winter consumption. Traders can take into account the consumption needs of their customers to whom they sell gas and offer the customer a capacity product that best suits them, while at the same time taking advantage of opportunities to optimise their portfolio through capacity products, which ultimately allows them to offer the customer a fairer price.</p>
19.	<p>When AS Elering's capacity-based network charge is established, the transmission network charge must be a separate charge and can no longer be part of the distribution network charge. The currently proposed model would not solve any problems, it would create additional problems and impose an administrative burden on all market participants. The model would provide Elering AS with a fixed income, margin and, as an added bonus, contractual penalties. It would also reduce the business risks of the state-owned company Elering AS in providing gas transmission services by shifting these risks to distribution network operators who, as regulated undertakings, lack the ability to fairly transfer the transmission network operator's capacity charge to final consumers and manage the risks involved.</p>
20.	<p>To avoid the contractual penalty, Elering has included a fallback option in the draft contract: an increase in the contractual capacity of the connection point. This would help only seemingly and, at the same time, would significantly increase the administrative burden for all parties involved.</p> <p>To avoid incurring a contractual penalty, annual amendments to transmission network service contracts would occur, so the total output capacity of Elering AS and the allowed sales revenue would constantly change, which in turn would necessitate a network service price approval procedure by the Competition Authority. The transmission service price approval procedure would be followed by approval procedures for the network service prices of distribution networks.</p>
21.	<p>A workable solution would be to implement a higher intraday network charge product instead of a contractual penalty, as is being done by our northern neighbours. If we adopt a solution similar to that of our neighbouring countries where the transmission network charge would be paid in the future by traders using the transmission network, we could save all gas market participants</p>

Market participant	Feedback
	from a steadily increasing administrative burden. To the best of our knowledge, the number of traders in Estonia is expected to remain similar to the current number of customers of Elering AS, meaning that in terms of customer communication, there would be no significant change in the administrative burden for Elering AS.
Market participant 5	
22.	<p>If the production or consumption conditions of the connection point covered by the network contract are changed, the connection process must be started anew – an entirely incomprehensible requirement. In practice, this is a question of changing the meter at the connection point. As a rule, a customer’s gas installation at the connection point does not include meters – this is Elering’s responsibility.</p> <p>It would be reasonable to change the technical conditions of consumption or production, as the technical conditions would allow for the cost of a possible investment to be estimated. This would also be a less bureaucratic approach.</p>
23.	Capacity calculation based on balance period instead of hourly capacity tracking. The rationale for switching to hourly metering is unclear. In the draft document presented, the reasons have not been given. Presumably, it will also be necessary to create a practical capability for customers to monitor hourly gas flow. This function is currently only available to Elering at the connection point.
24.	The basis for calculating the contractual penalty is unclear and requires justification. The contractual penalty is incomprehensibly high. There are no clear methods for controlling and monitoring consumption capacity.
25.	Market participant 5 does not agree with clause 4.4, according to which the transmission of gas may be interrupted if a market participant exceeds the contractual connection capacity. In addition to the absence of risk, there are no other reasons for interrupting the gas flow, such as arrears, etc. Even if capacity is exceeded, the customer would pay for the excess gas in any case, and, therefore, imposing a penalty is not justified.