Executive summary

TARIFF REGULATION CRITERIA FOR THE
NATURAL GAS TRANSMISSION AND METERING SERVICE
FOR THE SIXTH REGULATORY PERIOD (6PRT)
Initial guidelines
213/2022/R/gas

With consultation document 213/2022/R/gas, the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) illustrates its initial guidelines – as part of the proceedings for taking decisions on *tariff and quality of service regulation for natural gas transmission and metering activities for the sixth regulatory period* (6PRT) which runs from 1 January 2024 to 31 December 2027 – with regard to the criteria:

- for *determining the allowed revenue*, in particular for the first year of the period (2024), with a view to the transition towards the Regulation by Expense and Service Objectives (ROSS);
- for the reference price methodology of the natural gas transmission service.

The decision fits within the framework of what is set forth by European regulations on the harmonised transmission tariff structures for gas pursuant to Commission Regulation (EU) 460/2017 of 16 March 2017 (TAR NC, or Tariff Network Code).

Consultation document (DCO) 213/2022/R/gas is accompanied by an appendix which goes into detail on the reference context, including a description of the status and use of the transmission network, as well as the evolution of tariff parameters.

The parties concerned are invited to send their observations to the Authority by 27 June 2022.

Allowed revenue methodology

Transition to ROSS methodology

1) Recommendations for the transition between the current allowed revenue methodology and the criteria established under the ROSS approach currently being defined, in relation to the *shares of revenue covering CAPEX* and *OPEX*.

The Authority intends to establish that the ROSS criteria will be applied to expenses incurred starting from the first year of the 6PRT 2024). Specifically, the Authority is inclined to establish that:

a) revenue for the determination of transmission tariffs will be determined with a view to guaranteeing a balance between the revenue deriving from the application of such tariffs and the allowed revenue determined according to the ROSS approach, therefore taking into account, *ex post* (or once the actual costs are known), the variance between the total expense baseline and actual total expenses and efficiency incentives ("tariff decoupling");
b) the year 2024 will be the first year of application of the ROSS methodology and, as a result, the total expense baseline for 2024 will act as a reference for the determination of the reference revenue

relevant for the determination of transmission tariffs, according to the criteria and time lags that will be defined as a result of the ROSS-base proceedings initiated with resolution 271/2021/R/com;

c) the following will be recognised in the reference revenue relevant for the determination of transmission tariffs for 2024:
    i. the CAPEX referring to investments realised until the year 2023 ("legacy") determined, according to the criteria in force during the 5PRT, considering the investments realised until the year 2023;
    ii. the total expense baseline for 2024 referring to OPEX, determined based on the actual OPEX for 2021, and also possibly considering a sharing of the greater/lesser efficiencies realised in the fifth regulatory period (5PRT), based on a comparison between actual OPEX and allowed OPEX in the year 2021;

d) the level of allowed revenue relating to 2024 will also be determined by considering the fast money component relating to the total expense baseline for 2024 and the efficiency incentives deriving from the comparison between the expense baseline and actual total expenses, according to mechanisms typical of the ROSS approach;

e) the slow money share relating to the expense baseline for 2024 (including the treatment of work in progress) will be considered for the determination of the reference revenue starting from 2025, according to the criteria and time lags that will be defined as a result of the ROSS-base proceedings initiated with resolution 271/2021/R/com;

f) for the years subsequent to 2024:
    i. the total expense baseline will be defined by taking into account the ROSS-base regulation criteria and, for the main transmission system operator, the ROSS-integral approach as well;
    ii. the value of the CAPEX of investments incurred until 31 December 2023 ("legacy") will be updated taking into account the change in the gross fixed investment deflator, the increase in accumulated depreciation on the basis of regulatory asset lives and any disposals and divestments.

Incentive mechanisms

On the incentive for the development of new transmission capacity, it is confirmed to remove future input-based incentives, i.e. those incentives based on the increase in the rate of return (no longer applied as of investments entering into operation as of 2023), without prejudice to the possibility for companies to receive, until expiry, the additional remuneration recognised for investments that enter into operation in previous regulatory periods.

In relation to the transmission service incentive and efficiency-boosting mechanisms set forth in DCO 616/2021/R/gas, such as incentives for the maintenance in operation of fully-depreciated assets, efficiency criteria for the development of networks in new methanisation areas and revenue sharing mechanisms deriving from the operation of dual fuel compressor stations, these will be discussed in a specific consultation document to be published soon.

Methods for recognising revenue items excluded from the application of the ROSS methodology

Network losses, fuel gas and Unaccounted for Gas (UFG): the criteria for quantifying the gas necessary to cover losses, fuel gas and UFG and the relative *ex ante* valuation in force in the 5PRT are confirmed, but a simplified mechanism is recommended for the management of allowances in the course of the year through the neutrality mechanism pursuant to the *Integrated Balancing Code* (TIB), which also has the objective of simplifying the administrative management of equalisation between the Balancing Operator (Snam) and the *Energy and Environment Clearing and Settlement Agency* (Cassa per i Servizi Energetici e Ambientali, CSEA). The introduction of a reconciliation mechanism is also planned for physical losses, analogous to the mechanism already in force for the reconciliation of revenues relating to differences between the actual GNC and the allowed GNC not attributable to transmission operators, as well as the phasing out of the fuel gas reconciliation mechanism currently in force, which is no longer necessary. On losses, a possible revision of the standard emission factors is recommended, to be defined on the basis of an assessment of the information collected during a specific data gathering process to be initiated soon.

Emission Trading (ETS): the Authority is inclined to confirm the mechanisms in force, although within the ROSS approach it expects to consider mechanisms for promoting emission reduction pathways to be proposed in the business plan.

Operational balancing: the Authority is inclined to confirm the current provisions on the methods for recovering costs relating to the network operational (physical) balancing service, which call for the recognition, to the companies that perform transmission activities on the national natural gas pipeline network, of a revenue component for the recovery of the costs relating to that service.

Recovery of costs relating to the transmission metering service

It is recommended that the general criteria established for the transmission service be confirmed for the metering service, including the mechanisms for the transition with the ROSS methodology. As regards differences between revenue for the year 2024 determined on the basis of preliminary data and final revenue, the Authority orientation is to consider such amounts within the metering service revenue recovery factor.

Transmission service cost allocation criteria

Identification of the services provided by transmission operators for tariff purposes

Pursuant to Article 4 of the TAR NC, the reference price methodology is applied to the share of revenue relating to the transmission service, or the service whose costs are caused by the expected technical or contractual capacity and distance cost drivers and are correlated with the investment in infrastructure and the operation of such infrastructure which is part of the invested capital allowed for the provision of transmission services.

In line with the 5PRT, the Authority is inclined to define the transmission service, on the national natural gas pipeline network as well as on the regional network, as a transmission service pursuant to the TAR NC, and therefore to allocate the relative revenue according to the reference price methodology. The inclusion of the network operational (physical) balance service, as well as “ancillary” services, within the revenue relating to the transmission service to be recovered through capacity-based transmission tariffs is also confirmed.

The transmission metering service would instead be classified as a “non-transmission service”.

Transmission service charges

In general terms, the tariff structure, the methodology for determining capacity-based charges (“Capacity-Weighted Distance” or “CWD”) and the criteria for determining the commodity-based charges would basically remain unchanged compared to the 5PRT.

Specifically, for capacity charges, the Authority is inclined to confirm:

- the provision that the capacity share is intended to recover revenue relating to the return on net invested capital allowed for regulatory purposes, economic and technical depreciation and costs for the system operational balance service, net of revenue deriving from the application of capacity overrun charges;
- an entry/exit split of 28/72.

One aspect recommended for modification regards the discounts to be applied:

- to capacity tariffs from and to storage: 100%, rather than the current one at the minimum level of 50%;
- to capacity tariffs at entry points from LNG terminals, 50% rather than the current 0%.

As regards the commodity-based charge, the Authority is inclined to confirm:

- the provision that the commodity share is aimed at covering allowed OPEX, costs relating to the Emission Trading system and costs for the supply of quantities to cover fuel gas, losses and UFG;

- the application of the charge to the transmission network exit points (and that is, at delivery points, at exit points towards storage plants and at export cross-border points).
- the use of a driver equal to the quantities of natural gas withdrawn from the network at exit points towards storage plants, at cross-border interconnection points and at delivery points using, for each year *t*, the volumes relating to the year *t-2*.

The Authority intends to confirm the application of a complementary revenue recovery charge, applied to the quantities withdrawn from the network at exit points from the transmission network corresponding to delivery points and exit points towards storage plants.

Short-term multipliers

The Authority is inclined to confirm the multiplier levels currently in force, also in order to incentivise longer-term allocations and favour the use of infrastructure even during non-peak consumption periods. In relation to the delivery points serving distribution networks ("city gates"), the Authority in any event deems it appropriate to evaluate – as an alternative to what is planned in consultation document 157/2022/R/gas in relation to transmission cost variability – the introduction of daily capacity allocations, also implicit in type, to which to apply a specific multiplier, the value of which may be between 2.5 and 3, taking into account the average load factors recorded in the gas years from 2016-2017 to 2020-2021.

Transmission metering service charges

The Authority is inclined to confirm the tariff breakdown into two components, one covering general metering costs (CM^T) and one covering metering costs only of end customer delivery points (CM^{CF}).

With regard to the CM^{CF} charge, it is expected to be differentiated on the basis of two or three distinct flow rate classes and, to provide users with certainty, it will be possible to maintain a fixed CM^{CF} for the entire regulatory period.

Revenue reconciliation mechanisms

The Authority is inclined to confirm, in essence, the revenue reconciliation mechanisms, with the exception of the fuel gas, loss and UFG reconciliation mechanisms, revised with a view to administrative simplification. In particular, the application of the following revenue recovery mechanisms is confirmed:

- coverage of the risk associated with changes in transport capacity allocated with respect to that expected (transmission service capacity revenue recovery factor);
- coverage of the risk associated with changes in gas volumes actually withdrawn from the network with respect to those used for the calculation of the CV_U variable charge (transmission service commodity revenue recovery factor);
- reconciliation of items relating to the UFG;
- metering service revenue recovery factor.

Furthermore, due to the amendments recommended on the criteria for recognising network losses, fuel gas and UFG and the associated reconciliation mechanisms proposed, it is deemed appropriate to introduce a specific network physical loss reconciliation mechanism.

Additional aspects

A modification is recommended of the timing for the payment of additional system charges to cover general charges of the gas system, reducing the time interval between the collection of the revenue and the corresponding transfer to CSEA from 90 days from invoicing of each two-month period to the 15th day of the second month subsequent to the invoice, establishing that the revenue will be transferred to CSEA on a monthly basis.