

Harmonised transmission tariff structures

Framework Guideline

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20th Madrid Forum
26 September 2011

Background

- **Madrid Fora so far:**
 - **17th Madrid Forum:** “After the summer break, ERGEG will begin its work on a framework guideline on tariffication”;
 - **19th Madrid Forum:** “The Commission invites regulators to finalise their work and present the results to the Commission”.
- **General objectives:**
 - Efficient gas trade and competition;
 - Avoid undue discrimination (between cross-border and domestic network usage);
 - Guarantee recovery of allowed revenues (associated to cross-border interconnection points);
 - Provide incentives for new and efficient investments.

Cost allocation methodology

- **Main issues**
 - Avoid undue discrimination between cross-border and domestic network usage;
 - Mitigate the risk of price pancaking;
 - Split of the allowed revenues to be recovered from entry and exit points.
- **Policy options**
 - Average cost/LRMC based on distance to reference node (virtual point);
 - Matrix approach.
- **General principle:** The same cost allocation methodology shall be applied for all interconnection points (i.e. domestic and cross-border IPs) of a TSO/entry-exit zone.

Recovery of allowed revenues

- **Main issues:** recovery of the difference between the allowed and the actual revenues due to
 - Auction results;
 - Difference between the expected and realised capacity bookings.
- **Policy options:**
 - Addressing under-recovery
 - Commodity charge (ex ante or ex post);
 - Additional fee by unit of capacity (ex ante or ex post);
 - Lump sum.
 - Regulatory account (incl. separate sub-account for auction revenues).
- è **General principle:** Non-discriminatory recovery/redistribution of allowed revenues to system users.

Setting of reserve prices (1)

- **Main objectives:** promote an efficient use of the infrastructure by
 - Facilitating cross-border arbitrage;
 - Reducing congestions;
 - Allowing revenue recovery.
 - **Policy options:**
 - Setting reserve prices for short term capacity allocated with short lead times to between zero and the short run marginal cost level;
 - Setting reserve prices for quarterly services at 1/4, for monthly services at 1/12 and for daily services at 1/365 of the yearly service
 - with or without seasonality factor;
 - with the condition that the resulting sum of the application of the seasonality factors shall not exceed the price of the quarterly/monthly/yearly service.
- è **General principle:** Reserve prices shall reflect economic costs and maximise use of capacity.

Setting of reserve prices (2)

- **Main issues:** set the reserve prices to allow an efficient use of interruptible and non-physical backhaul capacity.
- **Policy options:**
 - Setting reserve prices for interruptible / non-physical backhaul capacity services at a discount in relation to the corresponding firm capacity service
 - with different classes of interruptibility;
 - Setting reserve prices for interruptible / non-physical backhaul capacity services at zero;
 - Setting reserve prices for interruptible / non-physical backhaul capacity services at the same level as the corresponding firm capacity services with ex-post price reductions;
 - Setting reserve prices for non-physical backhaul capacity services at the actual (marginal) cost level.
- è **General principle:** Reserve prices shall reflect economic costs and maximise use of capacity.

Bundled products

- **Main issues:** split of the revenue (amount exceeding the reserve price) from auctions on bundled products between the two adjacent TSOs.
- **What are the options?**
 - 50/50 split;
 - Split proportionately to reserve price;
 - Split according to investment needs;
 - Split according to size of the entry/exit zone.
- è **General principle:** Splitting rule to set the right incentives for the cooperation of TSOs with regard to capacity calculation and maximisation at each relevant IP.

Way forward

Tariff issues to be addressed in CAM network code:

- Definition of the cleared price (final vs. floating);
- Split of cross-border services;
- Over-/under-recovery seem to be out of scope.

Next steps – according to the 3-year plan:

- Finalisation of scoping and preparation of the consultation document (and Initial Impact Assessment) until end of 2011;
- Public consultation in Q1 2012.

Approach tbd:

- CAM network code (clear link between tariffs and CAM – offered products);
- Tariff framework guideline and network code;
- EIP;
- Commission guidelines;
 - Regulators are willing to closely cooperate with the Commission to find the most appropriate approach to tariff guidelines development.

Thank you for your attention!

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