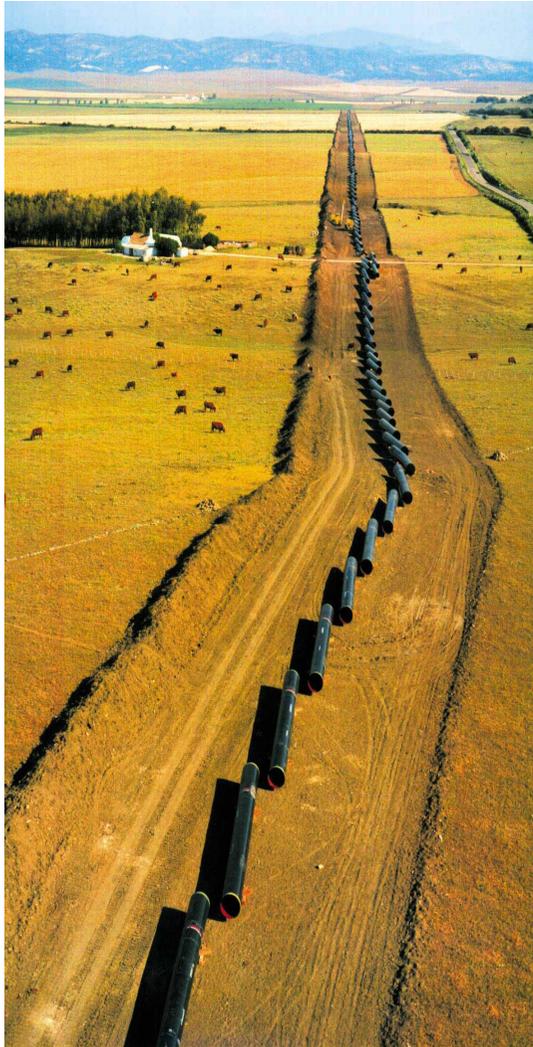




**11<sup>th</sup> meeting of the EU Gas Regulatory Forum  
Madrid, 18-19 May 2006**



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**Draft explanatory note on  
Article 3 „Tariffs for access to  
the networks“ of Regulation  
1775/2005**

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# Overview

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## ★ Tariffs in the 2nd IGM Directive

↪ Non-discrimination

↪ Tariff setting

↪ Cost base of tariffs

## ★ Tariffs in Regulation 1775/2005

↪ Cost basis

↪ Benchmarking as tariff setting principle

↪ Tariffs and competition

↪ Other qualitative requirements





# Tariffs in the 2<sup>nd</sup> IGM Directive: non-discrimination

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- ★ **Core provision: Article 18(1) including the reference to Article 25(1) of the Directive**
  - ↪ **Ex ante approval and publication of tariffs or their methodologies**
  - ↪ **System users must be able to anticipate the cost of enjoying a transportation service**
- ★ **Article 18(1) excludes any discrimination accruing from the application of tariffs**
  - ↪ **Neither size, nor relation to TSO, nor portfolio considerations must affect the tariffs**
  - ↪ **Avoiding a discriminatory impact through the portfolio effect requires entry-exit systems for tariffs**





# Tariffs in the 2<sup>nd</sup> IGM Directive: Tariff setting

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- ★ **Two ways of tariff setting:**
  - ↪ **Ex ante approval of tariffs by the regulatory authorities**
  - ↪ **Ex ante approval of methodologies to calculate the tariffs by the regulatory authorities**
- ★ **In either case, mandatory ex ante approval**
- ★ **Effective and efficient solutions to avoid pancaking**



## Tariffs in the 2<sup>nd</sup> IGM Directive: Cost base of tariffs

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- ★ In order to comply with the requirement of non-discrimination, tariffs have to be cost-reflective
- ★ Directive aims at providing „efficient and non-discriminatory access to the system“
  - ↪ Tariffs must not be unduely high, but reflect the underlying costs
- ★ This is also required in the light of „objective application“ of tariffs
- ★ Only cost-based or cost-reflective tariffs would exclude competitive advantages of incumbent supply companies belonging to the same holding company as the network operator





# Regulation 1775/2005: cost base of tariffs

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- ★ **Cost base of tariffs:**
  - ↪ Article 3 requires tariffs to reflect actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator
- ★ **Cost transparency**
  - ↪ Publication of at least the main summary economic data of the networks
  - ↪ Which costs and which cost allocations
- ★ **Tariffs to include an appropriate return on investments**





# Benchmarking as tariff setting principle

- ★ **Regulation allows**
  - ↪ „...where appropriate taking account of the benchmarking of tariffs by the regulatory authorities“
  - ↪ Benchmarking is restricted to certain circumstances
- ★ **Application of benchmarking in the light of Recital 7, which spells out where „benchmarking“ of tariffs is a „relevant consideration“**
- ★ **„effective pipeline-to-pipeline competition“ to be identified by the regulatory authorities**
- ★ **Benchmarking is a complementary element to the cost-based tariff setting approach**





# Tariffs and Competition

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- ★ **The Regulation acknowledges the role attributed to tariffs and methodologies used to calculate them with respect to competition**
  - ↪ They shall facilitate efficient gas trade and competition
  - ↪ Avoid cross-subsidies between network users
- ★ **These requirements would be best met by entry-exit tariff systems**



## Some other qualitative requirements of tariffs

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### ★ Transparency

- ↪ From the point of view of the user in order to allow him to establish the costs he incurs by enjoying the service

### ★ System integrity

- ↪ Costs to maintain a well functioning system
- ↪ Investments improving the overall performance by eliminating physical bottlenecks

### ★ Interoperability

- ↪ Costs accruing from the elimination of interoperability problems may be taken into account
- ↪ Regulators to safeguard reasonable cost-benefit ratio

### ★ Liquidity

- ↪ Incentives for TSO to offer the maximum level of capacity to the market





# Further procedure

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- ★ **Commission invites stakeholders to submit final comments by end of June**
- ★ **On the basis of the discussion today and the final comments, the Commission intends to issue the final explanatory note**

