Draft Framework Guideline on Tariffs

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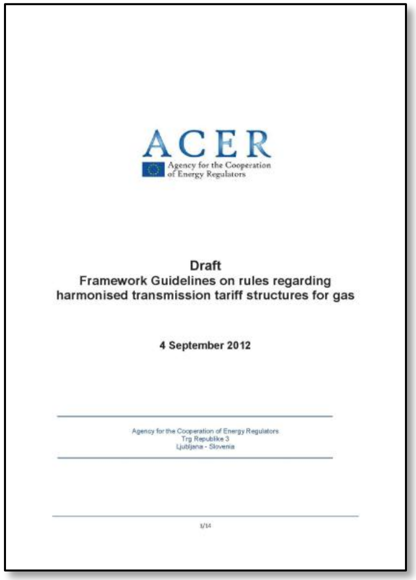
22nd Madrid Forum, 2 October 2012

Process so far

- Consultation on likely scope of the FG concluded on 26 March 2012
- Commission invitation to ACER to develop the FG received on 29 June (deadline 31 December 2012)
- ACER launched the public consultation on the draft FG Tariffs on 5 September, IIA published on 17 September
- ACER Stakeholder Workshop held on 18 September to present the draft FG and invite views
- Expert group meetings, including ENTSOG and EC as observers


Draft
Framework Guidelines on rules regarding harmonised transmission tariff structures for gas

4 September 2012

Agency for the Cooperation of Energy Regulators
Trg Republike 3
Ljubljana - Slovenia

1/14

Content - Overview

- Cost allocation and determination of the reference price
- Revenue recovery
- Reserve price
- Virtual interconnection points
- Bundled capacity products
- Payable price

What is the problem?

- Lack of transparency
  - Sufficient detail is missing to understand how the reference price at each point was derived
  - Evolution of tariffs often unclear
- Problems with cost allocation
  - Distortion of long-term cross-border flows (LRMC vs. historical costs)
  - Different cost allocation methodologies between domestic and cross-border points
  - Discrimination between different network users
- Different treatment of gas storage tariffs

What are the proposed rules? (1/2)

Consultation and transparency

- Obligatory public consultation of methodologies for
  - determining the reference price
  - cost allocation
- Transparency to enable shippers to understand how the reference price at each entry und exit point was derived

Split between fixed and variable costs

- Reference price shall cover at least fixed costs
- Flow driven costs might be covered by
  - Capacity sales
  - Volume charge

What are the proposed rules? (2/2)

Split between entry and exit

- Same methodology for all entry and exit points
- Entry and exit tariffs
  - Shall take into account major cost drivers, e.g. distance
  - Equalisation (of domestic exits) only if duly justified
- Total revenues equally split between forecast sales at all entry and all exit points
- Bilateral harmonisation of methodologies for setting reserve prices at IPs remains possible if agreed between NRAs

Tariffs for storages

- Adequate discount for entry and exit points to and from gas storage facilities

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What is the problem?

- Revenue recovery is a general principle
- Tariff calculation is based on assumptions in terms of capacity use and costs
- Individual tariffs depend on cost allocation
- Cost recovery principle is based on 2 logics
  - Revenue target with a remuneration adapted to the risks of under-revenues (price-cap regime)
  - Coverage of the allowed revenue based on actual costs + remuneration: requires to cover the gaps between allowed and actual revenues
- A mechanism allowing to recover the gaps ex-post has to be implemented
  - In case of over-recovery from auction premia, NRAs may decide to use them to reduce congestion

What is the proposed mechanism?

→ NRAs determine or approve at national level:
  - how often and how fast the gaps have to be reconciled
  - which part of the under- or over-recovery will be logged on to the regulatory account
- A regulatory account will record the gaps between allowed revenues and actual revenues of the TSO
- This account will be reconciled on an ex-post basis via one of the two following mechanisms
  - Option 1: Capacity approach
  - Option 2: Separate charge based on capacity and commodity

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What is the problem?

- Distortions for short term cross-border trading
- Inefficient pricing of non-physical backhaul and interruptible capacity products
- Potential "flight" to short term products and subsequent under-recovery

What are the proposed rules? (1/2)

Firm standard capacity products

- Long-term products
  - reserve price = yearly reference price
- Short term products
  - general rule: reserve price = lower or equal to the price set proportionately to the yearly reference price
  - Seasonal factors may apply
- Circumstances which allow for deviating from the general rule
  - If significant under-recovery is to be expected, multipliers higher than 1 may be applied
  - Multiplier shall not exceed 1.5
  - NRAs to consult before adopting their decision

What are the proposed rules? (2/2)

Interruptible and non-physical backhaul standard capacity products

- Reserve price shall be set at a discount to the firm product with equivalent duration
- Interruptible products
  - Discount shall adequately reflect the risk of interruption
  - Low risk = low discount and vice versa
  - Recalculation once a year
- Non-physical backhaul products
  - Discount shall be set so that the reserve price reflects the level of marginal cost of providing the service

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VIPs and bundled products

- Reserve prices for virtual interconnection points
  - Based on the combination of the reserve prices set for the individual entry or exit points
  - NC shall elaborate the combination mechanism

- Reserve prices for bundled capacity products
  - The sum of the reserve prices for entry and exit points
  - Reserve price for unbundled firm capacity shall equal the reserve price of the capacity from which it originates
  - Same splitting rule as in CAM NC

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Payable price

- Concept of a floating tariff
- Payable price = sum of the reserve price at the time of use of the capacity and the premium as determined in the auction

Premium

- Determined in the auction
- Remains unchanged

Reserve price

- Determined at the time of use
- Might change over time

Next steps

- ACER offers stakeholder associations the possibility to have bilateral meetings if needed
- Working level meetings with ENTSOG will continue also during the consultation period
- Consultation deadline: 5 November 2012
- Finalisation of the FG until early 2013

Thank you for your attention!

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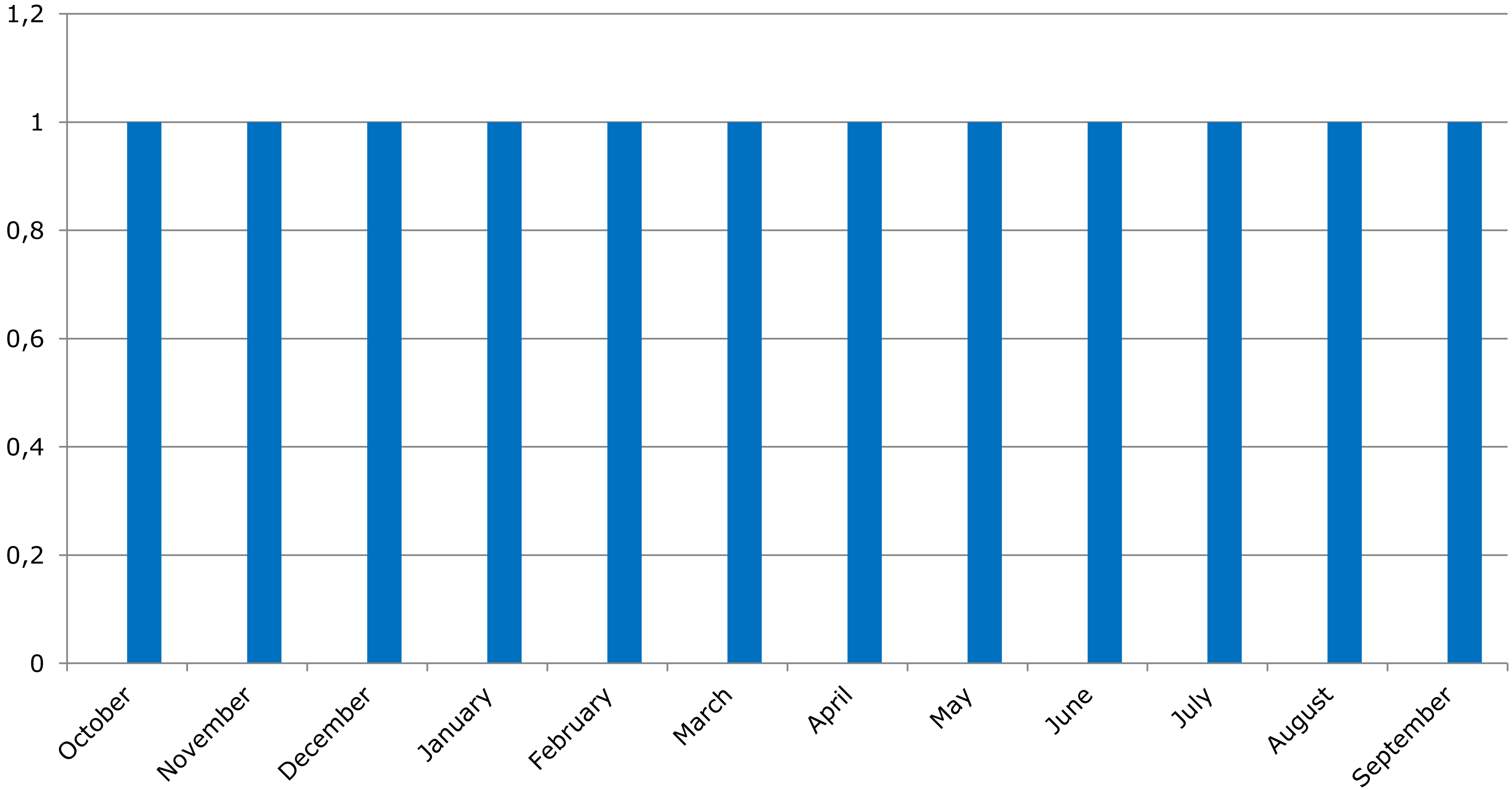
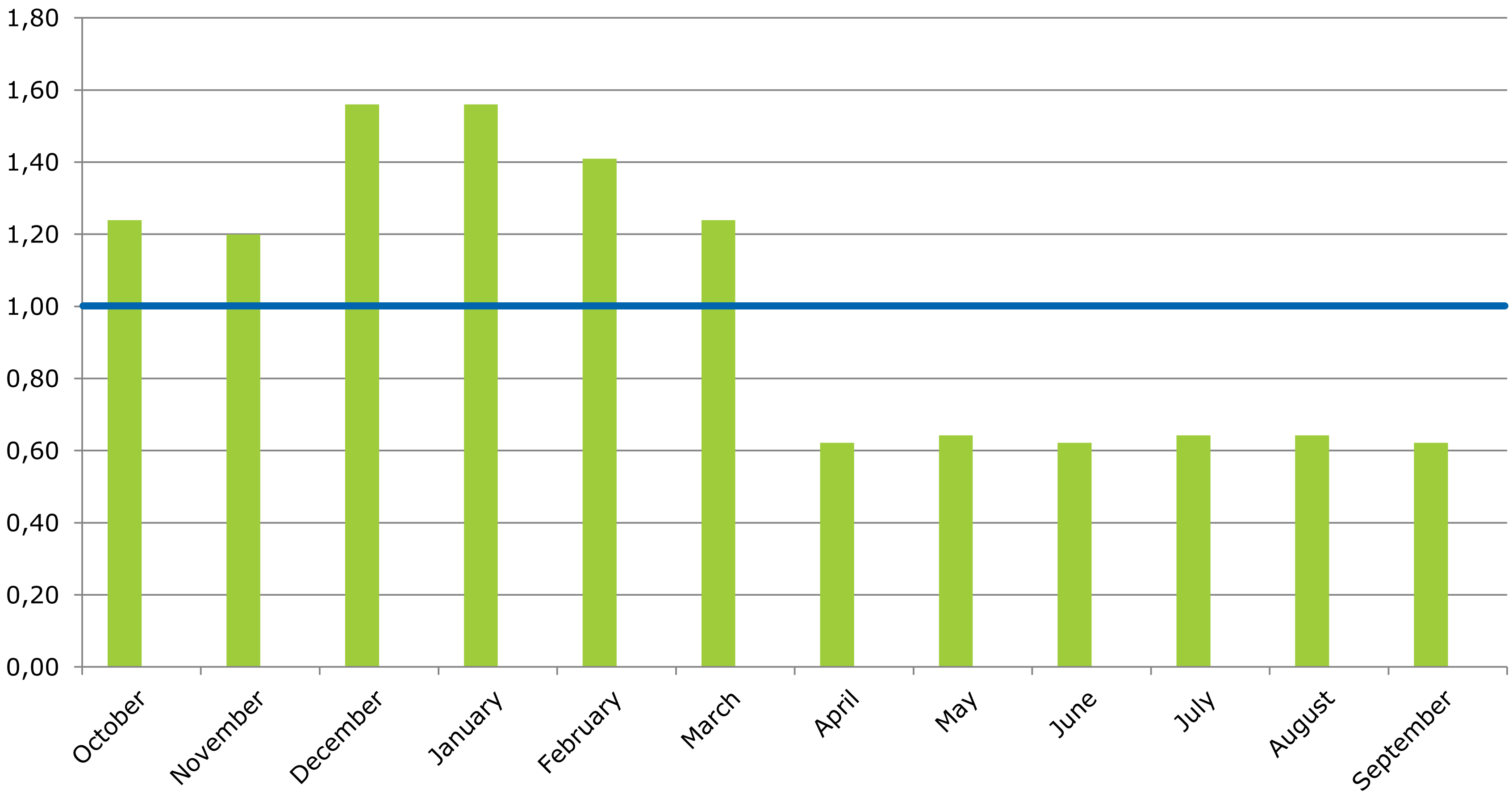
Back up

Reserve prices for monthly products

Average equal to 1/12 of yearly reference price
No seasonal factors

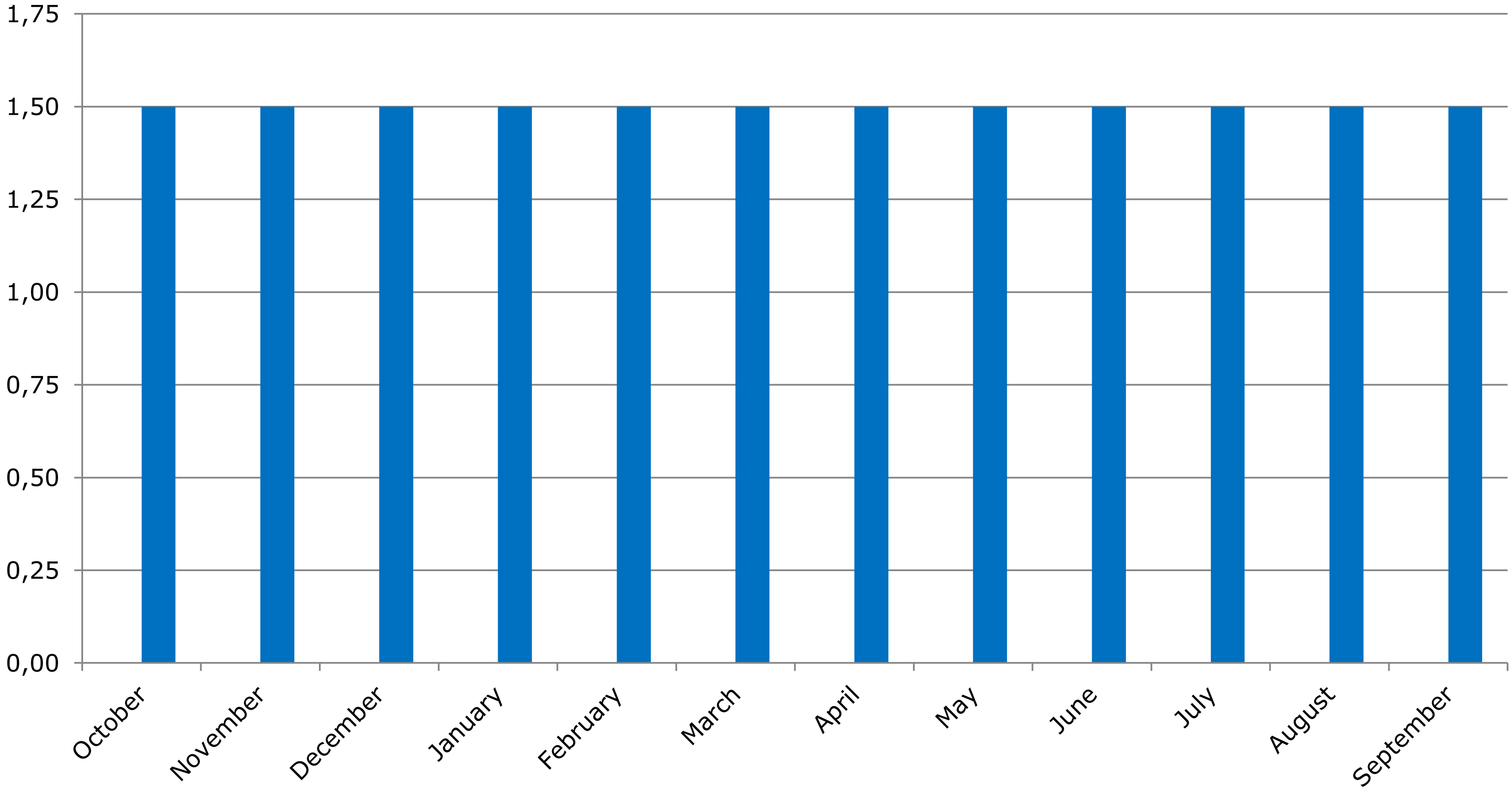


Seasonal factors on monthly products
Average equal to 1/12 of yearly reference price



Multiplier of 1.5

Average equal to 1.5 * 1/12 of yearly reference price
Subject to NRA approval, no seasonal factors



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