

**6<sup>th</sup> Meeting of Ad hoc Expert Group on Harmonised Gas Tariff Structures**

**5 December 2012, 9:00 to 16:00**

**Ljubljana, Trg Republike 3**

**Final MINUTES for publication**

**(Chatham House rules)**

<b>Regulators, EC</b>			
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Benoit	Esnault	CRE (France)	Co-chair ACER TF
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<b>Present experts</b>			
Alex	BARNES	Gazprom Marketing & Trading	
Debra	HAWKIN	National Grid	
Dirk Jan	MEUZELAAR	IFIEC	
Konstantin	PETROV	KEMA	
Ralf	PRESSE	RWE	
<b>Present observers/Academic experts</b>			
Ann-Marie	Colbert	ENTSO-G	
Sergio	Ascari	FSR; Academic expert	

## A. Context of the meeting

- The 6<sup>th</sup> meeting of Ad hoc Expert Group gathered tariff expert to discuss the Draft Framework Guideline on harmonised tariff structures in the light of the outcome of the public consultation.
- The goal of the meeting was to identify the necessary amendments to the Draft Framework Guideline.

## B. Key outcomes

- The discussion triggered by Sergio Ascari's presentation led to the consideration that any economic approach involving a pricing of a good between its marginal cost and its standalone cost could be considered economically non-discriminatory.
- Within these two boundaries, experts called for tariff rules based on stability<sup>1</sup>, simplicity<sup>2</sup> and transparency.
- In particular, experts insisted that tariff rules should:
  - Prevent any free use of the system;
  - Minimise under and over recoveries for the TSOs.

## C. Detailed outcomes

### a. Welcome and Opening /Approval of agenda

ACER welcomed participants to the meeting. The agenda was approved.

### b. Introduction by Sergio Ascari on 'Good discrimination'

- S.A. introduced the Ramsey principle, according to which it is economically acceptable that less elastic consumers pay more than more elastic consumers, concluding that between marginal cost and standalone cost any pricing could be considered economically non-discriminatory.
- Within these boundaries, the debate focused on tariff equity.

### c. Walk through, chapter by chapter of early insights of ACER Evaluation of responses to public consultation.

#### *General provisions*

- One expert stated the following 3 main goals of the Framework Guideline:
  - Tariff stability;
  - Cost recovery for TSOs;
  - Facilitation of trade.
- In order to achieve this, any cost calculation should take account of flow predictions by TSOs.

#### *Cost allocation and determination of the reference price*

- The public consultation shows that stakeholders are divided on the question of the 50/50 split.
- The overall understanding of the policy by stakeholders is questionable.

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<sup>1</sup> Stability of tariffs is difficult to achieve in practice – predictability is important, hence the need for transparency.

<sup>2</sup> Simplicity helps but none of this is simple! There is nothing wrong with complication as long as it is clearly defined and explained.

- On the one hand, some experts noted that the rule introduces further loss of cost-reflectivity and does not solve the question of discrimination between transit and domestic flows. On the other hand, other experts saw benefit in tariff transparency if the 50/50 split was to be considered as a starting point from which deviations should be justified.
- In any case, it was noticed that harmonised cost allocation over Europe would lead to different tariff heights as long as the Regulated Asset Bases differ.
- Several experts added that the Framework guideline should clarify the 50/50 rule, its implementation and its interaction with various allocation methodologies (Matrix, LRMC etc.)

### **Revenue Recovery**

- Several experts stated that significant under/over recoveries increase price uncertainty<sup>3</sup>.
- According to several experts, commodity charges and capacity charges generate the same instability. The main noticeable difference between the two is that in the case of commodity charges, these are recovered only when capacities are actually used by the consumers.
- Experts see a connection between the issue of revenue recovery and the approach to discounts for Short-Term products. They agree that if system users are given the opportunity to profile their demand, they will do so. In a non-congested environment, this leads to under-recoveries.
- Experts see that in order to minimise price uncertainty, the goal is to anticipate as much as possible sources of under and over-recovery (changes in volume and important investments), and get a revenue recovery as close as possible to the target.

### **Reserve Price**

- Respondents to the public consultation, while they agree on the scope and consider the current level of harmonisation to be insufficient. They are divided on the question of favouring multipliers over proportional reserve prices.
- Regarding multipliers and discounts, one expert re-stated that any reserve price set at a level between marginal and standalone could be considered non-discriminatory. Answering the question whether multipliers higher than one were an obstacle to trading, one expert replied that it was not the case.
- Several experts further called for a clear basic concept. In addition, in such context, a free use of the system should not be allowed: the reserve price associated with short-term pricing should at least cover variable costs.

### **Backhaul capacity**

- Respondents to the public consultation are divided on the pricing of virtual backhaul capacity. Some favour a pricing “to the service”, thus consider that backhaul capacity is an interruptible product among others. Others see that virtual backhaul capacity is a specific product that allows a local optimisation of the system operation, thus consider that backhaul capacity should be sold at a discount.
- Several experts favoured the pricing of backhaul capacity as an interruptible product. This approach was said to be clear and simple.
- One expert added that the diminution of OPEX as a result of backhaul was not straightforward, as backhaul does not systematically trigger an overall optimisation of the system.

### **Storage**

- Experts see storages as a particular tool for flexibility.

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<sup>3</sup> An expert explained that this is only the case if they vary in magnitude from year to year. The big issue is volatility of collected revenues. It is better – according to 1 of the experts - to try to collect the correct revenue within year.

- One expert considered that the fact that storages trigger costs for the system as well as benefits should be assessed.
- Experts agreed that it might not be proper to get storage capacities to be paid twice – however, a 50% discount might not be a correct assessment of reality either.

#### **D. Next steps**

- A series of questions was provided to the experts, to be answered by 3 January 2013