ACER Stakeholders' event on determining revenues of gas Transmission System Operators

Brussels 8 February 2018

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IFIEC strongly support ACERs initiative to benchmark the EU gas TSOs.

- Benchmark will provide incentives to enhance the efficiency of gas TSOs
  - Reserve prices of tariffs must reflect actual costs of an efficient network operator;
  - Inefficient TSOs have higher costs and higher tariffs which can hamper cross-border trade;

- Benchmark is an important part of the implementation of article 13 of Regulation 715/2009 w.r.t. the efficient network operator, including appropriate return on investments (in line with their – limited - risks);

- Benchmark is a crucial additional instrument to the Network Codes (especially for NC TAR).

> Continuous improvement and benchmarking are key levers.
> Benchmark initiative is in line with IFIECs call to ACER to enforce the NRA's to comply with these basic rules.

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Comparison and assessment of the methodologies and parameters of the allowed revenues of the TSOs provides transparency

Allowed revenues should be:

- cost reflective, based on actual costs of efficient network operators;
- provide optimal incentives for investments:
  - Fair 'return on equity';
  - WACC 'Weighted Average Cost of Capital' in line with capital market for short or medium term interest rates, and risk profile of the TSO;
    - » double digit return on equity is still common practice!
  - RAB 'Regulated Asset Base'; based on historical depreciation, preventing customers to pay more than once for the same steel;
    - » too high premiums for debt capital.

- Market trust starts with transparency:
  - Transparency and understanding of methodologies & parameters go hand in hand;
  - Methodology should contribute to stimulate cross border trade.

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Benchmarking is a proven recipe

- Benchmark is a frequently proven methodology in many sectors;

- Benchmark EU TSOs electricity is common practice;

- Recommendation benchmark gas TSO's:
  - Harmonisation regulation periods (4 years);
  - Try to find a common denominator;
  - Try to find a uniform consistent working format for all EU TSO's;
  - Focus on common practices and exclude unique differences like gas conversion or LNG & storages;

- Lessons to be learned from previous benchmarks TSO gas.

Dutch benchmark by ACM of Gasunie Transport Services showed a yearly tariff reduction of approximately 20%

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Energy efficiency and energy transition will lead to lower gas demand

Does the benchmark provide information about the policy of the different TSO's how they manage the risks of declining volumes and reduced booking?

- by reducing the allowed revenues of TSOs including depreciation of its Regulated Asset Base?
- or buy transferring the risks and costs to its customers via higher transport costs.

Consumers are not better off by paying higher transport bills when incentives for network users fail to enhance cost efficiency!

Tariff structures should focus on recovery of allowed revenues and cost coverage and also on improving efficiency

- Reference price for short term capacity reserve prices should reflect actual cost of *efficient* network operator
  - European Benchmark for gas TSOs is missing, which implies that all 39 TSOs in 23 Member States are efficient? ACER should be responsible for starting this benchmark
  - Proper incentives must stimulate TSOs to increase efficiency
  - Continuous improvement and Benchmarking are key levers
  - Inefficient TSOs have higher costs and higher tariffs which can hamper cross-border trade
- Harmonized tariff methodologies and periods (IFIEC prefers an equalization approach which set reference price and allowed revenues)
- Optimal entry/exit split for IPs to stimulate (bi-directional) trade
- Under-recovery of revenues has to be prevented. Shared interest TSO's, shippers and customers for balanced risk,-WACC and -tariffs
- Cross-subsidization must be prevented, however...
  - in a decoupled entry-exit system in combination with trading on virtual hubs and exchanges, 100% causer pay principle is not possible
  - even charges based on 'distance' from a 'reference' node are arbitrary
- Extra investment in congested IPs dedicated for eliminating congestion
- Tariff (methodology) must be transparent and easy to calculate

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