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Agency for the Cooperation of Energy Regulators

ACER Consultation Workshop on Framework Guidelines on Harmonized Transmission Tariff Structures

23 January 2013, Brussels

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Initial evaluation of responses

ACER Public Consultation on the Draft Framework Guidelines on tariff

"Enabling further integration of IEM"

Walter Boltz
Dennis Hesseling

ACER workshop on tariffs
Brussels and Ljubljana, 23 January 2013

Todays (23.01.2013) approach

- ACER intends to summarise the key issues from stakeholders consultation
- Not all issues raised in consultation responses will be covered
- Indicate initial thinking with regard to final FG
- For discussion purposes only – not a commitment on changes to FG at this stage

Key goals of the FG – envisioned end-situation

We quote (chapter 1.1 of the draft FG):

'The overall final aim of the Network Code on Tariffs is to lead to gas transmission tariff structures in Europe without discrimination between any type of network users and without any detrimental effects on cross-border trade (in line with Article 13 of Regulation 715/2009)'.

Next steps after 23.01.2013

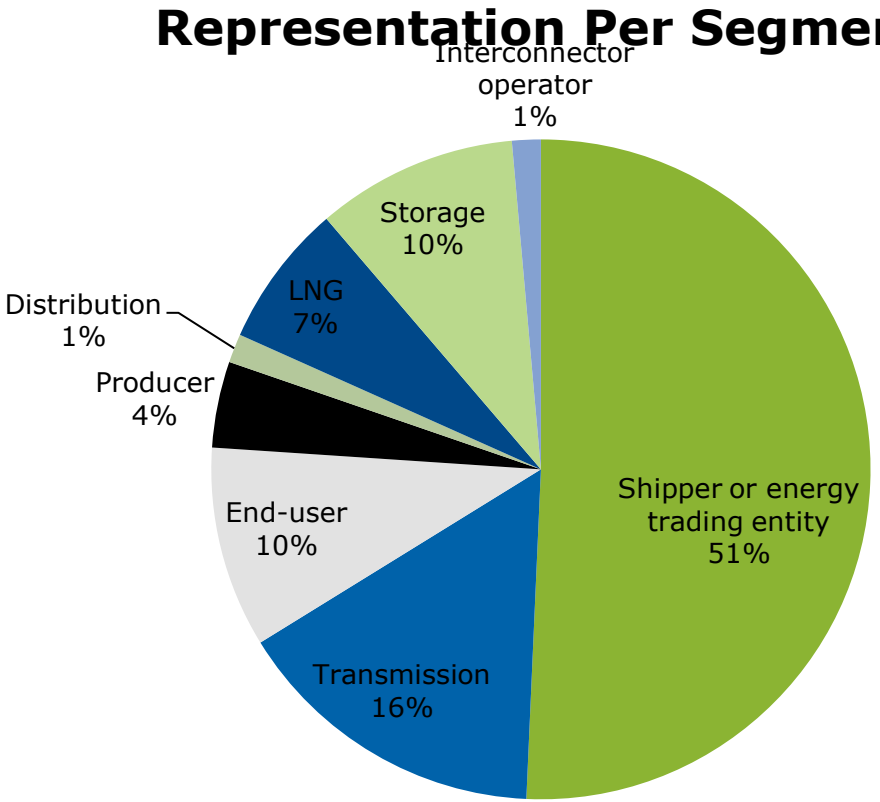
- Consider today's (23.01.2013) feedback
  - 31 January – 11 February: Open house in Ljubljana on 4 February/stakeholder refinement input
- Deliver final FG to EC by 31.03.2013, to enable ENTSO-G start of NC work at the soonest
- Present FG at Madrid Forum on 18 April 2013

Annex

Consultation - General outcome (1/2)

- From 5 September 2012 to 5 November 2012, the Agency launched a public consultation on the draft FG on rules regarding harmonized transmission tariff structures for gas (= Tariff FG).
- The consultation resulted in a total of 43 responses, 8 of which were provided by European Associations, and 4 of which were provided by National Associations

Consultation - General outcome (2/2)



Insiders look on FG process

- Public workshop on 23.01.2013, indications of key changes
- 31 January– 11 February (noon) stakeholder refinement input period with open house on 4 February
- 12-14 February, TF working sessions on FG
- 26 February AGWG, advisory approval final FG
- 6 March – submission to the BoR
- 20 March 2013, BoR opinion on final FG text
- 31 March 2013 (Sunday) at latest publication of FG, preceded at least with 1 day difference by final EoR
- April-May – finalisation of IA

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ACER Public Consultation on the Draft Framework Guidelines on tariff Initial evaluation of responses

"Impact on existing contracts"

Paul Martinet
ACER, Legal Advisor

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Impact of the FG on existing contractual obligations

- Due to Tariff FG, the structure of existing national tariffs is likely to alter.
  - → The change may imply both price increases and decreases. At some IPs, the 50/50 cost allocation rule may lead to a 30%+ tariff adjustment.

- Main questions:
  - Can the FG/NC apply to existing contracts?
    - Which contracts are affected?
  - Possible to attenuate any negative impact for the contract parties (TSOs and/or shippers)?

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Will the FG/NC apply to existing contracts?

- Conflict between regulatory objective to prevent discrimination between network users and detrimental effects on CB trade *v* principle of legal certainty and protection of legitimate expectations
  - Legal basis
  - Objective of general interest
  - Respect of the essence of right of contractual freedom
  - Test of proportionality and necessity

Existing contracts

Various existing contract types:

- Capacity contracts with variable tariffs
  - Annual modification of tariff levels, possibly within margins
  - Changes in tariff methodology possible at end of regulatory period
- Capacity contracts with LT tariff expectations
  - Fixed tariffs agreed for up to 15 years
  - Only minor changes possible (indexation)
- Capacity contracts with tariff exemption
  - Full or partial tariff exemption

Existing contracts, variable tariff

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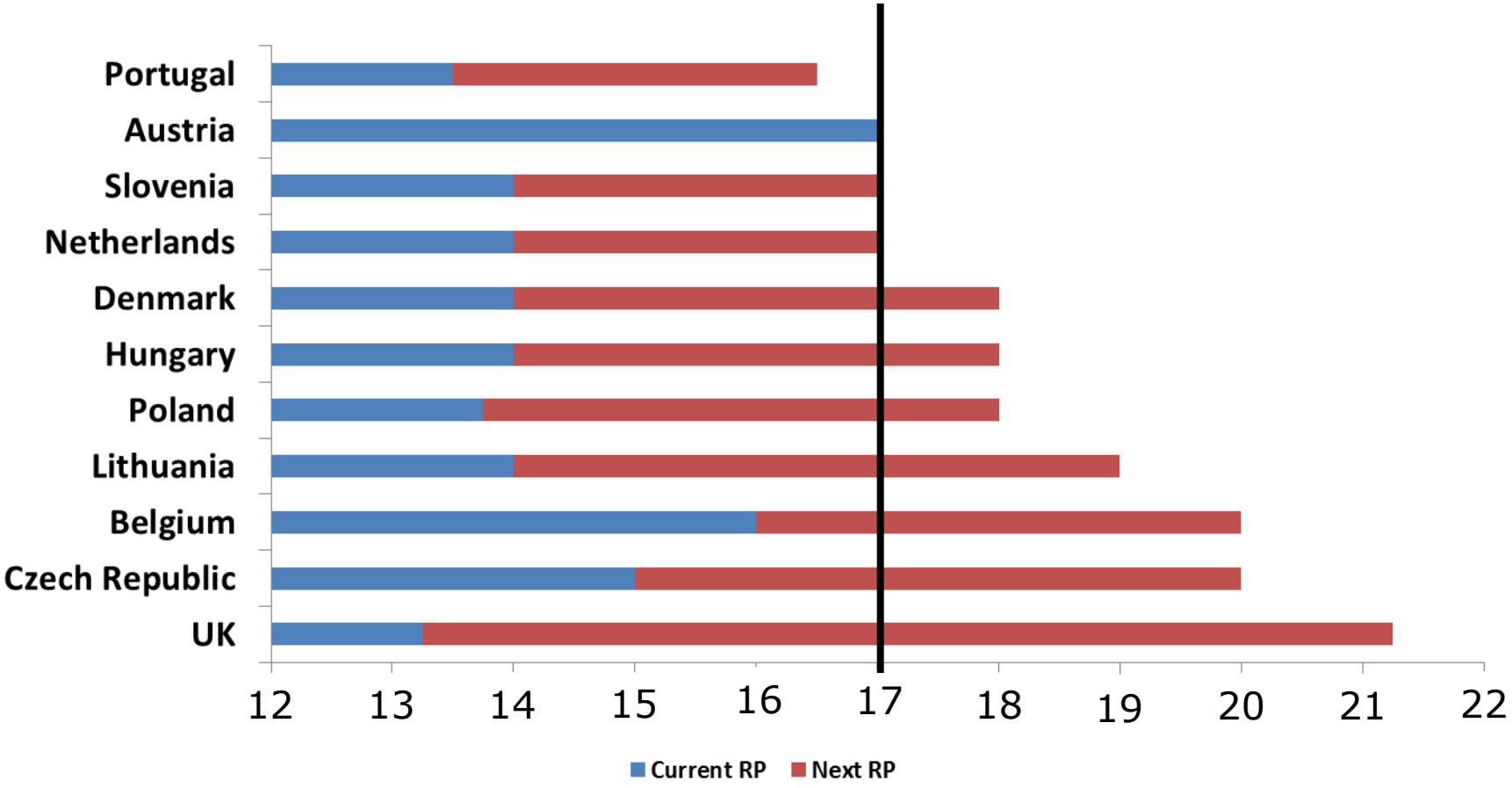
Existing contracts, variable tariff



Existing contracts, LT tariff expectations

- Article 41(10) of Gas Directive:

  « Regulatory authorities shall have the authority to require transmission, storage, LNG and distribution system operators, if necessary, to modify the terms and conditions, including tariffs and methodologies referred to in this Article, to ensure that they are proportionate and applied in a non-discriminatory manner »

  - Applicable also during existing regulatory periods?
  - Simultaneous use of capacity contracts with variable tariffs and LT tariff expectations: discrimination?
    - If different contract types are applied by same TSO
    - If different contract types are applied by different TSOs.

Existing contracts, LT tariff expectations

- Similarities with transit contracts
  - Does third package apply to pre-liberalisation transit contracts with LT tariff expectations?
  - Conflict of ensuring fair and non-discriminatory access to all system users under equal terms *v* right of contractual freedom/principle of legal certainty and legitimate expectations
    - VEMW and Citiworks: not allowed to depart from the non-discrimination principle, except where specific situations are created to this principle by EU legislation.
      - Precludes also national measures granting preferential access, even when capacity is granted by pre-liberalisation contracts
      - No strong arguments for differentiated treatment of transit activity
    - Non-equal treatment of LT gas transmission contracts is unlawful.

Existing contracts, LT tariff expectations

- To which extent does current issue differ from transit contracts issue?
  - More input from stakeholders helpful
  - Which type of contracts are concerned? When and by whom concluded? Size?
  - Attenuating measures?

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II. Cost allocation and transmission tariffs to/from storage

Proposed amendments in response of public consultation results *(*As presented in spoken word)*

Tom Maes, CREG
ACER Gas Tariff TF Co-Chair

23 January 2013

Problem identification and objectives

- Differences in cost allocation resulting in i.a. discrimination between network users (e.g. cross-border vs. domestic flows)

- Non-discrimination
- Effective competition
- Efficient trade
- Transparency
- Cost-reflectivity

Overview of envisaged amendments

- Same vs. consistent methodology
- 50/50 split between entries and exits
  - Broader split, complemented by a test
  - Application to entire entry-exit zone
  - Application to total allowed revenues, excl. justifiable specific services
- Possibility of bilateral IP harmonization
- Reduced transmission tariff to/from storages

Same vs. consistent methodology

- Reason for action
  - Confusion because of "same methodology" in text body and "different, but still consistent, tariff structures" in footnote 7
- Proposal
  - Allow for
    - Same methodology at entries
    - Same methodology at exits
  - Delete footnote 7

50/50 split between entries and exits

- Reason for action
  - 50/50 rule considered to be not enough to avoid cross-subsidisation between cross-border and domestic network usage
  - It is unclear to what perimeter the rule applies
- Proposal
  - Replace 50/50 rule by cap and floor
    - At least 25% and not more than 50% of the expected revenues shall come from entry points
    - Delete exemption to deviate from entry/exit split
  - Introduce a cost allocation test which
    - Offers better guarantee for fair allocation of costs to domestic and cross-border network usage
    - Provides transparency on domestic/cross-border split

Cost allocation test

- Entry/exit split set by the NRA or determined based on the application of the cost allocation methodology
- Non-cross subsidisation test to be worked out, based on comparison of two ratios to check that there is no obvious discrimination

Ratio 1:

$$\frac{\text{Allowed revenues from domestic points}}{\text{Domestic capacity bookings * distance * cost-driver 3 …}}$$

Ratio 2:

$$\frac{\text{Allowed revenues from cross-border points}}{\text{Cross-border capacity bookings * distance * cost-driver 3 …}}$$

- Test = compare ratio 1 and ratio 2 for alignment/divergence

Scope of cost allocation rules

- Application to entire entry/exit zone, not necessarily at an individual TSO level
  - Potential inter TSO transfers are out of scope though

- Application to the total allowed revenue, but if justified
  - some services (e.g. metering, odorisation, ...) could be excluded
  - some infrastructure (e.g. dedicated to domestic customers) could be excluded

Possibility of bilateral IP harmonization

- Reason for action
  - Harmonization at both sides of IP may lead to inconsistency within each national methodology
- Proposal
  - Deeper harmonization (also in other areas) is not prevented by deleting the provision

"Discount" for non-exempted storages

- Reason for action
  - Recognition that storage is not a source, nor a final destination of gas in itself, which may argue that it does not have to bear twice the costs of using the E/E system
  - Differentiated treatment of non-exempted storage facilities can hardly legally be justified
- Proposal
  - Delete "with third party access"
  - Develop methodology for adequate reduction of capacity/commodity charges

Tariff Cost Allocation – Vattenfall view

Martijn van Gemert, 23 January 2013

The Framework Guidelines on Transmission Tariffs Gas

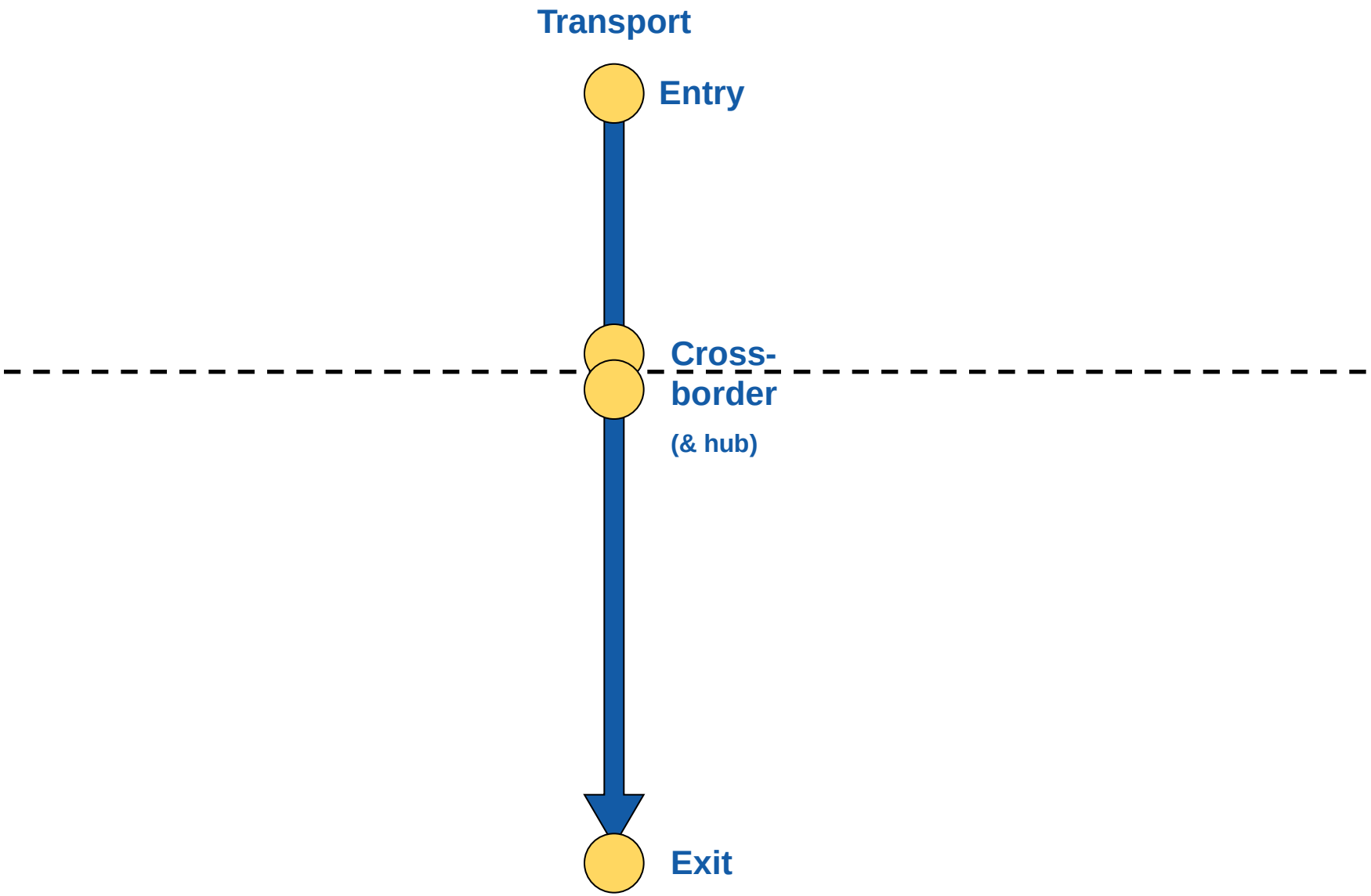
- This FG is the most crucial part of the series of FGs and NCs. It can make or break every other NC and should provide guidance to all other topics within the European gas market
- During the first years of the liberalisation, the focus has been on congestion, scarcity and investments
- Now we are at a turning point, with a greater balance between supply (capacity) and demand, which asks for a different regulatory focus:
  - Long term balance between supply (investments) and demand (booking/utilisation)
  - Short term optimised capacity utilisation
- The challenge of this FG is to provide the right incentives and bind together all other NCs for a harmonised regulatory framework throughout the European gas market.
- Decoupling of TSO revenue recovery and market price development of capacity (supply-demand curve) is crucial
  - TSO revenue recovery that ensures supply security
  - Tariffs that ensure optimised use of available capacity

Vattenfall view on Tariff FG and cost allocation for transport

- The ideal world:
  - TSOs get recovery for investments and running costs. TSO should not care where and how cost recovery takes place.
  - Shippers use the capacity only when needed. Right to use the capacity rather than buying it
  - Customers pays a cost reflective transport fee
  - TSO invests based on supply demand estimations

- However restructuring the mechanism in this FG takes too much time. Therefore at least the following elements must be included now
  - Transparent tariff changes, minimised over- and under-recovery, same framework throughout EU with national deviations as an exception
  - Seasonality in reference price is not necessary, as auction premium will reflect supply/demand situation
  - Short term products should not be (proportionally) more expensive than long term capacity products (to ensure above shipper incentive)
  - Negative premiums should be possible for DA and WD products, to optimise capacity utilisation (as long as this does not lead to greater under recovery)

Putting the right incentives in place



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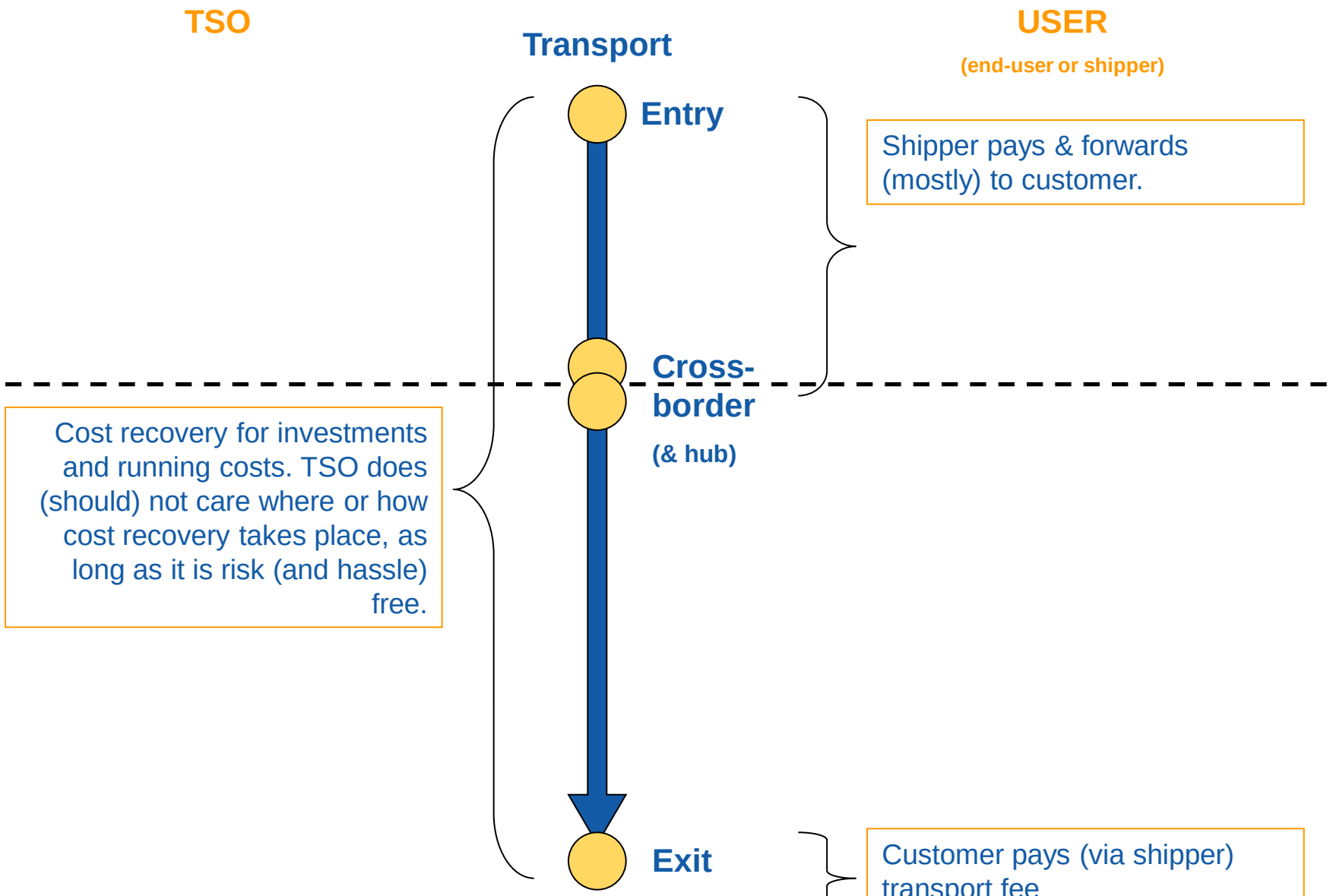
Putting the right incentives in place



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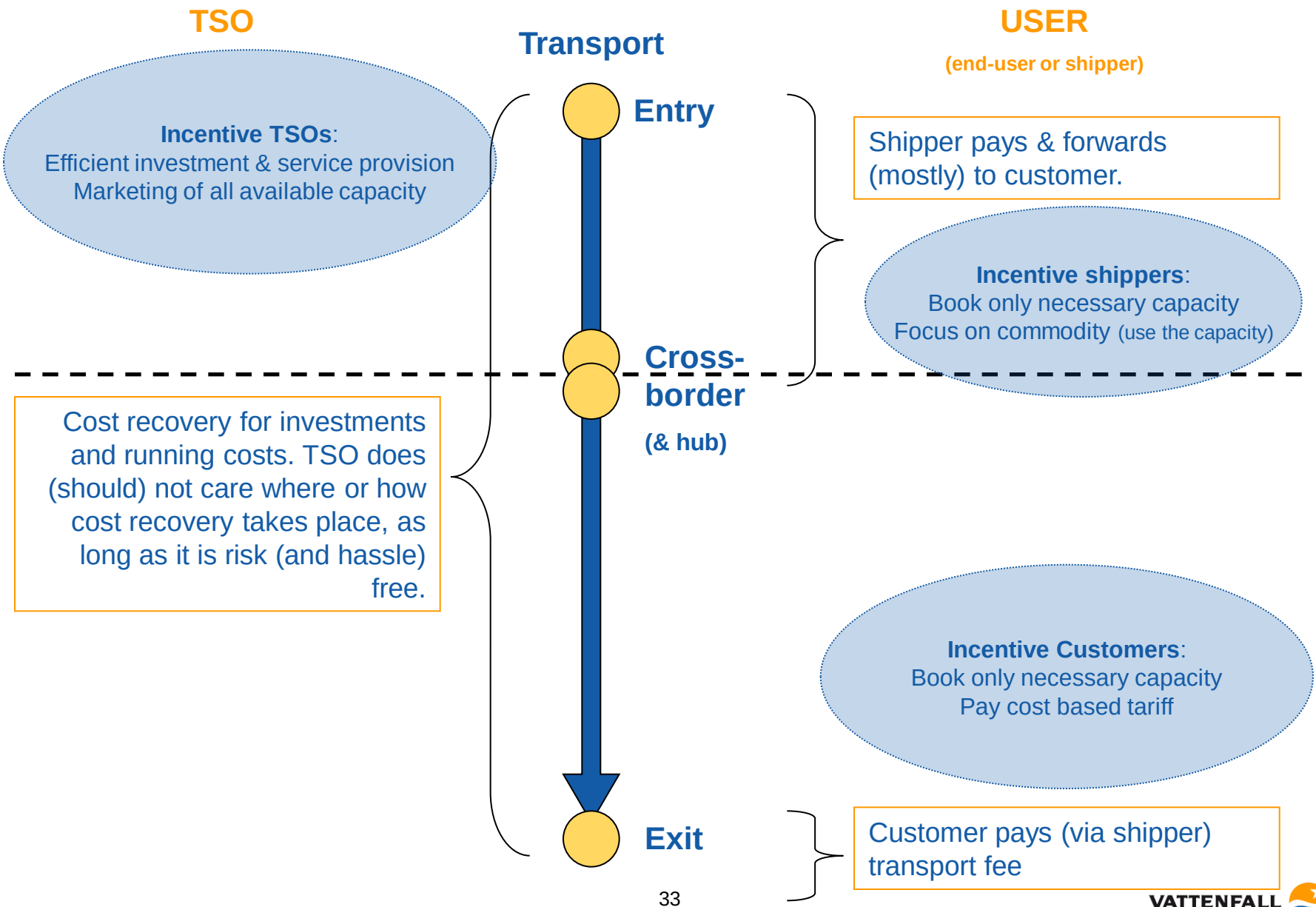
Putting the right incentives in place



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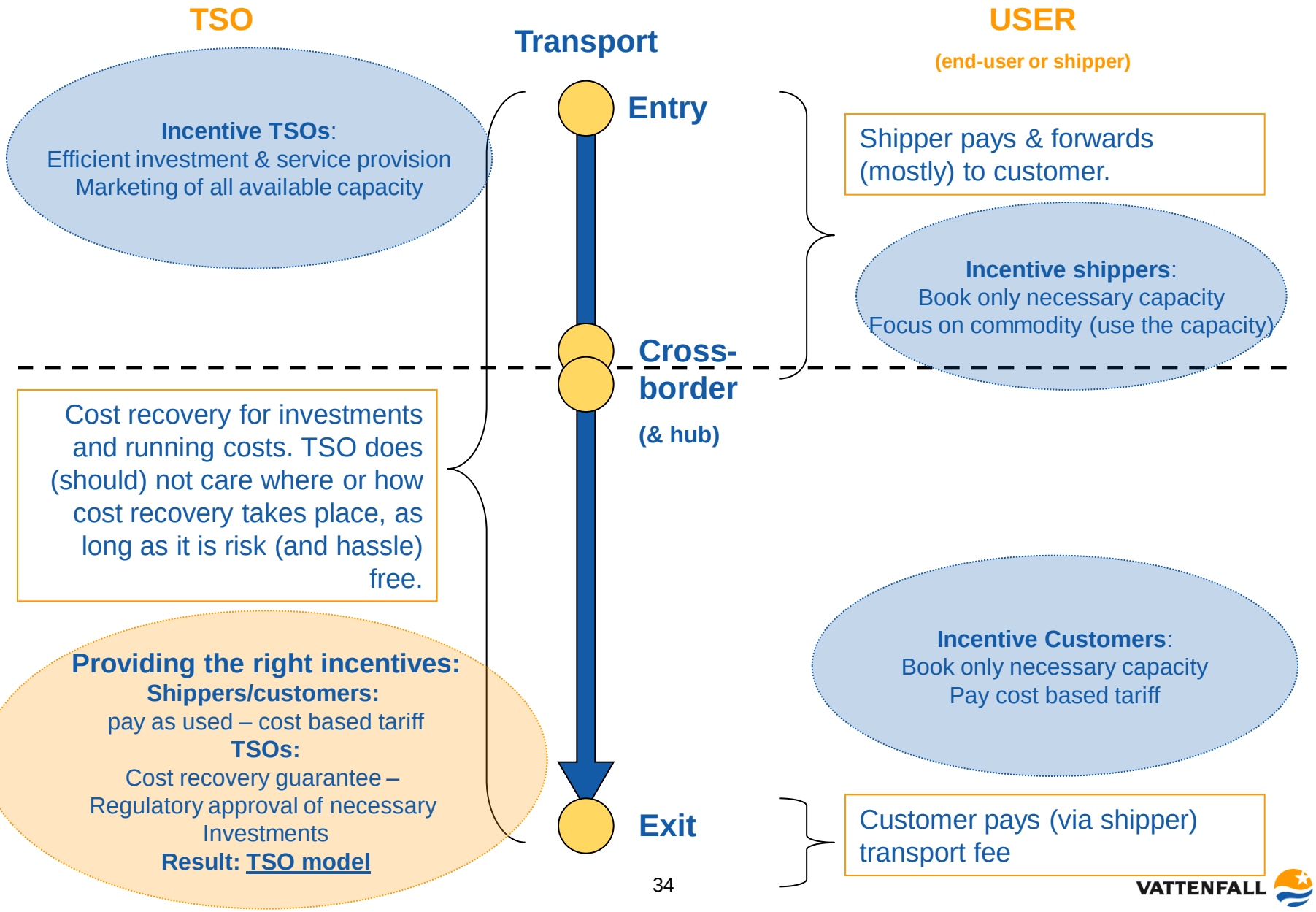
Putting the right incentives in place



VATTENFALL

FG Tariff Structures for Gas

- GIE position on cost allocation -

23 January 2013

General remarks

Transparency and Harmonisation

- Transparency and predictability key drivers not only for network users, but infrastructure operators too
- Transparency and predictability refer to methodology, used formulas and impact of related parameters, but it should not undermine responsibility of NRA‘s
- Harmonisation supports gas flow accross market zones, grants a reasonable level playing field for all network users and avoids undue protection of individual market zones from competition
- Harmonisation should not hinder adaquate regional or national solutions

Reference Price

... has to be based on cost drivers and not on political targets

- Cost allocation has impacts on
  - The ability of the TSO to recover costs at adequate risk
  - The tariff level at downstream IP‘s and adjacent businesses
  - The allocation of costs between (final) customer groups
- Cost allocation has to be based on cost drivers
  - To charge network users with the costs they cause and to avoid cross-subidies between (final) customer groups
  - To deliver the right investment signals for infrastructure operators and to avoid wrong allocation between systems (on eg regional level)
- Not as easy compared to point-to-point, potential approaches:
  - long run marginal costs, average costs,
  - distance,
  - effective (not contractual) gas flows or expected use of capacity

Storage IP's

Tariffs to be based on underlying economics...

- Storage users need to evaluate the total costs for the use of storage incl. those of the TSO, furthermore accessibility is crucial for user

- Different approaches in Europe

    - In some markets entry/exit to/from storage is free of extra charge
    - In many markets entry/exit to/from storage is charged on lower level (compared to average), TSO may treat storage IP's differently
    - In few markets storage IP's are not treatet differently than others

- Comparatively lower transmission tariffs from/to storage based on underlying economics and on national specificities should be an option

    - i.e. avoided network costs thanks to reduced peak load factor, system stability and integrity, contribution to congestion management and other possible benefits to be locally identified

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Framework guideline on tariffs - Reserve prices

Markus Krug, E-Control
ACER Gas Tariff TF Co-Chair

ACER workshop on tariffs
Brussels and Ljubljana, 23 January 2013

Feedback from the public consultation

- Respondents have different views on
  - Proportional reserve prices (no multipliers) vs. revenue equivalence principle (multipliers)
  - Seasonality factors
  - Pricing of non-physical backhaul capacity
- Respondents clearly supported
  - Scope of application (same IPs as under CAM NC)
  - Pricing of interruptible capacity

Feedback from the public consultation

- 15 respondents (mainly traders, some shippers, consumers) favor proportional reserve prices as default rule, i.e. no multipliers
  - Multipliers distort the market and competition
  - Promotion of SRMC concept by some
- 16 respondents (mainly TSOs, some shippers) favor revenue equivalence principle, i.e. multipliers
  - Risk of under-recovery, flight to the short-term at non-congested IPs
  - Stability of reference prices
  - Cross-subsidisation
- 7 respondents did not have an opinion

Reason for action

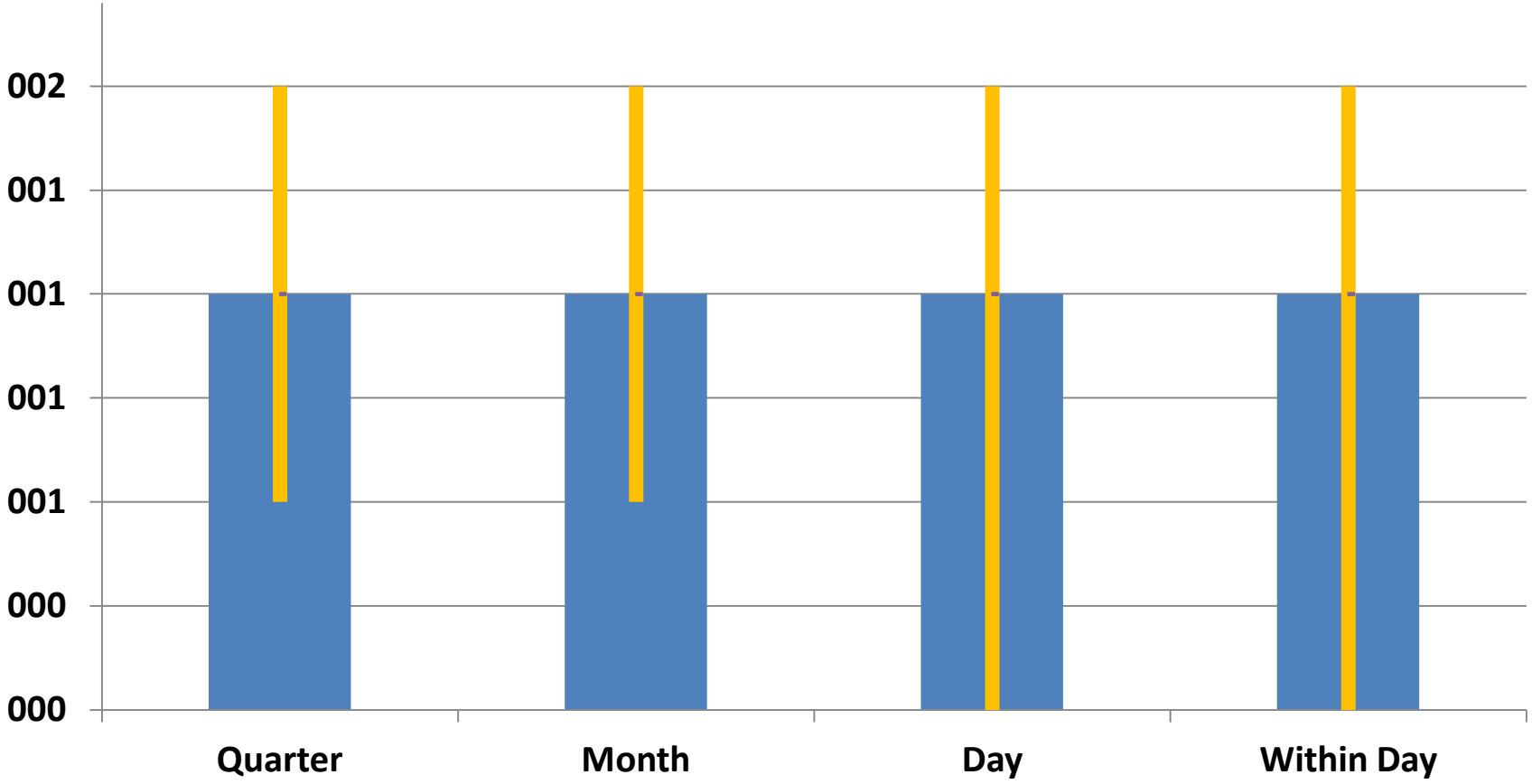
- Responses to consultation requested to
  - Be more prescriptive, e.g. define "significant"
  - Offer less discretion for NRAs, e.g. introduce "floor" for discounts
  - Provide the necessary flexibility, e.g. to distinguish between congested and non-congested IPs
  - Be less complex, e.g. relation between multipliers and seasonal factors unclear (footnote 11)

Proposed amendments

Section 4.1 of the draft FG – reserve prices for s-t products

- Proportional pricing as default rule for pricing short-term products
  - Deviations from default rule only if justified
    - Within the range of 0.5 to 1.5 for Q, M products
    - Within the range of 0 to 1.5 for D and W-D products
- Need for justification for deviations above and below the proportional price
  - Definition of "significant" under-recovery

Proportional reserve prices
Corridor for possible deviations



Feedback from the public consultation

Seasonality factors

- 25 respondents support seasonality factors
  - Tool to optimise network use
- 11 respondents are against seasonality factors
  - Seasonality factors distort the market

➢ Reason for action

- Methodology for determining seasonal factors and the conditions under which seasonal factors are applied to be developed in the Network Code

Feedback from the public consultation

Interruptible capacity

- 38 respondents support proposal

Non-physical backhaul

- 16 respondents support proposal
  - Ensures cost-reflective pricing
- 16 respondents oppose proposal
  - There should be no distinction between backhaul and interruptible

➢ Reason for action

- Methodology for determining discounts for interruptible and non-physical backhaul capacity to be developed in the Network Code

Annex

Price of monthly capacity

Countries	Price of Monthly capacity (Reference price = 1/12 annual firm capacity price)
Austria	Reference price x 1.5
Belgium	Reference price x {1.1 to 4.2} depending on season
Czech Republic	Reference price x 1.9 For a 11 months duration contract, the monthly coefficient is of 1.2
France	Reference price x 1.5
GB	Reference price x 1
Germany	Reference price x 1 (seasonal factors may apply)
Hungary	Winter season: For the 1st month: Reference price x 10.8 + additional 10% for each additional month Summer season: For the 1st month: Reference price x 2.4 and additional 5% for each additional month
Italy	Reference price x 1.4 For a 3 months duration contract, the monthly coefficient is of 1.2 For a 6 months duration contract, the monthly coefficient is of 1.1
Luxemburg	Reference price multiplied by a monthly coefficient. The sum of these coefficient =1
Spain	From April to September: Reference price x 0.5 From October to March: Reference price x 2
The Netherlands	Reference price x {0.9 to 3.6} depending on the season

Survey among NRAs, 2012

Price of daily capacity

Countries	Price of Daily capacity (Reference price = 1/365 annual firm capacity price)
Austria	Reference price x 1 (in case of auction)
Belgium	Reference price x {1.3 to 5} depending on season
Czech Republic	Depending on the duration of the contract
France	Regulated price=Reference price x 2.3 If auction: Reserve price= Reference price x 1.8
GB	Reference price x 0.67
Germany	Reference price x 1 (seasonal factors may apply)
Hungary	During winter: Reference price x 13.4 During summer: Reference price x 6.1
Italy	No daily product
Luxemburg	No daily product
Spain	From April to September: Reference price x 0.9 Rest of year: Reference price x 3
The Netherlands	Reference price x {1.825 to 7.3} depending on the season

Survey among NRAs, 2012

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Pros and Cons of Reserve Prices

Alex Barnes,
Gazprom Marketing & Trading Limited

Tariff Expert Panel Member

Meeting
Brussels, 23rd January 2013

How reserve prices can impact markets

- By setting floor for capacity charges reserve prices impact trading between market zones
  - Traders will take account of transport costs when deciding to flow gas between market zones

- By influencing capacity booking behaviour of shippers
  - Where reserve price differ between capacity products shippers will choose which products to book based on expected cost and likelihood of securing the capacity they need
  - Reserve price sets the floor for expected cost

- By influencing how much revenue TSOs earn
  - TSO Revenue = Capacity sold (GWhd) X Average price (€/GWhd)

Reserve prices are linked to under recovery of revenue issue

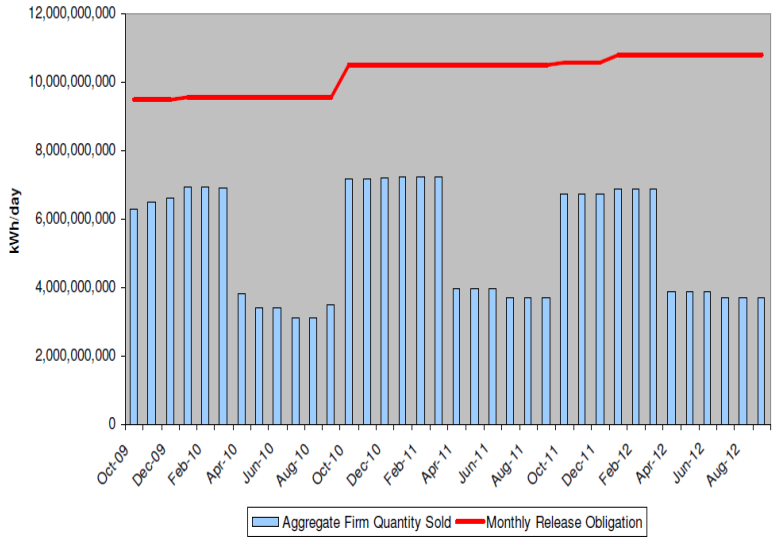
- TSOs can under recover due to:
  - Lower capacity sales than expected
  - Lower average price of capacity sold
- Lower capacity sales due to
  - Lower demand (e.g. recession, increase in renewables)
  - Profiling – booking capacity only when needed instead of annual strips based on peak
- Lower average price due to:
  - Shippers pay less than full tariff (e.g. where supply of capacity is equal or greater than demand)
  - In most cases supply is equal to or greater than demand for capacity as systems are designed to meet peak demand in a cold winter (e.g. 1 in 20 winter condition)
  - Security of supply requirements will mean more capacity will be available

Ways to deal with under recovery

- A top up commodity charge – ensures all who use the system (by flowing gas) pay something for using the system
- Floating capacity charge – only those who pay capacity charges pay for the system
  - If discounts / zero reserve prices apply to floating capacity charges then some will not pay anything for using the system
- Top up capacity charge – potentially all those who use the system pay something for using the system
- If there is under recovery shippers face uncertain or volatile charges under both capacity and commodity charge approach

Can pricing lead to cross subsidies? A case study.

GB Entry Capacity



GB TSO Revenues

- Availability of capacity plus pricing design of capacity impacts TSO revenue recovery
- How to deal with under-recovery without distorting competition / creating cross subsidies?

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Steve Rose

Chair of Eurelectric's Gas to Power Workgroup

Framework Guidelines on Harmonised Tariffs
ACER Workshop – Brussels/Ljubljana 23 Jan 13

Reserve Prices (Firm)

- Harmonised rules for IP reserve prices for all CAM products
- Favour a pragmatic approach - flat prices for all capacity durations
- Could support using SRMC for within-day capacity reserve price
- Seasonality factors increase complexity and compound distortions
  - Minimises risk of distortions to cross-border trade e.g. Day-ahead capacity NL/DE multiplier = 1.5 whereas NL/BE multiplier = 0 or NL exit = 0.25 whereas BE entry = 1.5
  - Different tariff methodologies already lock in distortion
  - Seasonality factors amplify any differences in multipliers
  - How should seasonality factors be set - to reflect load, to encourage booking or to minimise risk of under recovery
  - Profiling assumptions can be built into flat price ex-ante
  - Distortions in gas market feed through into power market through market coupling
  - Within-day reserve price at SRMC optimises potential for gas flow between markets for balancing – aids CCGT flexibility

Reserve Prices (Interruptible & Backhaul)

- Fixed discounts based on classified probabilities of interruption e.g. High = 80%, Med = 50% and Low = 20%
- Network Code to specify criteria applicable to each classification
- Discounts harmonised across EU – each IP assessed annually against the criteria
- Discounts applied to the reserve price of the equivalent firm product of the same duration

- Non-physical backhaul could be treated the same as interruptible products
- May be more worthy of a discount than some interruptible products - reduces operating cost (e.g. fuel gas)
- Reserve price based on the low marginal costs of offering the service (e.g. administrative) seems appropriate

Tariff framework guideline

Tentative reaction

Nigel Sisman

Business Area Manager, Markets

ACER Ljubljana/Brussels Workshop 23 Jan 2013

Health Warning

This presentation uses some stylised representations of how the framework guideline might be interpreted in respect of some content elements.

Individual TSOs, their networks and their customer bases are very diverse and have very different underlying cost structures.

Tariff regimes are very diverse and therefore the presentation cannot be considered representative of any particular tariff regime let alone to comprehensively represent all European examples.

Methodologies vary widely reflecting different histories, aspirations and political requirements

Setting the scene …..

The problem

- What are we trying to fix?
- What problems do we have now?
- What problems are anticipated in the future?
- What are the priorities?

Clarity essential to enable solutions

Is the primary challenge to avoid cross-border exit / domestic exit cross subsidy?

The language and emotional issue

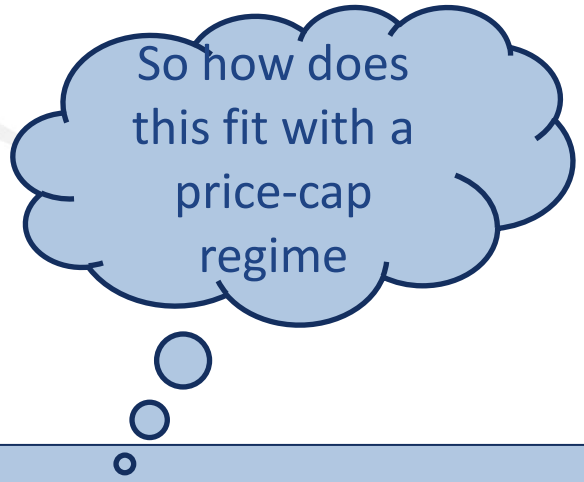
- We talk the same language, but have different understanding of what the words mean
- Intellectual attachment to current systems – "why would we want to change?"

Share, and agree, a basic glossary of terms

Persuade all actors to entertain the possibility of change

….need a common goal, develop a common understanding, and focus on the priorities

Some basics ….

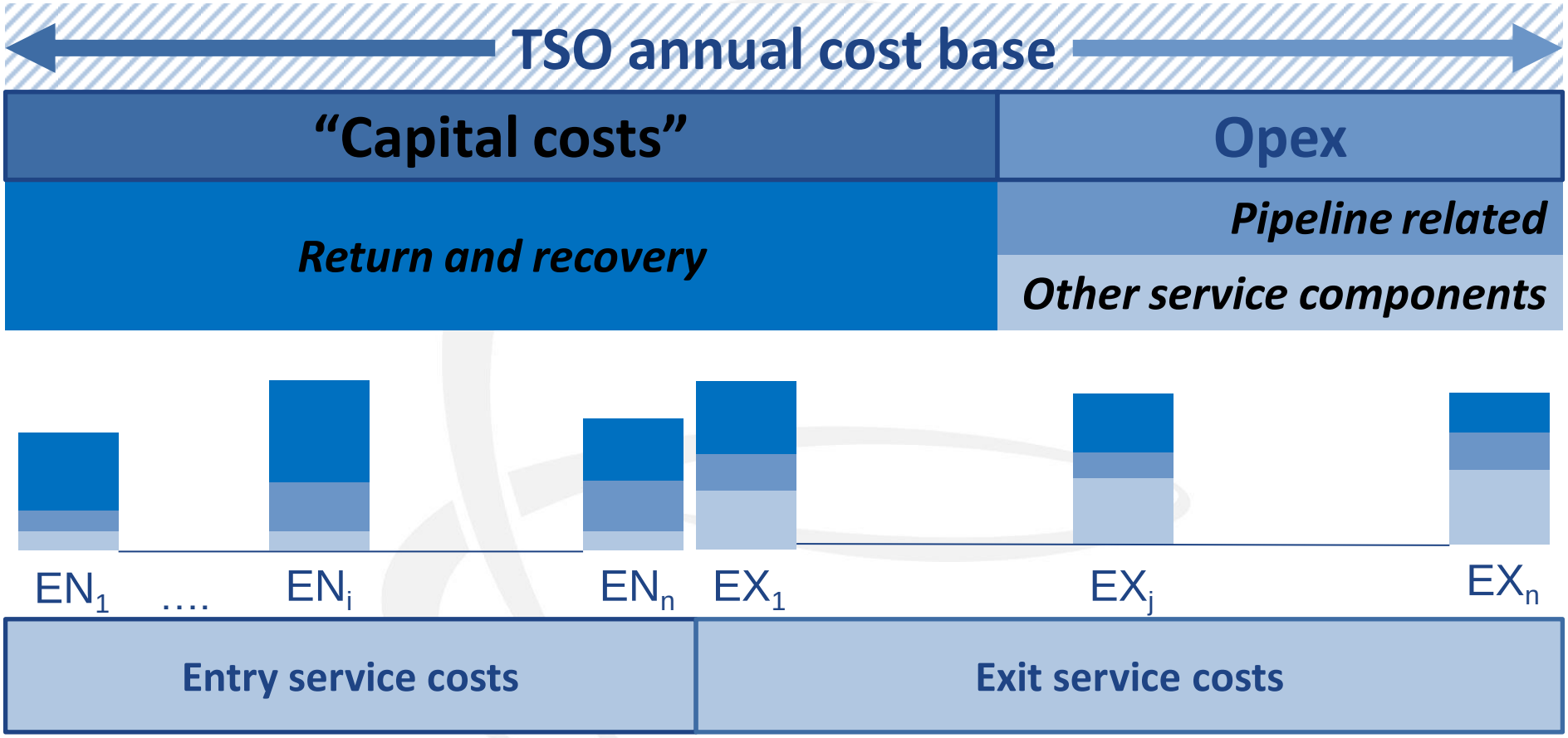


Framework Guideline objectives:

- Administered price setting (rather than market based)
- Capacity prices based on a cost-allocation methodology subject to a revenue attribution approach?

Cost proportions not necessarily to scale ILLUSTRATIVE

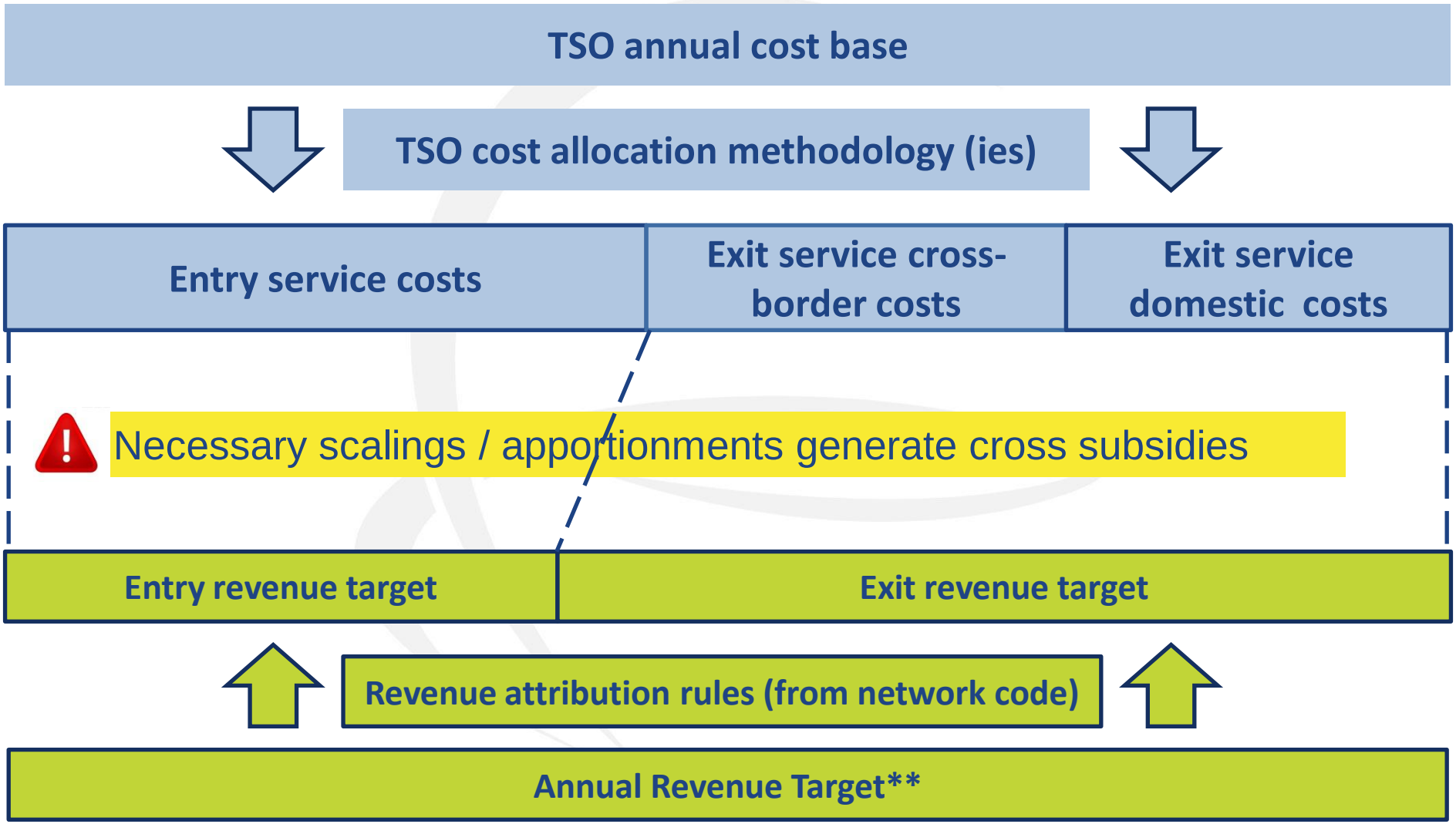
Cost allocation methodology



Methodologies vary widely reflecting different histories, aspirations and political requirements

Objective of cost attribution methodology should be to provide basis for cost reflective charges

Price setting in practice



**may only be applicable in revenue cap regimes or cost-plus regimes

Observations

Cost allocation methodologies

> should fairly attribute costs (plain English form of minimise cross-subsidy)

> but on what basis? For example taking account of:

- today's systems (actual cost allocation)?
- future system (by sending forward looking locational signals)?
- reflecting value of specific gas offtake/input (taking account of theoretically avoided costs)?

Revenue attribution approaches

> to meet EU/National policy aspirations?

> to fairly attribute costs ?

Do we want to focus on cost allocation methodologies or on cost and revenue allocation approaches?

ENTSOG urges caution about one-size fits all approaches which might create more problems than improvements

From target revenue pools to prices

Key issues:

> Attribution of pools to individual points (or groups) (if necessary)

> Is price simply required revenue / capacity quantity sold?

- Revenue = $\sum Q_a * Pa + Qq * Pq + Qm * Pm + Qd * Pd$
- Getting relative prices "wrong" creates unstable outcomes

> Artificial constraints on multipliers/seasonalities may create cross-subsidy

ENTSOG maintains that the Revenue Equivalence Principle is the best way forward

Conclusions

What are the priorities to be addressed?

How much standardisation do we need? Be wary too much "one size fits all"

Let's agree on some common terminology and build more understanding

Do we need

> ***cost allocation methodologies, or,***

> ***cost allocation and revenue attribution approaches?***

Let's fix sensible methodologies to

> ***ensure sensible relative prices short and long term***

> ***minimise over/under-recovery of revenue***

> ***maximise price stability year-to-year***

> ***leave space for local circumstances and proportionate EU consistency***

Let's give time to define robust mechanisms for incremental capacity release

A suitable prioritisation and focus on key priorities will deliver necessary progress

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Ad hoc issues
- Important varia
- Transparency
- Incremental capacity

Erik Rakhou, ACER

ACER workshop on tariffs
Brussels and Ljubljana, 23 January 2013

Draft FG – addressing need for indicators of NC-implementation (1)

Feedback from the public consultation shows need for non-exhaustive indicators for monitoring the future EU-wide implementation and performance of the future tariff FG/NC

- 26 respondents suggested indicators, focused at measuring:
  - Direct Tariff aspects (evolution, revenue recovery, regulatory account (size)) (22);
  - Market related aspects (Cross border trade, customer satisfaction, exemptions) (16);
  - Transparency related aspects (e.g. on methodology (11));
  - Underlying to Tariffs cost efficiency (3);
  - Literal NC implementation as such (9).
- 5 respondents, including ENTSOG, are opposed to the definition of indicators.
  - Should be addressed nationally; must be flexible and it is now too early to define.

Reason for action/Proposed amendments

- Indicators are necessary for the monitoring of both the implementation and the consequences of the NC in a common way.

- We **propose to include further non-exhaustive requirements for measuring indicators in line with PC,** especially focused at achieving envisioned end-situation of implementation (see chapter 1.1 draft FG), via:
  - direct Tariff related aspects such as (relative) tariff stability, size of regulatory accounts,
  - number of Cross-Border tariff related discriminations complaints,
  - fulfilment of Transparency norms, formulated in FG.

Draft FG – addressing issues need to develop rules related to e-e zones; locational signals; definitions

IMPORTANT VARIA

- We **shall not construct special Tariff approaches for (cross-border) mergers of entry-exit zones**
  - PC shows very mixed responses (5 in favour/8 opposed/25 no opinion); we consider action too premature

- We **shall not address locational signals (in order to influence locating of infrastructure) as a separate chapter. In general chapter 2 addresses the matter.**
  - PC: there is no major ground/issues for special rules (21 NO vs. 4 Yes/18 no answer) - 'locational signals are already included in the general tariff methodology through distance related cost drivers or LRMC'.

- We **shall not amend definitions in FG** itself, but a priori develop further in annex to Impact assessment.
  - PC: 29 respondents find definitions not an issue at this stage. 14 respondents see possibility to improve.

Draft FG – addressing need for increased transparency (1)

Feedback from **the public consultation shows need of additional requirement(s) to ensure "reasonable and sufficiently" detailed tariff information**

- 29 respondents responded for more transparency:
  calling for harmonisation of tariff monitoring; increased harmonisation in tariff monitoring practices; tariff methodology transparency ; restrictions on tariff changes.

- 8 respondents are opposed to further transparency:
  TSOs already fulfill wide requirements or this issue can be dealt with nationally; transparency provisions should be carefully reasoned; the current policy options do not address the issue with transparency.

Draft FG – addressing need for increased transparency (2)

Reason for action

- **Stakeholders wish to be, and must be, given the possibility to anticipate and estimate tariff changes**, in order to make informed business decisions.
- **This requires transparency over the tariff framework and methodology.**
- **Neither the draft FG, nor the current regulatory framework, address that concern fully.**

Draft FG – addressing need for increased transparency (3)

Proposed amendments

- Transparency provisions will go further than the current draft tariff framework guideline
- Customers should be able to reasonably estimate cost of access to network.
  - But its customers own responsibility: NRA, nor TSO do provide any guarantee about the calculations made based on the input data they made publicly available).
- Transparency provisions will therefore need to ensure reasonable insight on i) cost parameters/cost data ii) all aspects related to cost allocation and tariff setting and iii) what costs and services are included when deriving tariffs, or setting methodologies for tariff setting.
- The rules will be precise to avoid conflict with national confidentiality laws, and to provide clarity for NC

Draft FG – addressing question if/how to consider Incremental capacity in current FG process (1)

ACER is studying Incremental capacity (IC)…

- **In Tariff workshop 18 September 2012 importance of IC (including Tariff issues) was acknowledged by stakeholders**
- **In public consultation mixed signals on way forward were given by 30 respondents in total**
  - **'not in tariff, lack of transparency, cost allocation and discrimination existing/IC issues; need for an economic test'**
- **ACER contracted Frontier to assist with IA on IC**
  - **IA on topic has been requested by EC in letter on initiation of work on Gas Tariff FG**
  - **IC Tariff work in addition fits other key developments such as NC CAM, CMP-implementation, 10YDP cycles, Infrastructure package**
- ACER conducts **study in close co-operation with CEER in a twin-track approach**

Draft FG – addressing question if/how to consider Incremental capacity in current FG process (1)

…but for FG Tariffs we propose to take time for IC complexity that only minor aspects may be considered

- **Final draft report and Final report are advisory input to FG Tariff work and CEER Roadmap/Blueprint**

- **Further outlook – careful steps to be taken to approach complex IC-topic in steps**
  - Final report, expected in February; afterwards published.
  - 31 March 2013 Tariff FG expected. Minor issues may be considered.
  - 18 April, Madrid Forum, CEER Roadmap/blueprint expected.

Annex. other issues – no action

2. Questions 11 & 12 Other issues

This question received little, various and minor importance responses.

ACER's view: key issues are addressed; only key concern we share is importance of clear prioritisation of (10) objectives, to allow clear trade offs decisions in NC. Chapter 1.1 of the draft FG was intended to provide clarity on envisioned end-situation.

We quote:
'The overall final aim of the Network Code on Tariffs is to lead to gas transmission tariff structures in Europe without discrimination between any type of network users and without any detrimental effects on cross-border trade (in line with Article 13 of Regulation 715/2009)'.

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Agency for the Cooperation of Energy Regulators

Jorge Ramagosa, Gas Natural Fenosa

Tariff Expert Panel Member

ACER workshop on tariffs
Brussels and Ljubljana, 23 January 2013

Incremental capacity

- Tariffs FG (NC) is not the place to deal with incremental capacity. More related with others NC (CAM, CMP, SoS)

- Further transparency required:
  - To estimate tariff evolution
  - To verify the fair cost of the new infrastructure

- Some kind of harmonization required in the economic test

- As this two requirements have something to do with final tariffs, Tariffs FG could incorporate some recommendations about them

Locational signals: specific tariff measures for addressing decisions on locating gas-fired power plants, LNG plants,…

- Locational signals just as a result of the cost allocation mechanism, no more action required
- In case of LNG plants would create discrimination with pipelines users
- Gas system policy or another kind of national policy?

Tariff effects of Entry-Exit zone mergers

- One single balancing zone and tariff methodology
- Lack of revenues at former IPs have to be re-allocated to still existing entry and exit points
- Difficult coexistence of different revenue regimes (price cap vs. revenue cap)
- Compensation system between TSO's

New questions raised by stakeholders in PC

Issues to be included in the Tariff FG:

- Minimum notice period for changes in tariffs (both national and at IP)
- In a bundled capacity, only one TSO must invoice the payable price
- Where currency differences apply either side of the border, in what currency must be invoiced the bundled capacity?

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Debra Hawkin, National Grid

Tariff Expert Panel Member

ACER workshop on tariffs
Brussels and Ljubljana, 23 January 2013

FG Tariffs: Incremental Capacity

for discussion in stakeholder workshop on 23.01.2013

- Complex topic and detail should be in a dedicated code
- Tariffs for incremental should follow the same basic principles as for existing capacity:
  - No undue discrimination etc.
- What is needed?
  - A clear process for application and release of incremental capacity
  - 'User Commitment' – for instance, a market test or NRA underwriting
  - Need to check for potential issues regarding:
    - long and short term pricing,
    - payable price and
    - link to 'User Commitment'
  - Transparency

FG Tariffs: Transparency

for discussion in stakeholder workshop on 23.01.2013

- Timely and accurate Information is key to decision making and gives confidence to all parties
- Tariffs will necessarily evolve in a changing market
- Stakeholders need to be able to anticipate and estimate tariff changes
- Predictability v stability
- Information may reduce the need for 'fixed' rules within the Tariff Framework Guidelines

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Framework guideline on tariffs - Enabling CAM

Markus Krug, E-Control
ACER Gas Tariff TF Co-Chair

ACER workshop on tariffs
Brussels and Ljubljana, 23 January 2013

Feedback from the public consultation

- Majority (15/11) support the proposed option of floating tariffs as the standard approach for IPs
- 4 respondents argue that both floating and fixed payable prices should be allowed
- 10 respondents did not have an opinion
- Issues of payable price and revenue recovery can be looked at together

Q 5 – Virtual interconnection points

- 24 respondents support the proposed option for reserve price in Virtual IPs
- 4 respondents are against the proposed option
- 10 respondents did not have an opinion
- 7 respondents proposed alternative options
  - Alternative option: aggregate the points and then calculate the tariff as if it was just one single point, depending on the allowed revenue that should be recovered

➢ No concrete examples for VIPs in EU yet

➢ No change necessary

Q 6 – Bundled products

- 34 respondents support the proposed option
- 0 respondents are against the proposed option
- 9 respondents did not have an opinion

➢ No change necessary

Enabling CAM: Payable price, Bundling and VIP

ACER Tariff Workshop

Brussels/Ljubljana, 23 January 2013

Kees Bouwens, ExxonMobil

More about OGP: Our membership spans the globe and accounts for more than half of the world's oil output and about one third of global gas production. From our London office, we foster cooperation in the area of health, safety and the environment, operations and engineering, and represent the industry before international organisations, such as the UN, IMO and the World Bank, as well as regional seas conventions, such as OSPAR, where we have observer status. OGP Europe in Brussels represents before the EU OGP members who are active in Europe.

General remarks on Tariff FG

- **OGP welcomes invitation for further input to ACER FG**
  - Offers opportunity to develop a consistent tariff structure for existing as well as incremental capacity
- **OGP prefers the FG to provide general guidance for NC development process and not prescribe its outcome**
  - FG should strike the right balance between:
    - Facilitating cross-border trade;
    - Avoiding cross-subsidization and undue discrimination;
    - Providing incentives for new efficient investments
- **Proposed 50% rule should be removed from FG**
  - NC process should evaluate different cost allocation methods and consider national specificities

Enabling CAM: Payable price, Bundling & VIP

- **FG should allow for flexibility concerning Payable price**
  - NUs should have certainty or at least forward transparency
    - NUs can buy/sell forward gas at fixed prices and may want to lock-in transport costs
  - Expansion of congested IPs shouldn't result in discrimination of NUs that hold unused capacity from earlier auctions
    - Auction premium should not be fixed by the FG
- **Revenue split between TSOs is not exclusive to Bundling**
  - Where investment by one TSO benefits the adjacent system, the FG should allow NRAs to agree compensation
- **VIP price is combination - not simply sum - of IP prices**
  - NC process should carefully address all implications

Thank you for your attention !

ACER
Agency for the Cooperation of Energy Regulators

Framework guideline on tariffs - Revenue recovery

Benoît Esnault, CRE
ACER Gas Tariff TF Co-Chair

ACER Tariff Workshop, 23 January 2013

What is the problem?

- Revenue recovery is a general principle aimed at ensuring that costs are properly paid for
- Any choice in terms of tariff design has to associate competition development objectives to a strategy of cost recovery
- Objectives of cost recovery mechanisms: cover the gap between the allowed revenue and the collected revenue
  - Ex-ante: strategy aimed at minimising the gap
  - Ex-post: re-allocation of the gap to next years
- Tariff calculation is based on assumptions in terms of capacity use, costs and tariff structure

Feed-back from the public consultation

- A majority (17/13) would like more consistency between reserve prices, payable price and cost recovery
  - Concern about discounts on short term reserve prices
  - The FG should better address the discrimination between different categories of users
- Criticism (23/6) about the balance between facilitating short term trading and long term signals
  - Discounts on short term products criticized
  - Some respondents see too much focus on revenue recovery
  - Some are concerned by the impact of floating tariffs on long term commitments
- Large support for reference price definition aimed at minimizing the difference between allowed and collected revenues

Feed-back from the public consultation

- Regulatory account
  - Majority (20/10) supports the level of harmonization
  - Large majority (29/4) support that the frequency of reconciliation is the responsibility of the NRA
  - Majority supports using the regulatory account to solve congestion
  - Small majority (16/13) agree with the reconciliation on all entry and exit points
  - Criticism (20/11) about allocating the regulatory account using the same proportions as the cost allocation methodology
- Options for reconciliation of the regulatory account
  - Majority (17) prefer the capacity approach (option 1)
  - A significant number (12) suggest to combine capacity and commodity approaches
  - 2 respondents prefer option 2

Revenue recovery and other provisions of the FG

- Cost allocation
  - 50/50 split between entries and exists replaced by a range (25-75 to 50-50)
  - New test aimed at properly allocate costs between cross-border and domestic users
  - The new approach should reduce the risk of cross subsidies due to the application of the cost allocation methodology to the regulatory account
- Reserve prices
  - Default model: proportionality of reserve prices for all kinds of capacity products
  - Discounts optional on short term products (0,5 floor for quarterly and monthly products)
  - Possibility of multipliers up to 1,5 if risks of under-recovery
- Floating tariff as default rule for IPs

Proposals on revenue recovery

- Reference price calculation should minimize the difference between the allowed and obtained revenues (no change)
  - Need to include assumptions on bookings and reserve prices structure
- A regulatory account records the gaps between allowed revenues and actual revenues of the TSO
  - Reconciliation on an ex-post basis
  - Single regulatory account per TSO (no change)
  - Application of the cost allocation methodology to the regulatory account
  - Optional: possibility to reconcile the regulatory account in a specific way to non-IPs
  - Determination of the non-IP share of the regulatory account using the cross-border/domestic allocation test

Proposals on revenue recovery

- Reconciliation of the regulatory account
  - Frequency decided by the NRA (no change)
  - Capacity approach on IPs as default rule with floating tariffs
    - Reserve prices and regulated tariffs evolve according to allocation of the regulatory account
  - Option 2 is removed
  - At non-IPs, NRAs may determine alternative methodologies to reconcile the regulatory account to non-IPs (possibility of fixed prices and a commodity charge)

ACER Consultation workshop on Framework Guidelines on Harmonized Transmission tariff structures

Revenue Recovery

Brussels/Ljubjana

23 January 2013 Dirk Jan Meuzelaar

Revenue recovery: should tariff structures be based on cost coverage or exposed on (short term) markets? *)

- (Regulated) reference prices for (IP) transport capacity should be:
  - cost reflective, based on actual cost (of efficient) network operator
  - prevent free riders behavior via 'causer pay' principle
  - provide optimal incentives for investments based on market tests
    - Fair 'return on equity'; 'WACC'; 'value assets'; 'indexations'

- a fair price for transport, preventing under-recovery of revenues
  - (regulated) tariffs leading to low risk premiums (efficient cost)
  - proper incentives for increasing capacity
  - no exemptions for storages or LNG terminal

- Tariff methodologies preferably based on cost recovery via
  - a capacity charge
    - to prevent high commodity charges for short term capacity exceeding variable cost and inhibit trade
    - Main part of transport costs are fixed cost
  - an equalisation approach, because of decoupled entry-exit system

No exemptions for transport costs for storages and LNG*)

- Storages and LNG are very important for flexibility and integrity of the grid as well as for security of supply
  - On the condition that these investments are efficient
  - Tariffs for transport must be cost reflective, paying for the transport costs they are causing
  - Non-discriminatory
  - Avoid cross-subsidies
- Storages must support efficient trading and competition
- Special tariffs only in case grid users can prove that their transport costs are lower than normal entry-exit costs
- Assets contributing to lower investments in transportation network capacity (like storages) is a leverage but not a justification for special treatment

*) for discussion only; not approved by IFIEC board

Revenue recovery

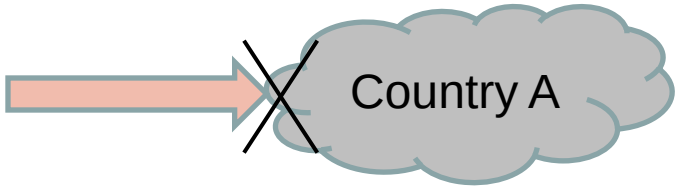
Transit system issues

Milan Sedlacek
Eustream

Ljubljana, 23 January 2013

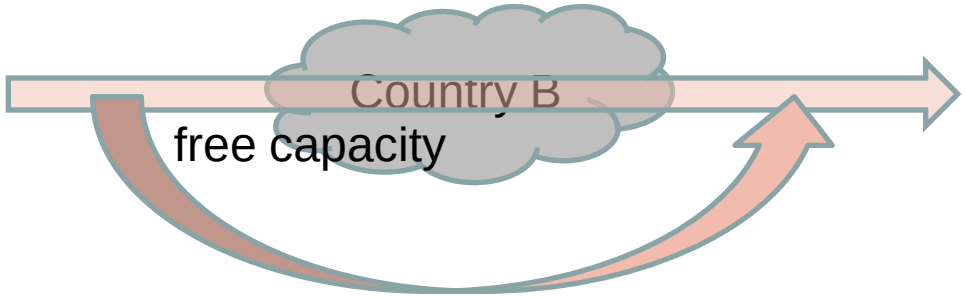
The ground we stand on: DIVERSITY

Situation 1:
Captive market, congestion



0 capacity

Situation 2:
Mainly transit, competition, no congestion

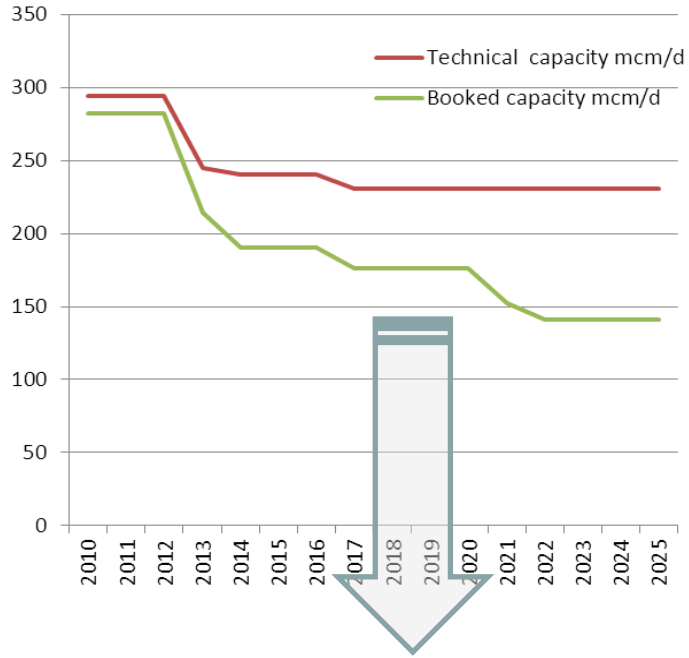


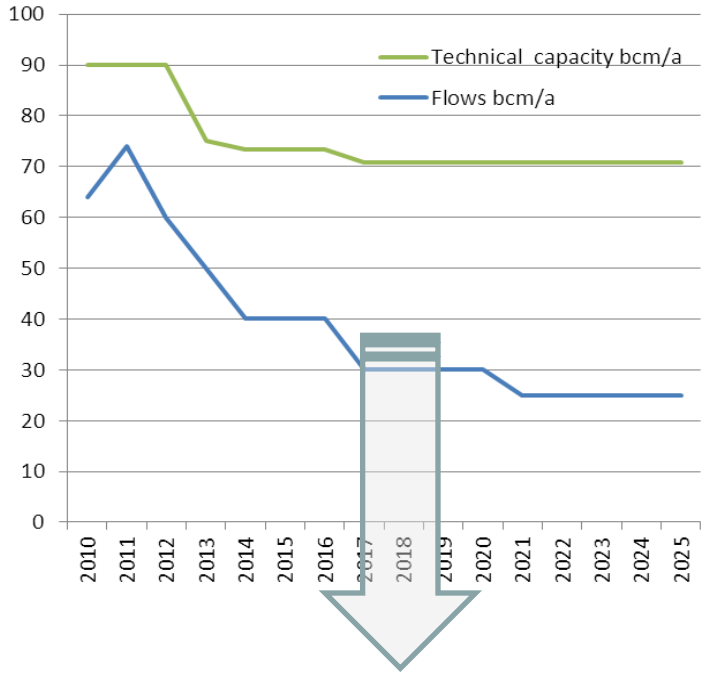
- Tariff guidelines must suit all of these
- Loosely said, goal is to:
  - Facilitate migration of Situation 1 to Situation 2
  - Avoid harmful switch from Situation 2 to Situation 1
- Slovakia:
  - 90 bcm/a of entry capacity, 5.5 bcm/a domestic market
  - 93 % of flows transit, never congested
  - in competition with existing and new pipelines

Where the risks are seen

Existing competition	
Eustream	90 bcm/a
EuRoPol Gaz	33 bcm/a
Nord Stream I, II	55 bcm/a

New competition	
Nord St. III, IV	30-60 bcm/a
South Stream	30-60 bcm/a





- Volume risk
- Competition (unregulated)
- **Long term thinking is the key**
- Stable price + SoS issue

- Adaptation of existing contracts always risky
- Carefully evaluate pros and cons

Thank you for your attention!

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