ACER’s report on methodologies and parameters to determine TSOs’ revenues

ENTSOG’s view

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Agenda

1. ACER’s report scope
2. TAR NC scope
3. Gas Regulation requirements
4. Conclusion
1. ACER’s report scope
I. Before 6 April 2019, the Agency shall publish a report on the methodologies and parameters used to determine the allowed or target revenue of transmission system operators. The report shall be based on at least the parameters referred to in Article 30(1)(b)(iii).

(1) types of assets included in the regulated asset base and their aggregated value;
(2) cost of capital and its calculation methodology;
(3) capital expenditures, including
   (a) methodologies to determine the initial value of the assets;
   (b) methodologies to re-evaluate the assets;
   (c) explanations of the evolution of the value of the assets;
   (d) depreciation periods and amounts per asset type;
(4) operational expenditures;
(5) incentive mechanisms and efficiency targets;
(6) inflation indices.
2. TAR NC scope
Tariff calculation process

- Determine revenue
- Reference price methodology
- NRA approval
- Publication
- Recover revenue
- Reconcile revenue

- in NC scope
- out of NC scope
Which costs to recover
- Setting up the revenue
- How to recover these costs
- Allocation of the revenue among points

Out of scope
In scope

Entry-exit system

Revenues and costs
But the TAR NC transparency requirements go beyond its scope!

Publication before each tariff period

Methodology parameters

Revenue information

Other tariffs not published before auctions

Tariff evolution
TAR NC requirements for revenue transparency...

(b) the following information:

(i) the allowed or target revenue, or both, of the transmission system operator;

(ii) the information related to changes in the revenue referred to in point (i) from one year to the next year;

(iii) the following parameters:

(1) types of assets included in the regulated asset base and their aggregated value;

(2) cost of capital and its calculation methodology;

(3) capital expenditures, including:

   (a) methodologies to determine the initial value of the assets;

   (b) methodologies to re-evaluate the assets;

   (c) explanations of the evolution of the value of the assets;

   (d) depreciation periods and amounts per asset type.

(4) operational expenditures;

(5) incentive mechanisms and efficiency targets;

(6) inflation indices.
...continued

(iv) the transmission services revenue;

(v) the following ratios for the revenue referred to in point (iv):

1. capacity-commodity split, meaning the breakdown between the revenue from capacity-based transmission tariffs and the revenue from commodity-based transmission tariffs;

2. entry-exit split, meaning the breakdown between the revenue from capacity-based transmission tariffs at all entry points and the revenue from capacity-based transmission tariffs at all exit points;

3. intra-system/cross-system split, meaning the breakdown between the revenue from intra-system network use at both entry points and exit points and the revenue from cross-system network use at both entry points and exit points, calculated as set out in Article 5;

(vi) where and to the extent that the transmission system operator functions under a non-price cap regime, the following information related to the previous year's period on regarding the reconciliation of the regulatory account:

1. the actually obtained revenue, the under- or over-recovery of the allowed revenue and the part thereof attributed to the regulatory account and, if applicable, sub-accounts within such regulatory account;

2. the reconciliation period and the incentive mechanisms implemented.

(vii) the intended use of the auction premium.
3. Gas Regulation requirements
Gas Regulation on tariffs/methodologies

- Take account of the need for system integrity and its improvement
- Reflect the actual costs incurred
- Include an appropriate return on investment
- Where appropriate, take account of benchmarking of tariffs
- Transparent
- Non-discriminatory
- Facilitate efficient gas trade
- Avoid cross-subsidies
- Facilitate competition
- Inter-operability for transmission networks
- Set separately for every entry and exit point
- Do not restrict market liquidity
- Do not distort trade across borders of different transmission systems
- Provide incentive for investment
- Inter-operability for transmission networks
- Set separately for every entry and exit point
- Do not restrict market liquidity
- Do not distort trade across borders of different transmission systems
4. Conclusion
ENTSOG’s view [1]

- Contains main tariff principles
- 3rd energy package does not deal with revenues
- Left at the MS level
- Integral part of Gas Regulation
- Further details
- Goes beyond its scope by dealing with revenue transparency
- ACER’s obligation is part of TAR NC
- Must not result in recommendations beyond TAR NC and Gas Regulation scope!
ENTSOE’s view [2]

- The report should not make judgements on the **appropriateness** of the revenue methodologies
  - having different methodologies is appropriate when there are different types of systems
  - for example, FR versus CZ have very different systems and therefore require different regulatory regimes
- The report should be just for **information** purposes, setting out what is currently used throughout the EU to determine the allow/target revenue
Thank You for Your Attention

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