

European Developments – potential impact on the NTS Charging Methodology

NTS CMF 10th May 2011

Introduction

- This presentation represents a update on European Developments and their potential impact on the NTS Charging Methodology.
- The presentation covers;
 - Relevant EU Regulation Articles
 - The requirement for a tariff network code
 - The work of the ENTSOG Tariff Work Area Group
 - Issues going forward

EC Regulation 715/2009

- **EC Regulation 715/2009 on conditions for access to the natural gas transmission networks**
 - **Article 4 - European network of transmission system operators for gas**
 - All transmission system operators shall cooperate at Community level through the ENTSO for Gas, in order to promote the completion and functioning of the internal market in natural gas and cross-border trade
 - **Article 5 - Establishment of the ENTSO for Gas**
 - **Article 6 - Establishment of network codes**
 - The Commission shall, after consulting the Agency, the ENTSO for Gas and the other relevant stakeholders establish an annual priority list identifying the areas set out in Article 8(6) to be included in the development of network codes.
 - rules regarding harmonised transmission tariff structures;
 - **Article 13 - Tariffs for access to networks**
 - **Article 14 - Third-party access services concerning transmission system operators**

EU Gas Regulations (Article 13)

- **the principles for network access tariffs or the methodologies used to calculate them shall:**
 - *“be transparent”*
 - *“take into account the need for system integrity and its improvement”*
 - *“reflect the actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator, whilst including an appropriate return on investments, and where appropriate, taking account of the benchmarking of tariffs by the regulatory authorities”*
 - *“shall be applied in a non-discriminatory manner”*
 - *“Member States may decide that tariffs may also be determined through market-based arrangements, such as auctions,”*

EU Gas Regulations (Article 13) 2

- **Tariffs, or the methodologies used to calculate them, shall**
 - *“facilitate efficient gas trade and competition, while at the same time*
 - *avoiding cross-subsidies between network users and*
 - *providing incentives for investment and maintaining or creating interoperability for transmission networks.”*
 - *“shall be non-discriminatory and set separately for every entry point into or exit point out of the transmission system.”*
- *“network charges shall not be calculated on the basis of contract paths”*
- *“Tariffs for network access shall neither restrict market liquidity nor distort trade across borders of different transmission systems.”*

EU Gas Regulations (Article 14)

- **Third-party access services concerning transmission system operators**
 - *“Transmission system operators shall:
 - (a) ensure that they offer services on a non-discriminatory basis to all network users;
 - (b) provide both firm and interruptible third-party access services. The price of interruptible capacity shall reflect the probability of interruption”*
 - *“Transport contracts signed with non-standard start dates or with a shorter duration than a standard annual transport contract shall not result in arbitrarily higher or lower tariffs that do not reflect the market value of the service”*

ENTSOG Tariff Work Area Group

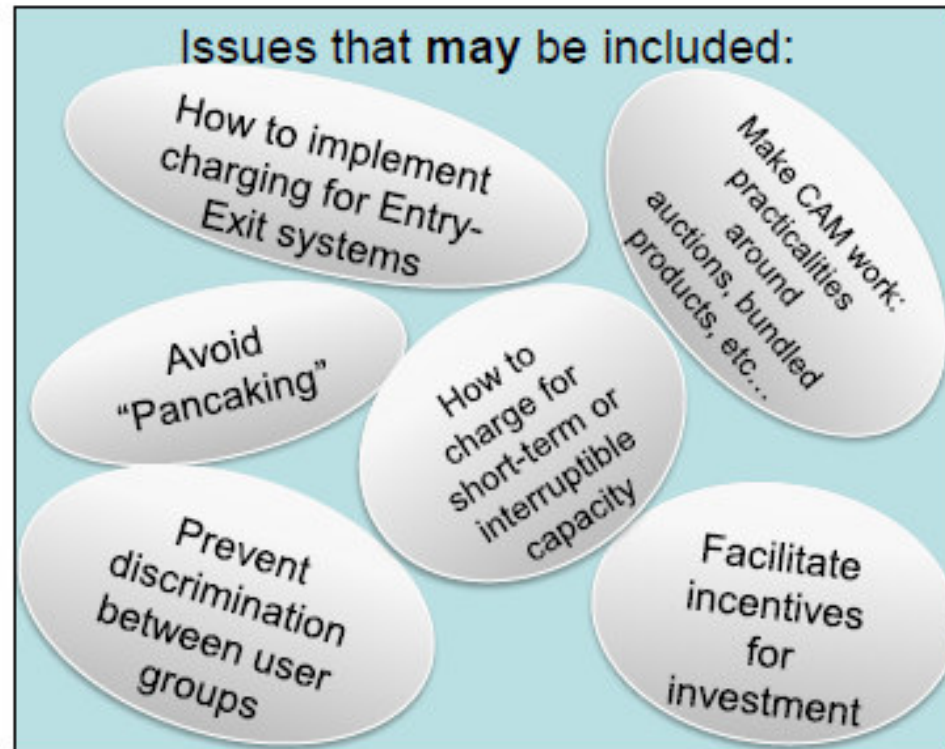
- **ENTSOG Tariff Work Area Group set up July 2010**
- **Tariff issues highlighted by ERGEG***
 - **Avoiding cross subsidies particularly between ‘domestic’ and ‘transit’ (cross border)**
 - Counter intuitive paths though Europe
 - Once prices are set on a non-discriminatory cost reflective entry-exit basis, cross subsidies might be avoided
 - ‘Domestic’ and ‘Transit’ might still be charged for on a different basis (e.g. zonal domestic exit charges) if cost are allocated on a non-discriminatory basis
 - **‘Closing Markets’**
 - Are price differentials between trading hubs reflective of transportation charges?
 - Short term players might only trade if short-term capacity is available and the price differential is greater than the capacity price plus the transportation commodity price
 - Longer term players might trade if the price differential is greater than the transportation commodity price only if longer term capacity is treated as a sunk cost

Tariff WA input to the CAM network code process

- On 9 Dec 2010, ERGEG submitted to the European Commission (EC) its revised pilot framework guideline on gas capacity allocation mechanisms.
 - ACER, after its official inception on 3 March 2011, is formally consulting on the framework guideline; however, it is not expected that this will result in significant change.
- On 27 Jan 2011 the EC sent an invitation letter to ENTSOG to submit a Network Code (NC), in line with the framework guideline, within 12 months.
- Input from the various ENTSOG working groups and working areas are required during the network code development, and the issues requiring input from the Tariff work area group are;
 - *the necessity to determine and co-ordinate the reserve prices for sub-annual products,*
 - *a rule on how to distribute revenues from the auctions of bundled products,*
 - *what options there are to manage over and under-recovery ex-post, with their respective advantages and disadvantages,*
 - *pricing of interruptible products, and*
 - *advantages and drawbacks of pay-as-bid and cleared-price auctions.*

Harmonised transmission tariff structures Framework Guideline & Network Code

- European Commission likely to invite ACER to draft the FG in early 2011
- ACER will then consult and produce a Framework Guideline within 6 months



Next step: ACER to publish consultation following the Commission's invitation in 2011

Source: The gas session presentation of Ofgem European Strategy team's GB stakeholder event on European developments, 10th January 2011.

Potential Impact on the NTS Charging Methodology

- The impact on the NTS Charging Methodology will depend on
 - Interpretation of the regulations, and
 - the level of harmonisation identified as being required
- *Areas that may need further consideration;*
 - Are prices “*non-discriminatory and set separately for every entry point into or exit point out of the transmission system.*”?
 - *Is the capacity-commodity split consistent with the requirements?*
 - “*The price of interruptible capacity shall reflect the probability of interruption*” – does this have to be the case if interruptible capacity is auctioned?