

March 2012

ACER Consultation on the scope and the main policy options for
Framework Guidelines on
Harmonised transmission tariff structures

Joint IFIEC Europe and CEFIC response to this ACER consultation
(DFGT-2012-G-004)

General remarks

IFIEC Europe & CEFIC welcome the opportunity to respond to this ACER consultation on harmonised gas transmission tariff structures. For the members of IFIEC and CEFIC fair costs for the transportation of energy to safeguard a level playing field which are crucial for the competitive position of the European Industry. Following ACER, we like to emphasize art 13 and 14(2) of the gas regulation that Tariffs, or its methodologies 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. Tariffs also have to reflect the actual costs. Moreover we like to emphasize that in several countries National authorities, which have often different interests are the shareholders of the TSO's which might hinder an objective analyses of NRA's in case they are not 100% independent. Only independent NRA's are able to regulate the tariffs based on fair and transparent criteria safeguarding the position of the grid users.

Questions

Question 1: What other issues should be dealt with in this Framework Guideline? What is the evidence for including these issues? Please provide justification.

IFIEC Europe and CEFIC would like to suggest a first step that ACER will provide all market participants with a complete comparison of all existing price regulation regimes and the prices from all TSO entry- and exit points. In contradiction to what is stated in the consultation document, IFIEC and CEFIC strongly support that the derivation of the allowed costs/revenues are also tackled in the framework guidelines. We believe that there are huge potentials for cost reductions.

Moreover IFIEC and CEFIC would like to comment on the existing issues laid down in the consultation document.

Inefficient use of the system

In the paper, it is argued that the system is inefficiently used, because the transportation costs are higher than the price differences between adjacent markets. If that is the case - assuming the transportation costs have been allocated in a fair manner-, than this is the fair

price one party should pay, when transporting gas from one balancing zone to another. At the end there is no free lunch. If the transportation price is a function of the price differential between markets and not covered by the costs, someone else has to pay the bill in the end. The costs are then just shifted to long term capacities and/or exit points. To say it clearer: again, the European industry will have to pay the bill then.

Undue discrimination

IFIEC-Europe and CEFIC agree that undue discrimination should be avoided. Tariffs must be cost-reflective without cross-subsidization between cross border and domestic network users. This also refers to different domestic exit and entry point. Although the focus of ACER is cross border trade and tariffs, it is difficult to exclude the domestic tariff structures, not only because they are regulated as well, but also because cross border tariffs inevitably are interrelated with domestic tariffs. Moreover, in a decoupled entry-exit system distance related tariffs are not appropriate anymore, complicating the principle of cost reflectivity on the one hand and the causer pay principle on the other.

Question 2: What are the most important problems that relate to tariff structures? Do the problems identified by you relate to the lack of harmonised approaches?

One of the most difficult problems is how to share the total cost based on the principle of efficiency, cost reflective/causer pay principle, transparency, non-discrimination and cross-subsidisation including that the system has to provide the right price incentives. (there are more variables than equations which means more than one possible solution)

Question 3: Based on the Gas Regulation, are there further principles to be added?

IFIEC-Europe and CEFIC would like to add the cost-carrier of gas. In most of the current systems, the caloric value is the cost carrier. There are large differences between the caloric values associated with different gas qualities. In the Netherlands for example, the caloric value of one m³ Groningen gas is 20% lower than for one m³ of high-caloric gas which means that transportation costs of other unwanted elements like Nitrogen, CO₂, Sulfur etc are in fact zero.

Question 4: How would you interpret the above principles and objectives? Which objective would you consider to be the most important for achieving an EU internal market for gas? How would you rank the rest of the objectives? Please provide justification

Efficient gas trade and competition

In the consultation document it is stated, that pricing of transmission capacity shall strike a fine balance between the facilitation of short-term gas trading, on the one hand, and the provision of long-term signals and appropriate cost recovery, on the other. Furthermore it is noted that contractual congestions avoided efficient hub to hub trades in the past.

From IFIEC and CEFIC position only fair allocated costs provide the right market signals. With effective congestions management rules, contractual congestions should not be a problem in the near future any more. In addition, market participants who have long term bookings will always have an incentive to arbitrage market price differentials, since they already paid the capacity.

Avoid cross-subsidies and undue discrimination between network users

IFIEC and CEFIC support the principle that the rules created should minimize cross subsidies to the extent possible. The consultation document states that the Framework Guidelines on tariff structures shall aim at avoiding excessively low or high tariffs at the borders. This is somehow questionable, since part of the cross boarder capacity will be auctioned. If demand exceeds supply at an interconnection point, the clearing price could be high in the end.

Cost-reflective tariffs and recovery of allowed revenues

Cost reflective tariffs are important. In case TSO are able to predict the total revenues between small margins, risk premiums can be low.

Allow new and efficient investments

IFIEC and CEFIC support the principle that tariffs should give appropriate incentives to invest. A free market can only function with sufficient transport capacity and no transport bottlenecks. It has to be ensured that auctions premiums (auction revenues exceeding the allowed revenue) at cross boarder point are used to get rid of existing physical bottlenecks.

Transparency

Tariffs, including the methodologies used to calculate them should be fully transparent.

Question 5: What are your views on the proposed scope and application regarding:

-Entry and exit points

To avoid any potential discrimination or adverse effect on cross-border trade, the scope of the FG may include more entry or exit points than only cross border IPs. IFIEC and CEFIC support this principle. Even more strongly we can imagine that the domestic entry-exit-tariff system as a whole has to be taken into account.

-Determination of the annual reference price

We support an annual reference price supporting a system based on the principles of art 13 and 14(2) of the gas regulation that Tariffs, or its methodologies 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.

-Mechanisms to deal with over- and under-recovery of allowed revenues and the definition of the clearing price?

It must be transparent how under or over-recovery shall be redistributed on a neutral base. The FG does not aim at addressing determination of allowed revenues. IFIEC and CEFIC

strongly suggest that ACER does assess the allowed revenues, because most systems have regulated TPA.

Question 6: Regarding the issue of compensation payments between TSOs within cross-national entry-exit zones, do you consider that:

- i. No harmonisation is required.**
- ii. The rules establishing compensation payments should be harmonised at EU level.**
- iii. Guidelines of good practice on the issue would suffice. Please provide guidelines suggestions.**
- iv. Other option: _____ . Please provide justification.**
- v. I don't know.**

We don't know

Question 7: Do you agree that reserve prices shall be based on reference prices as described above?

Yes, a reference price based on a yearly product is generally supported.

Question 8: Which option would you find appropriate to determine the reference price? Please justify your answer.

We would prefer Option 2 – Actual Costs Incurred.

Question 9: Regarding the cost concepts, do you consider that:

Most domestic systems are based on the actual costs incurred, based on CAPEX and OPEX. For consistency reasons this could be the case for cross border.

Question 10: Could two different cost concepts be applied on the two sides of an interconnection point without hindering cross-border trade? Please justify your answer.

Yes. We don't expect that uniform cost concepts will be the best solution to support cross border trade.

Question 11: Regarding the issue of cost allocation, do you consider that:

- i. No harmonisation is required.**
- ii. Methodologies for allocating a TSO's costs between cross-border and domestic usage should be harmonised across Europe.**
- iii. Methodologies for allocating a TSO's costs between cross-border and domestic usage should be established on a more local basis, in combination with guidelines of good practice.**

- iv. Are there any other ways of allocating the TSO's costs in a harmonised or local way which should be considered, focusing on the allocation of costs between cross-border and domestic usage?**
- v. If cost allocation methodologies are to be set on a local basis, do you agree with the criteria set out above for assessing the methodologies?**

IFIEC-Europe and CEFIC are in favor of the Equalisation approach. It is easy to calculate and transparent.

**Question 12: Do you consider potential cross-subsidies as a concern in relation to the coexistence of different cost allocation methodologies?
Please provide justification.**

This maybe the case and shows the need, that the prices at all relevant points must be monitored und published by ACER constantly.

Question 13: Regarding the issue of reserve prices for short term products, do you consider that:

- i. No harmonisation is required.**
- ii. The rules should be harmonised, along the following lines:
_____ . Please provide justification.**
- iii. Guidelines of good practice would suffice, along the following line :
_____ . Please provide justification.**
- iv. Other option: _____ . Please provide justification.**
- v. I don't know.**

The rules should be harmonized in a way that auctions starting with a reserve price of zero are not allowed. Only the regulated tariff should be used as a basis.

Question 14: What are your views on the proposed policy options? Would you suggest other options? Please provide your reasons.

IFIEC and CEFIC strongly favor Option 4: Pricing with multipliers higher than one for short-term products. In most economies buyers get a discount, when the contractual volume increases. TSOs have projectable revenues then, which could be used for needed investments.

Question 15: What are in your view the advantages/disadvantages of each of the options?

Every option where short term capacity is cheaper or equally priced to the long term capacity, there will be a shift from long term to short term capacity, with high uncertainty for the TSO about the possible revenues.

Question 16: Should seasonal factors be applied?

Seasonal factors does not need to applied because it seasonal effects will automatically show itself in higher or lower auction prices

Question 17: Regarding the issue of reserve prices for interruptible and non-physical backhaul capacity, do you consider that:

i. No harmonisation is required.

ii. The rules should be harmonised, along the following lines:

_____. **Please provide justification.**

iii. Guidelines of good practice would suffice, along the following line:

_____. **Please provide justification.**

iv. Other option: _____. **Please provide justification.**

Interruptible capacity may never be an incentive for speculation or refrain from long term bookings. Option 1 could be the best option; pricing interruptible/ non-physical backhaul capacity services at a discount in relation to the corresponding firm capacity service.

Question 18: Would you suggest other options?

No

Question 19: What are your views on the proposed policy options? Would you prefer one option over the other? To what extent can this preferred option be uniformly applied? Please explain.

IFIEC-Europe and CEFIC prefer option 3.4; Clearing price not indexed to inflation because inflation will be part of the clearing price in the auction.

Question 20: Do you consider that different approaches could be applied for one bundled capacity product?

Yes, in case there is no harmonization of the abovementioned options.

Question 21: Regarding the issue of recovery of allowed revenues, do you consider that:

i. No harmonisation in required.

ii. The rules establishing this relation should be harmonised at EU level. Please provide harmonisation suggestions.

iii. Guidelines of good practice on the issue would suffice. Please provide guideline suggestions.

iv. Other option: _____. **Please provide justification.**

v. I don't know.

We believe that the rules should be harmonized.

Question 22: Should there be a cap on the percentage of revenues to be recovered through a commodity charge? If so, then please provide proposals for how this could work in practice.

We also invite any further suggestion you may have concerning the Framework Guidelines on harmonised transmission tariff structures relating to issues which are either not considered in the scoping document or mentioned but not considered for further analysis. Please reason your answer.

IFIEC and Cefic prefer the first option, recovery of allowed revenues through a regulatory account. In the other two options there is a higher risk for free rider's behavior and cross-subsidization.