



**Energy Community Regulatory Board**

**Transmission Tariffs**

**Legal and Theoretical Background**

**by Branislava Marsenic- ECS/ECRB Section**

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**ECRB Workshop on Gas Market Models**

**Vienna, 11 November 2010**

# Content

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- **Energy Community legislation- tariff provisions**
  - Directive 2003/55/EC
  - Regulation 1775/2005
    - EC Staff Working Document on tariffs for access to the natural gas transmission networks regulated under Article 3 of Regulation 1775/2005
- **Third Package**
- **Overview of tariffication models**
- **Tariffication models implemented**
  - EU Member States
  - EnC Contracting Parties

## EnC Legislation- Tariff provisions (1)

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- **Directive 2003/55/EC**

- Article 18(1) (TPA): tariffs or methodologies approved and published prior to their entry into force, objective, without discrimination

- Article 25(2) (Regulatory Authorities): NRAs responsible for fixing or approving tariffs or methodologies prior to entry into force for connection, access to transmission and distribution and balancing services; tariffs to allow investments ensuring system viability

- **Regulation 1775/2005**

- Article 3 (Tariffs for access to networks): details from Commission Staff Working Document- next slide

## EnC Legislation- Tariff provisions (2)

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### ■ Article 3 of Regulation 1775/2005

- Tariffs must be efficient and non- discriminatory
- An entry- exit system regarded as most appropriate for ensuring non- discriminatory tariff system, but not obligatory
- Transparency of tariffs and methodologies
- System integrity- tariffs to allow maintaining of the system and investments, especially to resolve congestions
- Cost based tariffs- tariffs to reflect actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator
- Costs underpinning tariffs to be transparent
- Appropriate return on investments

## EnC Legislation- Tariff provisions (3)

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### ■ Article 3 of Regulation 1775/2005

- Benchmarking of tariffs- complementary method to cost based approach
- Tariffs set by market- based arrangements
- Avoid cross subsidies between network users (= avoid post stamp, but also between cross- border and domestic transmission or between supply and transmission being subsidiaries of the same vertically integrated company)
- Ensuring interoperability and liquidity
- Convergence of tariff structures in order to facilitate (cross- border) trade

## Third package (1)

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- **Directive 2009/73/EC** (repealing Directive 2003/55)
  - Article 32 (TPA provisions the same)
  - Article 22 (Network development and powers to make investment decisions) and Article 41(1)(Duties and powers of the regulatory authority)- investment related provisions strengthening the role of regulator
    - Article 41(6)(8)and (10) (Duties and powers of the regulatory authority)- provisions similar to those of Article 25(2) of the “old” directive, but provisional tariffs set by regulator introduced for the case of delay in fixing tariffs by TSOs
    - New unbundling provisions may require more complex regulatory regime (e.g. existence of independent system operator)

## Third package (2)

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- **Regulation 715/2009** (repealing Regulation 1775/2005)
  - Article 13 (Tariffs for access to networks): all principles as before, but **decoupled entry- exit tariffs** introduced as obligation
  - EU MS to apply by 3<sup>rd</sup> September 2011
  - Already applied in Germany, Italy, Ireland, Netherlands, UK, Spain, Slovakia, Sweden

## Third package (3)

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### ■ Regulatory follow up with respect to transmission tariffs

→ At 17<sup>th</sup> Madrid Forum (January 2010) ERGEG's future FG on harmonized transmission tariffs announced

→ Some topics that will be covered:

- How to limit high premium on short- term capacity products
- Tariff pancaking
- Premium on backhaul capacities
- Lack/determination of locational charges
- Regulatory treatment of new CB infrastructure

## Overview of tariffication models

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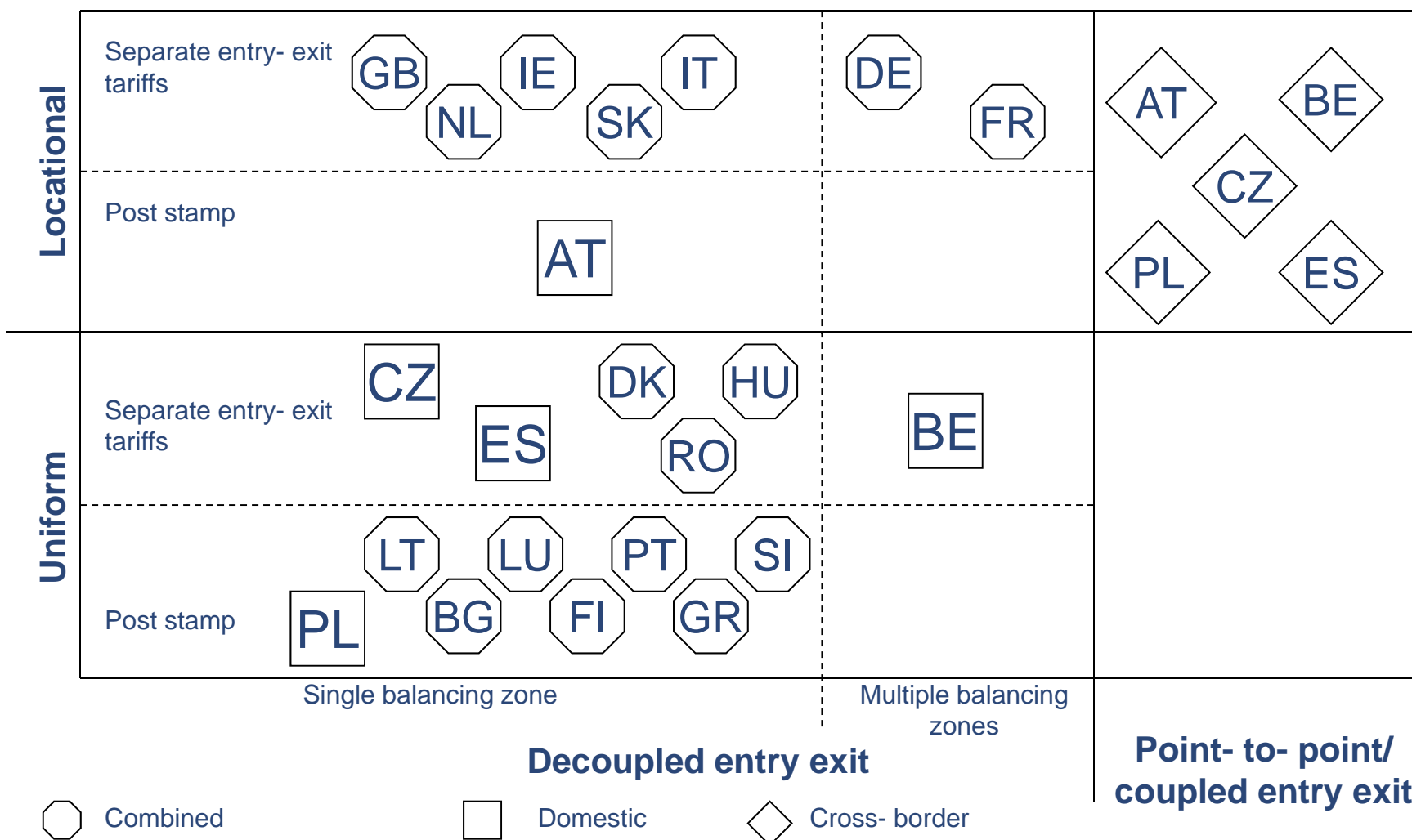
### Distance-related and entry-exit tariffs (post stamp special case of EE tariffs)

- Distance-based tariffs: transportation charge is proportional to the distance between the injection and withdrawal points
- Cost reflective in certain cases (e.g. long unidirectional paths)
- When networks more complex (meshed), tariffs potentially discriminatory
- Entry- exit system: separate charges for entry and exit capacity
- EE tariffs better promote trade, liquidity and competition
- EE tariffs may be determined by using different methodologies
- “Pancaking” issue

# Tariffication models implemented in EU MS (1)



## Transmission tariff model



Source: KEMA Study on Methodologies for Gas Transmission Network Tariffs and Gas Balancing Fees in Europe

## Tariffication models implemented in EU MS (2)

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- **Transmission tariffs mainly based on booked capacity, but commodity charge also often used with share of up to 30%**
- **Price of interruptible capacity depends on the duration and level of interruption: at discount of 10-30%, in some cases even 0**
- **Non-physical backhaul capacity: limited implementation, big variations in discounts**
- **Short- term capacity prices significantly higher (up to 500% of firm capacity price)**

- **ECRB draft document “Regulation of gas cross- border transmission flows in the Energy Community”**
  - Post stamp tariffs implemented (for CB transmission in Serbia negotiated tariffs)
- **Further steps?**
  - Common tariffication principles as part of WP 2011 under consideration

# THANK YOU!

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