

# MADRID FORUM IV

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## TRANSMISSION TARIFFS

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# TRANSMISSION TARIFFS

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## OBJECTIVES OF THE STUDY

- Identifying the existing tariff regimes (level / structure)
- Understanding the reasons for different tariff regimes
- Identifying potential obstacles to competition due to tariff regimes and actions to be taken by TSOs
- Addressing specific issues related to tariffs :
  - Swaps and backhaul transportation
  - Transit
  - Pancaking

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## MAIN REQUIREMENTS FOR A TARIFF SYSTEM

- Providing appropriate incentives to timely and efficient investments and to ensuring system security
- Taking into account the specific features of the system on which it applies
- Not discriminating among network users
- Not creating unjustified obstacles to cross-border trade
- Being cost-reflective
- Giving relevant locational signals (i.e. mainly long term signals)

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## TARIFF LEVELS

- Two basic options :
  - « Market value » principle
  - « Cost plus » principle
- Market value principle can be justified in case of actual or potential pipe-to-pipe competition
- Basis for « cost plus » approach :
  - economic value of existing assets (replacement cost or re-evaluated historical cost minus depreciation)
  - return based on a WACC approach

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## TARIFF STRUCTURES (1)

- Three main categories of tariff structures for capacity:
  - Distance-Related tariff
  - Entry-Exit tariff
  - Post-Stamp tariff

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## TARIFF STRUCTURES (2)

- A distance-related tariff :
  - reflects long-run capacity costs and market value of transmission
  - is consistent with transits
  - facilitates competition on transmission
  - ensures tariff continuity at the boundaries
  - disincentivizes inefficient by-pass lines
  - facilitates tariff comparison
  - is compatible with the development of a competitive gas market (cf. the US)

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## TARIFF STRUCTURES (3)

- An entry-exit tariff :
  - facilitates the development of gas trading (central hub)
  - may reflect long-run capacity costs
  - limits locational differences within the area covered
  - facilitates setting an auction regime for capacity
  - facilitates a secondary market for capacity
  - increases flexibility for shippers

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## TARIFF STRUCTURES (4)

- A post-stamp tariff may be adapted for :
  - a relatively small area
  - no or little pipe-to-pipe competition
  - no or few transits
  - priority given to simplicity and social acceptability

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## SWAPS AND BACKHAUL TRANSPORTATION

- « Trading swaps » are the shippers' responsibility :  
arbitrage between risks and costs linked with reserving  
firm capacity or not
- Neither reverse flows nor reverse capacities reduce  
investment needs, as far as contracted capacity must  
be made available by the TSOs in any circumstances :  
no negative long-run cost
- Who should benefit from savings due to backhaul  
transportation : the direct shippers ? the reverse  
shippers ? the TSO ? all of them?

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## TRANSIT

- In principle, as long as the service and the conditions are the same, no difference on tariff rules should be made between transits and internal transmission (unless cross-subsidies)
- In practice, most transit contracts involve large volumes and large investments, and have specific features regarding in particular pipe-to-pipe competition, definition of service, risk-sharing between TSO and users, ... → specific price and conditions

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## « PANCAKING » (1)

- « Price pancaking » = addition of prices which is not justified by addition of services when using different systems
- Difference between electricity and gas transmission : gas flows through the systems' boundaries are fully monitored and tracked → the service rendered by each operator is precisely identified
- As long as the price charged by each operator reflects the service rendered (e.g. capacity booking from entry to exit points), no « price pancaking » occurs
- Shippers may choose to make a gas swap agreement rather than booking transmission capacity

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## « PANCAKING » (2)

- « Contractual pancaking » = necessity to conclude separate contracts when using different systems
- Contractual pancaking creates complexity for shippers
- Such complexity can be reduced :
  - by simplicity and transparency of tariffs and rules
  - by commitments from TSOs on time limits for answering capacity requests
  - by harmonisation of operational rules

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## CONCLUSIONS AND RECOMMENDATIONS (1)

- Tariff structures should mainly reflect contractual capacities rather than actual physical flows
- Different tariff systems are justified by different network or market situations → subsidiarity should prevail
- Such differences do not distort competition, as long as tariffs and conditions are applied in a non-discriminatory way to the marketing arm of the incumbent company
- Such differences do not create a significant obstacle to cross-border operations and trade, as far as tariffs and conditions are clear, easy to understand and transparent

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## CONCLUSIONS AND RECOMMENDATIONS (2)

- GTE will promote easy access to transmission tariffs via his website
- GTE members will make tariff use and comparison easier by publishing their tariffs in the same currency and the same energy units
- GTE will examine further conditions for facilitating use of several systems (one-stop shopping concept)