
Insight on tariff development

Benoît Esnault (CRE)

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General questions from the previous ENTSOG workshops

- Bundled products
  - Allocations and nominations
  - Split of revenues
- Determination of reserve prices for
  - Day ahead products
  - Quarterly products
- Treatment of incremental capacity
- “Alignment” of interruptible capacity
Tariffs – status of work

- The 19th Madrid Forum concluded that tariffs may go for direct comitology
- Main areas of work
  - Cost allocation
  - Cost recovery
  - Relation between short term and long term capacity products
  - Bundling
- Background principles
  - Promote market integration
  - Non discrimination
  - Cost reflectivity
Cost/revenue allocation and recovery (1/2)

Principles
- The TSOs allowed revenues have to be covered by transmission services selling
- Dynamic approach combining ex-ante and ex-post mechanisms

Reserve price
- Should secure cost recovery to be granted when there is no congestion?
- Based on costs and assumptions on bookings
- Over revenues split from auctions of bundled products: proportional to individual reserve prices, other rule?
Cost/revenue allocation and recovery (2/2)

- Need to fill the gap between allowed and actual revenues got from capacity selling
  - Reserve prices are key to manage the gap
  - Among the options discussed are regulatory account or commodity charge
- Avoid undue discrimination between
  - Domestic and cross border usages
  - Interconnected systems
- Support market integration
  - Reduce obstacles to cross border trade
Focus on reserve price

- Reference: yearly transmission services
- Different cost calculation methodologies are investigated
- **Quarterly products** could lead to an important tariff complexity
  - 1/4th of annual price?
  - Seasonal reserve prices to compensate for profiling?
- Some options discussed for **day ahead** products
  - Zero reserve price: favours cross-border arbitrage flows but may not cover the costs
    - Costs paid by long term services?
  - Regulated tariff: ensures that services are paid by users but may frustrate arbitrage flows
  - Other options are also investigated
Conclusions

- When developing the network code, ENTSOG should be careful not to bring too much complexity in other areas of work.
- Prices should reflect the value of services and foster market development.
- **Cost recovery** is a background concept for tariff setting:
  - Any over- or under-recovery of allowed revenues has to be compensated by network users.
  - Reserve price design is key to managing over- and under-recovery of allowed revenues.
- The target model should help clarifying the options.
thank you for your attention

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