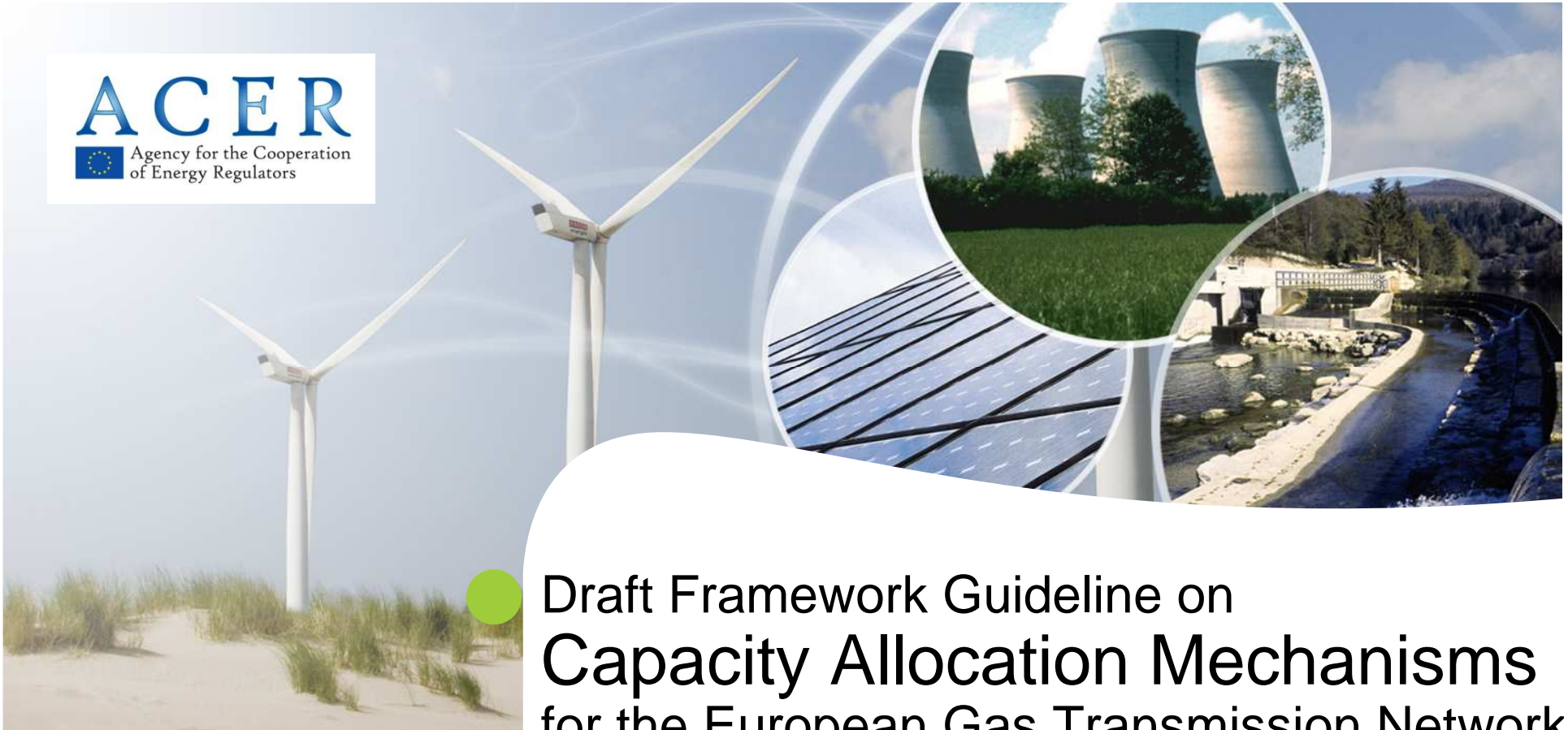


**ACER**

Agency for the Cooperation  
of Energy Regulators



● Draft Framework Guideline on  
**Capacity Allocation Mechanisms**  
for the European Gas Transmission Network  
Insight on tariff development

Benoît Esnault (CRE)

4th ENTSOG Workshop on the CAM network code  
Brussels, 19 May 2011

- 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

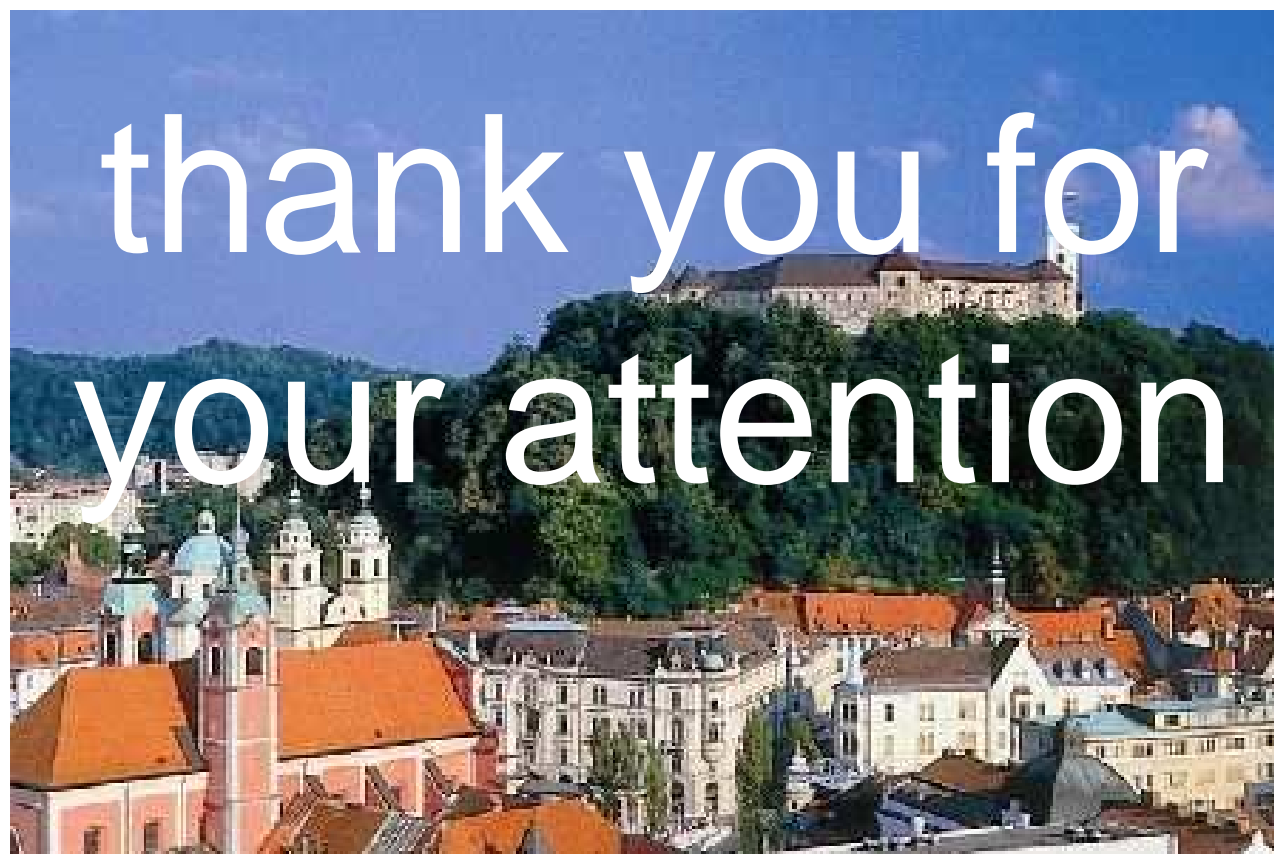
- Cost/revenue allocation and recovery (1/2)
  - Principles
    - » The TSOs allowed revenues have to be covered by transmission services selling
    - » Dynamic approach combining ex-ante and ex-post mechanisms
  - Reserve price
    - » Should secure cost recovery to be granted when there is no congestion?
    - » 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



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