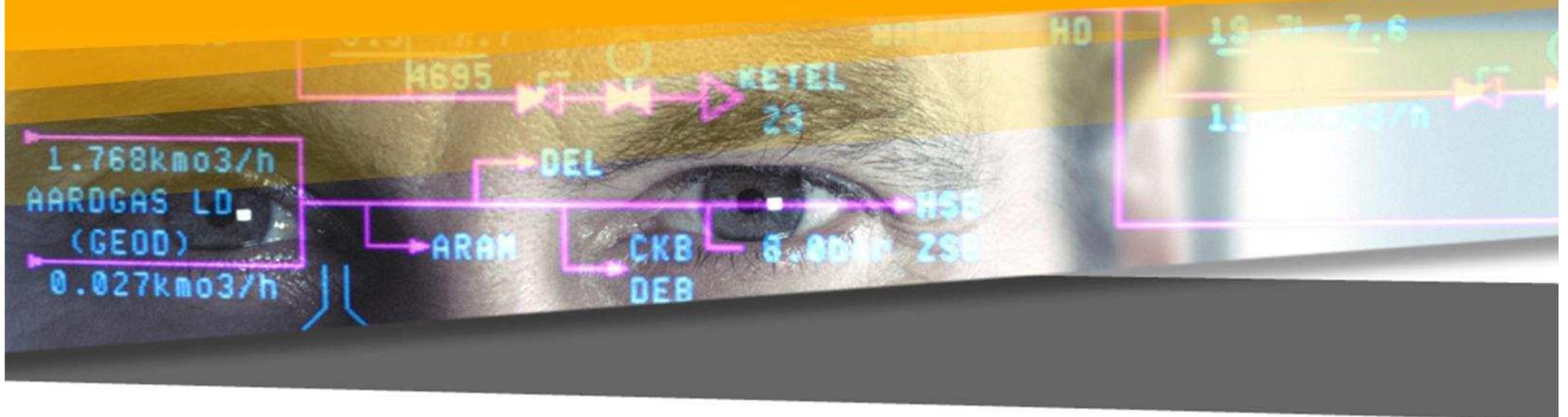


Harmonisation of (tariff) regulation in Europe

NeVER and BAEE seminar

Den Haag, 31 January 2013



Erik Gottschal (Legal Counsel, GTS)

Scene setter: EU Internal market through regulated access

- Europe has started the development of the **EU internal market** since the late 90s
- The energy sector was highly vertically integrated and energy is transported through capital intensive networks
- The establishment of a market for energy requires **non-discriminatory access** to these networks
- The establishment of a **functioning internal market** requires these networks to be interconnected *and* the removal of cross-border barriers

To ensure non-discriminatory and cross-border access to the networks **unbundling and regulated access** have been established

Areas of regulation in European gas transmission

- Access conditions:
 - capacity allocation
 - congestion management
 - balancing
 - Operational procedures (interoperability, data exchange)
 - Transparency (publication of transmission data, REMIT)
- Tariffs and tariff structures
 - Methodologies regarding allowed incomes
 - Methodologies regarding the calculation of tariffs
 - Tariff structures and tariffs

All of these areas are governed by the Directives and Regulations,
as well as national legislation!
Regulatory authorities have a **national remit!**

Harmonisation of access conditions

- Regulatory decisions and policies **differ** per EU member state
 - As a result, access conditions **differ** per EU member state
- For energy to be **traded** efficiently within the internal market **some** of these differences are **irritating**: creating cross-border barriers. For example:
 - Different licencing requirement to participate in the market
 - Different capacity allocation mechanism, with different booking windows
 - Different levels of transparency
 - Gas quality requirements
- Not all differences matter: for example balancing rules that reflect the physical capabilities of the system

There is a case for harmonisation where irritators to cross-border access & trade are removed. There is no case for harmonisation per se.

In case of cross-border integration, harmonisation is not sufficient: **supra-national regulatory oversight is required.**

The question of tariff harmonisation: Regulation 715

Article 13 of Regulation 715/2009 regulates access tariffs (in a confusing way):

- **Either** the **tariff or methodology** is approved by the National Regulator:
 - Cost reflective tariffs (unless there is competition) originally to ensure non-discriminatory tariffs?
 - Regulation is silent on the definition of costs
- **Or** tariffs are market based and then the **revenues** are approved by the NRA:
 - Tariffs need not be cost reflective. Revenue approval is a matter of income distribution/ economic efficiency?
- **Furthermore**, the Regulation prescribes the use of de-coupled Entry-exit systems as the only allowed tariff structure, but is silent on other aspects (cost or revenue split over entries and exits, role of distance, special tariffs etc)
 - e/e/ systems created national markets and balancing zones but created optical tariff barriers at the border.

Harmonisation of tariffs and tariff structures

- Differences in tariff **levels** are determined either by (allowed) costs, or auction results. Differences between tariff **structures** are determined through national choices w.r.t. socialisation
 - Differences are **not** a barrier to cross border trade but they can influence choices for routes
- Differences in tariff regulation have an impact on cross-border **integration or investment and the level playing field for TSOs.**
 - Different NRAs may decide on a possible pass-through of costs, or benefits may be unevenly distributed
 - e/e systems exacerbate the impact of cross border integration (more cross-subsidisation, fewer locational signals etc)
 - Harmonisation may not solve this; but be aware of effects on competition!
 - Supra national Regulatory oversight may solve this
 - International solidarity required?

Harmonisation of access conditions in practice

- The 3rd energy package created more harmonisation of:
 - Access conditions (network codes)
 - Regulatory powers and European oversight through ACER (but still NRAs have a national remit)
- ACER, ENTSOG and Commission are currently implementing harmonised rules for transparency, capacity allocation, congestion management, balancing and interoperability
- GTS sees the additional value to the market of some harmonised rules:
 - In CAM auctions are proposed with clear bidding windows and with bundled products
 - Bundling will reduce the risk that shippers will get stuck with capacity at one side not obtaining capacity at the other side
- But in other rules, the additional value is less clear:
 - New Balancing rules mean that GTS will need to “water down” its market based balancing regime (against the wishes even of shippers!)

Harmonisation of tariff structures in practice

- ACER is currently developing a Framework Guideline on harmonisation of tariff structures.
 - harmonise differences in tariff structures where these differences hamper cross border trade
- GTS has difficulty in recognizing the problems that the FG tries to address
- GTS sees benefits in harmonisation of regulatory methodologies to ensure that regulatory parameters are
 - Stable and predictable
 - Internationally plausible