Citizens' summary
Framework Guidelines and Network Code on Harmonised transmission tariff structures for gas

The Agency for the Cooperation of Energy Regulators (ACER) is pressing ahead to fully play its part in the completion of the Internal Energy Market (IEM) by 2014. Its proposal of new (Framework) guidelines on rules regarding harmonised transmission tariff structures for gas marks an important step towards this goal.

WHAT'S THE ISSUE?

The objective of the EU internal gas market (IGM) is to promote competition and security of supply in the gas sector for the benefit of European consumers. This may also contribute to an environmentally sustainable energy sector.

Gas is used as primary fuel in almost all EU Member States. The price European gas consumers pay not only covers the cost of gas, but also of the infrastructure which is used to deliver the gas to them.
In particular, charges to cover infrastructure costs are levied when gas flows into and out of each country. There are noticeable variations in the level of infrastructure charges at different border points. Different charges can lead to discrimination between users. For example, domestic users may pay less than the costs which their supplies impose on the system, while gas exported to other Member States may face disproportionately high charges. This clearly creates a distortion of cross-border trade of natural gas.

To promote a well-functioning market the Agency has established new (Framework) guidelines containing principles and criteria for the development of binding rules for the harmonisation of gas transmission tariff structures (the determination of tariff elements and how they are calculated).

WHAT WOULD CHANGE UNDER THESE FRAMEWORK GUIDELINES?

The foreseen rules envisage fair tariffs for gas transportation services. This is achieved through a set of proposals, including:

- the definition of a limited set of methodologies to calculate tariffs;
- standard provisions on how revenues invested in infrastructure could be recovered and how transmission tariffs are set;
- improved and consistent data publication requirements.

In this way the Agency aims at improving:

- Transparency of tariff setting: users of the gas network, including gas supply companies, would have a better understanding of whether the corresponding tariffs for transmission services are appropriately set;

- Cost-reflectivity of individual tariffs: users of the gas network, including gas supply companies, would be ensured that tariffs reflect efficiently incurred cost.

WHY SHOULD THIS MATTER TO ME AS A CUSTOMER WHO IS PURCHASING GAS FOR DOMESTC PURPOSES?

- Consumer interests are at the heart of the proposed tariff provisions. These provisions will ultimately lead to a fairer gas network charging system, so that consumers will not pay more than the cost that their supplies impose on the system.

- Greater transparency in the setting of network charges will promote competition in the gas sector, encouraging new suppliers to enter the market, offering more choice to gas consumers.

WHO ELSE WILL BENEFIT, AND HOW?

Gas shippers, network users

- The new rules are expected to give more certainty to shippers on the future evolution of tariffs. Less risk for shippers should allow them to offer better prices for gas.

Industrial gas consumers

- More transparent tariffs and greater competition in the gas market will also benefit large gas consumers. A lower gas bill improves the competitiveness of European industry.

WHAT DOES THE PROCESS OF ESTABLISHING FRAMEWORK GUIDELINES AND NETWORK CODES LOOK LIKE?

- On the basis of the annual priority list identified by the European Commission, the Agency develops (non-binding) framework guidelines. In the process the Agency widely consults stakeholders, such as traders, shippers and pipeline companies through public consultations and workshops. Once adopted, the framework guidelines are submitted to the European Commission.

- The European Commission then invites ENTSOG (the European Network of Transmission System Operators for Gas, which is the network of entities entrusted with transporting natural gas on a national or regional level, using pipelines) to develop network codes according to the principles, criteria and objectives defined in the corresponding framework guidelines. In developing the network codes, ENTSOG again consults stakeholders through public consultations and workshops. Once ready, the network codes are submitted to the Agency.

- The Agency then evaluates the network codes and assesses their compliance with the framework guidelines. During the evaluation phase, the Agency often invites stakeholders to present their views, either through workshops or on a bilateral basis. The results of the Agency's evaluation are presented in reasoned opinions addressed to ENTSOG. On the basis of the Agency's reasoned opinions, ENTSOG may amend the network codes;

- When the Agency is satisfied that the network codes comply with the principles and criteria defined in the corresponding framework guidelines, it submits them for adoption to the European Commission.

- The adoption of the network codes by the European Commission is carried out through the comitology process (a process by which the EU act is adopted, following a procedure involving a committee where each Member State is represented and which is chaired by the European Commission). When the Network Code is approved by the Committee, the European Parliament and the EU Council have a period of three months to accept or reject it. If it is rejected, the

Commission cannot enact it. If it is accepted, the network code is established in the form of a Commission Regulation and becomes binding in all Member States.

WHAT OTHER FRAMEWORK GUIDELINES/NETWORK CODES HAS THE AGENCY CONTRIBUTED TO FORMULATE?

During its first three years, the Agency has developed a number of framework guidelines, both in Electricity and in Gas, in the priority areas identified by the European Commission as essential for the completion of the Internal Energy Market. The most relevant ones for consumers are:

- **In Gas:**

  Capacity Allocation Mechanisms. The Network Code ensures that pipeline capacities offered at both sides of a border become a single product, which allows gas shippers to use it to transport gas between two neighbouring systems. It also requires that the "bundled" capacities are allocated through auctions, to ensure that they are assigned to those shippers who value them the most. Finally, it provides a single EU capacity allocation mechanism.

  Balancing. The Network Code prescribes a daily balancing regime, thus harmonising the period within which balancing has to take place. It also prescibes that balancing charges have to be market-based.

- **In Electricity:**

  Capacity Allocation and Congestion Management. The draft network code established on the basis of these framework guidelines will enable efficient and harmonised market based mechanisms to allocate cross-border transmission capacity. This will in turn enhance competition in electricity markets across national borders and thus promote more competitive wholesale electricity prices and a greater choice for consumers.

  Electricity Balancing. The network code established on the basis of these framework guidelines will enable a harmonised and efficient approach to balance the deviations between planned and realised electricity production and consumption. The benefits for consumers will be shown in lower costs for electricity supply and network tariffs, which should result in more competitive retail prices and easier entry for new electricity suppliers.

  Framework guidelines and network codes in the areas of grid connection and system operation aim at contributing to a harmonised framework for the completion of a non-discriminatory, effectively competitive and efficiently functioning internal electricity market. The common rules will provide for active participation of small grid users necessary to ensure secure operation of the EU interconnected transmission system. The consumers will benefit from a cost-efficient transition to a low carbon society.

USEFUL LINKS

Framework Guidelines and Network Code on rules regarding Harmonised transmission tariff structures for gas
ACER website
Third Energy Package
ENTSOG webpage