ACER
Agency for the Cooperation of Energy Regulators

WORKING TOWARDS A SINGLE ENERGY MARKET TO THE BENEFIT OF ALL EU CONSUMERS!

ACER experience with and lessons learned from NC TAR implementation

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Energy Community Gas Forum
Online, October 1 2020

ACER has extensive experience with NC TAR implementation

The NC TAR was adopted on 16 March 2017. It became fully applicable on 31 May 2019.

The NC TAR is now implemented across the EU. ACER issued several reports and analysis:

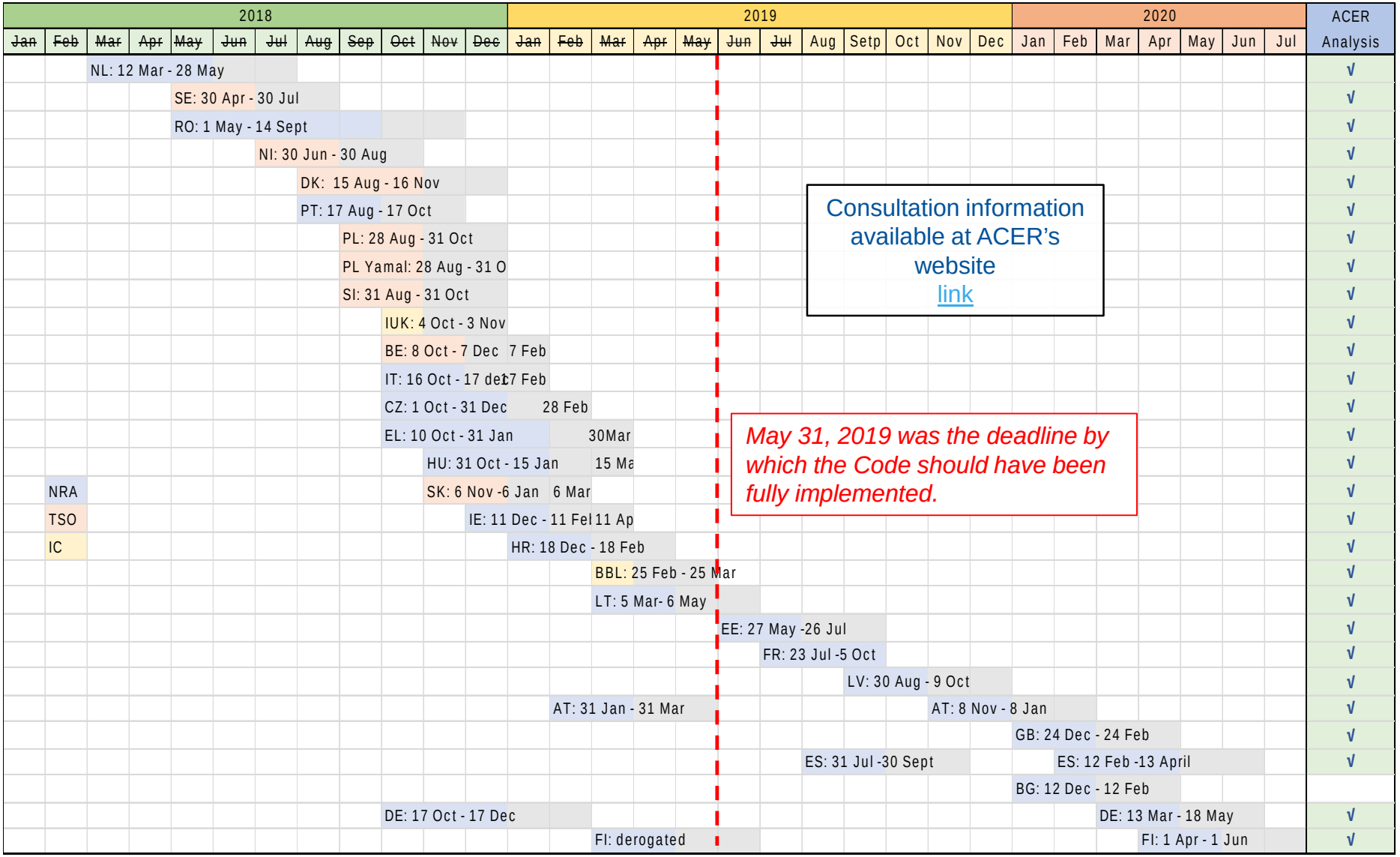
- 1 implementation monitoring report (here)
- 31 analysis on the national tariff consultation documents (here)
- A report on the determination of TSOs' allowed revenues (here)

The Agency organised 3 webinars dedicated to main elements of the NC TAR:

- 1st webinar (1 Sept.): Transparency
- 2nd webinar (8 Sept.): Cross-subsidies
- 3rd webinar (15 Sept.): Energy transition

The same topics will be covered in today's presentation

TAR reports lasted 2 years



Consultation information available at ACER's website
link

May 31, 2019 was the deadline by which the Code should have been fully implemented.

* Updated 18 September 2020

Transparency improvements through NC TAR

BEFORE	NC TAR	RESULT
Main concern stakeholders	Standardised processes	Transparency improved significantly
Improve predictability tariffs	Common criteria justify methodology	Most formal requirements fulfilled, in particular consultation
Better justify tariffs	Mandatory data publication	

Transparency: room for further improvements

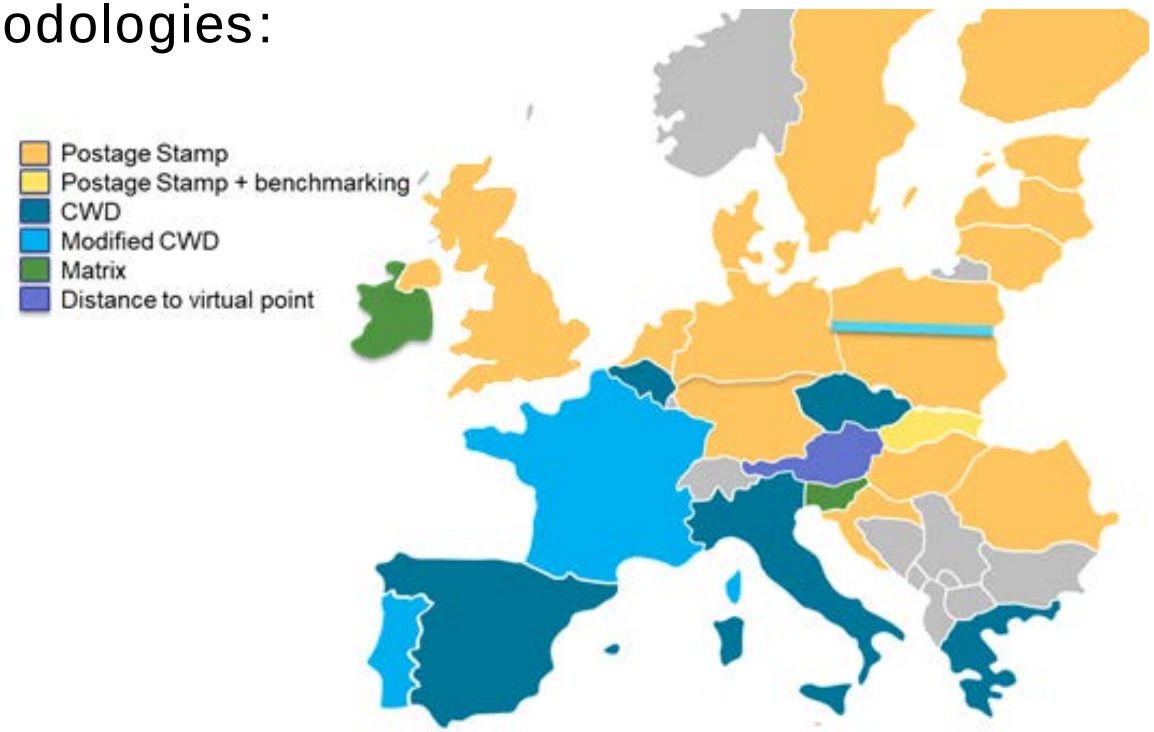
1. Justification of choice of cost drivers and RPM not always sufficient:
   - A **description of the network** is not always provided
   - **Policy and regulatory objectives** are not always clearly laid out
2. Trade-offs between **cost-reflectivity vs transparency** are not always assessed appropriately
3. Some final consultations are incomplete (and 1 seems to be missing).
   - **The more complex an RPM, the more transparency** necessary to assess it, e.g. volume risk premia, Inter-TSO Compensations…
   - Simplified tariff models published by NRAs or TSOs do not always reflect these complexities

Improvements in cross-subsidies and cost allocation through NC TAR

BEFORE	NC TAR	RESULT
Concerns about undue cross-border cross-subsidies	Regulatory objectives: non-discrimination	More, and more fact-based, debate
Right balance between domestic and cross-border payments?	Cost allocation assessment with standard cost drivers	Quantitative assessment complex
	Comparison tool: CWD methodology	Qualitative assessment: other legitimate objectives

RPMs set in the NRA motivated decisions across the EU

Most systems use postage stamp or Capacity Weighted Distance Reference Price Methodologies:



Note on the modified CWD label:

- FR applies a CWD methodology combined with flow scenarios (applicable to entries from LNG, the exit to ES, the exit to CH and domestic points), and a CAA used as an input to the methodology to set equal unit costs for cross-system and intra-system use.
- PT applies a CWD methodology with the cost drivers of effective capacity and effective distance.
- PL Yamal applies a CWD methodology where the unit costs for the utilisation of the pipeline are set to be equal.

Room for improvement on cross-subsidies

Cross-subsidies could be better controlled with a more elaborated regulatory framework on:

1. **Regional networks** (limits between transmission and local networks are not clearly defined at EU level)
2. **Non-transmission charges recovered by TSOs** (storage, LNG, gas quality conversion…)
3. **Inter TSO Compensation** mechanisms (the consistency between the ITC and the respective RPMs of the involved TSOs is not always assessed)
4. **Volume risk** (risk assessment substantiating potential premium, identification of the assets at risk)
5. **Flow scenarios** (selection of "relevant flow scenarios" should be justified. How does it allow to better reflect the use and the costs of the transmission system?)
6. **Tariff adjustment based on benchmarking** (should only relate to situations where several supply routes are in competition)

Decarbonisation: how to deal with tariffs for new gas sources?

What should be the objectives of tariffs for new gas sources (bio-methane, hydrogen)?

1. **Reflecting costs** and avoiding market distortions (NC TAR)?
2. **Facilitating their development** to contribute to the energy transition?

In the second case, **tariff discounts could be justified by this positive externality**:

- Where should the missing income be recovered? Who are the beneficiaries?
- Tariff design needs to be embedded in a comprehensive EU regulatory and fiscal framework to ensure that new technologies deliver emission reductions (e.g. guarantees of origin, carbon price, carbon border tax…).

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Thank you for your attention!

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