

# Transmission tariff benchmarking

## REKK methodology

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Workshop on gas transmission tariffs in the Central & South East Europe

29.11.2017

Belgrade

- Methodology
- Results and comparison
- Latest developments

In order to make baseline comparisons, transmission fees are estimated as a standardized transportation service for each relevant cross-border point and expressed in a common measurement unit (€/MWh).

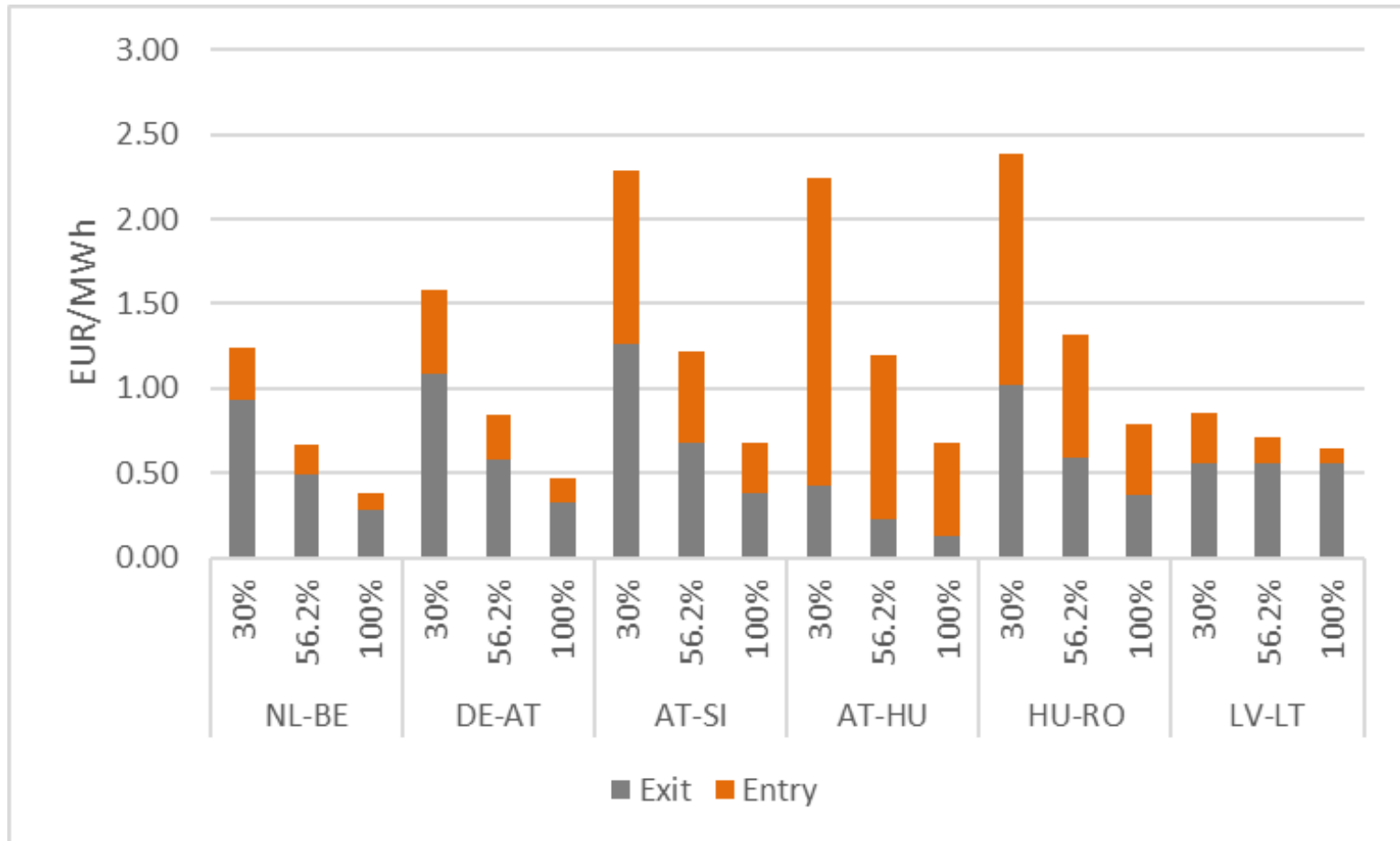
The assumed standard transportation service has the following characteristics:

- The duration of transmission contracts is one year
- Contracts refer to firm transportation services
- The booked maximum hourly capacity is 10 000 kWh (/h/y)
- Applied booked capacity usage ratio is 56.2% <sup>1</sup>
- Tariffs are expressed in €/MWh

<sup>[1]</sup> calculated as: (Average flow)/(Average booked capacity). Average booked capacity utilization in Europe is reported in the Acer Market Monitoring Report 2015, pp. 251-252.

- Using our assumed capacity reservation level of 10 000 kWh/h for the yearly firm transmission service contract, we calculate the overall transportation fee (in €) that would be incurred by a shipper at each interconnection point (IP), making all the necessary conversions regarding gas reference conditions and currency units.
- Once we have arrived at the total fee corresponding to the standardized service, tariffs can be determined on a per MWh basis (€/MWh), dividing total payments by the yearly transported volume (using the booked capacity usage ratio (56.2%)). The fee consists of the relevant exit plus entry fees due at the two sides of the border (including the commodity fee at the relevant point).
- Tariff for domestic exit points and production entry points are calculated with the same methodology as tariffs in the case of IPs.

# Effect of applied booked capacity usage ratio



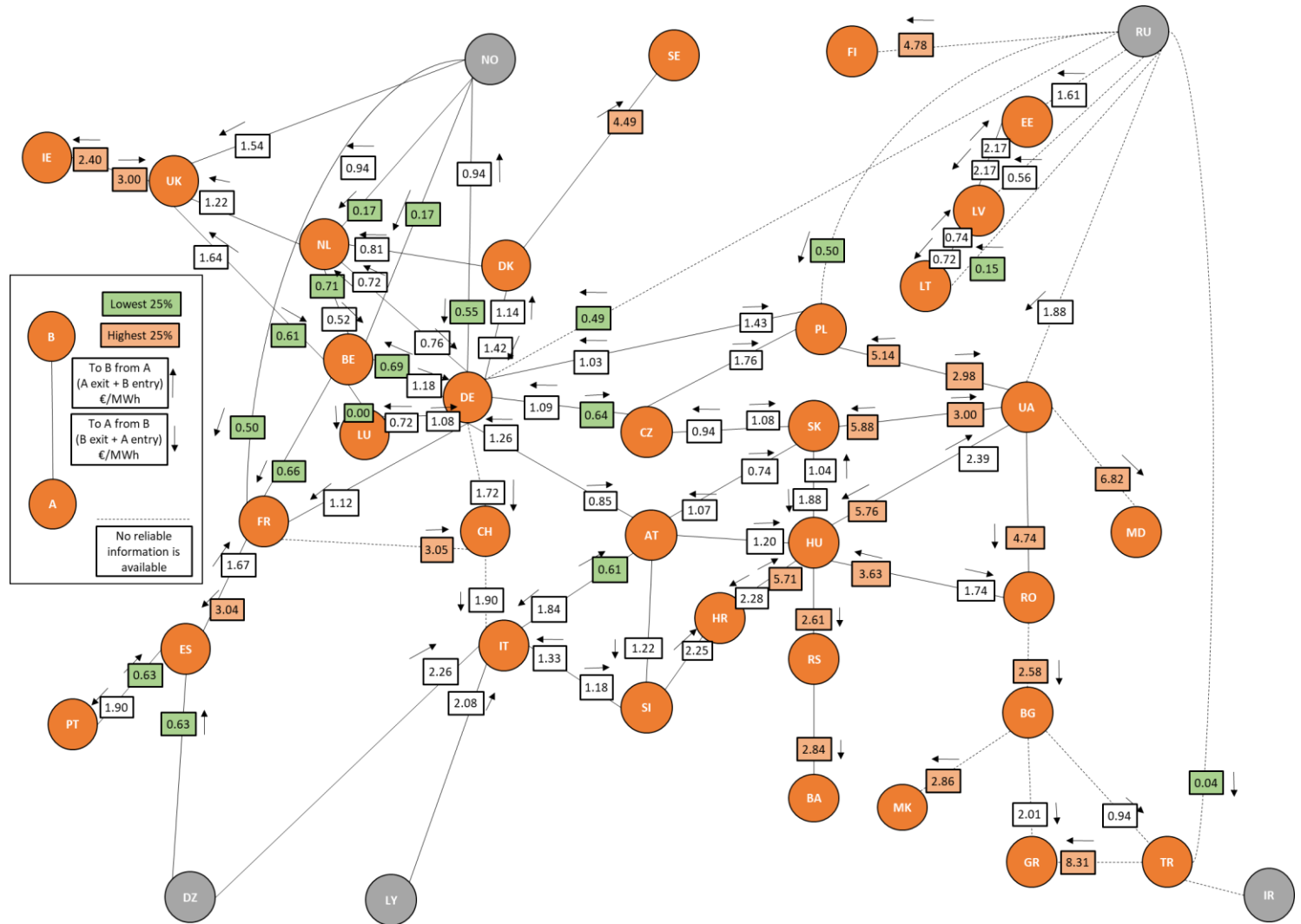
- As a result of CAM NC, the gradual expiry of long-term legacy contracts and the development of gas trading short-term booking and trading is on the rise
- TAR NC also includes detailed rules regarding short-term and seasonal product prices
- A possible further development of our tariff benchmarking could include prices of short-term products and the seasonal tariff differences
- Until this development is in place, applying a relatively low booked capacity ratio nad using the pric of yearly product may lead to similar tariff levels:
  - Yearly product has lower reserve price than short-term products
  - However predictability is also lower if we are further in the past compared to the date the capacity is booked for
    - So in case of short-term booking probably higher booked capacity ratio will occur



Thus the trader has to pay on one hand more for shipping 1 MWh of gas (as short term products are more expensive) and less, on the other hand (because of the higher booked capacity ratio)

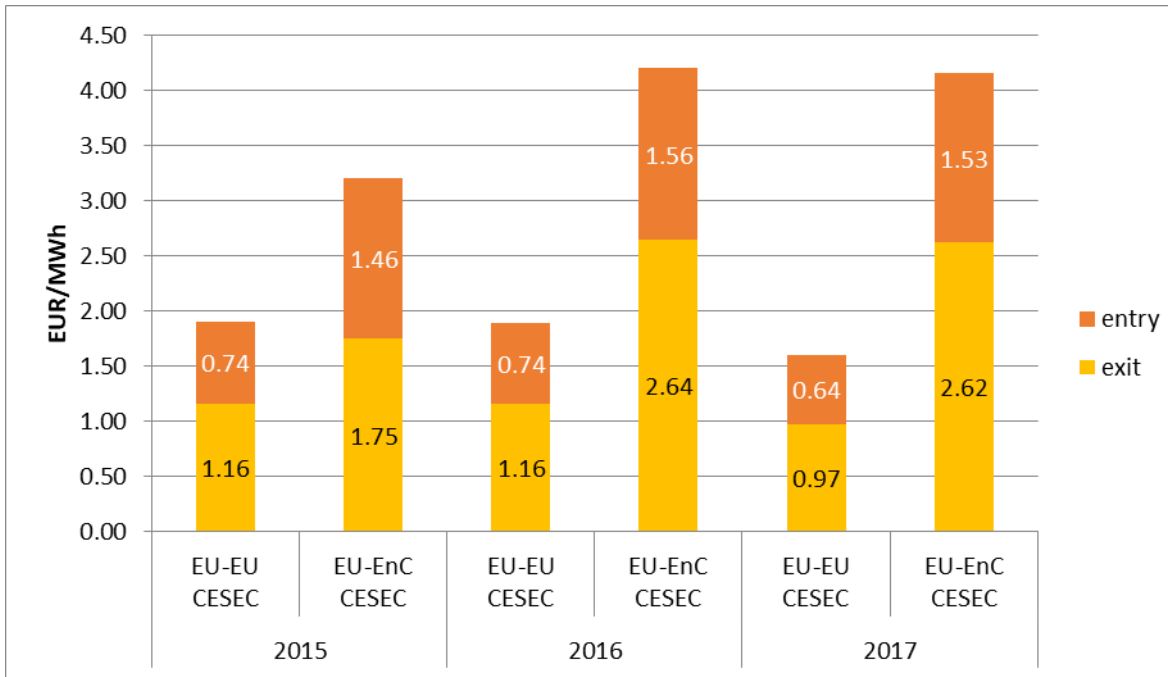
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# Regional differences





# EU-EU and EU-EnC borders in the CESEC region



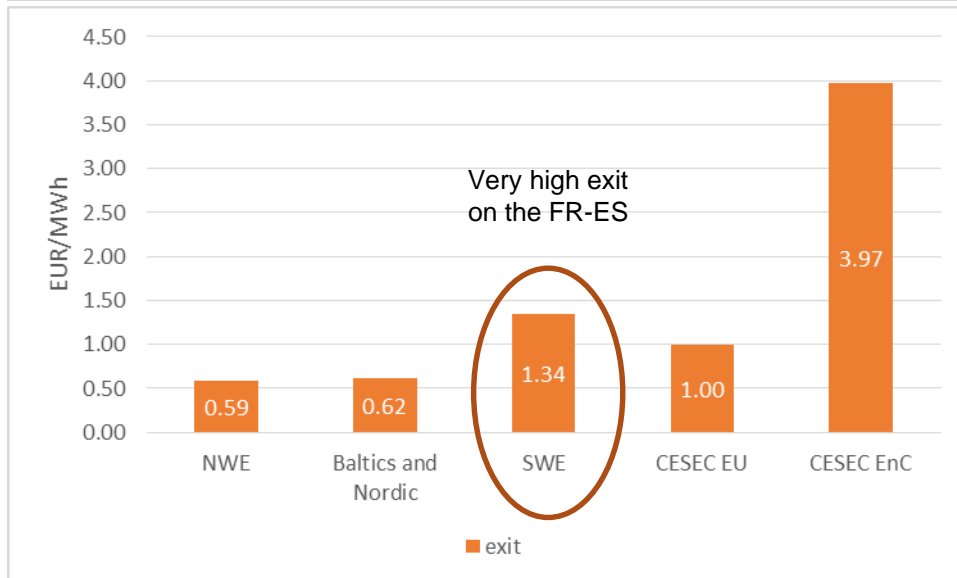
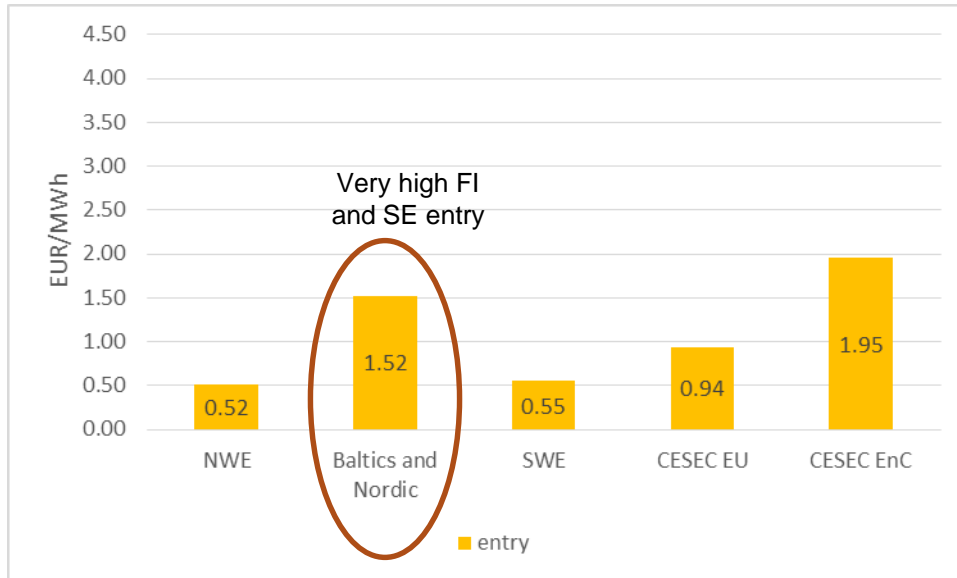
Average exit + entry in EU28 EU-EU borders is even lower than EU-EU CESEC tariffs

$$0.79 + 0.69 = 1.48 \text{ EUR/MWh}$$

IP tariffs on EU-EU borders (within CESEC region) are significantly lower than on EU-EnC CP border points

Reduction on EU-EU IPs – in EnC on a much smaller scale  
EnC in tariff terms seems to be a Third country to the EU

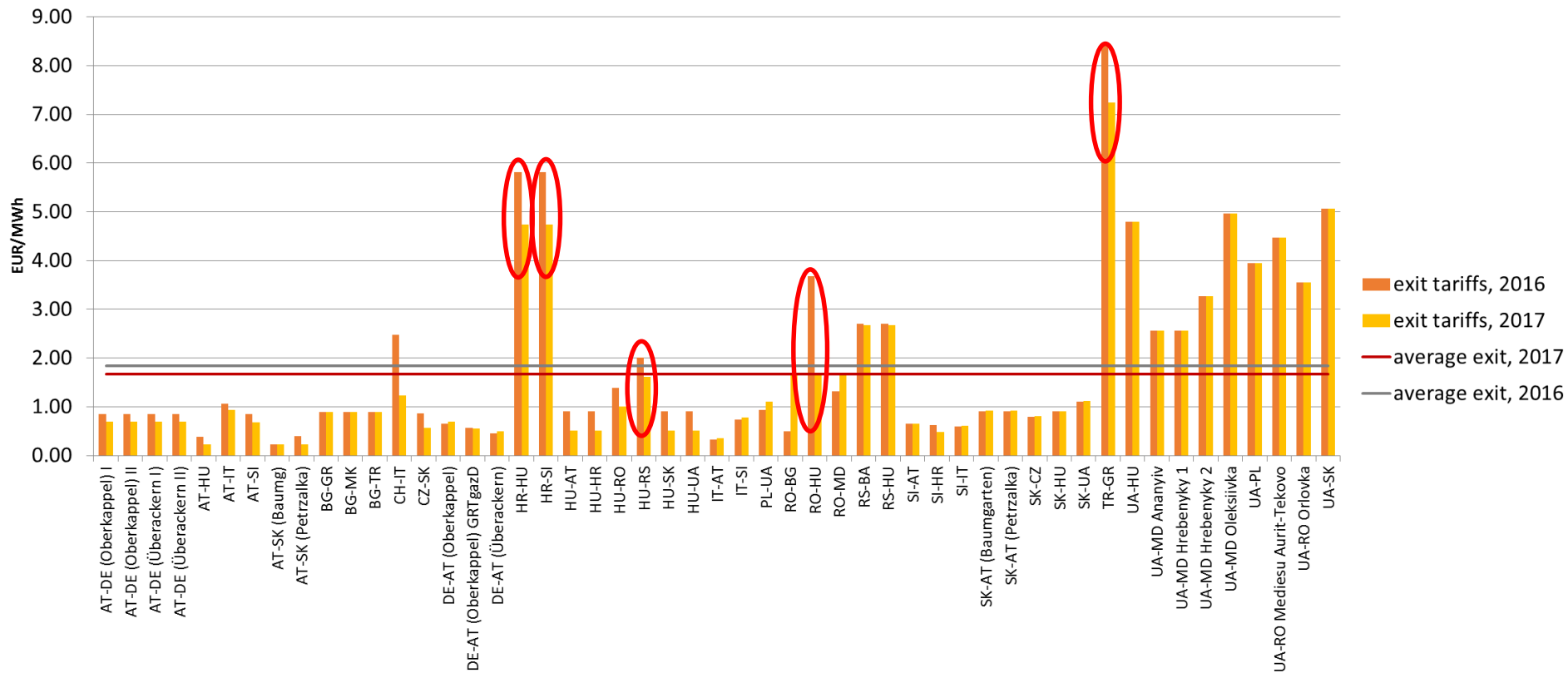
# Regional benchmark in a broader sense



- There are significant regional differences even inside the EU
- NWE has the lowest, CESEC EU has the second highest tariffs in the EU in case of both entry and exit tariffs
- CESEC EnC tariffs are the highest in both cases
- On average exit tariffs are higher than entry tariffs (except in the Baltic-Nordic region)
- Transmission tariffs are the lowest in countries with the most developed gas markets

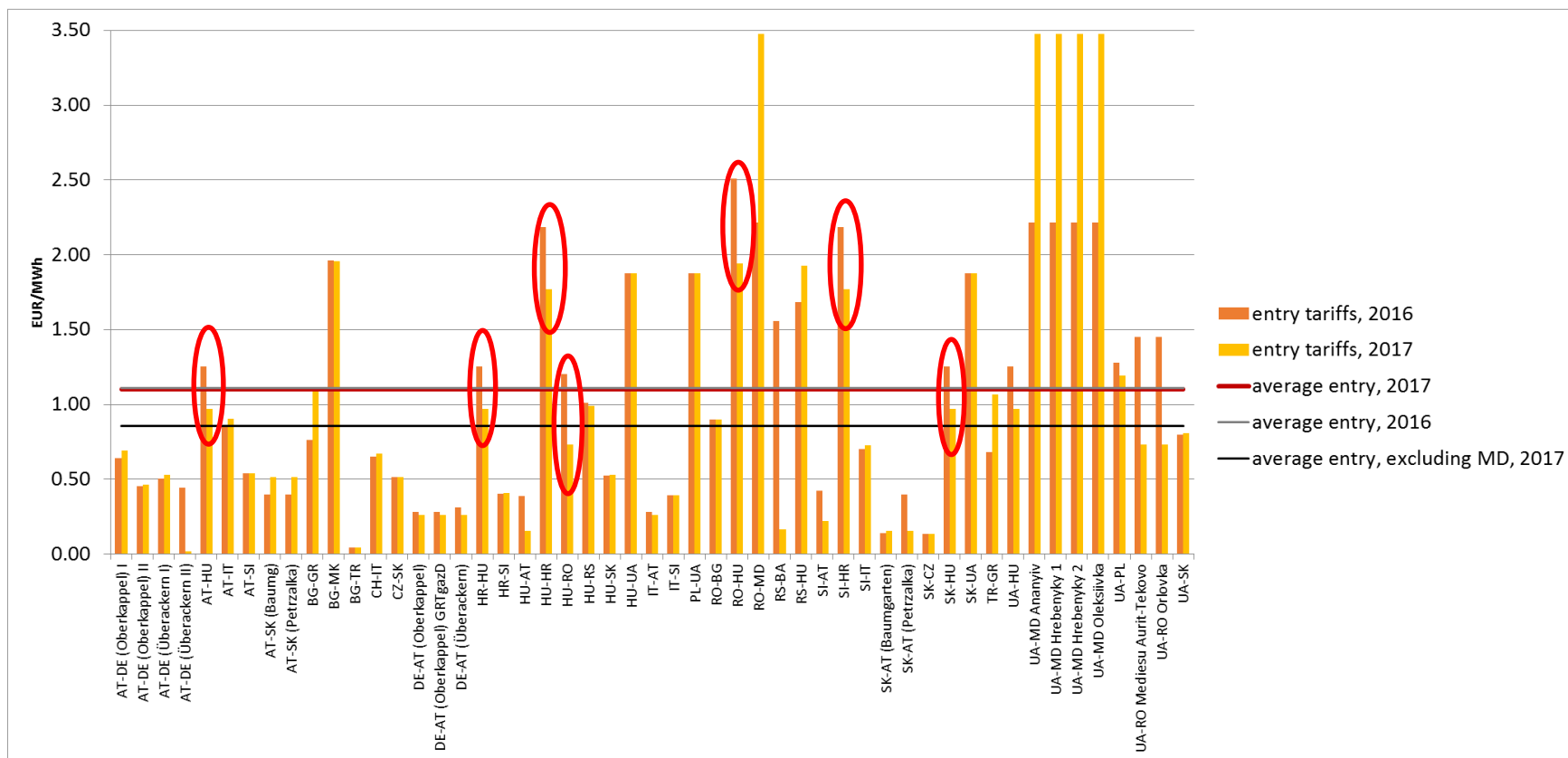
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## 2016 vs. 2017 exit tariffs



We see significant decrease in the outlier tariffs, including key infra: Hungarian exits (to HR, RO, RS, SK, UA), Croatian exit (to HU, SI), Romanian exit to HU.

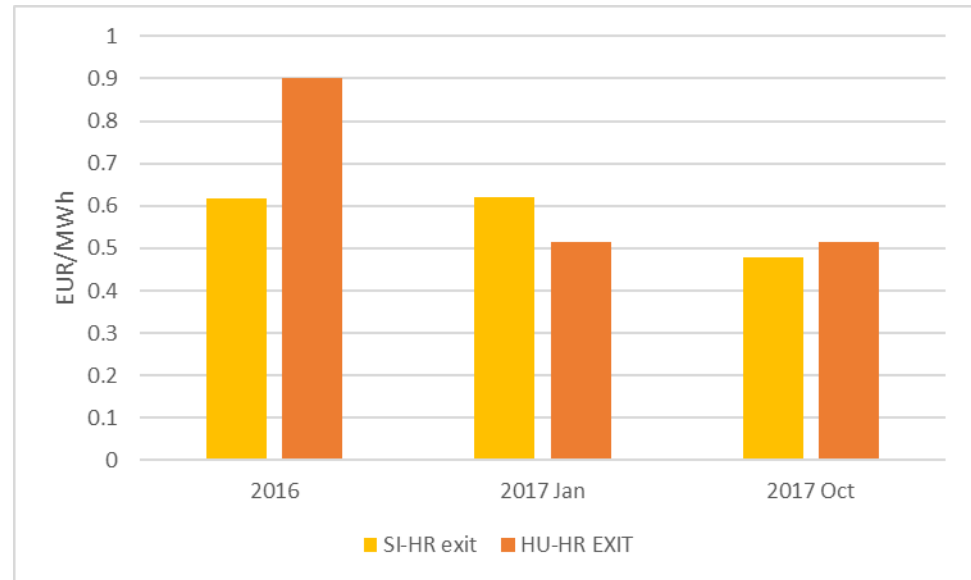
## 2016 vs. 2017 entry tariffs



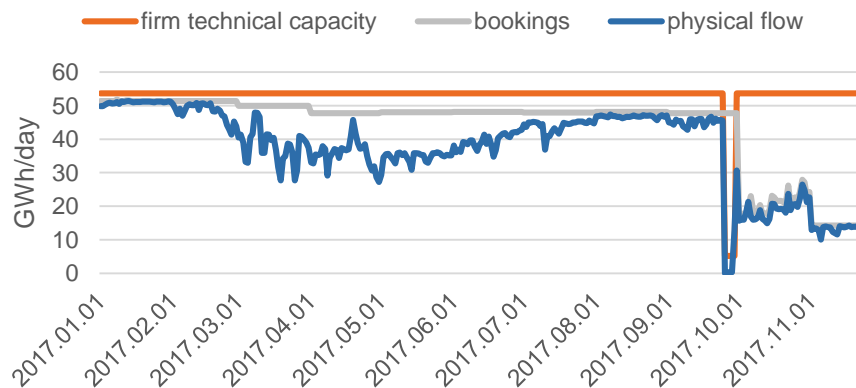
- We see significant decrease in the outlier tariffs, including key infra: Hungarian entries (from AT, HR, RO, SK), Croatian entries (from HU, SI), Romanian entry from HU and Austrian entry from HU.
- Coordinated tariff decrease in the region implemented!

## Emerging tariff competition in the region - example

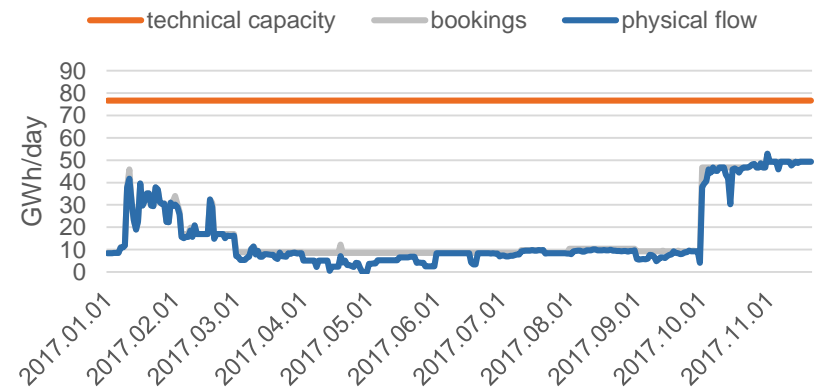
- From 2017 January there was a tariff cut in most of the Hungarian IPs – including HR exit point
- As a result flows shifted from the Slovenian route to the Hungarian (however only from October)
- Slovenia also reacted: tariff cut only for SI-HR exit in 2017 October



Utilisation of SI-HR interconnector



Utilisation of HU-HR interconnector



**Thank you for your kind attention!**

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