

**INTERNATIONAL FEDERATION
OF INDUSTRIAL ENERGY CONSUMERS**

IFIEC Europe

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**Principles on Calculating Tariffs for Access to Gas Transmission Networks
A contribution from IFIEC Europe**

General remarks

IFIEC Europe is fully in line with ERGEG recommendation to harmonize the tariff methodologies across the European Union and to agree on a common set of calculation principles to be enforced by the National Regulation Authorities.

In this document, IFIEC Europe would like to make its contribution on some of the issues addressed in the ERGEG consultation paper.

Cost of capital

The cost of capital or return rate used in the calculation of the CAPEX part of the tariffs must be fair. It should reflect the actual risk borne by the investor. In most cases, the revenues are secured and the risk taken by the TSO is low. Therefore, the rate of return should be only slightly (1 or 2% maximum) above the risk-free rate, and in no circumstances above 7% with the current interest rates, as observed in many Member States.

Incentives for investments

In many Member States, the method used to promote investments is to give a higher rate of return. Facts show that very few investments are decided despite this bonus and IFIEC Europe fears that some very important investments, and more particularly cross-border connexions, might not be decided by the TSOs. Moreover, the Open Seasons launched recently do not seem to progress efficiently. The various delays observed in the Open Season for additional transit capacities between the Netherlands, Belgium and France, are telling that cross-border projects may require additional enforcement power from the regulators.

Therefore, IFIEC Europe is convinced that investment decisions must be taken in a different way. First of all, it is absolutely necessary that an investment plan is produced by each Member State and at the European level, in order to identify clearly the investments that are absolutely necessary to make the market work properly and the corresponding schedule of implementation. Then, if the TSOs do not invest, the NRAs or the new European Agency should have the power to launch a tender process and to assign the project to the best bidder. In that case, it is not necessary anymore to have a higher rate of return or a shorter depreciation schedule that would result from a non transparent decision. And that would ensure that the capital funding decisions are taken without any influence by any ultimate holding company.

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Another key element is that long term visibility on tariffs is absolutely necessary to secure investments. NRAs should establish long term tariffs to provide a stable framework to potential investors.

Tariff principles

IFIEC Europe would like to make the following recommendations.

- Efficiency improvement incentives should be the basis in all tariff calculations. Efficiency should be assessed and measured over the whole sector in Europe.
- NRAs must have all the data to assess whether the operating costs level in the tariff are sufficiently efficient. This level of information should be harmonized at the EU level. A public consultation should be mandatory in all member States in the validation process of the tariffs by the NRA.
- Similarly, all the data to assess the Regulatory Asset Base must be given to the NRAs in an harmonised manner at the EU level, and be made publicly available.
- To promote a single gas market, balancing mechanisms must absolutely be harmonised. IFIEC proposes a market-based daily balancing system throughout the EU.
- Interruption should be better and more clearly valorised since storage capacities are scarce.
- End-users should have access to liquid market places, either directly or via a balancing party / shipper. End-users should have free choice in the delivery of the gas molecules, for example at their exit-point or at a hub. Transport capacity should be offered to the market on a separate basis, where a mechanism of one-stop-transport should be established.
- Imbalance charges should reflect actual costs : they must be based on market balancing prices and there should not be any arbitrary penalty.

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