Potential Challenges of the TAR NC implementation

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Main topics of the Tariff Network Code

Main topics of the TAR NC

• General provisions
• Scope
• Reference price methodologies
• Reserve prices
• Reconciliation of revenues
• Pricing of Bundled capacities and capacity at the VIPs
• Clearing price and payable price
• Consultation
• Publication
• Incremental capacities
• Final provisions

Principles of the TAR NC

• Revenue equivalence principles
• Cost reflectivity
• Non-discriminativity
• Minimization of cross-subsidies
• Transparency

Implementation challenges
Cost recovery as one of the general questions of TAR NC implementation

What transportation costs should be recovered?

What stakeholders are these costs recovered from?

Entry-exit system

Tariffs should be:

- Cost reflective ✓
- Minimise cross-subsidies ✓
- Non-discriminatory ✓
Scope: IPs vs. nonIPs, as a main defining factor

CAM NC: IPs
connect adjacent entry-exit systems or entry-exit system and interconnector

TAR NC: broader scope
• partly to IPs and non-IPs – ‘broader scope’ rules
• partly to IPs only – ‘limited scope’ rules:
  ▪ Chapters III, V, VI, IX on reserve prices, clearing and payable price, pricing of bundled capacity, pricing at VIPs, INC
  ▪ Articles 28, 31(2)-(3) on consultation on discounts, multipliers and seasonal factors, publication on ENTSOG TP
Scope: application to 3rd country points

Green/red points

‘broader scope’ rules apply by default; and ‘limited scope’ rules apply automatically if NRA decided to apply CAM NC at these points

...note CAM and CMP: ‘may... apply’

Yellow points

distinction between Energy Community and other countries

...note Ministerial Council Decision of 6 Oct 2011: ‘shall endeavour to apply’
European-wide difference in tariff periods

* In HU, the tariff period will change from January-December to October-September as from 2017
European-wide difference in regulatory periods

- In GR, the regulatory period is 2 years for years 2017-2018
- In BG, the current proposal under NRA approval is 3 years (can be 3-5 years)
- In NL, the current proposal under NRA approval is 5 years
- In UK, only the regulatory period applied for National Grid is shown
- In CZ, the current regulatory period is 3 years for 2016-2018
Transmission tariffs are derived from the cost of the transmission services of a TSO. Recovery via capacity tariffs (by default) but exceptions exist.

Non-transmission tariffs may not apply to any network users or just some network users and therefore do not form part of the price the user pays for capacity (i.e. the reference price). No requirement on type of tariffs (capacity or other).
TAR NC creates a positive competition for TSOs in the form of Storage and LNG discounts

**Storage points**

**Default rule:** storage connected to 1 TSO only ➔ entry and exit discounts of at least 50%

**Exception 1:** storage connected to 2 TSOs and in competition with an IP

**Exception 2:** storage connected to 1 TSO and 1 DSO in competition with an IP

**LNG entry points and other points to infrastructure to end isolation of MSs for SoS purposes**

Discounts possible at LNG entry point to reduce Country 2 dependence on IP with Country 1

Discounts possible at the entry point or exit point of the new IP to end isolation of Country 2
Multi TSO environment requires a special ITC mechanism.
Defining reserve prices in a „multi-year” environment
Applying multipliers and seasonal factors can fundamentally change the behavior of NUs.

**Challenges in case of multipliers**

- Multipliers and seasonal factors are about to increase liquidity and short-term trading.
- Long term investment of TSOs vs short term trading.
- Mandatory decrease of multipliers can result in decreasing revenue of TSOs.
Regulatory accounts need to be established and applied in a proper way to secure revenue equivalence principles.

How to apply full/partial reconciliation:
- It should be in accordance with the RPM, and the CRRC (if any)
- It refers to a given ‘reconciliation period’, over which the regulatory account is settled
- The general aim is to reimburse the TSO for under-recovery and to return the over-recover to network users
Pricing of Bundled capacities
Pricing at the VIP can be challenging for TSOs
Pricing at the VIP can be challenging for TSOs
Definition of reserve price under different regimes

- **Non-price cap regime**
  - If existing capacity only is offered $\Rightarrow$ only floating payable price is possible
  - If incremental capacity is offered (with or w/o existing) $\Rightarrow$ floating payable price is possible, but fixed payable price also possible if 1) alternative allocation mechanism (open season) is used, or 2) incremental project is on PCI list

- **Price cap regime**
  - Regardless of existing/incremental capacity, floating or fixed payable prices (or a combination thereof) are allowed
What to publish by TSOs/NRAs?

4 blocks of information

- **Methodology parameters** related to technical characteristics of transmission system
- **TSO revenue** information
- **Transmission and non-transmission tariffs** (not published before auctions)
- Additional information related to tariff evolution
Publication of sensitive information is challenging for TSOs/NRAs
Pricing of incremental capacities

Shipper has interests in incremental capacity

Shipper provides TSOs with non-binding capacity demand, including conditionality (volume, duration, location)

Shipper receives the indications on project conditions and can interact

TSOs decide to initiate or not the needed studies

NRAs approve all necessary for binding phase

Shipper gets the capacity allocated

Non-Binding Phase

Yearly Auctions → DAR (Design Phase) → Public Consultation → Project Finalisation → NRA decision → Publish Notice

Max 6 months

Min 2 months

Binding Phase

July 2019

Yearly Auctions
Thank you for your kind attention!

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