Transmission tariff benchmarking

REKK methodology

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

- Methodology
- Results and comparison
- Latest developments
Transmission Tariff benchmarking methodology

I.

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% \(^1\)
- Tariffs are expressed in €/MWh

\(^1\) 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.
Transmission Tariff benchmarking methodology II.

• 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
Shifting towards short-term market

- 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 and using the price 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
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

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

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

![Graph showing the utilisation of SI-HR and HU-HR interconnectors](image-url)
Thank you for your kind attention!

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