



Analysis of the Consultation Document on the Gas Transmission Tariff Structure for Serbia

July 2024



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1. ECRB CONCLUSION

The Energy Agency of the Republic of Serbia ('AERS') proposes to apply a capacity weighted distance ('CWD') reference price methodology ('RPM'), jointly by both transmission system operators ('TSOs') within the single entry-exit system of Serbia. The proposed entry-exit split is 50%-50%. An adjustment to the RPM is made by using the equalization whereby the same reference price is applied to all points within a homogeneous group of points. The groups of points are: entry from neighboring transmission networks, entry from production, entry from storage, exit to neighboring transmission networks, exit to domestic users and exit to storage. No commodity tariffs are proposed.

After having completed the analysis of the consultation document pursuant to Article 27(2) of Commission Regulation (EU) No 2017/460 establishing a network code on harmonized transmission tariff structures for gas ('Tariff Network Code')¹, the ECRB concludes as follows:

- The consultation document includes all information required by Article 26(1) of the Tariff Network Code, with one exception, namely a simplified tariff model enabling network users to calculate transmission tariffs was not provided. AERS explained that the TSO published the model for the prevailing period and would update it upon the adoption of the new transmission tariffs.
- The RPM proposed by AERS is based on the CWD methodology envisaged by Article 8 of the Tariff Network Code. This points out that the cost drivers for tariff calculation are forecasted capacity and distance between entry and exit points. Additionally, equalization and rescaling, as adjustments to the RPM are used in line with Article 6 of the Tariff Network Code. The ECRB concludes that the proposed RPM is appropriate for the Serbian transmission network based on its characteristics and the requirement to apply harmonized tariffs in the single entry-exit system of the country.
- The cost allocation assessment submitted for consultation resulted in a comparison index of 22.1%. Having in mind that the comparison index is higher than 10%, AERS provided a justification for such results. The main reason for reaching the index of 22.1% is that only planned capacity is used when calculating this index, while the tariffs were calculated based on both planned capacity and distance. Taking into account the abovementioned justification and the fact that the Tariff Network Code allows cost allocation assessment based on both forecasted contracted capacity and distance, the ECRB asked AERS to perform the assessment based on both cost drivers. AERS provided the required alternative cost allocation assessment that resulted in comparison index of 3.85%. Based on this, the ECRB concludes that the proposed RPM is compliant with the requirement on cost-reflectivity.
- ECRB considers the proposed RPM compliant with the principle of non-discrimination since all network users in the same situation pay the same tariffs. Regarding the

¹ https://www.energy-community.org/dam/jcr:fd41a351-b04c-41a7-b7a5-89da4171aa17/Regulation_2017_460_TAR_NC.pdf

requirement to prevent undue cross-subsidization, the ECRB confirms the compliance of the proposed RPM. In this respect, the ECRB points out the conclusion on cost-reflectivity.

- Taking into account the above conclusions on cost-reflectivity and absence of cross-subsidization between intra- and cross- system users, but also the fact that the proposed exit tariff for cross-system users is substantially lowered in comparison to prevailing period, the ECRB confirms that the RPM enables application of tariffs that do not distort cross-border trade.
- Taking into account the forecasted volumes of gas to be transported within the system and across the border, the ECRB concludes that there is no volume risk and the proposed RPM can be deemed as compliant with the relevant requirement.
- The non-transmission services revenues are the revenue from non-standard services and the revenue from connection services, and they are recovered by non-transmission tariffs. These tariffs are established by using different methodologies. The ECRB concludes that criteria set out in Article 4(4) of the Tariff Network Code are met.

2. INTRODUCTION

The Tariff Network Code was included in the Energy Community legislation by the Decision 2018/07/PHLG-EnC of the Permanent High Level Group of the Energy Community of 28 November 2018². Article 27 of the Tariff Network Code requires the Energy Community Regulatory Board ('ECRB') to analyze the following aspects of the consultation documents:

- a) whether all the information referred to in Article 26(1) has been published;
- b) whether the elements consulted on in accordance with Article 26 comply with the following requirements:
 - 1) whether the proposed reference price methodology ('RPM') complies with the requirements set out in Article 7;
 - 2) whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met;
 - 3) whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.

AERS launched the public consultation on 27th March 2024 and forwarded the consultation document to the ECRB on the same day. The consultation remained open until 27th May 2024.

This report is structured to respond to the requirements of Article 27 of the Tariff Network Code. Chapter 3 covers the analysis of completeness of the information published for consultation. Chapter 4 provides the description of the proposed RPM, while Chapter 5 includes the analysis of compliance of the reference price methodology with Article 7 of the Tariff Network Code. Finally, Chapter 6 analyses whether the criteria for setting non-transmission tariffs are compliant with Article 4(4) of the tariff Network Code. AERS does not propose application of commodity-based tariffs, therefore this assessment does not refer to them.

² https://www.energy-community.org/dam/jcr:d40b64ae-08d9-4eb1-b361-660bafdd5342/Decision_2018_07_PHLG-EnC_GasReg_112018.pdf

3. COMPLETENESS

Article 27(2)(a) of the Tariff Network Code requires the ECRB to analyze whether all the information referred to in Article 26(1) has been published.

Article 26(1) requires that the consultation document is published in English language to the extent possible. AERS published the following documents in Serbian and English language:

- Final Consultation Document in the template of the Agency for Cooperation of European Regulators,
- Draft Methodology for Setting Natural Gas Transmission Tariff and
- Multipliers and seasonal factors, in Excel table format.

All information referred to in Article 26(1) of the Tariff Network Code was published, with only one exception:

1. Article 26 (1)(d) requires that the indicative information set out in Article 30(2) is provided. While the comparisons of tariffs subject to consultation with the currently applicable tariffs as well as the tariffs for the remaining regulatory period are provided, a simplified tariff model was not included in the consultation documents. AERS stated that the transmission system operator published the model for the prevailing period and that the model would be updated upon the adoption of transmission tariffs.

The ECRB recommends that the abovementioned missing element of the consultation document is included in the motivated decision in line with Article 27(4) of the Tariff Network Code.

Table 1 provides an overview on how the consultation document complies with the publication requirements.

Table 1 Checklist information Article 26(1)

Article	Information	Published: yes/no/not applicable
26(1)(a)	the description of the proposed reference price methodology	yes
26(1)(a)(i) 26(1)(a)(i)(1) 26(1)(a)(i)(2)	the indicative information set out in Article 30(1)(a), including: (1) the justification of the parameters used that are related to the technical characteristics of the system; (2) the corresponding information on the respective values of such parameters and the assumptions applied.	yes
26(1)(a)(ii)	the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9	yes
26(1)(a)(iii)	the indicative reference prices subject to consultation	yes
26(1)(a)(iv)	the results, the components and the details of these components for the cost allocation assessments set out in Article 5	yes
26(1)(a)(v)	the assessment of the proposed reference price methodology in accordance with Article 7	yes
26(1)(a)(vi)	where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii)	not applicable

26(1)(b)	the indicative information set out in Article 30(1)(b)(i), (iv), (v)	yes
26(1)(c)(i) 26(1)(c)(i)(1) 26(1)(c)(i)(2) 26(1)(c)(i)(3)	where commodity-based transmission tariffs referred to in Article 4(3) are proposed: (1) the manner in which they are set; (2) the share of the allowed or target revenue forecasted to be recovered from such tariffs; (3) the indicative commodity-based transmission tariffs;	not applicable
26(1)(c)(ii) 26(1)(c)(ii)(1) 26(1)(c)(ii)(2) 26(1)(c)(ii)(3) 26(1)(c)(ii)(4)	where non-transmission services provided to network users are proposed: (1) the non-transmission service tariff methodology therefor; (2) the share of the allowed or target revenue forecasted to be recovered from such tariffs; (3) the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3); (4) the indicative non-transmission tariffs for non-transmission services provided to network users;	yes
26(1)(d)	the indicative information set out in Article 30(2);	Mostly; a simplified tariff model is not provided with the consultation document.
26(1)(e) 26(1)(e)(i) 26(1)(e)(ii) 26(1)(e)(iii) 26(1)(e)(iv)	where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity: (i) the proposed index;	not applicable

	<p>(ii) the proposed calculation and how the revenue derived from the risk premium is used;</p> <p>(iii) at which interconnection point(s) and for which tariff period(s) such approach is proposed;</p> <p>(iv) the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed.</p>	
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4. DESCRIPTION OF THE PROPOSED REFERENCE PRICE METHODOLOGY

The natural gas transmission system of the Republic of Serbia is operated by three transmission system operators ('TSOs') – *Transportgas Srbija*, *Yugorostransgaz Transport* and *Gastrans*. In 2019, AERS adopted a decision on exemption of *Gastrans* from unbundling and third-party access related requirements of the Energy Community legislation. Consequently, the proposed RPM is relating to determining transmission tariffs for access to other two transmission systems. In line with Article 10 of the Tariff Network Code, the same RPM is applied jointly by both TSOs within the entry-exit system.

Both TSOs jointly operate about 2,728.9 km of transmission network (2,604 km by *Transportgas Srbija* and 124.9 km by *Yugorostransgaz Transport*). The entry-exit system has 15 entry points operated by *Transportgas Srbija*: one entry point from the transmission system of *FGSZ* Hungary, one entry point from the transmission system of *Bulgartransgaz*, one entry point from the underground gas storage *Banatski Dvor*, three entry points from *Gastrans* and nine entry points from natural gas production fields. *Transportgas Srbija* has 249 exit points: three exit points into the transmission system in Bosnia and Herzegovina, merged into one exit point *Zvornik*, one exit point into the storage *Banatski Dvor* and 245 exit points in Serbia. The transmission system of *Yugorostransgaz Transport* is connected with the one of *Transportgas Srbija* on two points that can be both entry and exit points, and additionally has seven more exit points.

The tariffs are calculated by using the CWD RPM, whereby the entry-exit split is predefined to 50%-50%. Adjustments to the application of the RPM to all entry and exit points are made by means of **equalization** whereby the same reference price is applied to all points within a homogeneous group of points.

For the purpose of equalization, the points of the TSOs' transmission networks are grouped in the following way:

1.	Entry “from the transmission system”
2.	Entry “production”
3.	Entry “storage”
4.	Exit “local consumption”
5.	Exit “interconnector”
6.	Exit “storage”

In addition to equalization, also **rescaling** as an adjustment of the RPM is applied, whereby the tariffs for Entry “from the transmission system” and Entry “production” are multiplied by the same coefficient, so that the TSO can yield revenues amounting to 50% allocated to entries, since the **discount** of 75% is set for Entry “storage”. The same is done also for exit points.

The transmission service revenue is recovered solely by capacity-based transmission tariffs i.e. no commodity-based tariffs are used.

The non-transmission services revenue- the revenue from non-standard services and the revenue from connection services, are recovered by non-transmission tariffs.

The proposed RPM leads not only to the different tariff levels for the entry-exit points, but also introduces changes in the tariff structure, following the implementation of the Tariff Network Code. For example, there are no commodity-based tariffs anymore and a discount on entry point to storage has been introduced. Furthermore, a reference price for exit to storage has been established. The application of the same RPM to two transmission systems also impacted the level of tariffs. Regarding the changes in the annual tariffs for firm capacity (reference prices) in comparison to the prevailing period, the following is observed:

- Entry from transmission system tariff increased by 14%;
- Entry from production tariff decreased by 38%;
- Entry to storage tariff decreased by 75%;
- Exit to local consumption tariff increased by 67% and
- Exit to interconnector tariff decreased by 45%.

The changes in tariffs/reference prices are solely driven by the change in the methodology, as AERS decided to apply the CWD methodology. This means that the tariff levels are calculated taking into account the forecasted contracted capacities and weighted average distances between entry and exit points, with the required 50-50 entry-exit split. Furthermore, the new tariff structure does not envisage the usage of

commodity component, based on which the TSOs were recovering around 30% of allowed revenue.

5. COMPLIANCE

5.1. Compliance of the RPM with Article 7 of the Tariff Network Code

Article 27(2)(b)(1) of the Tariff Network Code tasks ECRB to analyze whether the reference price methodology proposed by AERS complies with the requirements set out in Article 7 of the same code. This article refers to Article 13 of Regulation (EC) 715/2009³ and includes the requirements that should be considered when preparing the RPM. The following analysis focuses on the five elements of Article 7 of the Tariff Network Code, as they mirror the requirements of the Regulation (EC) 715/2009.

- a) RPM enabling network users to reproduce the calculation of the reference prices and their accurate forecast

The proposed RPM clearly describes the process and details for establishing allowed revenue for transmission services as well as for calculating reference and reserve prices. The consultation document of AERS sets out the information on allowed revenues, forecasted capacities and reference prices for the regulatory period of three years.

Although the network users may be able to reproduce the tariff calculation based on the RPM, it would be beneficial to provide a simplified tariff model as per Article 30(2)(b) of Tariff Network Code. This is particularly important bearing in mind that the same RPM is applied jointly by both TSOs. AERS points out that a simplified tariff model should be provided by *Transportgas Srbija* upon adoption of the RPM.

Based on the above, the ECRB concludes that the RPM enables network users to calculate the reference prices. At the same time, the ECRB recommends AERS to provide a simplified model for calculation of tariffs for the whole entry-exit system of the country before the tariffs become applicable.

³ REGULATION (EC) 715/2009 as amended by Regulation of the European Parliament and of the Council (EU) 2022/1032 with regard to gas storage, incorporated and adapted by Permanent High Level Group Decision 2018/01/PHLG-EnC of 12 January 2018 and by Ministerial Council Decision 2011/02/MC-EnC of 6 October 2011 on the implementation of Directive 2009/72/EC, Directive 2009/73/EC, Regulation (EC) 714/2009 and Regulation (EC) 715/2009 and amending Articles 11 and 59 of the Energy Community Treaty and by the Ministerial Council Decision No 2022/01/MC-EnC adapting and implementing the Regulation (EU) 2022/1032 with regards to gas storage. (<https://www.energy-community.org/dam/jcr:d0f7d046-57cb-479a-a39a-9bce06065155/Reg-715-2009.pdf>)

- b) RPM taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network

The RPM proposed by AERS is based on the CWD methodology envisaged by Article 8 of the Tariff Network Code. This points out that the cost drivers for tariff calculation are forecasted capacity and distance between entry and exit points. Additionally, equalization and rescaling, as adjustments to the RPM are used in line with Article 6 of the Tariff Network Code (see Chapter 4 above). Taking into account the structure of the transmission network in the entry-exit zone, ECRB concludes that the chosen default RPM is suitable for calculation of tariffs.

The consulted cost allocation assessment is performed in line with Article 5 of Tariff Network Code and resulted in a comparison index of 22.1%. Having in mind that the comparison index was higher than 10%, AERS provided a justification for such results. The main reason for reaching the index of 22.1% is that only planned capacity is used when calculating this index, while the tariffs were calculated based on both planned capacity and distance.

The length of transmission for natural gas transmission into another system, i.e. the distance between energy points and exit point “interconnector” is the following: from the entry point from the transmission system – 252.76 km, from the entry point “storage” - 235.31 km and from the entry point “production” - 219.77 km. The length of transmission for transmission within the system i.e. between entry points and exit point “local consumption” is the following: from the entry point “from the transmission system” - 165.29 km, from the entry point “storage” - 146.47 km and from entry point “production” – 122.33 km. The length of natural gas transmission into another system from all entry points is considerably greater than the length of transmission from those same entry points up to the exit for the system users in Serbia. All transmission volumes for the exit point “interconnector” and all natural gas import volumes intended for system users in Serbia are realized via the entry point from the transmission system. The length of transmission from entry point from the transmission system is 53% higher for the exit point “interconnector” than for the exit “local consumption”.

On the other side, approved revenue arising from the transmission service is allocated 89.4% to transmission for demand of users within system in Serbia and 10.6% for cross-border transmission based on the plan of contracted capacity on all entries into and exits from the transmission system and based on the distance between entry and exit points.

Taking into account the abovementioned justification and the fact that the Tariff Network Code allows cost allocation assessment based on both forecasted contracted capacity and distance (Article 5(1)(a)(iv)), the ECRB asked AERS to perform the assessment based on both cost drivers. AERS provided the required alternative cost allocation assessment that resulted in comparison index of 3.85%. Based on this, the ECRB concludes that the proposed RPM is compliant with the requirement on cost-reflectivity.

- c) RPM ensuring non-discrimination and preventing undue cross-subsidization including by taking into account the cost allocation assessment set out in Article 5 of the tariff Network Code

Regarding the requirement to prevent undue cross-subsidization, the ECRB confirms the compliance of the proposed RPM. In this respect, the ECRB points out to the section above on cost-reflectivity.

ECRB considers the proposed RPM compliant with the principle of non-discrimination since all network users in the same situation pay the same tariffs.

- d) RPM ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within the entry-exit system

The tariff consultation document specifies that 2,652 GWh of natural gas will be transported across the entry-exit system of Serbia to Bosnia and Herzegovina, in comparison to 30,872 GWh transported for domestic use. Based on this, the ECRB concludes that there is no volume risk and the proposed RPM can be deemed as compliant with the requirement on volume risk.

- e) RPM ensuring that the resulting reference prices do not distort cross-border trade

Taking into account the above conclusion that the proposed RPM supports calculation of cost-reflective tariffs and that the CAA index points out to absence of cross-subsidization between intra- and cross- system users, the ECRB confirms that the RPM ensures application of tariffs that do not distort cross-border trade. Additionally, AERS explains that the proposed tariffs stimulate cross-border trade since all the costs connected to the compressor station that was constructed in order to enable adequate pressure for cross-border transmission, are allocated evenly to all exits from the transmission system in line with contracted capacity and length of transmission. Furthermore, the proposed reference price for exit “interconnector” is 45% lower than in the prevailing tariff period, which verifies the intention of AERS to facilitate the cross-border trade.

5.2. Compliance of the criteria for setting commodity-based transmission tariffs as with requirements of Article 4(3)

AERS proposes not to apply commodity-based transmission tariffs. The criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are therefore not applicable.

5.3. Compliance of criteria for setting non-transmission tariffs with requirements of Article 4(4)

As stated in Chapter 4, the non-transmission services revenues are the revenue from non-standard services and the revenue from connection services, and they are recovered by non-



transmission tariffs. These tariffs are established by using different methodologies. The ECRB concludes that criteria set out in Article 4(4) of the Tariff Network Code are met.

ANNEX I – LEGAL BACKGROUND

Tariff Network Code

Article 27

1. Upon launching the final consultation pursuant to Article 26 prior to the decision referred to in Article 27(4), the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority, shall forward the consultation documents to the **Energy Community Regulatory Board**.

2. The **Energy Community Regulatory Board** shall analyse the following aspects of the consultation document:

(a) whether all the information referred to in Article 26(1) has been published;

(b) whether the elements consulted on in accordance with Article 26 comply with the following requirements:

(1) whether the proposed reference price methodology complies with the requirements set out in Article 7;

(2) whether the criteria for setting commodity-based transmission tariffs as set out in Article 4(3) are met;

(3) whether the criteria for setting non-transmission tariffs as set out in Article 4(4) are met.

3. Within two months following the end of the consultation referred to in paragraph 1, the **Energy Community Regulatory Board** shall publish and send to the national regulatory authority or transmission system operator, depending on which entity published the consultation document, and the **Energy Community Secretariat** the conclusion of its analysis in accordance with paragraph 2 in English.

The **Energy Community Regulatory Board** shall preserve the confidentiality of any commercially sensitive information.

4. Within five months following the end of the final consultation, the national regulatory authority, acting in accordance with Article 41(6)(a) of Directive 2009/73/EC, shall take and publish a motivated decision on all items set out in Article 26(1). Upon publication, the national regulatory authority shall send to the **Energy Community Regulatory Board** and the **Energy Community Secretariat** its decision.

5. The procedure consisting of the final consultation on the reference price methodology in accordance with Article 26, the decision by the national regulatory authority in accordance with paragraph 4, the calculation of tariffs on the basis of this decision, and the publication of the tariffs in accordance with Chapter VIII may be initiated as from the entry into force of this Regulation and shall be concluded no later than 31 May 2021. The requirements set out in Chapters II, III and IV shall be taken into account in this procedure. The tariffs applicable for the prevailing tariff period at 31 May 2021 will be applicable until the end thereof. This procedure shall be repeated at least every five years starting from 31 May 2021.

Article 26 (1)

1. One or more consultations shall be carried out by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority. To the extent possible and in order to render more effective the consultation process, the consultation document should be published in the English language. The final consultation prior to the decision referred to in Article 27(4) shall comply with the requirements set out in this Article and Article 27, and shall include the following information:

(a) the description of the proposed reference price methodology as well as the following items:

(i) the indicative information set out in Article 30(1)(a), including:

(1) the justification of the parameters used that are related to the technical characteristics of the system;

(2) the corresponding information on the respective values of such parameters and the assumptions applied.

(ii) the value of the proposed adjustments for capacity-based transmission tariffs pursuant to Article 9;

(iii) the indicative reference prices subject to consultation;

(iv) the results, the components and the details of these components for the cost allocation assessments set out in Article 5;

(v) the assessment of the proposed reference price methodology in accordance with Article 7;

(vi) where the proposed reference price methodology is other than the capacity weighted distance reference price methodology detailed in Article 8, its comparison against the latter accompanied by the information set out in point (iii);

(b) the indicative information set out in Article 30(1)(b)(i), (iv), (v);

(c) the following information on transmission and non-transmission tariffs:

(i) where commodity-based transmission tariffs referred to in Article 4(3) are proposed:

(1) the manner in which they are set;

(2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;

(3) the indicative commodity-based transmission tariffs;

(ii) where non-transmission services provided to network users are proposed:

(1) the non-transmission service tariff methodology therefor;

(2) the share of the allowed or target revenue forecasted to be recovered from such tariffs;

(3) the manner in which the associated non-transmission services revenue is reconciled as referred to in Article 17(3);

- (4) the indicative non-transmission tariffs for non-transmission services provided to network users;
- (d) the indicative information set out in Article 30(2);
- (e) where the fixed payable price approach referred to in Article 24(b) is considered to be offered under a price cap regime for existing capacity:
- (i) the proposed index;
 - (ii) the proposed calculation and how the revenue derived from the risk premium is used;
 - (iii) at which interconnection point(s) and for which tariff period(s) such approach is proposed;
 - (iv) the process of offering capacity at an interconnection point where both fixed and floating payable price approaches referred to in Article 24 are proposed.

Article 30 (2)

In addition, the following information shall be published with regard to transmission tariffs:

- (a) explanation of the following:
- (i) the difference in the level of transmission tariffs for the same type of transmission service applicable for the prevailing tariff period and for the tariff period for which the information is published;
 - (ii) the estimated difference in the level of transmission tariffs for the same type of transmission service applicable for the tariff period for which the information is published and for each tariff period within the remainder of the regulatory period.
- (b) at least a simplified tariff model, updated regularly, accompanied by the explanation of how to use it, enabling network users to calculate the transmission tariffs applicable for the prevailing tariff period and to estimate their possible evolution beyond such tariff period.

Article 7

The reference price methodology shall comply with Article 13 of Regulation (EC) No 715/2009 and with the following requirements. It shall aim at:

- (a) enabling network users to reproduce the calculation of reference prices and their accurate forecast;
- (b) taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;
- (c) ensuring non-discrimination and prevent undue cross-subsidisation including by taking into account the cost allocation assessments set out in Article 5;
- (d) ensuring that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system;

(e) ensuring that the resulting reference prices do not distort cross-border trade.

Regulation (EC) No 715/2009

Article 13

1. Tariffs, or the methodologies used to calculate them, applied by the transmission system operators and approved by the regulatory authorities pursuant to Article 41(6) of Directive 2009/73/EC, as well as tariffs published pursuant to Article 32(1) of that Directive, shall be transparent, take into account the need for system integrity and its improvement and reflect the actual costs incurred, insofar as such costs correspond to those of an efficient and structurally comparable network operator and are transparent, whilst including an appropriate return on investments, and, where appropriate, taking account of the benchmarking of tariffs by the regulatory authorities. Tariffs, or the methodologies used to calculate them, shall be applied in a non-discriminatory manner.

Contracting Parties may decide that tariffs may also be determined through market-based arrangements, such as auctions, provided that such arrangements and the revenues arising therefrom are approved by the regulatory authority.

Tariffs, or the methodologies used to calculate them, shall facilitate efficient gas trade and competition, while at the same time avoiding cross-subsidies between network users and providing incentives for investment and maintaining or creating interoperability for transmission networks.

2. Tariffs for network users shall be non-discriminatory and set separately for every entry point into or exit point out of the transmission system. Cost-allocation mechanisms and rate setting methodology regarding entry points and exit points shall be approved by the national regulatory authorities. By 3 September 2011, the Contracting Party shall ensure that, after a transitional period, network charges shall not be calculated on the basis of contract paths.

Tariffs for network access shall neither restrict market liquidity nor distort trade across borders of different transmission systems. Where differences in tariff structures or balancing mechanisms would hamper trade across transmission systems, and notwithstanding Article 41(6) of Directive 2009/73/EC, transmission system operators shall, in close cooperation with the relevant national authorities, actively pursue convergence of tariff structures and charging principles, including in relation to balancing.

ANNEX II – LIST OF ABBREVIATIONS

Abbreviation	Definition
ECRB	Energy Community Regulatory Board
AERS	Energy Agency of the Republic of Serbia
CWD	Capacity weighted distance
RPM	Reference price methodology
TSOs	Transmission system operators