Minutes of Meeting

CAM Network Code: Tariff Aspects of CAM workshop

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1. Introduction

ENTSOG expressed appreciation for the interest in the Workshop on Tariff Aspects of CAM. The aim of the workshop was to foster common understanding of the issues at hand and enabling stakeholders to form an opinion on the provisions on tariffs in the draft CAM network code for their consultation response. These essential provisions are not meant to encroach on NRA or TSO competences in determining specific tariffs, but are necessary to enable a working CAM regime on an EU level.

2. Tariff provisions in the CAM network code

The text of the tariff provisions (Article 7 and 1.2) in the draft CAM network code was presented and rationales for including them were given, as in the consultation document accompanying the draft CAM network code.

3. Reserve prices throughout Standard Capacity Products / Reserve price exercise and discussion

ENTSOG presented the principle of revenue equality between users of Standard Capacity Products of different durations. This will enable to put users of different capacity durations broadly on an equal footing. The rationale is that the profiling of capacity bookings and the substitution of longer term capacity by short term capacity will lead to capacity sales shortfalls that have to be recovered by TSOs to attain the target revenues. Depending on the recovery method this can result in a volatile and unpredictable commodity charge to all users. It is therefore sensible to recover the revenue shortfall from those capacity products who allow for profiling and thus to be incentive neutral.

The principle of revenue equivalence allows for seasonal pricing. An exercise on how such seasonal pricing could be designed was conducted, based on a virtual booking profile. The exercise also served to foster the understanding of the revenue equivalence principle.

In the discussion no clear preference for a seasonal pricing approach was put forward. Seasonal pricing could be based on the load factors of quarters (Exxon/OGP). Other participants argued that flat prices throughout the year are a simple and workable approach.

Ofgem noted that they disagree with the claim that marginal pricing for short term products potentially involves material inefficiencies and distortions. It stated that a UK Competition Authority decision requires short run marginal cost reserve prices in UK short term capacity auctions. ENTSOG noted that due to the under recovery of TSO target revenues at uncongested points as parties wait for the lower priced short term products, the result was a high commodity charge to all users. In this case flat users cross-subsidise peaky users – this is a serious shortfall in the case for low reserve prices.

Other participants (e.g. RWE S&P, Exxon/OGP) proposed that for the sake of simplicity, no price gradient towards shorter term products should be applied, but the same reserve price should apply for all capacity products, based on the load factor of an interconnection point. EDF was cautioning against a too steep reserve price gradient from long to short term products, which could lead to speculative capacity procurement and distortion of the secondary market.

The European Commission questioned the approach to devise an incentive-neutral capacity pricing scheme. It suggested flat capacity reserve prices incentivising profiling and booking of shorter term products.

Participants who claimed that longer term capacity products are important for their business (e.g. IFIEC, DONG) were cautioning against any cross-subsidies from "flat" users to "peaky" users (which could be avoided with the revenue equivalence principle). Also, a preference for an annual product was indicated by DONG, but in particular beyond a 3 year horizon. When booking longer term and hence underwriting the TSOs systems, shippers take risks and should therefore benefit from a risk premium, i.e. discounted charges for longer term products.

ENTSOG requested parties to put forward opinions on these matters in their responses to the CAM network Code consultation.

4. Issues with over and under recovery / exercise and discussion

ENTSOG presented the potential contributing factors and the issues involved with over and under recovery, as identified in the consultation document to the draft CAM network code. While ENTSOG believed that a guiding principle should be TSOs endeavour to minimise over and under recoveries, it was important that the manner in which they were addressed with is carefully considered.

The European Commission questioned that there will be much need for over and under recovery mechanisms in a regime with a regulated price, which is not yet known at the time of the auction and which will be determined only after the auction, and which is "floating" underneath an auction premium. BNetzA asked whether such an approach of a "floating" regulated price as an element of capacity tariffs is covered by the current wording of the draft CAM network code. ENTSOG believes this approach to be covered; however, given that a regulated price may not even exist for a given product (say a quarter in 10 years' time) the CAM network code preparation should consider this.

An exercise was conducted on the possible ways of returning or charging over and under recovery to and from system users, along principles of minimising cross-subsidies, tariff stability and avoiding perverse incentives. The discussion did not yield preferences for any given approach. BNetzA suggested that smearing over or under recoveries over several years could contribute to tariff stability. Participants cautioned against too quick measures to deal with over and under recovery, these should rather be netted over longer assessment periods. It was noted that this might result in parties paying for costs they did not incur, e.g. new entrants. Others put forward an approach where all capacity charges will be subject to a rebate or recharge.

There was broad agreement that over and under recovery should be minimised in the first place.

Regarding over recovery from bidding spikes in auctions, participants reiterated that these will be avoided with the inclusion of incremental capacity in CAM (e.g. Gazprom, Statoil). Regarding the question of usage of over recovery for investments, ENTSOG cautioned against this approach, due to the potentially temporary nature of congestion and therefore inefficient investments; the expected small scale of auction proceeds compared with investment costs; and the inter-generational cross-subsidies from such a usage: existing users will pay for additional capacity that new users will benefit from.

Participants confirmed that the exercise was useful for their understanding of the issues at hand. ENTSOG requested parties to put forward opinions on these matters in their written responses to the CAM network Code consultation.

7. Next steps

Participants were invited to get in touch with ENTSOG staff for any further clarification or input regarding the tariff aspects of the CAM network code, particularly in view of their written consultation answers.