



GEODE Position paper on ERGEG Public Consultation Paper of 22 November 2007

Principles on Calculating Tariffs for Access to Gas Transmission Networks

The European Regulatory Group for Electricity and Gas (ERGEG) has presented a Public Consultation Paper on the Principles on Calculating Tariffs for Access to Gas Transmission Networks. GEODE welcomes the opportunity to give feedback on some of the issues raised in the consultation paper.

I. ERGEG Consultation Questions

Do you consider the described cost and tariff principles appropriate to achieve convergence of tariff structures and charging principles where tariffs for access to transmission networks may contribute to restrict market liquidity or distort trade across borders of different transmission systems?

GEODE believes that the cost and tariff principles outlined by ERGEG are in general appropriate to achieve convergence in the calculation of transmission tariffs within national gas markets but also with regard to cross-border trade. As far as the development of specific guidelines is concerned, GEODE warns against exaggerated expectations. Even if guidelines on calculating transmission tariffs were developed, a significant scope of attestation will remain for both transmission system operators and regulatory authorities.

Are there different or additional cost and tariff principles currently in place? If yes, please outline which.

Apart from the cost-based approach, some Member States such as Germany plan to implement a tariff system commonly referred to as incentive regulation. This means that transmission tariffs are no longer calculated on the basis of actual costs, insofar as such costs correspond to those of an efficient and structurally comparable network operator. Instead, a price

cap or revenue cap is set by national regulatory authorities. If the actual costs fall below the cap, the network operator keeps the margin, thereby providing an incentive to work (more) efficiently. While generally acknowledging the need for efficient network operation, GEODE sees the danger of creating restrictions to investments especially if the (price or revenue) cap is set too low. Any different approach in calculating tariffs for access to gas transmission networks must take into account the need for an investment-friendly climate in order to ensure competitive and reliable energy markets.

II. Remarks on Pipe-to-Pipe Competition

In its consultation paper, ERGEG also addresses the issue of pipe-to-pipe competition and benchmarking of tariffs. ERGEG correctly emphasizes that having two pipelines in place does not mean per se that they are in competition. GEODE has serious doubts whether effective pipe-to-pipe competition exists in Europe and its Member States. In practice, network users do not have a real choice between different pipelines and transportation capacities, respectively. Even if that is the case, system operators do not compete against each other. In that respect, GEODE would like to draw ERGEG's attention to the situation in Germany where TSOs claim the existence of pipe-to-pipe competition since 2005 although such competition remains to be proven. Due to the fact that a regulatory decision has not yet been taken, TSO infrastructure is not subject to tariff regulation at all. To ensure that benchmarking of tariffs is only applied when pipe-to-pipe-competition really exists, GEODE would ask ERGEG to carry out careful monitoring of pipe-to-pipe competition and the regulatory practice in Member States. With regard to the huge investments needed for the construction and operation of transmission infrastructure, GEODE, however, doubts that effective pipe-to-pipe competition will ever exist. Therefore, we strongly believe that a cost-based tariff setting regime remains necessary.

Barcelona,