CEER/IRB's appraisal of the European gas TSO benchmarking feasibility study

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Introduction

Several energy regulators in Europe have expressed an interest in benchmarking their gas TSOs. Such a pan-European (cost-) efficiency benchmark already exists for electricity TSOs, with the e3grid2012 study[1] being the most recent endeavor, but is still lacking for gas TSOs. A gas TSO benchmark is of relevance to NRAs as European gas regulation stipulates that tariffs of a TSO shall reflect the actual costs incurred insofar as these costs correspond to those of an efficient and structurally comparable network operator[2]. As a first step NRAs gathered in CEER have commissioned a feasibility study for a pan-European gas TSO cost-efficiency benchmark. This study, carried out by Sumicsid in 2014, finds that a gas TSO benchmark is challenging but feasible.

This short note presents some of the most important observations and insights derived from the feasibility study that the NRAs believe will contribute significantly to a successful benchmark study. Moreover, as the TSOs were invited to comment on the feasibility study, this note also presents the main concerns raised by TSOs.

Insights from the feasibility study

From the feasibility study NRAs aim to take the following insights (among others) on board for the execution of an actual European gas TSO benchmark. These are (1) a restricted initial benchmarking scope, (2) a comprehensive data request at the start, (3) a set of well-defined and relevant TSO benefits and (4) a careful organization of the overall process.

(1) a restricted initial benchmarking scope

To achieve comparable observations, the feasibility study distinguishes between the (regulated) services provided by gas transmission operators, the (specific) assets used for such services and the (generic) activities performed by an operator on the assets. A relevant scope is then defined in terms of a coherent services / assets / activities combination. A feasible scope of a first effort in benchmarking gas transmission operators according to Sumicsid consists of (i) services: transport to downstream exit and transit to a cross-border point, (ii) assets: a pipeline network with its control system and (iii) activities: grid planning, - financing/ownership, - construction, - maintenance, and - metering. As a consequence, the inputs and outputs chosen as benchmark parameters can only relate to these aspects of gas transmission. Other elements, notably storage and LNG services/ assets and system operations and market facilitation, activities should be out of scope in a first effort.

(2) a comprehensive data request at the start

To allow fair comparisons, the feasibility study lists different methods to account for a range of factors that are country or TSO specific and are not under the TSOs' control. These complicating factors

[1] See https://www.acm.nl/nl/download/bijlage/?id=11518

[2] Article 13 of Regulation 715/2009.

could for instance relate to geographical conditions that make construction, operation and maintenance more expensive. One way to address these environmental conditions would be to start with a high-level aggregate model containing the major cost drivers and then test for the impact of complicating factors on costs or efficiency. Another way would be to start with a more detailed dataset for both asset and environmental variables that are relevant for grid construction and operation cost. This way a more direct assessment of pipeline cost differences in terms of engineering cost norms can be made. Sumicsid states that feasibility of the benchmark will be higher when following the second approach, although both approaches are feasible. To the IRB, the message of the feasibility study in this respect is that this issue should be considered carefully. Also, considering the importance of data requirements here Sumicsid calls for a two-phase approach with a first phase dedicated to data definition, collection and validation and a second for actual benchmarking.

(3) a set of well-defined and relevant TSO benefits
First and foremost the benchmark is intended to provide reliable information on cost efficiency of gas TSOs to regulatory authorities. Sumicsid however points out that a benchmark as proposed may also give valuable information to the operators about areas of strengths and weaknesses in capital and operating expenditure. It seems both desirable and attainable to require individual reports with a relatively high level of decomposition down to best-practice and average-cost performance as to provide the TSOs with value for their investments in data collection and validation.

(4) a careful organization of the overall process
Sumicsid mentions four particular challenges with international benchmarking of energy networks: (i) data quality assurance, (ii) confidentiality of data, (iii) communications, and (iv) well documented and explained results. Relevant elements of a project organization in this respect are a transparent yet secure project platform format and interactive workshops.

Concerns raised by TSOs

In their comments on the feasibility study, TSOs express concerns about the comparability between TSOs in a European benchmark and stress the importance of a transparent benchmarking process.

TSOs point out that grid development takes place under different (regulatory) circumstances. For instance networks in one country can be the result of central planning while in other countries market mechanisms are at work. Also some networks were built in a short timeframe while others have organically grown over a longer period of time.

Furthermore TSOs differ in organizational structures and tasks they are required to perform. This heterogeneity among TSOs needs to be properly addressed in the benchmark. In this respect TSOs mention that both the standardization of variables and the choice of parameters require careful consideration. Another consequence of the heterogeneity, especially the differences in structure and tasks, is that cost allocation becomes an important issue.

When it comes to data collection, TSOs remark that a comprehensive instruction on the process would be appreciated and that having a well thought out procedure in place is essential. TSOs furthermore emphasize the need for transparency throughout the whole benchmarking process. At the same time TSOs signal a potential conflict between confidentiality of data on the one hand and verifiability of results on the other.

The NRAs recognize that the TSOs have presented their concerns on the feasibility of a gas benchmark. Together with the feasibility study by Sumicsid the individual reactions by TSOs will be bundled as an input into the tender procedure for the benchmark study. The NRAs believe it is important to take these comments into account in an actual benchmark.