

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(82) 603 final

Brussels, 29 September 1982

Draft

COUNCIL RECOMMENDATION

on the methods of setting natural gas prices and tariffs in the Community

(presented from the Commission to the Council)

COM(82) 603 final

2

Draft

COUNCIL RECOMMENDATION

on the methods of setting natural gas prices and tariffs
in the Community

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to the draft Recommendation submitted by the Commission,

Having regard to the opinion of the European Parliament,

Whereas in its conclusions of 3 December 1981 and 16 March 1982 the Council emphasized the need for the Member States to develop a common approach to energy pricing and laid down general principles to be observed by the Member States in their energy pricing policies;

Whereas these principles should be adapted to the conditions of the market in natural gas so as to ensure greater consistency in energy pricing within the Community;

Whereas, in view of the comparative scarcity of natural gas and the advantages of using it, the best possible use of available supplies and the optimum allocation of these resources should be ensured by means of an appropriate pricing policy;

Whereas natural gas prices should be allowed to adjust rapidly to trends in the cost of supply and to changes in the competitive situation on the market;

Whereas pricing policies encouraging certain categories of consumption which prevent the rational use of natural gas should be avoided;

./.

1a

Explanatory Memorandum

The draft recommendation on the methods of setting natural gas prices and tariffs in the Community has been prepared in response to the concern expressed by the Council on a number of occasions about the consistency of energy pricing policies with the Member States' common energy strategy objectives.⁽¹⁾

Basically, it seeks to lay down the general principles which should govern the methods of setting natural gas prices and tariffs with a view to making them consistent with the objectives of diversification of resources, rational use of energy and energy conservation within the Community.

In formulating these principles, account has been taken of the specific features of natural gas and the particular conditions of competition on the market for gas, on which the prices of competing energy sources on the various end-use markets have a decisive effect.

Particular emphasis has been placed on common tariff structures, since these will help to make the supply conditions more homogeneous and facilitate more consistent price formation within the Community.

Mention is also made of the need to ensure that, as far as possible, prices cover gas supply costs and the amortization of the investment entailed. The entire proposal is based on the consideration that as gas is a comparatively scarce commodity in the Community care should be taken to ensure that it is used judiciously and its intrinsic advantages warrant making the best possible use of available supplies and their optimum allocation.

The Commission is aware that certain structures already reflect a common approach, and that the efforts to achieve homogeneousness and consistency should be continued, and reinforced if possible.

The fact that prices affect users' choices has not been forgotten. The Commission is proposing that the Member States should ensure that consumer prices and costs are characterised by the greatest possible degree of transparency and are made public as far as possible.

(1) Conclusions of the Council meetings of 2 December 1981 and 16 March 1982.

Whereas natural gas tariff systems should also reflect as accurately as possible the structure of the supply and distribution costs for the various categories of supplies;

Whereas, in view of the quantities supplied, it is appropriate, where large-scale industry is concerned, to enable economies of scale in relation to transport to be passed on by means of appropriate decreasing scales of charges;

Whereas in order to ensure that optimum use is made of the transmission networks and that deliveries are more regular during the year, provision should be made for special prices linked to the interruption of supplies;

Whereas pricing policy plays a decisive role as regards trends on the market for natural gas and whereas there is a need to monitor consumption trends with a view to adjusting natural gas prices accordingly;

Whereas consumers can have freedom of choice only if there is an adequate degree of market transparency,

HEREBY RECOMMENDS TO THE MEMBER STATES :

(a) that they take appropriate steps, if they have not already done so, to ensure that the methods of setting natural gas prices and tariffs in the Community are based on the following common principles :

1. Methods of setting natural gas prices, whether or not in the context of tariffs, should be designed to ensure that the best possible use is made of gas supplies and to ensure their optimum allocation. They should be established with due regard for the rational use of energy and the competitive situation between natural gas and the other forms of energy.

Natural gas prices should therefore be as close as possible to market value in relation to the price of substitute energies and provide a guarantee of sufficient proceeds to cover the cost of supplying consumers

2. Natural gas pricing methods should be designed in such a way as to enable natural gas prices to adjust rapidly to changes in the competitive situation on the market and to trends in costs, particularly

the cost to gas undertakings of acquiring gas; changes in such costs should be passed on in the sales tariffs without delay.

3. Prices which are artificially low in relation to the market situation and to costs, having the effect of subsidizing certain classes of consumption or certain uses and/or of encouraging waste, should not be charged.
4. The two-part tariff system, consisting of a fixed component to cover fixed costs, in particular the cost of permanent connection to the network, and a component which varies with the quantity of gas supplied, is the system which, of the various tariff options available, should be generally used.

This should be the case, in particular, for categories of consumers which have homogeneous features from the point of view of use, the scale of consumption and the regularity of offtakes and to which tariffs based on these features would be applied.

5. For the other categories of consumption subject to tariffs, provision should be made for two (or more) components which decrease as consumption rises, in order to take account of economies of scale in transport which arise as volume increases. The tariffs applied for a given location should also vary in relation to the off-take characteristics, such as the load factor, in order better to pass on the costs.
 6. With the aim of transferring to off-peak periods or to allow load-shedding, provision should be made for the application of special tariffs or prices linked to arrangements for the interruption of supplies;
- (b) that they carefully monitor the trend in the demand for natural gas in the various sectors of use and the long-term trend in demand, in close cooperation at Community level with a view to further improving the tariff structures;

- (c) that they ensure that natural gas prices are characterized by the greatest possible degree of transparency and that prices and costs to the consumer be made public as far as possible.

