

**SMDC: GAS TARIFFS AND SOCIALLY DISADVANTAGED CUSTOMERS
NOVEMBER 2006**

In general, Eurogas believes that the operation of market forces represents the best guarantee of competition.

In a fully competitive market, retail gas tariffs (except in rare situations e.g. national emergencies) will be set by market forces and competition rather than by the regulator or government. A separate Eurogas paper considers the situation in certain member states where 'regulated' end user prices are nevertheless generally retained, focusing on the adverse impact on competition of imposing prices below the market levels.

At a time of rising energy prices, significant price increases are likely to create a particular burden for socially disadvantaged customers, in whatever way these may be defined at a member state level.

Member states vary in the way they address this problem. For some, it is seen as purely a social issue, to be resolved through some form of support from Government to those households. Other states look to the energy industry to play a role in assisting such households, and a number of approaches exists. These range from identifying such customers and offering them particular assistance or treatment e.g. through special payment arrangements or other support, to the creation of social tariffs specifically intended for vulnerable customer groups. The latter results in a 'socialised' solution involving a cross-subsidy from the generality of customers to vulnerable customers.

Eurogas does not support the principle of cross-subsidies, and believes that social policy and tariffs should not be confused. Such intervention risks creating market distortion and adds costs and administrative complexity.

If a Member State wishes to introduce a social tariff, it must be transparent and focused on socially disadvantaged customers, rather than applying, for example, to a particular consumption level or payment mechanism. It must also be compatible with competition and the liberalisation process in the country concerned.