



EURELECTRIC PROPOSED AMENDMENTS

Adopted by the Markets Committee on 23.06.2005

GUIDELINES ON TRANSMISSION TARIFICATION

EREG Proposal

2 May 2005

EXPLANATORY NOTE

Background

Article 8(3) of the Regulation on Cross Border Electricity exchanges¹ provides for guidelines to be adopted to “determine appropriate rules leading to a progressive harmonisation of the underlying principles for the setting of charges applied to producers and consumers (load) under national tariff systems, including the reflection of the inter-TSO compensation mechanism in national network charges and the provision of appropriate and efficient locational signals, in accordance with the principles set out in Article 4.”

Article 4 itself discusses the requirements relating to transmission tariffs. In particular, Article 4(2) states that;

Where appropriate, the level of the tariffs applied to producers and/or consumers shall provide locational signals at European level, and take into account the amount of network losses and congestion caused, and investment costs for infrastructure.

Meanwhile Article 4(4) requires that

Providing that appropriate and efficient locational signals are in place, in accordance with paragraph 2, charges for access to networks applied to producers and consumers shall be applied regardless of the countries of destination and, origin, respectively, of the electricity, as specified in the underlying commercial arrangement.

The attached guidelines therefore fulfil these requirements of the Regulation.

¹ Regulation 1228/03/EC

1. CURRENT SITUATION POSITION

Transmission tariffs in Member States already reflect most of the requirements of the Regulation in that they are, by and large “entry-exit” tariff systems rather than being distance based. The main component of tariffs is ~~those~~ related to the ~~fixed costs of that~~ are considered fixed in the network short run. These charges for access to network. These may be imposed on generators, called the ‘G’ charge, and those for the load, called the ‘L’ charge. The allocation of these charges in all Member States ~~eases~~ fulfils the criteria that the majority of the charges fall on load rather than generation and in some Member States the ‘G’ charge is zero.

As well as the fixed costs of the transmission network in the short run, ie capital and operation costs, transmission tariffs ~~also usually~~ often ~~include specific loss charges for losses, congestion~~ and other ancillary services.

Generators and ~~consumer~~ customers may also be required to pay a one-off charge for their initial connection to the grid, usually called “connection charge”. Charges related to ~~congestion~~ losses, congestion and other ancillary services are also an important feature. These charges are not, however, considered to be part of the G charge for the purpose of these Guidelines. ~~of tariffication.~~

There remain ~~significant~~ differences in the level of transmission charges, and the split between G and L charges between ~~one Member State and another.~~ States. The structures of the tariffs are also different. In case of several transmission grids within one Member State, transmission tariffs could be different within the different transmission system operators.

Finally, charges relating to underlying commercial arrangements have been removed from January 2004 in Member States participating in the ~~revised~~ inter-TSO compensation mechanism. ~~However some border charges remain for those Member States which do not yet participate in this mechanism.~~

2. PROPOSALS IN GUIDELINES

i Harmonisation of network access charges for generators

To avoid distortions of competition, some harmonisation of the charges for access to networks of the generators ~~connected to the transmission grid, ie, i.e.~~ the ‘G’ charge is needed. Harmonisation of G charges, rather than L charges, is considered to be ~~the most~~ more important since the ~~location of output from~~ location of production facilities and the ~~output from~~ location of them is thought to be more responsive to price signals. ~~This~~ However it should be emphasized that the ‘G’ charge is not the only charge a generator pays; say connection charges have to be taken into account when making the investment decisions. The European countries have also different practices according to whether a generator is responsible for paying the costs connected to production related network components. It should also be emphasized that the level of network charges is not the only determinant of the decisions to locate plant-s. Other non-network related cost factors, such as fuel transportation costs or availability of cooling water, might be more important.

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Tariff structures and charging principles may vary widely from country to country but also within a country depending on voltage level and region. It is therefore proposed that basic G charges will be harmonised. This basic G charge corresponds to the charge paid by generators for access to the grid but does not comprise locational signals. It however remains possible for Member States to introduce such signals at national level in addition to the harmonised basic G.

Within the Nordel, UK and Irish systems, interconnected by DC submarine cables to UCTE, the main continental system, different ranges for the 'national average G' may be applied. ~~It~~ during the transitory period.

The need for harmonisation of G-charges on other voltage levels and harmonisation of tariff structures should be investigated in the later stage.

ii European locational signals

Under the Regulation, all Member States will be required to participate in the inter-TSO compensation mechanism and to implement market based congestion management methods for the interconnectors. This will lead to a large increase in the impact of locational signals, especially short-term locational signals, at European level relating to the siting of generation and consumption.

Given the limited capacity of interconnection between different Member States, ~~those the~~ countries with a general surplus of capacity over load will generally be low price areas due to e.g. lower production costs or insufficient interconnection capacities. Those with a deficit will be higher priced regions. With market based capacity allocation at interconnectors, this price difference will be made explicit. Any new generation in surplus regions will therefore face either a low price for energy in their ~~home~~ domestic market or a high ~~transmission~~ interconnector charge to sell in higher prices countries. This will provide a clear locational signal. Similarly, compulsory participation in the inter TSO compensation mechanism will ensure that Member States which host cross border flows are suitably compensated for providing this service.

Consequently, at Charges covering costs of losses and other ancillary services can give short-term locational signals and application of these charges is important for achieving an efficient operation of the network. The need for eventual harmonisation in connection to these charges should be investigated in detail in the future.

At this stage it is not considered appropriate, in the sense of Article 4(2), to introduce through the harmonisation of G and L charges, locational signals at the European level. The main reason for this is the uncertainty how efficient and accurate these signals can be since there are so many other costs to consider when making an investment decisions, and to what extent giving such signals through the G/L-charge can distort short term signals. However, the situation needs to be closely monitored and the details for harmonised long term locational signals will be considered in the later stage.

Given the existence of sufficient locational signals, all other charges related to cross border exchanges must be removed, in accordance with Article 4(4).

Comment [g1]: The harmonisation of G charges and inter-TSO compensation mechanism have and should have no link.

Deleted: ~~at transmission level and on the basis of the national average level of the G-charges for access to network to generators: "national average G". Member states will accordingly be able to have variations in charges for their internal regions ("national locational signals"). For each Member State, the average G charge will have to remain within the specified range, which should be transparently and non-discriminatory calculated for each country.~~

Deleted: ~~The possibility of a positive G charge can be important for example, e.g. for the financing of the TSO contribution to the inter-TSO compensation fund by the generators, which might be particularly appropriate compensations especially in heavily exporting countries.~~

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Comment [g2]: These guidelines should have the same status as the guidelines on congestion management. They should thus not be presented as a mere "annex".

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1 Harmonisation

1.1. ~~The values of the 'annual national average G' is an arithmetic average of all the hourly tariffs of the year, including off peak and peak tariffs, and the different seasonal variation. When the tariff includes a 'capacity' fee, the 'annual national average G' has to be calculated for a generator assuming that it is injecting electricity during 5000 hours per year at its declared power capacity. A weighted average, based on generation, will be included in the 'annual national average G' in case of variations in charges within the internal regions ("national locational signals").~~ The value of the 'annual national average G' is annual total transmission tariff fees paid by generators divided by the total measured energy injected annually by generators to the transmission network. Annual average G shall exclude any fees paid by generators for physical assets required for the generators connection to the system (or the upgrade of the connection) as well as any fees paid by the generators relating related to ancillary services to the TSOs role in balancing the transmission system or any specific network loss charges paid by generators

1.2. ~~During the transitory period ending on 31.12.2008, the value of the 'annual national average G' relating to capital and operation costs' must be within a range of 0 to 0.5 €/MWh, with the exception of the cases in 1.3 to 1.5 below.~~

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1.3. ~~The value of the 'annual national average G' within the Nordel system (Finland, Norway, Sweden and Denmark) will be at maximum 0.85 €/MWh. will be at a maximum of 0.7 €/MWh.~~

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1.4. The value of the 'annual national average G' within the GB system will be at maximum ~~[actual average G in GB]~~ 2.5 €/MWh

Comment [g3]: Regulators in the Nordic region should have the possibility to opt for a G=0.

~~1.5. The value of the 'annual national average G' within the Republic of Ireland and within Northern Ireland will be at maximum [actual average G in Ir] 2.5 €/MWh other charges relating, for example, to initial connection to the network, losses, and other ancillary services need not be harmonized~~

Comment [g4]: This value should be justified. It appears for now to be arbitrary.

1.6. At the expiry of the transitory period, the level of the harmonised 'basic G' charge – i.e. the charge imposed on generators for network access, which does not comprise locational signals - shall be set to zero.

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Comment [g5]: At the end of the transitory period, it will be crucial to harmonise the **BASIC G** charge. This corresponds to the charge paid by generators for network access, excluding however the locational signals component of the network tariff. Harmonisation of this basic G should be made to a G=0.

2 Removal of international supply ~~contract~~transaction based charges

With the exception of charges resulting from market based congestion management methods, charges for access to networks applied to producers and consumers shall be applied regardless of the countries of destination and, origin, respectively, of the

G=0, where generators do not pay for the cost of the transmission infrastructure but may contribute to the payment of losses and congestion, is indeed the best solution for a real level playing field between generators.

electricity, as specified in the underlying supply arrangement. This includes all import, export and transit fees.

3 Reporting

National regulators will ~~submit report to the Commission the details of how the TSOs the charging structures will comply with the Guidelines of their TSOs to the Commission by on 3028 November February 2006 and on the occasion of any amendments to the tariff structure relevant to these guidelines.~~ National Regulators shall provide the value of the annual national average G to the Commission by the end of January 2007. Afterwards only amendments to the charging structures and G-values shall be submitted to the Commission yearly by the end of July.

Comment [g6]: We do not see the reason for delaying publication of the G values so much.

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