



VERBAND DER
ELEKTRIZITÄTSUNTERNEHMEN
ÖSTERREICHS

www.veoe.at

CEER and ERGEG Secretariat
Rue le Titien 28
1000 Brussels
Belgium

Your ref.	Your communication of	Name	Ext.	Date
		Dr. Christian Peter/Sc	210	25.9.2008

Comments on the ERGEG Position Paper for public consultation on Treatment of Losses by Network Operators

Dear Sir or Madam,

Thank you for your invitation to contribute to the consultation on the ERGEG position paper entitled "Treatment of losses by network operators". We wish to make the following comments on the paper.

General considerations

With regard to technical losses, it should be noted that:

- the infrastructure concerned is used for long periods (typically 30–40 years);
- the annual replacement rate for equipment is estimated at about 2%;
- even if renewal results in the deployment of state-of-the-art, low-loss technology, the impact in terms of reduced network losses is marginal.

Reductions in network losses thus do not provide a sufficient incentive for the premature replacement of equipment.

Comments on 6.5 Tariffs and Regulation and 6.6 Regulatory and incentive mechanisms (pp. 15–16)

The descriptions of the Austrian system are misleading and in part incorrect, meaning that the validity of the international comparison is questionable. In particular:

- Page 15 / table: Procurement in Austria is also via "PEX or bilaterally" and not a "special balancing group";
- Page 16 / table: In Austria the incentive mechanism — the allowed rate of losses — applies not just to TSOs but to DSOs, as well.

Comments on the questions (p. 17)

Regulatory definition of losses

1. What is considered an acceptable definition of losses?

Expert opinions differ on the aptness of the distinction made in section 6.1. between technical and non-technical losses. While standard classification criteria are important the definition of non-technical losses is not entirely clear.

A possible definition is: Grid energy input + energy generation – charged consumption = losses

2. Should power losses refer only to technical losses or is it acceptable to include also non-technical losses?

The main focus of attention should be technical network losses. It is therefore technical losses that should be compared when benchmarking country performance.

Reporting of non-technical losses is conceivable, but because of the vagueness of the definition they should be kept separate from technical losses.

3. Which are the key components for defining losses?

Generally, those referred to in the paper (p.10, Fig. 1).

The categories for technical losses should be:

Transformer Cu and Fe losses
I² cable and power line losses
Fuse losses

Valuation procedures

4. What ways exist to improve the evaluation of losses in *distribution* networks?

More metering points and more precise metering (e.g. at all substations and distribution substations).

Procurement is continuously metered. More than half of the sales to final consumers are continuously metered, and the rest calculated on an accrual basis. There is no significant room for improvement in Austria.

Values

5. What should be a reasonable and acceptable level of power losses at the distribution level and the transmission level?

This depends on network topology and voltages (HV+MV+LV; MV+LV; LV).

It would not be appropriate to establish mandatory criteria since technical losses vary far too widely as a result of the differences in network structures, loads, operating modes, organisational structures, and average plant age.

6. Which types of losses could be most easily reduced?

There are few short-term options, as most network operators have already optimised their equipment (transformers, power lines and cables) in economic terms, and this also applies to network losses. Losses could only be minimised by decentralised generation, but this would conflict with the principle of a liberalised electricity market.

Differences in metering, billing and data processing, i.e. non-technical losses could be addressed.

However technical losses could only be reduced at immense cost (e.g. use of low-loss transformers and/or higher capacity conductors).

Procurement of losses

7. Who should be responsible for procuring electric energy to cover losses?

Network operators, though they could be permitted to outsource this function to third parties.

8. How should electric energy to cover losses be procured in a market-oriented way? Which solution is the most efficient?

Annual tenders: in principle, procurement on exchanges or transparent OTC trading is a realistic alternative.

9. Should the costs of losses be covered by a special tariff?

There is no need for a special tariff for network losses.

Regulatory incentives

10. What are the advantages and disadvantages of the aforementioned incentive mechanisms?

No answer.

11. Which key elements should be considered when assessing different regulatory incentive mechanisms?

- Losses below a predefined reference level should be recompensed.
- The cost of procuring loss compensation power should be covered by the tariff (or a tariff component).
- The regulator should accept market driven pricing.
- Tariffs should reflect additional costs incurred as a result of loss reduction efforts.
- The method for determining recognised losses and its feasibility in practice (green-field vs. actual network topology and plant), as well as the feasibility of action to reduce commercial losses.

12. Are there advantages in setting separate mechanisms for technical and non-technical losses?

It is difficult to distinguish between the two, as they are different in kind, and efforts to reduce them will thus differ, too.

13. Are there advantages in setting separate mechanisms for technical and non-technical losses?

No.

Annex 1: Case studies – A 1.1. Austria (pp. 20–22)

The description of the “dedicated tariff for losses” in Austria is particularly misleading. The Austrian system is not based on a tariff, but on determination of a recognised price for the procurement of network losses. The calculation of the network loss charge payable by network customers is based on different methods.

We recommend deleting the sentence on page 21 reading, “For simplified accounting, it is possible to include, and to only prove on-demand separately, the net loss payment and the gross portion into the energy-related part of the net use payment.” as it is incorrect.

We hope that our suggestions will meet with your approval.

Yours faithfully,
Association of Austrian Electricity Companies



Dr. Barbara Schmidt
Secretary General



DI Ursula Tauschek
Head of Business Unit Grids