

EREG Public Consultation

Guidelines on Transmission Tarification

2 May 2005

Introduction

1. ERGEG, following request for advice from the European Commission, has developed and further refined a draft of Guidelines on Transmission Tarification. It is intended that they be adopted by the European Commission as binding Guidelines as provided for in Regulation 1228/2003. This paper seeks views on the ERGEG draft of Guidelines on Transmission Tarification.

Invitation to comment

2. ERGEG set out on 10 August 2004¹ its commitment to consult on its development of policy recommendations and other matters. Such consultation would recognize for example the importance of providing expert input and views, and the need to consult a full range of interested parties, make consultation proposals widely known, and consult at national, European and international levels.
3. Accordingly, ERGEG invites comments from any interested parties concerning the draft Guidelines on Transmission Tarification, including the Explanatory Note, set out in the Annex to this paper. Any comments should be received by the 24 June 2005. They should be sent to :

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4. Unless marked confidential, all responses will be published by placing them on the ERGEG website (<http://www.ergereg.org>). Any questions on this document should, in the first instance, be directed to Jose-Manuel Hernandez.
5. Readers may wish to note that ERGEG is presently also consulting on Congestion Management Guidelines, and invites comments on this topic by the 24 June 2005.

Background

6. A key early aim of plans to liberalize and create a single EU electricity market was to introduce arrangements that facilitate generator and load efficient access to EU transmission

¹ Public Guidelines on ERGEG's Consultation Practices, 10 August 2004, ERGEG

systems and hence wholesale trade. One large impediment for example was the need for a generator wishing to trade in another Member State to pay one or more sets of transmission tariffs ('pancaking').

7. Another impediment is the need to make transmission tariffs consistent across the EU such that a level playing field is preserved. Distortions to trade could arise for example where TSO A in area A recovered all its transmission system costs from Generation while another perhaps neighbouring TSO B in area B recovered its costs from Load. In that scenario there would be a strong and perhaps inefficient incentive for Generators to locate and generate in Area B.
8. Regulators, the European Commission, and stakeholders, particularly Transmission System Operators, have therefore discussed and developed views as to how this transmission tariffication issue might be tackled. At the Fifth meeting of the Florence Forum in March 2000 for example, parties stressed the importance of making progress in harmonising the split of transmission charges between Generation and Load.
9. A legal basis for dealing with the issue came with the adoption in June 2003 of the Regulation 1228/2003 on conditions for access to the network for cross-border exchanges in electricity. This took force from 1 July 2004. The Regulation allows the European Commission, working within a Comitology process, to set binding Guidelines on Transmission Tarification.
10. In June 2003, the European Commission produced a Discussion Document on Harmonization of Network Access Charges². This provided the first basis for a discussion on, and a text for, Guidelines on Transmission Tarification. The CEER provided a response³ setting out its view of the general principles necessary to establish Generation and Load charges, and the subject was discussed during the tenth Florence Forum of July 2003. The Commission issued in March 2004 draft Guidelines on Transmission Tarification, taking into account this discussion
11. In the meantime, and in order to facilitate the Comitology process, the European Commission established by Decision in November 2003 the European Regulators' Group for Electricity and Gas (EREG). This Group comprises all EU energy regulators and is intended to provide advice to the Commission regarding electricity and gas market liberalization matters, including Transmission Tarification. ERGEG was requested by the European Commission, among other things, to comment on and further develop Guidelines for Transmission Tarification.
12. Hence the ERGEG and the European Commission worked together to produce a refined text of Guidelines for Transmission Tarification for September 2004. These were presented to the Eleventh meeting of the Florence Forum (September 2004). Participants called for further work.
13. Accordingly, ERGEG has further worked up a text of the Guidelines, taking into account comments from the Eleventh meeting, and now puts these to public consultation.
14. The text of the Guidelines on Transmission Tarification is given here in the Annex. It is given in track change mode and indicates the changes from the September 2004 EC text circulated at the Eleventh Florence Forum.

Electricity Regulation 1228/2003 and Comitology

² http://www.europa.eu.int/comm/energy/electricity/florence/doc/florence_10/g_and_l/ec_g_harmonisation.pdf

³ http://www.europa.eu.int/comm/energy/electricity/florence/doc/florence_10/g_and_l/ceer_harmonisation.pdf

15. Regulation 1228/2003, entered into force 1 July 2004, provides for the treatment of a number of issues relating to cross border trade in electricity, including transmission tariffication.
16. Article 4 sets out general principles for charges to access to transmission networks. Charges are for example to be transparent and non-discriminatory. 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” and 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.”
17. The European Commission is empowered under Article 8(3) to set guidelines that lead to “a progressive harmonization of the underlying principles for the setting of charges applied to producers and consumers (load)...”.
18. The Commission is to be assisted in this task by a Committee, and act in accordance with the procedure set down in Articles 5 and 7 of Decision 1999/468/EC. This procedure is more commonly known as Comitology. That is, the Commission may only amend the Guidelines following approval by a Committee of Member State representatives. In addition, it is intended that the establishment of ERGEG will assist the Comitology process by allowing the expert input of the EU gas and electricity regulators.
19. The Regulation also allows the European Commission to set binding guidelines concerning the compensation that each Transmission System Operator is to receive for electricity flows that originate outside its host territory. This is designed to eliminate the ‘pancaking’ problem described above. Article 8(1) requires that when guidelines concerning transmission tariffication are adopted for the first time, guidelines relating to the inter-TSO compensation mechanism are also adopted, in a single draft measure.

Anticipated process

20. Comments are invited on the draft Guidelines on Transmission Tariffication by the 24 June. ERGEG will publish all comments received (unless marked confidential). ERGEG intends to revise the draft in the light of comments received and publish its final view, together with reasons, in July 2005. It will provide this final view to the European Commission as formal advice at that point.
21. ERGEG and the European Commission will also during this time be developing Guidelines for inter-TSO compensation. It is intended that they will be subject to ERGEG public consultation during summer 2005. They should be ready for ERGEG approval and the delivery of ERGEG formal advice to the European Commission by July 2005.
22. Given that the Regulation’s Article 8(1) requires that Guidelines on Transmission Tariffication and Guidelines for inter-TSO compensation must be covered in a single draft measure when adopted for the first time, in September 2005 it should be possible for the European Commission to put together both Guidelines for the Comitology process. This should allow sufficient time for the Guidelines to be considered by the Committee and, if approved, enter into force from 1 January 2006.

Annex : Draft Text of Guidelines on Transmission Tariffication including the ERGEG proposed amendments