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## Treatment of Losses by Network Operators – ERGEG Position Paper for public consultation

The development of common European rules and regulations, to secure a common platform for trade and competition in the electricity sector, is of imperative importance. Hence, EBL welcomes ERGEG proposals that provide for a level playing field within the sector, and the opportunity, on behalf of our members in transmission, distribution and generation utilities, to comment on the position paper.

The issues raised in the position paper are important both in order to reduce excessive losses, both technical and non-technical, but also in creating a level-playing field for all market participants by harmonising rules for power losses treatment and tariffication. The position paper seems to focus on several issues where high non-technical losses are a problem. Such issues are important to deal with. However, this has not been a focus area in Norway since losses of such character are very small compared to the electrical losses in the system. We have therefore no specific answers to your questions on these issues. On the other hand, allocation and locational mechanisms that influence the efficiency of market integration are issues we are deeply concerned with.

In well functioning and controlled systems non-technical losses should be small if not neglect able. Large amounts of non-technical losses in a power system may indicate a lack of control over the system. In systems where such losses are high measures should be taken in order to reduce these losses. The most commonly approach would be:

- Installation of meters (pre payment meters, automatic metering)
- Increased control of meter quality and installations.

In order to reduce technical losses the most common way is to increase network capacity or locate generation closer to consumption or visa versa.

When evaluating reasonable and acceptable levels of power losses the cost of removing them (increased investments and operation/control) compared with the cost of procuring them are of imperative importance. The cost of losses is not a static value, but will change with changing procurement cost of losses (fluctuating power prices), changes in power flow patterns in the system, changing temperatures (electrical losses are reduced with falling temperatures) etc. of electricity and the investment and operational costs of reducing losses. Acceptable losses from an economic point of view would be when the cost of removing them is lower than the cost of procuring them.

The discussion on how to reduce technical and non-technical losses are, however, merely a choice of socio-economic technical and operational actions. In addition tariffication of losses have a significant impact on the development of a well functioning Nordic and European electricity market. Harmonised cost allocation between generation (G) and load (L) is important to secure a level playing field for market participants. Allocation signals in the tariffs are also important to secure cost effective operation of the system and give locational signals for new investments.

From an economic efficiency standpoint, marginal cost pricing for losses will result in the most efficient dispatch, since each generators and consumers will see a price for losses that reflects the incremental cost of transmission arising from their contribution to power flows. This result is consistent with pricing in a competitive market, where the market price is equal to the marginal cost of the last supplier needed to meet demand.

Creating a level playing field for the market players is of vital importance, also regarding tariff issues and the treatment of losses. Guidelines for tariffication have been elaborated and as far as we know there is a broad consensus concerning these guidelines. However, the guidelines have not been taken into committology and are not implemented. We urge ERGEG to speed up this process in order to further develop the European market integration and securing a level playing field for all market participants.

This concludes our remarks to the proposed guidelines. If there are any needs for further clarification regarding our comments do not hesitate to contact us.

Best regards,  
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