



Compliance with Electricity Regulation 1228/2003

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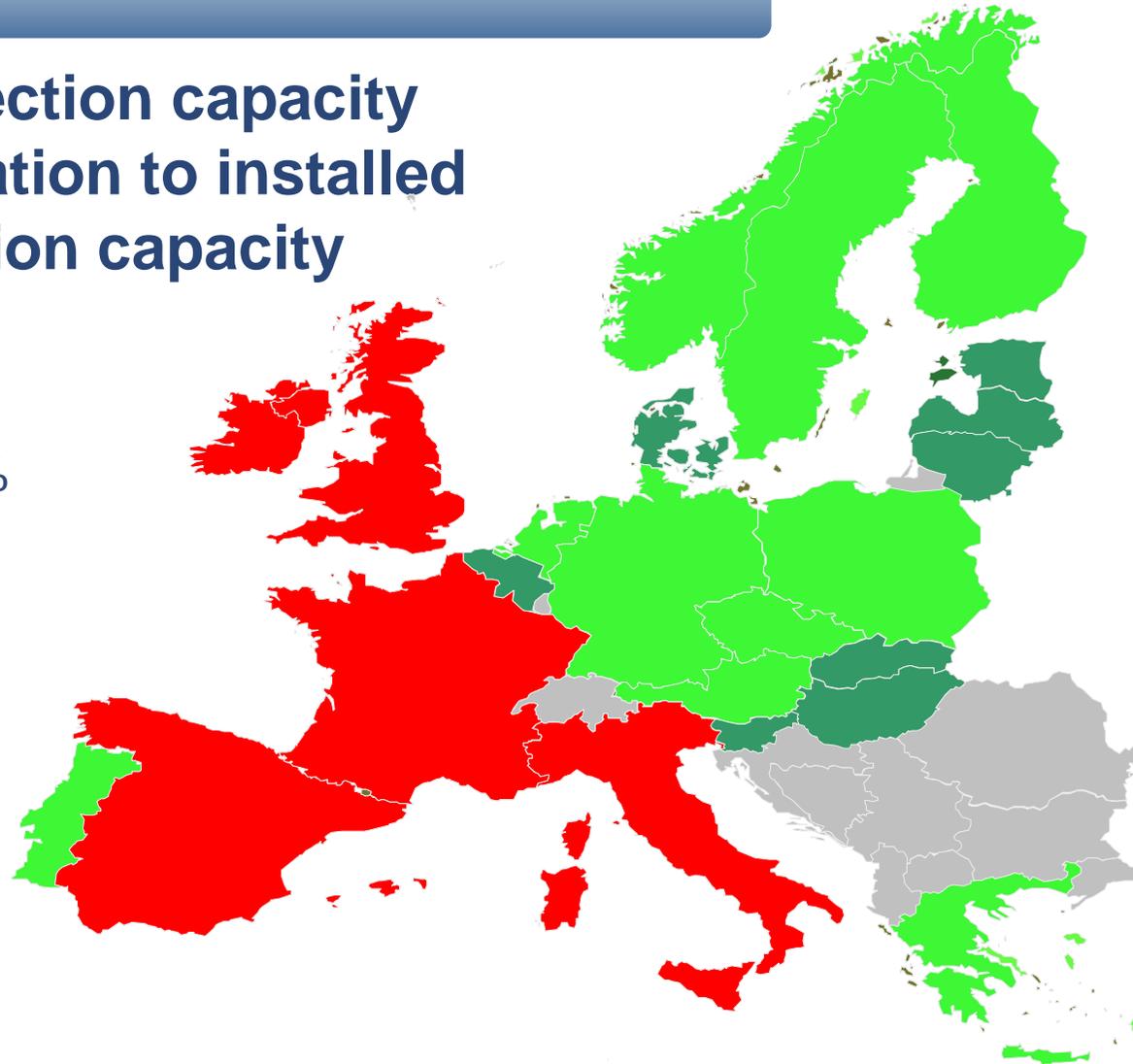
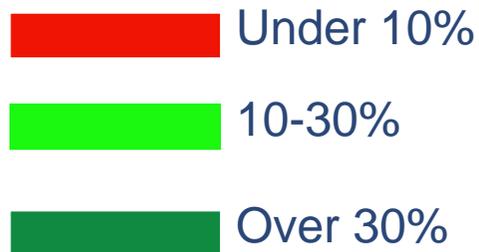
Structure of presentation

- **Background**
- **Areas covered:**
 - **Inter-TSO compensation mechanism**
 - **Charges for access to networks**
 - **Provision of information on interconnection capacities**
 - **Congestion management**
 - **New interconnections**
- **Next steps**

Background

- The Regulation (EC) 1228/2003 on conditions for access to the network for cross-border exchanges in electricity came into force 1.7.2004
- **It aims** at setting non-discriminatory rules for cross-border electricity trade
- **It covers** ITC mechanism, tariffication, congestion management (including initial provisions for transparency rules) and new interconnections (merchant lines)
- **It warrants** the Commission to adopt and amend guidelines on congestion management, inter-TSO compensation and transmission tariffication

Interconnection capacity (NTC) in relation to installed generation capacity



Inter-TSO Compensation Mechanism

- **No binding guidelines yet**
- **A temporary voluntary system has been applied since 2002**
- **In October 2006 ERGEG decided not to submit advice to the Commission on the ITC method at that time**
- **The latest voluntary agreement signed in May 2007 among ETSO members – but not all of them !**
 - **Merger of ETSO and SETSO funds a positive development**
 - **Does not cover all EU countries**
 - **A fixed fee towards non-participating countries**

Temporary ITC systems and the requirements from the Regulation

- ✓ **Costs incurred as a result of hosting cross-border flows**
- ✓ **Cross-border flows determined on the basis of physical flows**
- ✓ **Compensation paid by TSOs from which cross-border flows originate and end**
- ☹ **Take into account benefits of hosting cross-border flows**
- ☹ **Established on the basis of LRAIC taking into account losses and new & existing infrastructure**
- ☹ **Use recognised standard costing methodologies**
- ☹ **No specific network charge on individual transactions for declared transits of electricity**

The way forward with ITC

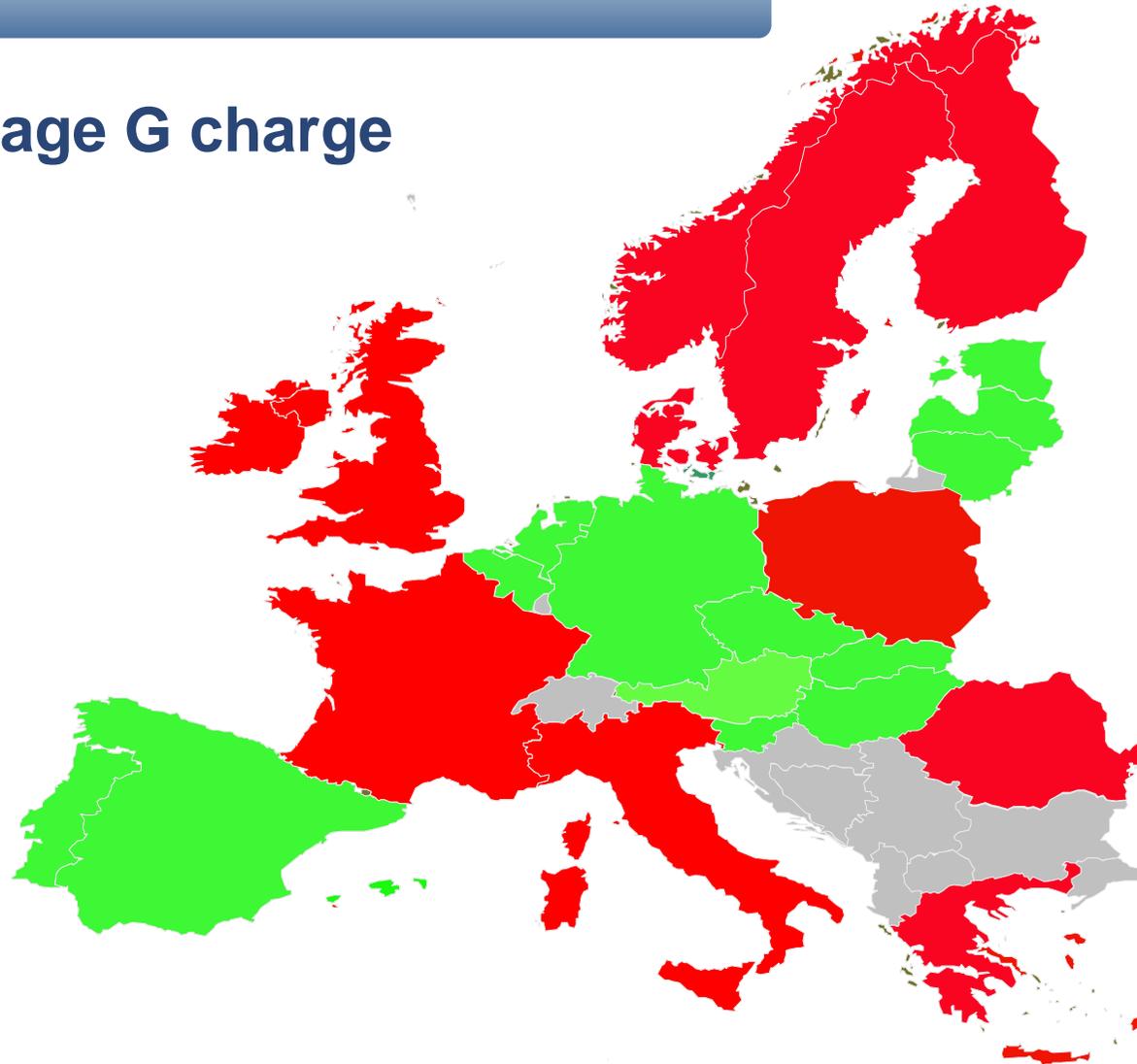
- **Following ERGEG letter in October 2006 the Commission has declared that it has taken over the responsibility**
- **ETSO has been working on the issue to find an acceptable solution**
- **The missing ITC guidelines also hamper the adoption of transmission tariffication guidelines**

**IMPORTANT FOR THE DEVELOPMENT OF THE INTERNAL MARKET
TO HAVE THE BINDING ITC GUIDELINES AS SOON AS
POSSIBLE**

Tarification

- **No binding guidelines yet due to delay of ITC guidelines**
- **Transmission tarification systems and charges differ but they are in general built on comparable schemes and components which are applied in a non-discriminatory way**
- **Tariffs not distance-based but entry-exit systems – in some countries a zonal or nodal system applied**
- **Inclusion of stranded cost elements in the tariff cost base in some Member States does not comply with the Regulation**
- **G charge smaller than L, Gs within the ranges of draft Tarification Guidelines**

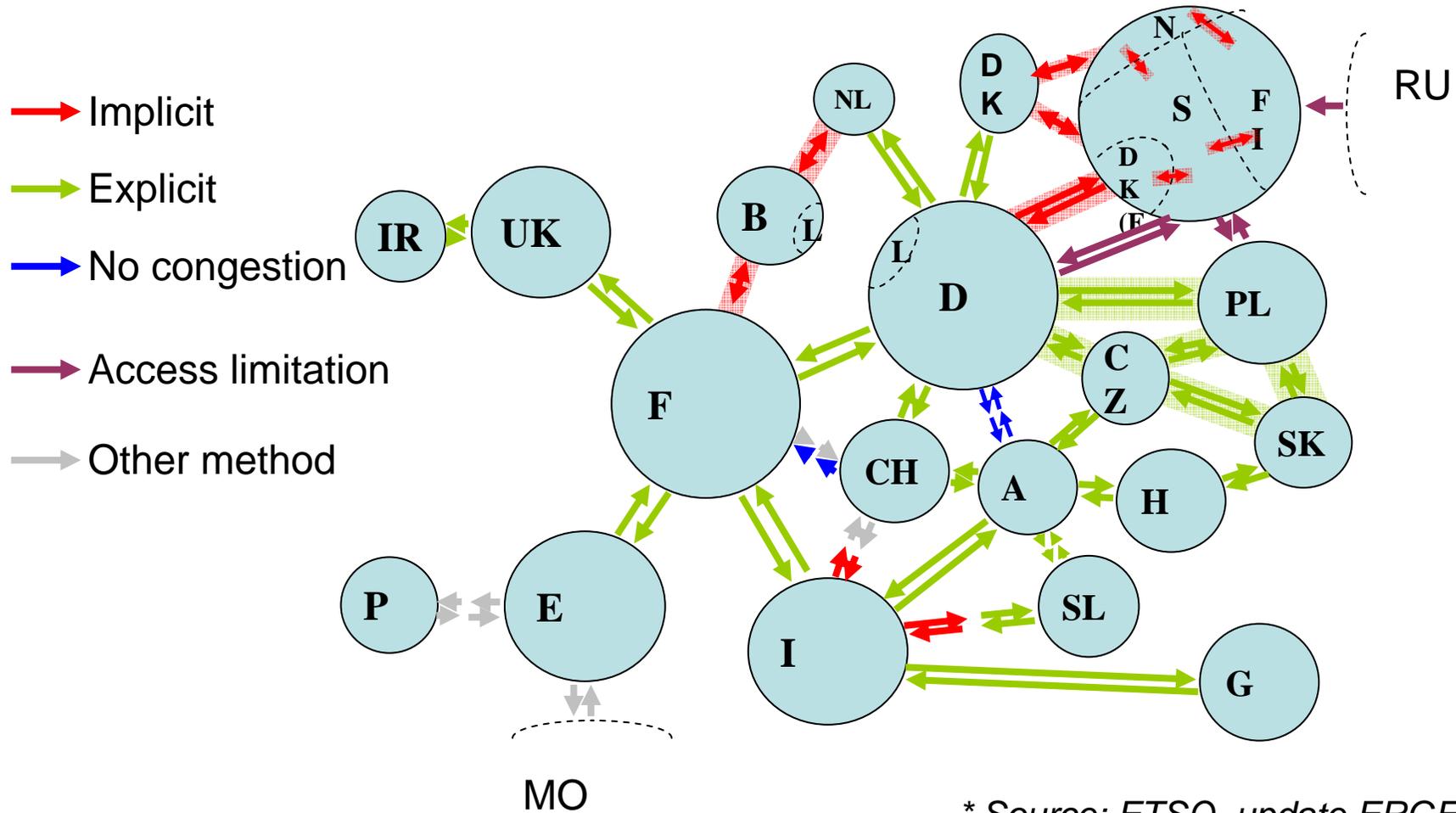
Average G charge



Congestion management

- **Only a few congested interconnections in the EU where permanent CM procedure is not applied**
 - **Mainly merchant lines which existed before accession to the EU**
 - **Interconnections with exemption (Estlink)**
 - **Interconnections between EU MSs and non-EU countries**
- **Explicit auctions used at most of the European borders for long-term allocation of capacity and short-term day-ahead allocation in continental Europe**
- **Implicit auctions for day-ahead allocation in Nordic countries and within France-Belgium-Netherlands**

Day-ahead transmission capacity allocation*



* Source: ETSO, update ERGEG

Allocation of transmission capacity

- **In general the allocation procedures applied for all the available transmission capacity**
- **Three different approaches**
 - **Maximise transmission capacity available in yearly auction**
 - **Deliver all the transmission capacity to daily allocation**
 - **Split transmission capacity between different timeframes**
- **Capacity distribution to different timeframes has to be submitted for review to regulatory authorities → this has not been the case at all borders**

Procedures with curtailment

- **CM guidelines stipulate**
 - TSOs shall optimise the degree to which capacity is firm
 - Compensation required for curtailment except in force majeure cases
- **In most cases market players are not compensated but only reimbursed**
- **If compensation is paid, it is usually 110% of the auction price**

Redispatch and counter trading

- **Mandatory for TSOs to ensure firmness of nominated capacity**
- **Cross-border redispatch applied on the interconnections**
 - linking Spain with France and Portugal
 - linking Italy with Austria, Greece and Switzerland
 - linking France with Switzerland, Italy and Germany (sometimes)
 - under discussion on the interconnection between Austria and the Czech Republic
- **Cross-border counter trading applied**
 - in the Nordic countries

Intraday congestion management and balancing

- **Denmark, Finland and Sweden and the French interconnections (except IFA) have implemented cross-border intraday allocation mechanisms on the congested interconnections**
- **The solution in the Nordic countries is a continuous intraday trade which simultaneously manages transmission capacity and energy**
- **On the French interconnections only capacity is allocated and a limited number of intraday gate closures are offered**

Coordination

- The current practice is that TSOs coordinate the calculation of available capacities only on a bilateral basis → for most of the time the degree of coordination is low when each TSO computes its own transmission capacity and the minimum value is adopted
- An increased coordination exists within the Nordel area, partly for the CEE region and for the Iberian Peninsula
- A **common network model** for capacity calculation is **essential to maximize available capacities** under the condition of a secure network operation → such a network model is currently not used in any of the regions defined in the CM guidelines

Coordination (continued)

- **In case of explicit auctions TSOs should be informed on the intended use of capacities to make it possible to reallocate capacities → coordination is widely in place on a bilateral basis but increased coordination has been recently acknowledged (CEE, Germany-NL, Iberian Peninsula)**
- **In some cases (FR-UK interconnector) holders of long and medium term rights are not obliged to firmly nominate their rights before the day-ahead allocation**
- **Timeframes and closing times coordinated often bilaterally → development of implicit auctions will require the closing times of power exchanges to be harmonised**

Transparency

- **TSOs are responsible for publishing information on**
 - **Where and why congestions exist**
 - **Methods applied to manage the congestion**
 - **Plans for future management of the congestion**
- **Only a few TSOs publish all relevant information related to network availability, access and use together with a report on congestions and their future management**
- **Publication of data is not yet coordinated within regions**
- **Substantial differences with regard to the information, level of aggregation and timing exist**

Use of congestion income

- **Congestion income can be used to**
 - **guarantee the actual availability of the allocated capacity**
 - **make network investments in order to maintain or increase interconnector capacity**
 - **lower tariffs**
- **In most cases used for tariff reduction**
- **Exception the Nordic TSOs who have agreed to allocate congestion income for network investments**

Looking forward

- The preparation of monitoring report will be developed into a yearly procedure → the **second report** will be compiled during the first part of 2008 and presented at the next Florence Forum
- A successful monitoring carried out by 27 regulatory authorities requires that
 - A coherent understanding of the issues to be monitored exists – the definitions need to be understood in the same way
 - The common criteria for the assessment of compliance and non-compliance are defined and adopted
 - The NRAs are in a position to collect and produce the information

Next steps

- **ERGEG will put all the necessary effort on reaching a coherent understanding on the obligations and definitions included in the Regulation (EC) 1228/2003 and CM Guidelines → first a dedicated and detailed follow-up internal **workshop** is organised to ensure this**
- **Monitoring methodology exercise will be developed further (e.g. following the examples of self-evaluation practices like EFQM, CAF)**
 - **For each issue to be assessed for compliance, criteria will be developed to enable the NRAs to carry out the monitoring in a coherent way**
 - **Emphasize and improve regional co-operation (REMs) to contribute to a practical compliance exercise**
 - **Co-ordination at EFG/ERGEG level**



Thank You