

CONCLUSIONS

Tenth Meeting of the European Electricity Regulatory Forum Rome, 8-9 July 2003

The tenth meeting of the European Electricity Regulatory Forum took place in Rome on 8-9 July 2003.

Participants of the Forum welcomed the final adoption of the internal energy market package by the European Council and the European Parliament in June. They stressed the need for a timely and consistent application of the new regulatory framework in Member States, in order to successfully complete the internal market.

The Commission thanked the Forum for its continuous support of the internal market package proposed by the Commission and now finally adopted.

Representatives of the regulatory authorities and responsible ministries of candidate countries participated in the meeting of the Forum with a view to assist these countries in preparing for full participation in the internal electricity market.

Representatives from Russia participated, in the context of the energy dialogue between the EC and Russia.

1. Strategy Paper

The Commission presented a second draft of a Strategy Paper, which was established on the basis of the discussions on an outline draft at the last Florence Forum as well as numerous comments submitted subsequently on a longer document. The issues of security of supply, market concentration and interconnection investment were considered the three key challenges to be addressed by the competitive market, in co-ordination with decisions taken by public authorities, where the principle of subsidiarity applies.

The Forum endorsed the general thrust of the Strategy Paper, with the following specific comments being made:

- CEER stressed the need for appropriate co-ordination among TSOs, on the one hand, among market operators, on the other hand, as well as between system and market operators, in order to ensure proper and quick convergence of regional electricity markets into a single European market. The CEER pointed out the importance of unbundling and consistent application of competition law to prevent abuse of dominant positions. In a separate presentation, the CEER described some basic principles and recommendations on security of supply.
- CEER recommends that roles and responsibilities of all stakeholders with respect to security of supply be clearly defined in a stable way; that transparency of procedures and continuous monitoring by the regulator be guaranteed; that any effort be made to

implement a broad unified market where security of supply is best reached; that, where necessary, incentive schemes for generation be analysed and assessed.

- The majority of the Forum stressed that policy aiming at enhancing security of supply and generation adequacy should be market-based and fit in the international context. It should focus on creating a stable and reliable climate for long term investment in infrastructure and generation. Unilateral interventions by governments and regulators, for example by imposing price caps in periods with high prices or ad hoc intervention in generation capacity will lead to uncertainty for investors and will therefore have an adverse effect.
- CEER addressed the issue of new infrastructure and outlined three different regulatory approaches to investment which could be applied on a project specific basis,
- ETSO agreed the importance of ex-ante evaluation of projects and agreed to work with the CEER to develop the application of these approaches further, also noting that it favours an approach that recognises the responsibility of the TSOs with respect to system reliability. ETSO also noted that it expects AC connections not to be viewed as merchant interconnectors, but as a rule to be regulated projects. It also noted the need to encourage local acceptance of investment projects,
- EURELECTRIC also welcomed the document but called for a wider vision including the development of coherent regulatory models, consistency between competitive markets and environmental objectives, and allowing a robust and competitive electricity industry to ensure future significant investments in infrastructure.
- Other participants, notably IFIEC and GEODE, maintained that market structure issues need to be closely monitored and, where appropriate, regulatory or other measures be taken to counteract potential abuses of dominant position, although direct intervention such as price controls were seen as potentially counter-productive.
- EFET and EUROPEX welcomed proposals for harmonisation of geographical markets structures but warned against excessive intervention which could distort wholesale market signals.
- Germany emphasised the need for, as far as possible, market based solutions and an overall European framework.

The Commission announced its intention to take forward some of these issues, particularly infrastructure, into a Commission Communication, which would examine the options for further action. Participants of the Forum were invited to submit further comments on the paper by 15 September.

The Swiss representative declared that the Swiss government and electricity industry will further pursue the objective of market opening in Switzerland. He thanked the participants of the Forum, notably ETSO and the Commission, for the good co-operation in past and expressed the desire for continued and increased co-operation and involvement under the new EU legislative framework, notably the Regulation on cross-border exchanges and the comitology procedure foreseen in it. The Forum underlined that effective and pragmatic

solutions would have to continue to be based on bilateral arrangements between EC and Swiss TSOs at least as long as the Swiss market is not open. These will be developed with a view to ensure the participation of Swiss TSOs in EC mechanisms on the basis of common rules, notably agreed TPA principles.

The representative of the Russian Federation gave a short overview on the new company structure of RAO UES and recent developments in the Russian electricity market. He underlined the issue of climate change and called for increased co-operation between Russia and the EU in view of the decision of the Russian government on the ratification of the Kyoto protocol by the end of this year. UCTE recalled the state of studies regarding the interconnection with Russia.

The Commission recalled in this context its recent Communication on neighbouring countries which emphasises the objective of creating a wider European market, on the basis of reciprocity. Regarding Russia, a working group has recently been set up to look at the factual situation, as a basis for subsequent conclusions on practical steps to be taken, in the context of the EC-Russia energy dialogue. The representative of RAO UES suggested a meeting in the latter part of this year involving all relevant actors to discuss all technical, economic and legal aspects regarding a possible integration of the Russian electricity market. The Commission welcomed this idea, and suggested that such a round table might take place in conjunction with the EU-Russia Industrialists Round Table, planned for 18-19th October 2003 in Moscow.

2. Implementation of the new cross-border Regulation

2.1. Introduction

The Commission explained that it intends to put forward for adoption the remaining guidelines foreseen in the new Regulation on conditions for access to the network for cross-border exchanges in electricity as soon as possible after the Regulation becomes applicable on 1 July 2004. In this light the Commission invited the Forum to comment on three discussion papers on congestion management, tariff harmonisation/location signals and the inter-TSO compensation mechanism. After the Forum and following possible further comments from interested parties, to be submitted by the end of July 2003, the Commission intends to establish a revised discussion document for the next Florence Forum in the beginning of 2004.

2.2. Congestion management

The Commission presented its discussion paper on congestion management outlining the need to complement and update the rules contained in existing guidelines, which already form an integral part of the Regulation. Such rules should in particular provide more detail regarding the general provisions of the Regulation on co-ordination between TSOs, transparency and maximising of available capacity as well as the treatment of congestion rents. The Forum referred to the work already accomplished in this respect by ETSO and the CEER on improving rules and the way to enforce them.

EURELECTRIC and EFET called for rapid implementation of market-based mechanisms on all relevant interconnectors and on further progress in forecasting ATC and NTC. EFET regretted that no new auctions, explicit or implicit, had been introduced at any Western European border for the last two years. The Commission recalled in this respect the need for all methods to comply fully with the Regulation after July 2004. EURELECTRIC also recalled the need for the guidelines to address all the congestion management issues set out in the Regulation, including Article 6(2).

EUROPEX presented its views on the contribution of power-exchanges to congestion management, in particular the ideas of decentralised market coupling. The Forum welcomed the ideas contained in the Commission and EUROPEX presentations and called for further continuation of the work with respect to implementation in collaboration with ETSO. However, IFIEC and GEODE favoured counter-trading as an alternative solution and noted their disagreement with auctioning.

ETSO and the German representative explained that there is a need to clearly explain the criteria to be fulfilled for a given allocation methodology to be a “non-discriminatory market-based solution” in the sense of the Regulation.

2.3. Harmonisation of tariffs-locational signals

The Commission presented its discussion paper on tariff harmonisation and locational signals.

The Forum stressed the need for further measures leading to a progressive harmonisation of notably basic G-charges in the internal market, to avoid distortions of competition between generators. The majority of the Forum favoured as a first step, harmonisation through the determination of a range, going from 0 to a positive figure, within which all national G-charges would have to remain at an aggregate average level. However, EURELECTRIC, Germany and Spain considered that the immediate harmonisation of the basic G-charges at a level of 0 best contributes to creating a level playing field for generators.

Regarding the provision of locational signals, the Forum recalled the Conclusions of the ninth Forum which state that strong short- and medium-term locational signals are already provided by internal congestion or congestion of interconnectors. The Forum also considered that further research and expertise is necessary in order to develop an appropriate system of locational signals provided through specific G-charges reflecting current and future infrastructure costs. In this light the Forum expressed the view that the immediate introduction of a specific locational G charge after the Regulation becomes applicable in mid 2004 would be inappropriate. However, the Forum stressed the need to closely monitor developments and to continue the work on a proper, longer-term system of locational signals in the internal electricity market and to examine possibilities to reflect losses at the EC level in charges, as an interim solution.

3. Reliability standards

The Forum stressed that a comprehensive set of binding common security and reliability standards, to be observed by TSOs and network users, is necessary in order to ensure the efficient and secure functioning of the interconnected system and appropriate quality of electricity supply. UCTE presented the work on the operational handbook addressing these issues, which was established with the involvement of all relevant players and which will now be put on public consultation. Drafts on three guidelines are already available, four more guidelines are drafted before the end of this year.

The Forum congratulated UCTE on this work and invited it to continue and report on further progress achieved during the next meeting of the Forum. The Forum stressed the need to ensure the compatibility of security and reliability rules with the rules in the Regulation and notably the guidelines on congestion management, and more generally the need to facilitate cross-border trade to the benefit of consumers. The Commission recalled in this respect that the Regulation provides for the possibility to include in the guidelines on congestion management common rules on minimum safety and operational standards for the use and operation of the network.

4. Inter-TSO compensation mechanism for 2004

The Forum recalled that the inter-TSO compensation mechanism currently in place runs until the end of 2003. Any subsequent mechanism must be compatible with the cross-border Regulation, once the latter is applicable from 1 July 2004 onwards.

ETSO presented a proposal for a TSO compensation mechanism to enter into force on 1 January 2004. The main new feature of this system is the abolition of the currently existing export charge of 0,5€ MW/h. Under the new system no cross-border charges would thus be applied for participating countries, in full compliance with the Regulation. Germany recalled in this context that the Regulation provides for market-based congestion management mechanisms. Furthermore Poland, Slovakia and Hungary would participate in the system. The participation of NORDEL will be decided within two months. Switzerland will also continue to participate, on the basis of agreed TPA principles.

The Forum welcomed the ETSO proposal and in particular the complete abolition of the current export charge. ETSO and Germany stressed the need to put in place market based congestion management methods, as required by the new Regulation on cross-border trade, in order to provide the necessary locational signals, at least short term signals for the time being, once the export charge is removed. In addition, ETSO requested an assurance regarding the eventual incorporation of long term signals into transmission charges.

However, prior to reaching a final decision on the entry into force of the 2004 mechanism, it was considered that further discussions between ETSO, the CEER and the Commission are necessary, in particular in view of the entry into force of the Regulation on 1 July 2004. CEER stresses the necessity of improving the collection and analysis of data, which started in January 2003, for the implementation of the post-Regulation mechanism.

The Commission once again highlighted the requirement of the Regulation relating to market based congestion management. Furthermore, regarding long-term signals, there is also an obligation in the Regulation for such signals to be implemented if appropriate.

5. Inter-TSO compensation mechanism post-Regulation

The Commission presented its discussion paper on the inter-TSO compensation mechanism as operated under the Regulation from 2005 onwards. The Commission reminded the Forum of the requirement in the Regulation for compensations to be based on a standard cost methodology.

The Forum participants acknowledged the variety of different models available for calculating the precise amounts of payments to be made. The effect of different methods requires more analysis, using the database currently being collected by TSOs on flows during 2003. In the short term ETSO considered that the current approaches being used could form the basis of the compensations following the adoption of the regulation, although certain modification would be required to ensure consistency with the new legislation.