ETSO comments on the European Commission's Discussion document « Harmonisation of Network Access Charges »

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ETSO welcomes the discussion document prepared by the European Commission. The ideas put forward represent a good base for the discussion on why and how to implement the forthcoming regulation about harmonisation of network charges.

Given the far reaching effect of national tariff harmonisation, ETSO stresses the importance of having unambiguous concepts and definitions as well as taking into account potential difficulties related to the implementation, especially with respect to other mechanisms for congestion management and inter-TSO compensation. Therefore ETSO recommends that decisions about tariff harmonisation to apply throughout Europe should be based on the results of a thorough analysis of the consequences for market parties and TSOs.

General Comment

Two different concepts, namely "Transmission Charges" and "Access Tariffs" should be distinguished. Transmission charges relate to the part of the tariff that remunerates the network infrastructure. Access Tariffs include Transmission charges and may also include other elements such as ancillary services costs, green energy surplus costs, sunk costs, subsidies, surcharges, etc.

For the implementation of harmonised network charges, care should be taken to provide an adequate timing. In many countries, the regulated tariffs apply on an annual basis (calendar year) and are effective from 1st January. Also, sufficient notice should be given to the customers (6 months to 1 year) so that they, in turn, specifically the sub-transmission companies, can review their network tariffs accordingly and gain the approval of their customers and the regulator.

Principles of national tarification – current practice in Member States

Care should also be taken to differentiate between €/MWh charges and €/MW charges. Tariffs quoted in the discussion document are expressed in €/MWh units – i.e. charged pro-rata to the amount of energy produced or consumed over a given period. Such prices give short-term signals, and should only reflect costs that vary as the actual level of production or consumption varies in the short term. These costs include losses and congestion, and suitably cost-reflective pricing of these will produce efficient short-run signals. Inclusion of transmission asset costs in €/MWh prices is likely to, however, distort the short-run signals, and instead these long-run costs should be levied pro-rata to the maximum transmission capacity used (i.e. as €/MW charges). Therefore, the balance of charges between MWh and MW is an item that may also need to be clarified and harmonised between countries, taking into account potential influence on power plants (for example for peak capacity units).

Locational signals

The discussion document should precise the way locational signals are provided for power plants using renewable energy like wind power or hydro power taking into account the fact that the adequate sites are driven by the availability of the energy source. Care should therefore be taken to avoid supporting generation of electricity using renewable energy and on the same time penalising such units with an inappropriate long term locational signal.

Harmonisation of the basic G-charge

For countries applying locational use of system charges, it is unclear if member states will be able to apply unrestricted locational charges in order to preserve national locational signals.

Countries not applying locational signals have experienced locational signals created by market-based congestion management methods at constrained international interconnectors which appeared quite stable over a long period of time.

The foreseen differences in G appear small when compared to differences in prices for the commodity. They also appear small with respect to signals that relate to lack of harmonisation in other fields (such as taxing, subsidies, etc.). The suggested G values should therefore be considered having as primary objective to initiate the harmonisation of national tariffs. Based on experience, these levels could be later modified if needed to obtain the contemplated siting signals.

Changing the existing Gs applied in the different countries should not be made arbitrarily but based on the results of a detailed study.

The introduction of a specific G-charge to provide for appropriate locational signals

The need for a stable regulatory environment should be part of the harmonisation process. Even a review period for G of 3-5 years appears short compared with the pay back of generation or transmission assets. The need for predictability of the level of the transmission charges by investors should also be taken into account. In other words, stability of rules has to be included in the harmonisation principles.

After the main congestions have been solved, locational G-signals may not be necessary, except for the value of losses as well as funding the inter-TSO mechanism. However, relieving all structural congestions may not be economically justified given that it would probably lead to over-investment in interconnections, finally to be borne by the consumer. It does not seem realistic either to consider that such network developments would be feasible given the environmental opposition known for the last 10 years.

The document proposes that Member States should be free to impose their own locational price differentials, and that the average level of G in each Member State should be harmonised (though potentially with one of three additional charge increments should be applied for surplus, deficit and balanced areas respectively).

Although probably acceptable as a first step, both features are likely to produce charging discontinuities at borders, which will not necessarily be overcome by congestion charges for congested interconnections. This is because the locational signals are intended to provide long-term locational signals, while congestion charges conceptually provide a short-run signal. Congestion charges may lead to medium-term signals, should the congestion remain in place. The document should therefore clarify that the suggested approach is a first step towards consistent locational charges based on a pan-European model of transmission utilisation.

Also, in a further step, a signal could be included to promote the siting of generation relating to the local stress caused on the network by heavy loads in order to achieve an effective long term signal for the system.