Council of European Energy Regulators

Comments of the CEER

on the European Commission's Discussion Document

"Harmonisation of Network Access Charges"

Introduction

The CEER comments here are organised following the order of the discussion document (the numbering used is the numbering in the Commission's document).

The draft document "Harmonisation of network Access Charges" develops the articles in the Regulation that deal with harmonisation of network access charges. But it relies on an interpretation of this article that only requires "progressive harmonisation of the underlying principles for the setting of charges […] including […] the provision of efficient locational signals". A harmonisation process aiming at giving locational signals should focus on harmonising the principles, not the absolute or relative level.

However, the draft does not make use of the careful distinction made by the 9th Florence Forum between short term and long-term locational signals. Indeed the conclusions of this Forum acknowledged the current existence of short-term signals and expressed that "short term signals may prove inefficient in the longer term". So the first issue that must be raised is to assess when and where additional long-term signals are necessary. If the answer to the first issue is positive (the need for locational signals still remains to be discussed according to actual conditions), then a second issue is to determine if network access charges are the best-suited mechanism to send such long-term locational signals alone or in conjunction with other mechanisms. In some national or regional systems long-term locational signals don't rely only on G term.

From the perspective of the building of the Internal Energy Market, everybody can agree that big differences in G tariffs lead to distortions of the electric generation competition but one must admit that it could be impossible to harmonise the absolute value of G, because of the differences in per unit costs of national TSOs. So if it is recognised that the level of the G term is an appropriate way to send long-term locational signals (this recognition still remains to be obtained), the G tariffs could be harmonised to remain within a certain range. This must be done on a non discriminatory basis. As the congested lines cannot discriminate the origin of the congested flows according to the type of primary energy used, if a G differentiation is needed and appropriate, this differentiation must necessarily be based on network costs considerations, without distinction based on the type of generating technique otherwise it will be inefficient and even unwise.

General principles to establish G and L charges

There are some basic economic and engineering principles that can be applied when deciding the attribution of transmission network costs to generators and consumers. There is in the first place the general criterion of cost causality, or responsibility in network development, which is the basis to establish locational signals in transmission tariffs. A second principle of economic efficiency, Ramsey pricing, i.e. the coverage of costs thanks to relative mark-ups of prices above marginal costs in inverse proportion to the elasticity to prices, may be of help. But the value of actual elasticity needed to implement is not known.

In addition, the level of network costs are different in the different member states (partly due to different accounting rules), and the network costs categories included in the tariffs can comprehend cost of infrastructure, cost of losses and congestion, cost of tertiary reserve, reactive control and other ancillary services. In some countries, the cost of losses or tertiary reserve are not included in the network prices, while it is included in other countries. This dimension of harmonisation may have important competitive effects which are not addressed in the discussion document.

It can be concluded that the principle of the introduction of a G term can be justified when there is a need to send locational signals to generators and when the access charges are appropriate to send the desirable signal. Absent such a need, the introduction of a G term should represent a non-useful complexity. Then the utility and significance of the notion of 'basic G charge' independently of the notion of 'specific G charge' are debatable at European level.

Locational signals

As mentioned above, it is debatable whether it is useful and possible to give sufficient long-term locational signals through the G tariff. When we consider the siting choice of a generator, it is recognised that the decision to locate a generation plant in a certain point is influenced by a bundle of important locational signals:

- Cooling water availability (river, see, lake) for large thermal power plants.
- Fuel supply options (harbour, pipe line, etc.) for gas, oil; coal power plants.
- Local resources (hydro, wind) for renewables.
- Existence of heat load (for CHP plants), and suitable land.
- Distance to a suitable connection point in the electrical network.
- Cost of land.
- Environmental and planning considerations.

All these elements give very often much stronger locational signals than the G tariff. The G tariff can give signals strong enough only in marginal cases, when all the rest locational signals don't have any significance.

Although in agreement with the general rule of thumb that locational signals should reflect the balance of generation and consumption in the different regions, this rule should not be taken as far as basing on it the computation of the network charges, as it is proposed later in section 3.2. of the EC document. There are more refined available procedures to accomplish this, such as methods that are based on network cost responsibility or network usage (ICRP, MP, AP for example).

But in many other situations the computation of the appropriate signal could be very difficult and could lead to non-significant results. Where the problem of tariff setting is only a problem of sunk costs recovery, the locational differentiation of price component seems more related to equity concerns than to efficiency criteria. An interpretation of such a case could be that for these situations, long-term locational signals are not needed.

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Harmonisation of the basic G charge

The proposal relies on the notion of 'average charges' that can be interpreted in various ways. The practicability of the use of the 'basic G charge' seems strongly dependant on the type of average to be considered. Then it seems preferable to know more about the content of the averaging method to be applied before considering if it can have detrimental effects on the generation competition inside a Member State and between Member States. As previously mentioned the significance of the 'basic G charge' alone (i.e. without any 'specific G charge') is arguable.

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

The existence of congestions -and their associated short-term economic signals- is an indication of where the locational signals should be placed. The same can be said about the existence of areas with surplus of production or demand. But it appears to be too crude, even for a transitory approach, to base the computation of locational transmission charges on the exclusive basis of the balance of production and demand at Member State level.

The efforts that are presently taking place in using the data collected by ETSO on real network flows in the European transmission network will soon provide assistance in estimating the level and geographical distribution of locational transmission tariffs and, therefore, on the specific G charge. In the meantime it seems wise to postpone the implementation of the specific G charge.

Moreover, when the losses are already taken into account by some mechanism (there are examples in some Member States), it should be specified that the range of G harmonisation should only be applied to the residual network costs (excluding network losses). Cost of marginal losses is the most economic efficient short-term locational signal we have, and harmonising the G-term should not remove these signals. If there is a G term, in the absence of other mechanism taking care of the losses, this G term should reflect the costs of marginal losses attributable to generators. The discussion paper should include a general requirement to include short term locational signals in the market and/or transmission tariff design.

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