

**Towards EU cross-border electricity trade :
Regulatory remarks and guidelines on tariffs and congestion
(text as amended after first Florence Working Group of 8 December 1999)**

1. Closing the gap between EU directive 96/92/EC and national regulation in order to enable and to facilitate cross-border electricity trade has been the common goal of the European Commission, Member States, national regulators and Transmission system Operators (TSOs) within the framework of the Electricity Regulation Forum, in close contact with representatives of producers, consumers and Market Operators. It has equally been a priority of the Presidency of the Council and the European Parliament.
2. The voluntary approach developed so far has produced a common understanding of the main problems and processes involved in cross-border electricity trade, as well as a common view about possible solutions.
3. Following the principles and the working programme established at the meeting of 20-21 May 1999, ETSO, the new European association of TSOs, has provided a set of papers plus two presentations for discussion at the meeting of 25-26 November 1999.
4. ESTO is to be congratulated for the wide range of issues addressed and for the very pragmatic and constructive proposals put forward.
5. Subject to implementation in detail, the solutions now proposed by ETSO respect the principles agreed in May and also respond to the guidelines presented in October 1998¹.
6. The approach put forward by ETSO now needs to be developed into practical rules that meet the basic principles of non-discrimination, cost-reflectiveness, simplicity and transparency. This work needs to be concluded quickly and, in any case, before end of February. In order to make rapid progress it has been decided that an informal and temporary working group should meet regularly in the coming months, composed of, as appropriate, the Commission, national Regulators, the Member States and ETSO.
7. Based on the papers submitted by ETSO and on the related discussions it is fair to state that the proposal put forward represents, insofar as correctly implemented, a set of simple, sound and cost-reflective rules that can be implemented soon, giving eligible electricity consumers effective access to the Internal Electricity Market and the right to benefit from new supply opportunities.
8. The approach put forward by ETSO is viewed as a first step towards the attainment of a tariffication system which fully meets the ultimate objectives

¹ Transmission and trade of electricity in Europe », paper presented by the Italian, Spanish and Portuguese regulators at the second Forum meeting on 8-9 October 1998.

pursued in this area, taking into account congestion and other issues. Improvement of the proposed procedures can therefore be considered later on, once some experience on cross-border trade in a European competitive framework has been gathered.

9. The fundamental principle is that each TSO's network costs will be mainly recovered through the G and L charges that are imposed upon local network users. These charges provide access to the complete interconnected EU network², subject to the conditions set out below.

These network charges will be independent of the commercial transactions that the network users may engage in. Regulatory charges – such as stranded costs – can only be imposed on domestic network users buying from or selling to foreign agents if these network users are subject to these same charges when they trade with other local agents. Harmonisation of the implementation of network charges throughout the EU should be pursued for each one of the following items: a) Proportion of the contribution of network charges that should be levied to generators and consumers, and, subject to further examination, b) Fraction of the network charges that should be levied on a per kW basis *versus* on a per kWh basis.

10. However, it is also recognised that the existence of cross-border transactions (CBTs- may cause individual power systems to incur some extra costs, and this fact justifies that some additional network charges could be recognised due to the existence of CBTs. CBTs may result in extra losses and congestions, which by themselves imply extra costs, and they could also be/have been a reason for additional network investment. Therefore, TSOs that suffer the extra costs of losses and congestions caused by CBTs should receive payment from other TSOs.
11. The net credit or charge for each TSO resulting from inter-TSO payments will be used to modify the revenue level from which the G and L charges of that TSO are derived. How the individual G's and L's are affected will be left to subsidiarity, subject to applicable Community rules and in particular do not constitute an unjustified or unreasonable barrier to trade.
12. ETSO's proposal defines a scheme of inter-TSO payments designed to provide compensation to the TSOs that incur CBT-related costs, while at the same time charging this compensation to TSOs in relation to their measured responsibility in CBTs.
13. Whilst the specific details of the eventual methodology with respect to the calculation of CBT costs needs to be rapidly finalised at Working group level, an approach based on a factor of the level of losses and an element to take account of relevant and necessary investment to be incurred/incurred in each transmission system network due to international trade, should in principle form the basis of the final approach in this area.

² With respect to DC links these issues require individual attention.

14. Each TSO will then contribute to the recovery of the CBT costs according to a methodology, based on measured flows, to be developed following the data collection exercise must be completed in the coming few weeks by ETSO. It is vital that the working group presents a proposal by the end of February if the under-mentioned deadline for the entry into force of the new tarification system is to be respected.
15. Given the very simple rules underlying it, the new mechanism for inter-TSO payments can be set up in a very short period of time. Therefore, the new system of settlement should be consistent with the coming conclusions of the Council on 2nd December and they should be in place no later than the Energy Council to take place under the Portuguese Presidency, expected to take place next May. A new session of Electricity Regulation Forum will be organised before end of March.
16. The announced implementation of appropriate information exchange mechanisms to ensure the necessary level of security and the proper treatment of congestion in spring 2000 represents a fundamental step towards a safer and more integrated market ETSO is invited to report on progress at the next meeting of the Regulatory Forum.
17. This is intended as an initial approach to cover the UCTE network. It will also apply to the interaction with other European areas, such as Nordel, the United Kingdom and Ireland. Within each of these areas, transmission pricing and congestion management, while complying with the same general principles, may follow different approaches.