

Conclusions
Fifth Meeting of the European Electricity Regulation Forum
Florence – 30 – 31 March 2000

1) Furthering the development of a truly internal electricity market without undue obstacles to trade has been the common goal of the European Commission, Member States, national Regulatory authorities and Transmission System Operators (TSOs) within the framework of the Electricity Regulation Forum, in close contact with representatives of producers, consumers, traders and market operators. It has equally been a priority of the Presidency of the Council and of the European Parliament. The European Council of 23-24 March 2000 has stressed the need to accelerate the process of liberalisation of the internal energy market. Cross border tarification and congestion management are two of the most important issues to be addressed in that respect.

I Cross border tarification mechanism

2) At the fourth meeting of the European Electricity Regulation Forum of November 1999 it was agreed that the “cross border transactions (CBTs) 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. It was equally recognised that any approach [to a cross border tarification mechanism] put forward by ETSO should “meet the basic principles of non-discrimination, cost-reflectiveness, simplicity and transparency” and that “ 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.”

3) The representatives of the Commission, the Regulatory authorities and Member States at the Forum recognise the important progress and efforts made by ETSO in coming forward with a unanimous proposal on the methodology to be applied for cross-border tarification, together with a concrete proposal on the amount of money that has to be recovered through an inter TSO compensation mechanism for an initial one year period. It is stressed that without the commitment of ETSO to achieve progress on this issue at a pace in line with the political priority of the issue under discussion, the progress made at this Forum would have been unfeasible.

4) Many of the elements of the ETSO proposal were accepted at the Forum, notably:

- the establishment of a system based on payments between TSO's to compensate for the cost of physical flows of electricity in the form of transits and loop-flows, resulting from imports and exports in the IEM;

- the fact that the initial system of cross-border pricing shall apply to the ETSO members of the synchronously interconnected UCTE network¹. Separate arrangements may apply on a case-by-case basis to DC interconnectors. Within each of these areas (such as Nordel, the United Kingdom and Ireland), transmission pricing, while complying with the same general principles, may follow different approaches;
- the acceptance that in the short term a full and accurate calculation of these costs will not be possible. In such circumstances it is important to commence a tariffication system on the basis of available figures, whilst immediately commencing an intensive process of refinement to permit the progressive and on-going improvement of these figures. The objective of all parties at the Forum is shared; a tariffication mechanism based on cost-reflectivity, transparency, simplicity and non-discrimination, and taking duly into account that the appropriate cost allocation signals are provided to market players;
- the proposal that any initial system be put into place for a period of only one-year, during which the above mentioned revisions would actively be undertaken.

5) However, in order to ensure that the ETSO proposal fully meets the needs of Community industry and citizens; has the ability to take into account the particularities of different Member States, and takes full account of the subsidiarity principle, the representatives of the Commission, the Regulatory authorities and the Member States believe that the following amendments to the ETSO proposal are necessary:

- The representatives of the Commission, the Regulatory authorities and the Member States, acknowledge and accept the difficulty that ETSO has had in putting forward concrete figures at this early stage for the level of inter-TSO compensation.
- In the ETSO proposal, the funds necessary to pay for the compensation between TSO's for transit/loop-flows are to be financed by a standard export stamp placed on all declared export programs (i. e. all generation with a sink outside the country of origin). It is however believed that, whilst this approach does have a number of advantages, it is not possible to fix, at this early stage, a simple harmonised system at Community level for raising the funds to finance inter-TSO compensation. At least at present, therefore, the question of the methodology for raising/disposing of funds within each TSO relating to cross-border tariffication compensation payments between TSO's should be left to subsidiarity. These issues should be resolved at national level between the TSO and Regulatory/Member State authority concerned, subject to overall co-ordination and control by the European Commission to ensure that the potentially different approaches at Member State level do not result in distortion of the IEM. This subsidiarity-based approach is in line with the conclusions of the last meeting of the Florence Regulatory Forum.

¹ Special account shall be taken in this respect of the position of Denmark in view of its synchronous interconnection to Germany and its interconnection to the UCTE area

6) In this light, the European Commission, the Regulatory authorities, and the Member States consider that the following decisions need to be taken:

- For a transitory period of one year from 1 October 2000 to 30 September 2001 an amount should be distributed among continental European TSOs as a compensation for CBT related costs of TSOs. The sum of 200 million euro put forward by ETSO is a basis for this level of compensation but needs to be analysed in detail by the European Commission and the Regulatory authorities and the Member States. ETSO should provide all available information to enable this analysis by 15 April to the European Commission, the Council of European Energy Regulators and the Member States.
- Before 1 May 2000 the Regulatory authorities and the appropriate Member State authorities will inform the Commission on their conclusions in this respect. This analysis should then, together with the overall proposal, be forwarded to the Energy Council of 30 May for political endorsement on the basis of a Commission proposal. This amount will be generated via payments of individual TSOs according to the past net measured exiting physical flows minus entering physical flows at individual TSO level. That amount will be distributed as a compensation of TSOs according to the allocation key proposed by ETSO, i.e. in accordance to the past transits recorded by TSOs.
- As mentioned above, the difference between payment and compensation of individual TSOs will be passed through to their respective network users according to the subsidiarity principle on the condition that the European Commission confirms that the methodology of paying or crediting does not discriminate between operators or distort trade.
- In this respect, ETSO should inform the European Commission, the Regulatory authorities and the Member States before 15 June 2000 of the corresponding distribution of compensations and payments for each TSO and the detailed implementation of the scheme.
- The appropriate authorities in the Member States will inform the European Commission on the mechanisms to be implemented for modifying the charges of their domestic network users, to take account of the payments made. Once the new mechanism enters into force, existing charges for imports/exports will be abolished.
- The mechanism described above, should be put in place no later than 1 October 2000.

7) In the context of the mechanism to be put into place following September 2001, ETSO should, before 1 October 2000, provide a revised document to the European Commission containing a detailed description of the data set used and the results of alternative simulations performed, as well as a detailed explanation of the economic rationale underlying the proposed allocation keys, namely:

- the identification of the horizontal network in each TSO area on the basis of a methodology defined by the TSO;

- a detailed calculation of the full costs associated with the 'horizontal network' and the costs associated with losses;
- a detailed calculation of the share of these costs attributable to CBTs.

The European Commission, on the basis of a proposition by the Council of European Energy Regulators and discussions with ETSO, should put forward a proposal in this respect for discussion at the Florence Forum. The Council of European Energy Regulators shall make best endeavours to forward this proposal by December 2000.

Such a proposal should necessarily be based on payments between TSOs to compensate for the cost of net physical flows of electricity in the form of transits and loop-flows, resulting from imports and exports in the IEM. Whilst the final details of this remain to be concluded, the basis of this approach should be a methodology centred upon the cost of losses and specific network assets of a clearly defined horizontal network.

CBT related TSO payments should be based on the net physical flows associated with CBTs and should reflect locational factors.

8) In proposing these conclusions, the representatives of the Commission, the Regulatory authorities and the Member States have, inter alia, taken careful account of the views expressed by network users (Eurelectric), traders (EFET), consumers (IFIIEC and CEFIC) and pools (Europex) represented at the Forum, which have raised a number of important remarks on the ETSO proposal, notably as to the overall level of the compensation for cross-border flows proposed by ETSO, as well as the collection mechanism by way of single European export stamp. In this respect, Eurelectric stressed that it believed that rapid harmonisation of the allocation mechanisms for the inter-TSO payments and of the split of transmission charges between G and L are very important.

9) The representatives of the European Commission, the Regulatory authorities and the Member States underline that the next stage of the work in this area, refinement of costs of TSO's resulting from transits/loop-flows, will require considerable collaboration, and preparation and in-depth analysis at Community level. They agree to the constitution of a working group to examine these issues, under the chairmanship of the Commission. They invite the latter to invest adequate resources to deal with this important task.

10) The Regulatory authorities and the Member States, ETSO and the other market players represented at the Forum stress the importance of making rapid and simultaneous progress in harmonising the split of transmission charges between G and L, and invite the European Commission to forward with proposals on this issue by the next Florence Forum. The Council of European Energy Regulators will forward a proposal for a harmonised system in this respect by 1 September 2000.

11) The representatives of the European Commission, the Regulatory authorities and the Member States underline that the implementation of the approach described above is likely to create a significant boost for the possibilities of trade in electricity in the IEM, for the benefit of industry and citizens, and will create the appropriate conditions for the construction of necessary additional interconnection capacity, where economically justified. They underline the importance in this respect of ensuring the rapid development of a real level playing field in the IEM, in terms of market opening. They also underline the importance of ensuring the highest standards of public service in the electricity industry and welcome the Commissions intention to table a Communication on this issue towards the end of this year.

12) The participants at the Forum stress the need for appropriate information by the European Commission on progress achieved at the Forum to the members of Centrel and the candidate countries for accession to the European Union, with a view to future enlargement of the internal electricity market.

13) Finally it is proposed to forward these conclusions to the Energy Council of 30th May 2000 for political endorsement and to inform the European Parliament on progress in implementing these conclusions.

II Congestion management

14) The progress achieved by ETSO in defining the capacity on interconnectors available to market players on a twice yearly basis, is welcomed by the European Commission, the Regulatory authorities and the Member States and the other representatives at the Forum. The commitment of ETSO to present these data on its web site (www.etso-net.org) was particularly welcomed by the participants at the Forum.

15) ETSO is invited to give further clarification on the definitions it uses. The TSOs are invited to present the data on available interconnector capacity regarding their TSO area in a transparent and reliable way for market players for the time frames they use in their commercial decisions. In this light, the importance of watertight unbundling of the commercial interests of the TSO from the commercial interests of other parts of a vertically integrated electricity company was reiterated

16) As discussed and agreed at the Florence Forum of November 1999, congestion management should be based on market solutions that give proper and justified incentives to both market parties and TSOs to act in a rational and economic way. Where appropriate, the development of suitable market organisation structures should be encouraged. In this light, the draft agreement towards a transparent auctioning based allocation mechanism at the French – Spanish interconnector was noted by the participants at the Forum. The practical implementation of this approach needs to be further analysed by the appropriate authorities, however.

17) It was agreed that the European Commission, based on work done in collaboration with the Regulatory authorities, Member States, ETSO, and all other appropriate market actors, will put forward a document outlining the proposals for the most appropriate regulatory approaches towards the allocation of interconnection

capacity in the EU. At the next Florence Electricity Regulatory Forum, the document will be discussed.

18) The objective will be to adopt in due course common guidelines concerning the allocation of interconnector capacity at this Forum. These guidelines may then form the basis of a Community-wide approach in this area, taking account, where appropriate, of the subsidiarity principle.

19) The European Commission was invited to identify and analyse existing bottlenecks in the EU. The Commission will launch a study to realise this.

20) The EC indicated that it intends to propose a revision of TEN-guidelines for the energy sector, in order to focus them on the needs of the IEM.