



**EUROPEAN COMMISSION**

DIRECTORATE-GENERAL FOR ENERGY AND TRANSPORT

DIRECTORATE A - General Affairs

Internal market, public service, competition and application of Community law

Brussels,  
TREN/A2/KP/sb D(2000)

**Minutes of the Florence Working Group - 28 June 2000<sup>1</sup>**

**Chair: D. Ristori.**

**Participants : Messrs. Vasconcelos, Merlin, Dobbeni, De Montravel, Pape, Lekane, Albers, Scharf, Kellner, Rousseaux, Jones, Ristori, and Mrs. Arana Antelo, Prins**

The Working Group was scheduled to resolve remaining issues in the interpretation of the Conclusions of the 5<sup>th</sup> Florence Forum as regards the provisional mechanism for the recovery of costs of transits to be implemented by 1 October.

Four particular points were raised:

1) Methodology used to fill the inter-TSO fund.

The Florence conclusions on this issue are based on the fact that the amount of transits/loop-flows to be compensated are calculated on the basis of net measured physical flows of transits/loop flows and a proportion of usage of the horizontal network (part of the network significantly affected by cross border trade) by transits/loop flows for each TSO area. The amount used as a basis at Florence was 200 million €.

In the Florence conclusions both the contribution to the inter TSO fund and the settlement between TSO's are based on 'past measured exiting physical flows minus entering physical flows at individual TSO level'.

While it was clear to all participants at the Florence Forum that settlement between TSO's would be based on net measured physical flows caused by transits/loop flows, the methodology for the contribution to the fund by the individual TSO's was not discussed in detail at the Florence Forum of March last. The inter TSO fund has to be filled by contributions from TSOs (to be recovered from their network users).

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<sup>1</sup> Amended after comments received from participants

A discussion, therefore, took place on the question of the basis for the measurements of transits, their costing and the division of the total sum of inter TSO compensation between TSO's. This was clarified by Mr. Merlin, who confirmed that transits are measured on the basis of physical flows that took place from October 1998 to September 1999. The calculation of the total value of the fund, 200 million €, is derived from this figure.

The division of the fund in terms of payments/receipts by TSO's is based on programmed exports. However, where it is subsequently determined that the measured physical values between October 2000 and October 20001 differ from the resultant figure, this difference will be corrected ex-ante in the calculation for the next period.

This would be confirmed in writing by ETSO. On this basis, all participants in the meeting considered the approach adequate in terms of the preliminary one year system.

The participants agreed that for the longer-term solution to enter into force after October 2001, a different approach to the initial contribution to the inter TSO fund might well be chosen to reflect actual physical flows more adequately in the system chosen to fill the inter TSO fund.

2) Size of the fund. During the Florence Forum ETSO advanced an amount of 200 million euro as a basis for the inter TSO fund. Subsequently, in its more detailed explanation of the way in which the TSO's will contribute to and be compensated from the inter TSO fund, this figure rose to 249 million €. Given the absence of a sound justification of this new figure, this amount was rejected by the Commission and the Regulators. The CEER, in its letter of 12 May, stated that the Commission 'should invite ETSO to provide revised figures concerning compensations and payments for each TSO on a basis not higher than 200 million € and taking into account the value of marginal losses.'

ETSO, in a letter to Mr Ristori of 27 June, indicated that its members have agreed to reduce the amount of the inter-TSO fund to 200 million €. The contributions/compensations of the different TSO's contained in the TSO document of 17 April, based on 249 million € will be amended proportionally to arrive at 200 million €.

This amount will form the basis for the transitory mechanism, while refinement in both definition of the horizontal network of the different TSO's and of the methodology will begin immediately.

3) Charging domestic network users - Subsidiarity approach. ETSO asks for information about the way the domestic network users will be charged or compensated in the different TSO areas so that new charging systems can be established as soon as possible to be able to meet the 1 October deadline. National regulators or the competent authority and the national TSO's need to resolve this issue urgently and inform the Commission. The Commission will check whether the different national approaches are consistent with the internal market. As agreed during the Florence Forum of 30-31 March, once the provisional inter TSO compensation mechanism enters into force, any existing import or export charges will be abolished.

The Commission will write to the national competent authorities to ask for this information by end July.

4) Existing contracts. ETSO raised the question of the way in which existing longer-term supply contracts between TSO areas that contain transmission price agreements should be dealt with in the light of the new mechanism. It was agreed that this question should be left to subsidiarity under the transitory mechanism. However, an effort should be made to renegotiate these existing contracts to take account of the new pricing arrangement for cross border trade under the transitory mechanism.

K. Prins

Cc: Participants  
Participants of the Florence Forum  
Mr F. Lamoureux, Director-General  
Mr. D. Calleja, Chef de Cabinet of Vice-President de Palacio