

**3rd MEETING OF THE
EUROPEAN ELECTRICITY REGULATION FORUM
FLORENCE, 20 & 21 MAY 1999**

Background

The third meeting of the European Electricity Regulation Forum was organised jointly by DGXVII of the European Commission and the German Council Presidency, in cooperation with the European University Institute in Florence.

The objective of the Forum is to provide an informal EU level framework for discussion of issues and the exchange of experience concerning the establishment of a competitive internal market for electricity on the basis of the EU Electricity Directive 96/92/EC.

Participants

The Forum was chaired by Professor Claus Dieter Ehlermann of the European University Institute, in conjunction with Ms Christel Möller, Director General for Energy of the German Ministry for Energy and Technology, and Mr Dominique Ristori, Director for Energy Policy at DGXVII of the European Commission.

Independent Regulators were present for Belgium, Denmark, Finland, Ireland, Italy, Portugal, Spain, Sweden, Netherlands and the UK.

Ministry representatives were present for Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Spain, Sweden, Netherlands and the UK.

Additional participants: the President of the Energy Consultative Committee, the President of Eurelectric, Ministry representatives from Norway and Switzerland, and in the context of the presentations, Dr.-Ing. Fritz of the Aachen University, Mr Asher of the Australian Competition & Consumer Commission, EU Transmission System Operator representatives of UCPTE, NORDEL, British National Grid, Irish National Grid, the Spanish Market Operator, and Commission officials from DG IV and DGXVII.

Proceedings

The following report on the proceedings of the two day meeting represents a summary and not direct quotes.

1. Introduction

Ms Möller underlined that the third meeting of the Forum was the first meeting after the end of the implementation period as foreseen in the electricity directive. It was important to ensure full compliance with the Directive and a level playing field in the EU electricity market. Therefore, it was necessary not only to open the grid for third party access but also to make sure that eligible consumers could be supplied in all Member States without difficulties. Furthermore, the harmonisation efforts had to be enhanced not only with regard to the functioning of cross-border trade – taking into account the effects on allocation and security of supply – but also with regard to environmental standards and taxes. Otherwise strong political opposition against the liberalisation of the electricity market had to be expected.

Mr Ristori stressed that the main task of this third Forum would be to address the continuing obstacles to crossborder electricity transmission, in particular the yet unsolved issues of tarification and available transmission capacities. The Commission outlined the problems in the second report on harmonisation requirements. The Energy Council of 11 May had endorsed the importance of solving these issues in order to create a real single European electricity market. Mr Ristori underlined the importance that the Florence Forum makes a clear step forward and provides industry with some guidance on the manner in which it needs to address the issues in question in the coming months.

2. Cross-border Transmission

This session started with Dr.-Ing. Fritz of the Aachen University presenting the results of a study on cross-border electricity transmission tariffs. The study has been ordered by the Commission in order to independently evaluate the different possible solutions. The study generally recommends a non-transaction oriented tarification system consisting of input tariffs for generators and output tariffs for consumers. The study discusses different approaches to a possible remuneration for networks that carry transit/loop flows. Recommended approaches are inter TSO compensation combined with cost recovery either through national generator/consumer connection fees or through an additional European wide flat fee. With regard to system bottlenecks and related congestion pricing the study differentiates between simple (persisting, one-directional) and complex (temporary and alternating) congestions, without offering final conclusions.

Mr Jones, Head of Unit DGXVII-A3, followed with a presentation of the analysis so far undertaken by the Commission in the report on harmonisation requirements. In line with the study of the Aachen University, the Commission expressed a clear preference for a non transaction oriented tarification system. The tarification with respect to customers should be simple and the sharing of fees among the TSO's should be guided by the real physical network usage.

Subsequently, Mr Mathis and Mr Lima presented the proposals elaborated by the European TSOs (cooperation between UCPTE, NORDEL, British National Grid, Irish National Grid). The proposal included the possibility to set up a clearing mechanism between TSO control areas for transit and loop-flow compensation. In order to recover such payments, the TSO propose a separate transit price element (T) charged

directly to customers. There were two variations for such a T element. Either an ex ante defined unified T element which is the same for all European customers receiving electricity from a different TSO area (European flat fee), or an ex ante defined differentiated T element according to a matrix with different T amounts depending on where the generator and the customer are located. Congestion costs should be treated separately based on the principle of charging these costs to those users causing the congestion instead of socialising the costs.

The fourth presentation was given by Mr Vasconcelos and Mr Perez-Arriaga. They presented the common view of the group of Italian, Portuguese and Spanish Regulators. The reflections presented coincided to a large extent with those of the Commission report on harmonisation requirements. Additionally, Mr Perez Arriaga highlighted the advantages of an auctioning system in order to deal with congestion at system bottlenecks.

An open discussion followed the presentation.

3. Regulators/Member States discussion

Following the open discussion, Regulators, Member States and the Commission convened for a closed session without industry and non EU representatives. With view to the increasing convergence of the positions already recognised during the presentations and open discussion, several delegations suggested that written conclusions would be useful in order to guide the next steps of industry and Regulators to achieve a functioning crossborder tarification system until the next convention on the Forum around November 1999.

In order to outline the working programme for the coming months, the result of the discussion has been summarised in writing by the Commission in close cooperation with the German presidency and Mr Vasconcelos as follows:

1/ Rules and mechanisms regarding cross-border tarification and congestion management must be based on the principles of cost reflectiveness, transparency and non-discrimination. They should respect Community and national competition rules. In particular they should provide customers clear, ex-ante information of the conditions pursuant to which individual cross-border transactions can be carried out.

The importance of rapidly developing an effective system of cross-border trade based on these principles was unanimously underlined as of particular importance in order to improve economic efficiency, customer choice, the effective operation of the new interconnected internal market, and system security.

2/ For Network users any system of tarification should be non-transaction based, not therefore identifying different charges according to the individual contract path. An exception to this basic rule, however, might concern specific charges for DC links and severe “flow-gates” (congestion points).

The basis of a system of EU cross-border tariffication methodology is input (generator) and output (consumer) tariffs which may be proposed by each TSO, and if the Member State so wishes, controlled by each national authority (Regulator/Ministry) pursuant to the subsidiarity principle. Whilst a majority of those present recommend the avoidance of a separate transit element, the TSO's are invited to further consider the issue, with a view to making concrete proposals in time for discussion in November.

To prevent market distortion, some minimum level of harmonisation at the Community level is likely to be desirable, notably as to the categories (rather than level) of costs incurred by a TSO that should be placed within the input and output tariff and taking into account national best practices and Treaty rules.

3/ Any payments made between TSO's to cover costs relating to eventual reinforcement of the grid due to international trade which is not covered by congestion mechanisms and to compensate for different levels of transit and loop-flow, should be agreed between TSO's and, where the Member State so wishes, controlled by national authorities (Regulators/Ministry). They should be based on actual physical flows.

TSO's should immediately commence the current discussions on calculating the levels of any transit /loop-flow payments in order to make concrete proposals to the Commission and national authorities (Regulators/Ministry) by the end of October 1999.

Such a concrete proposal should then be discussed during a Florence Forum in November. Such a discussion should not detract from the subsidiarity principle: it will remain for each national authority (Regulators/Ministry), where the Member State so wishes, to approve the proposal with respect to its TSO.

During the interim period, trade should take place on the basis of the relevant Community and national rules.

4/ The methodology pursuant to which any finance to cover any inter-TSO payments is raised should in principle be dealt with at national level.

5/ TSO's should commence immediate collaboration and work on an information system to permit each TSO to determine how cross-border contract requests should be treated with respect to priority resulting from severe capacity constraints ("flow-gates"). The TSO's should present a concrete proposal for resolving this issue at the Meeting of Regulators in November 1999.

Similarly, TSO's should present, in November, a proposal for making transparent to consumers the ATC available at any given time.

6/ TSO's should commence rapid work with a view to proposing, in November, a system for managing congestion problems.

Many of the constraints to resolving congestion are non-financial in nature, notably relating to planning and political agreement. Measures to improve this should be discussed between Member State authorities in the light of an analysis and a recommendation presented by the Commission.

The issue of how to allocate scarce interconnector capacity should, at this stage, be left to subsidiarity, and the relevant rules or approaches (auction, first-come – first-serve, pro-rata, etc.) should be decided between TSO's/Regulators concerned. However, a high degree of transparency between TSO's and , if a Member State so wishes, national authorities will need to take place.

7/ The TSO's are invited to come forward with a Report, produced in the light of the Second Report on Harmonisation, on the measures that may be necessary pursuant to tax and environmental harmonisation to ensure a level playing field on the Single electricity Market.

8/ The importance of continued close collaboration and consultation in appropriate structures with all interested parties, notably electricity generators and consumers, as well as TSO's and trade unions, is underlined.

4. Day Two

The second day started with a presentation of Mr Asher concerning transmission pricing arrangements in South East Australia. Subsequently, Mr Merlin presented the state of play regarding the establishment of the representative association of European Transmission System Operators (ETSO). Such an association has been suggested by the second Regulation Forum in October 1998. The statutes have already been elaborated and it is planned that the new association will be formally founded on 1 July 1999.

Mr Tradacete, Director DGIV-E, and Mr Albers, Head of Unit DGIV-E3, presented competition issues and selected regulatory cases in Member States. Mr Losch, DGXVII-A3, gave an overview on the issue of electricity trade with third countries.

5. Conclusions

Mrs Möller and Mr Ristori welcomed the working results of the meeting which require further discussion. Both concluded that the meeting had been successful, and had achieved the basic objective of the Forum. In particular, a very large degree of consensus had developed between Regulators and Member State authorities, which provides crucial guidance for the TSO's over the coming months. This guidance should ensure that the TSO's are in a position to present concrete proposals in November that can be rapidly put into place, creating an effective and efficient trading mechanism.