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ENERGY DIRECTORATE-GENERAL

Energy policy  
Functioning of the internal market

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## **Minutes of the first meeting of the Florence Working Group – 8-12-1999**

The first meeting of the Florence Working Group (hereinafter referred to as FWG) , set up by the Florence Regulatory Forum of 25-26 November 1999, was chaired by D. Ristori (Director A- DG ENER). A list of participants is attached.

### **Cross border tariffs**

Mr. Ristori reiterated the importance of the rapid conclusion of the work of the FWG. He referred to the Conclusions of the meeting of the Energy Council of 2 December in which the Council announced it would invite the Commission to propose regulatory or other appropriate actions if not enough progress on the issues of cross border tariffication and congestion management is made by the next Council – May 2000.

The initial part of the discussion centred around paragraph 13 of the text ‘Towards EU cross-border electricity trade : Regulatory remarks and guidelines on tariffs and congestion’ agreed at Florence on 25 November 1999. This paragraph reads as follows:

*‘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 incurred in each transmission system network due to international trade, should in principle form the basis of the final approach in this area.’*

It was agreed that any risk of windfall contributions to TSO’s situated in the centre of a highly interconnected network should be avoided, whilst taking into account their higher level of investment to facilitate CBT’s. The following amended wording of paragraph 13 was agreed upon:

*‘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.’*

The subsequent discussion centred on the elements that have to be taken into account in a cross border tariffication mechanism and the way in which they should be calculated.

ETSO put forward that not only losses have to be taken into account, but also investments to a certain degree to take account of the fact that some networks carry more cross border transmissions and have (had) to invest to accommodate these. It was argued that countries with a high volume of CBT's are also those to profit most of the internal market.

M. Perez Arriaga explained the principle behind the possible approach to compensation based on twice the average losses. ETSO should be able on the basis of data for 98/99 on net metered physical flows, to run a simulation of the model with and without CBT's. This would give a clear indication of the incremental losses caused by CBT's. He acknowledged that the topology of the whole network would be needed for an accurate simulation. ETSO did agree that a similar simulation could be carried out, but it pointed out that it does not dispose of the topology for the whole network. It was clear to the FWG that any initial approach could only be an approximation, and that the approach chosen will be further refined as and when ETSO disposes of more detailed data.

It was agreed that ETSO would present on 20 January 2000 a detailed and transparent solution to take account of 'relevant and necessary investment' in a paper for the FWG.

### **Congestion management**

Reactions to the document presented by the Commission in Florence on November 26, are still coming in. Several participants (mostly SW and UK) came forward with concrete proposals for improvements to the text.

### **Further meetings of the FWG**

It was decided to create a small technical sub-group of the Florence Working Group, consisting of 3 representatives of the regulators, 2 representatives of ETSO and Commission representatives. The sub-group will meet whenever appropriate to prepare the meeting of the Florence Working Group.

The next meeting of the FWG will be held on Wednesday 12 January 2000 at 10.30 hours, at a location in Brussels to be decided upon.

It was agreed in principle that the third meeting would be held on January 25 in Brussels.

K. Prins

Cc: Participants of FWG  
Participants of Florence Regulatory Forum  
Messrs F. Lamoureux, D. Ristori  
Mrs Carrillo Dorado, Cabinet of Mrs De Palacio

