

## Conclusions

### **Eighth Meeting of the European Electricity Regulatory Forum Florence 21-22 February 2002**

#### *I. Overall conclusions*

Substantial progress was made at the Eighth Meeting of the European Electricity Regulatory Forum :

- there is agreement on the entry into force of a provisional cross-border tariffication system on 1<sup>st</sup> March 2002 to be operated until 1<sup>st</sup> January 2003. The Commission will now verify its compatibility with Community law.
- there is agreement on basic principles and operational guidelines for a more cost reflective tariffication mechanism to enter into force on 1<sup>st</sup> January 2003

The Forum underlined that this progress represents important steps forward in providing non-discriminatory and cost reflective trading mechanisms, ensuring security of supply and contributing to the completion of the internal electricity market. In this light the Forum underlined the importance that rapid progress is now made in reaching agreement by the Council and European Parliament on the Commission's proposals of March 2001 to complete the internal energy market.

Additional work by ETSO is necessary to implement the 2003 mechanism.

The Forum agreed that a strategy paper defining the medium to long term direction of further work should be prepared. It was agreed that the Commission would prepare a draft paper by 1<sup>st</sup> September 2002 in close collaboration with the CEER, ETSO, Member States, and other relevant stakeholders.

Representatives of the regulatory authorities of the candidate countries participated for the first time in the meeting of the Florence Forum with a view to assist the countries in preparing for full participation in the internal electricity market.

- II. The CEER declared that in the light of the progress achieved during the Forum, and the rapid development of the internal energy market, serious consideration now needs to be given whether a more permanent institutional arrangement should now be put into place to formalise collaboration and co-ordination between the Regulators, the Commission, and other relevant stakeholders, as has already been established in other areas, notably securities and telecommunications. Several Member States and stakeholders stated that further discussions are necessary before reaching any conclusion on this issue.

### *III. Cross-border tarification*

1. The Forum referred to the call of the 7<sup>th</sup> Florence Forum for a rapid introduction of a provisional cross-border tarification system. It welcomed in this respect the efforts of ETSO to introduce such a system and noted the explanation from ETSO that it should be possible for the system to enter into force on 1 March 2002. The representatives of industrial electricity consumers noted their acceptance to the introduction of this system and its operation until 1<sup>st</sup> January 2003. The Commission will verify the compatibility of the manner in which this temporary system is implemented in national tarification systems with Community law. The Forum underlined that the initial system presents problems with respect to key common principles agreed by the Forum, notably cost-reflectiveness, and should therefore not be viewed as the basis for a long-term robust system that must enter into force in 2003. Nonetheless, it will provide important experience with respect to the 2003 mechanism.

The Forum agreed that a small Committee would be established to closely monitor the implementation of the provisional system. This Committee will be chaired and convened by the Commission, and contain small delegations from ETSO and the CEER, together with a representative of the EU Presidency. Where appropriate, the Commission will invite other stakeholders to the meetings of the committee.

2. With regard to the inter-TSO mechanism to enter into force in 2003, three main issues were discussed :
  - determination of the compensation that is due to each TSO because of the costs that are incurred by cross-border flows;
  - determination of the charges that each TSO has to pay in order to compensate others; and,
  - a methodology to reflect the result of the inter-TSO compensation mechanism in national tarification systems.
3. The CEER and the Commission restated and clarified the principles for the inter-TSO compensation mechanism to enter into force in 2003. These principles were previously discussed with TSOs and network users and received the support of the Forum:
  - costs and benefits from cross-border flows, covering in principle losses, new investments, and appropriate levels of existing investments, will be compensated via an inter TSO mechanism based on physical flows;
  - the inter TSO mechanism includes all EU countries plus Norway. Switzerland will be included on the basis of agreed TPA principles;
  - the incorporation of accession countries into the mechanism needs to be envisaged in the near future. Consideration also needs to be given to other countries participating in the UCTE organisation;
  - cost calculations should be standardised, transparent and based on real flows;
  - the net costs or incomes for TSOs from the compensation mechanism should be transferred to the domestic transmission tariffs;
  - cross-border congestion costs are in principle not included in transmission tariffs.

The CEER presented a possible detailed algorithm to deal with the first two issues mentioned under point 2. An alternative approach was presented on behalf of the Belgian Regulator and the Swiss Federal Office. Both algorithms seek to accurately establish the amount of and responsibilities for transit flows on the basis of actual physical flows, established on the basis of real network models.

The Forum underlined that a more precise estimate of the extent to which different generators and loads are likely to generate transit flows – on the basis of real network models - is necessary in order to come closer to cost-reflectiveness and to the right locational signals. The transmission system operators were furthermore invited to collect and exchange relevant data for the purpose of better calculation of compensations in order to improve the efficiency and fairness of the inter-TSO mechanism.

The Forum invited ETSO, in collaboration with the CEER, the Commission and other stakeholders, to further analyse, on the basis of real network flows available algorithms, and to make this analysis, as well as the relevant data used for this analysis, available and to put forward, by 1<sup>st</sup> September 2002, a concrete proposal for the implementation of the new mechanism to be put into effect on 1<sup>st</sup> January 2003. The new mechanism needs to take an appropriate balance between simplicity and cost-reflectiveness. The Forum underlined the importance of providing adequate perspectives for the rapid participation of accession countries in the 2003 mechanism.

4. The Forum recognised that as a complement to the inter-TSO payment mechanism further work has to be done on network tarification structures. The Forum invited the CEER, in close collaboration with the Commission, Member States, Switzerland, ETSO and other relevant stakeholders, to continue this work on the basis of the following principles:
  - transmission tariffs shall consist of input and exit charges (G and L) and shall be independent of commercial transactions;
  - there shall be no extra tariffs for import, export or transit, providing that appropriate and efficient locational signals are in place;
  - tariff harmonisation should be pursued, including with regard to G and L charges in national tarification systems (tariff structure).

The CEER was invited to put forward further detailed work in this respect by 1 September with the aim of putting it into effect on 1 January 2003.

#### *IV. Security and reliability standards*

A comprehensive set of common security and reliability standards to be observed by TSOs and network users should be presented and further developed and put in the public domain in order to ensure the efficient and secure functioning of the interconnected system and appropriate quality of electricity supply. UCTE, together with Nordel and other network associations were invited, in close collaboration with the Commission, the CEER, ETSO and other relevant stakeholders, to present and further develop such standards, and to present them for discussion by 1<sup>st</sup> September 2002.

#### *V. European Energy Infrastructure*

The Forum took note of the Commission's Communication on European Energy Infrastructure, which was presented to the Forum by the Commission. The Forum stressed the importance of ensuring an efficient use of existing energy infrastructure and a stable regulatory framework favourable to investments in new infrastructure to ensure that the benefits of the single market and security of supply are enjoyed by all customers across the EU. While the key responsibility for ensuring adequate infrastructure lies with EU industry, proper co-ordination between public authorities and the different market players is important. The Commission invited the participants of the Forum to actively contribute to the follow-up on the range of actions proposed by the Communication. The Commission, the CEER, ETSO, UCTE, NORDEL and other network associations will discuss in the near future how to take work forward on this issue.

#### *VI. Allocation of interconnector capacities*

1. The Forum noted that there have been improvements in the ways in which congestion is dealt with at cross-border lines. At many borders, market based congestion management systems are in place and progress has been made in the provision of adequate information to market parties regarding available capacity and allocation procedures.
2. However, certain congested interconnections remain without a market-based allocation mechanism for scarce capacity. With respect to some interconnectors, therefore, the guidelines adopted by the Forum are not applied. The Forum invited the CEER, in close collaboration with the Commission, ETSO and other relevant stakeholders, to provide a detailed review of the different congestion management mechanisms operating throughout the Community, as well as those in Norway and Switzerland. This review should contain an analysis of the compatibility of the different mechanisms presently in operation with the objectives of non-discrimination, transparency, simplicity, and the need to contribute to the development of the internal market. Special attention should be given to the actual operational unbundling of the TSO's when they are part of a vertically integrated company. It should further identify the use made of receipts from congestion management mechanisms in each country.

The Forum furthermore invited ETSO, in close collaboration with the CEER, to study the extent to which European auction products and procedures may be adapted to further facilitate trade in electricity and if and how a pilot system for co-ordinated congestion management might be implemented on a regional basis.

On the basis of this further work, the CEER, in close collaboration with the Commission, ETSO and other relevant stakeholders, was requested to consider any necessary revisions of the guidelines on congestion management.

These documents were requested by 1 September, for discussion at the next meeting of the Forum.