

## CONCLUSIONS

### **Ninth Meeting of the European Electricity Regulatory Forum Rome, 17-18 October 2002**

The ninth meeting of the European Electricity Regulatory Forum took place in Rome on 17-18 October 2002.

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

Representatives from Russia participated for the first time, in the context of the energy dialogue between the EC and Russia.

#### **1. Cross-border tariffication**

##### 1.1. *Compensations between TSOs*

- 1.1.1. ETSO presented a proposal for the implementation of a revision of the existing mechanism to be put into effect on 1 January 2003.

The mechanism differs from the current system operated since 1 March 2002 in following respects:

- the horizontal network affected by transit flows would be defined by each TSO on the basis of a common methodology.
- the costs of the identified network would be calculated on the basis of the methodology generally applied by the regulatory authority of the Member State in question ("regulated costs").

With regard to the determination of the physical flows to be considered when establishing the compensation, ETSO proposed the use of the same methodology as under the provisional system, which is based on transit flows of electricity only.

With regard to the export charge of currently 1 €/MWh the proposal suggests to reduce it by 50% to 0,5 €.

- 1.1.2. The CEER, the Commission and Member States provisionally accepted that the proposal represented in principle an improvement to the existing approach, in so far as it resulted in a reduction of the maximum export charge from 1 € to 0,5 € and because the identification of the network affected by transits is more robust, and that work should now go forward with the aim of its entry into force in 2003.

The Forum noted the importance that the inter-TSO scheme in future include all EU countries plus Norway. Swiss TSOs will be incorporated on the basis of agreed TPA principles.

However, prior to reaching a final decision on its entry into force, it was considered that further information on the proposal was necessary, particularly with regard to regulated costs. The CEER specified the further information it considers necessary in order to reach a final view: namely a detailed description of the algorithms to be used, a complete list of all input data including both costs and flows and output data (i.e. the amount to be paid and received by each TSO). When provided by ETSO, this information shall be discussed at a working group meeting with the aim of enabling the concerned bodies to reach a final view by next month.

The Commission, the CEER and consumers and industry associations, whilst welcoming the reduction of the value of the export charge, reiterated in particular their criticism with regard to a charge on declared exports and stressed that such a flat, transaction-based charge goes against already agreed principles and does not provide appropriate locational signals.

The Forum underlined in this context the need for the development of such signals.

GEODE, representing local distributors, requested TSOs to implement easier and affordable procedures to fulfill contracts at the European level.

- 1.1.3. The CEER, the Commission, EUROPEX and consumers and industry associations, as well as almost all Member States, expressed their conviction that the adoption of the draft Regulation on cross-border exchanges, which must include full involvement of stakeholders, is now essential. The future inter-TSO system should be based on the principles previously agreed through guidelines, in order to promote a stable regulatory environment and appropriate frameworks for system users and investors. The CEER presented in this respect a detailed possible model.

## 1.2. Harmonization of national tariff systems and locational signals

- 1.2.1. The CEER gave an outline of the effects in terms of the limited locational signals which an inter-TSO compensation mechanism based on the algorithms presented by the CEER at the last Forum would have, if properly reflected in national tariffication systems. The Forum recognised that such an approach would provide some locational signals but expressed its doubt as to whether these signals would be significant enough to work as effective long-term locational signals in the internal electricity market.

The Forum stressed the importance of developing, together with a fully cost-reflective inter-TSO compensation mechanism, the harmonisation of national tariffication systems and the introduction of long-term locational signals. The Forum considered that such a proposal be based on the following broad principles:

- *Short and medium term locational signals are already now given through congestion charges, where they apply. However, short terms signals may prove insufficient in the longer term, in particular if the congestion is removed after the construction of new lines, as addressed in the context of the 2001 Communication of the Commission on energy infrastructure. Therefore, network access charges should also provide long-term locational signals.*
- *Whilst an inter-TSO payment system properly implemented would give some additional locational signals and provide the first basis for a level playing field through reflecting costs of inter-TSO compensation on G in exporting countries or regions and on L in importing ones, such locational factors would be too weak, particularly regarding generation, and would be unlikely to materially influence any decision on generation plant investment.*
- *A proper system of long term locational signals would therefore be necessary and would be based on the approach that the level of the network access charges on consumers and generators must, in principle, reflect the generation/consumption balance of the region concerned, provided by a differentiation of G levels. Such a system must contribute to the integration of the internal electricity market and increased price convergence, providing the correct economic signal in terms of the construction of new infrastructure and new interconnectors.*
- *At present, strong short and medium term locational signals already exist. There are virtually no regions in the EC where significant new generation can be placed without creating or releasing internal congestion or congestion of interconnections between national systems. Also, the construction of new lines requires long planning and construction periods. Therefore, in the short term, the signals resulting from congestion will direct new generation and consumption in the internal market.*
- *Furthermore, other factors also exist at present, which are likely to have a significant influence on location and investment decisions, in many cases higher than any transmission tariff based factor could provide. These include, for example:*
  - *connection charges for new generation. In some Member States new generation pays full new costs, in others, connection is free;*
  - *different levels of transparency regarding ATC levels at interconnection points and nodes, together with long-term plans to eliminate congestion. New generation is more likely to be attracted to countries with committed and transport plans to eliminate congestion;*
  - *different approaches on taxation, environmental policy, including the application of green energy charges, as well as different national energy policy constraints.*

*It is vital that these issues are addressed together with the wider issue of tariff-based locational factors.*

- 1.2.3. The CEER, the Commission, ETSO, EUROPEX and consumers and industry associations, as well as nearly all Member States, underlined that the adoption of the draft Regulation on cross-border exchanges in electricity, which must include full involvement of all stakeholders, is now essential to enable further rapid and effective progress on this issue through guidelines.

### 1.3. Conclusions

In the light of the discussions, the CEER, the Commission, ETSO, EUROPEX and consumers and industry associations, as well as nearly all Member States, agreed that work now needs to be brought forward as follows:

- The approach to the inter-TSO compensation mechanism needs to be further developed and evolved. The Commission, in close collaboration with the CEER and ETSO, should put forward proposals for discussion as soon as possible, following an agreement in Council on the Regulation on cross-border exchanges in electricity, taking into account the discussion and recommendations of the Florence Forum.

The Forum agreed in this respect that any further development of the compensation mechanism would require the full involvement of industry, and in particular ETSO, in its preparation. In this light ETSO is invited to continue its work on this issue.

- Work should be commenced by the Commission on issues related to a level playing field for generators and other system users, and in particular the non-tax issues mentioned above, including tariff harmonisation and long-term locational factors. Furthermore, progress need to be made on the tax-issues. The CEER is invited, at the same time, to examine existing network tariff systems and to report on its conclusions on the necessary level of harmonisation or convergence necessary. Draft proposals should be put forward by the Commission, in close collaboration with ETSO and the CEER, as soon as possible, following an agreement in Council on the Regulation on cross-border exchanges in electricity, taking into account the discussion and conclusions of the Florence Forum.

## **2. Strategy Paper**

The Commission presented a first outline of a Strategy Paper aimed at providing guidance for future work of the Forum. Participants of the Forum were invited to submit comments on the paper by end 2002. The Commission will submit a draft text of the Strategy Paper for discussion and possible adoption at the next Forum, following comments received through a working group meeting.

### **3. The Russian electricity market**

Mr. Bondarenko, chief dispatcher of RAO UPS Russia, gave a presentation of recent developments in the Russian electricity market. The Russian government and Parliament have recently launched a process of industry restructuring and market liberalisation. The process implies restructuring of RAO UES of Russia, legal separation of network operation, the creation of a united national grid company as well as a system and a market operator. Opening of the Russian wholesale market is foreseen for 2004.

UCTE presented an overview on technical issues regarding the interconnection of the UCTE system with the Russian electricity system. It pointed out that no experience exists thus far with the interconnection of such large two systems, currently operated on the basis of different general approaches to technical issues. UCTE will constructively pursue this matter and take initiatives in the coming months regarding the launch of a possible comprehensive feasibility study, on the basis of ongoing pre-feasibility work. UCTE and EURELECTRIC highlighted the importance of a political resolution of the market structure and environmental issues related to a possible connection of the two markets concerned and EPSU pointed to the need of increased harmonisation of social standards.

The Commission underlined the importance of having a clear picture on the technical aspects of interconnection, as a basis for further consideration with respect to the political and economic issues involved. It underlined the importance of this issue in the context of the EU-Russia energy dialogue and its determination to make progress on it.

### **4. Congestion Management**

- 4.1. The Forum noted that there have been improvements in the ways in which congestion is dealt with at cross-border lines since the last Forum in February. The Rapid progress needs to be made in this respect and EFET and EURELECTRIC emphasised in this context in particular the application of market based mechanism.
- 4.2. However, for a number of important congested interconnections further progress needs to be made to ensure non-discriminatory access. With respect to some interconnectors, therefore, the guidelines adopted by the Forum are not applied. The Commission and the CEER presented a detailed review of the different congestion management mechanisms operating throughout the Community, as well as those in Norway and Switzerland, containing 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.
- 4.3. The Forum positively took note of a presentation of CEER of five basic principles for the allocation of interconnector capacities, as a basis for a possible future

revision of the guidelines on congestion management, adopted by the Forum in November 2000. These principles are :

1. *Congestion management method(s) should operate in an economically efficient manner and, when it is possible, provide appropriate economic signals for both efficient economic dispatch of existing plant and efficient investment in additional network infrastructure and/or generation.*
  2. *Congestion management method(s) should promote effective competition, should not aggravate market power and should be non-discriminatory.*
  3. *All relevant information related to cross border trade should be published in a transparent manner.*
  4. *TSOs should ensure that the maximum capacity of the interconnections and the transmission networks affecting cross border flow is made available while maintaining the network security standards at an acceptable level.*
  5. *Congestion management procedures may only generate revenue in case of congestion. The procedure for its distribution should neither distort the allocation process in favour of any party requesting capacity or energy nor provide a disincentive to TSOs to decrease the amount of congestion.*
- 4.4. On the basis of the review and the basic principles referred to above 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.
- 4.5. EUROPEX was invited to put forward at the next Forum its views and methodologies on the contribution of power exchanges to managing and eliminating congestion.

## **5. Security and reliability standards**

The Forum stressed that a comprehensive set of common security and reliability standards, to be observed by TSOs and network users, is necessary in order to ensure the efficient and secure functioning of the interconnected system and appropriate quality of electricity supply. UCTE presented proposals on how further develop common security and reliability standards, which were welcomed by the Forum. UCTE was invited to continue its work, and continue to develop progressively more binding rules. This work would now be brought forward through regular meetings to be held at technical level between UCTE, CEER, NORDEL, other relevant regional TSO organisations and the Commission. Where appropriate, all relevant parties, including system users, will be invited to participate in these meetings. UCTE will present the further progress achieved during the next meeting of the Forum.

## **6. Infrastructure**

The Commission recalled the endorsement by the Barcelona Council of the target for Member States of a level of electricity interconnections equivalent to at least 10% of their installed capacity by 2005, which had been suggested by the Commission in its Infrastructure Communication of December 2001. The Commission presented a list of priority projects in this respect and progress made in increasing capacity. It stressed that increased efforts are necessary if the 10% target is to be achieved. It underlined the need to make substantial and rapid progress on this issue.

The Forum invited the CEER to continue its work on a regulatory framework for providing incentives for efficient new infrastructures investment in close collaboration with the Commission, ETSO, the EU Member States and other stakeholders, and put forward a proposal, by 1<sup>st</sup> March 2003.

## **7. Security of Supply**

The CEER presented a position paper on the role of regulation in security of supply in the internal electricity market. It underlines that security of supply is addressed more effectively in an integrated competitive market if Member States comply with a common set of principles. The CEER declared that the development of common criteria for monitoring and assuring security of supply will be a focus of its future work, in close co-operation with in particular ETSO, UCTE and other relevant TSO regional organisations.

The Forum stressed that in an integrated market security of supply of individual Member States can become increasingly dependant on the situation in other Member States. Therefore, a unilateral approach to security supply would not be appropriate and the Forum underlined the need for a common approach in this respect.

## **8. Trade in electricity with third countries**

The Forum noted its view that increased trade with non-EU countries, on a non-discriminatory and open basis, would benefit the EU and the neighbouring countries, and should therefore be facilitated. It noted, however, that due to the specific nature of the sector, trade in electricity, if it was to work effectively and on a fair basis in practice, needs to be given special attention by countries and industry concerned.

The Commission presented its policy in this respect, which adopts the concept of specific arrangements based on equivalent market structures and comparable environmental standards. The Forum stressed that third countries should be encouraged to open their markets, and ensure common standards of environmental protection and nuclear safety, as a first steps of further integrating national market.