



## **ETSO comments on Draft Guidelines on Transmission Tarification**

Brussels, 30 June 2004

### General

ETSO welcomes the proposal of DG TREN to consider that the harmonisation of the 'G' charge is now the most important topic to be dealt with in the "*progressive harmonisation of the underlying principles for the setting of charges applied to producers and consumers under national tariff systems*", in order to avoid distortions of competition.

We agree that the main improvements have already been made during the last years, since the transmission tariffs in Member States reflect most of the requirements of the Regulation, being "entry-exit" tariff system rather than being distance based. Equally, the abolishment of export, import and transit fees contributes to this objective.

This proposal to harmonise the 'G' charge is realistic in avoiding dramatic changes to the tariffs in short term. The longer term target shall however be reduction of differences between Gs in Europe towards a narrow range or even a single value. We need to gradually remove a distortive element which prevents market participants to have level playing field due to a too wide spread between G-components.

### Absolute G

ETSO welcomes in particular the proposal to consider harmonisation of the 'G' charge in absolute values and not relative shares of 'G' and 'L'. Thus, the differences between the national network cost levels, generally due to differences in local conditions (regulatory framework, density of consumption, geography, network design, ...) are borne by local consumers. That is not to say that load customers cannot play an important role in managing transmission costs, but they are generally less price elastic than generation.

### Locational signal and market based congestion management methods

We agree that, at this stage, it is not appropriate to introduce locational signals through the creation of pan European transmission charges, given the absence of harmonisation of energy markets and other parameters. Besides, more effective locational signals stemming from congestions are still missing in many parts of Europe due to the incomplete implementation of market based congestion management methods. We encourage the Commission to further urge the introduction of market based congestion management methods at all EU-borders in order to reduce distortions of the IEM and in order to profit from locational signals emerging from these methods.

We appreciate as TSOs the flexibility left to each Member State to decide on the introduction of “national locational signals” leading to internal variations not limited by the specified range of the ‘average G’. It allows to reflect the costs induced by predominant flow patterns, for instance in the case of large regional unbalances, with right incentives when signals are stable enough. It will be important to see how these methods develop to assess whether adequate cost signalling is in place across Europe in the longer term to deal with capacity investment issues.

### Harmonised G and Inter TSO compensation mechanism

Contrary to what is mentioned in the explanatory note of the draft guideline, the 2005 Inter-TSO compensation mechanism would not give any locational signals for siting of generation and consumption. This is in line with ETSO’s position to keep these issues separated.

Nevertheless, the proposed range for the ‘national average G’ must take into account the variety of situation among countries, especially when payments arising from the inter-TSO compensation mechanism are charged on producers for exporting situations, thus introducing an additional G.

### Definitions

At first, turning to details, the terminology seems to need further clarification. Two parallel notions, ‘basic G’ and ‘national average G’, are used, which appear to have the same meaning. If there is at all a need to use more than one G term, the terms need to be clearly defined.

Secondly, the proposed harmonised value is the harmonised value of the ‘national average G’ relating to “use of system charges”. It relates to the general description of the tariffs made in the “current position” of the explanatory note.

However, the notion of “use of system charge”, based on fixed costs of the network, is not always used in the tariffs of the various Member States. ‘G’ terms, as well as ‘L’ terms, often include also losses and system services, and even other burdens not related to TSO activities.

It will then be necessary to more precisely describe how the harmonised component should be calculated, or to take into account the variety of type of costs included in national ‘G’ charges with a larger range of Gs.

The objective should remain the avoidance of market distortion due to unharmonised, potentially high G-components. This should neither be side-stepped by regulatory definitions putting additional charges on generators.

### Range

At last, the proposed range seems to fit with actual practices in continental Europe but for the Nordic countries the paragraph 1.2 in Guidelines should read as follows:

*The harmonised value of the 'national average G' within the Nordel system shall be within a range of 0.2 to 1.0 EUR/MWh. It consists of a 'basic G' plus an optional locational signal calculated on the basis of Nordic marginal losses. 'Basic G' must be at least 0.3 EUR/MWh.*

In the case of the UK and Ireland we are unclear as to how these figures have been calculated and indeed which area they relate to. For example does the 1.3 EUR/MWh relate to Great Britain, or to England and Wales only, with the 1.8 EUR/MWh figure applying to the GB and the Irish systems? ETSO's UK members are looking into these numbers and propose to meet with the Commission to clarify the numbers which should apply.