



Brussels, 1 September 2004

## GUIDELINES ON TRANSMISSION TARIFICATION

### EXPLANATORY NOTE

#### Background

Article 8(3) of the Regulation on Cross Border Electricity exchanges<sup>1</sup> provides for guidelines to be adopted to “determine appropriate rules leading to a progressive harmonisation of the underlying principles for the setting of charges applied to producers and consumers (load) under national tariff systems, including the reflection of the inter-TSO compensation mechanism in national network charges and the provision of appropriate and efficient locational signals, in accordance with the principles set out in Article 4.”

Article 4 itself discusses the requirements relating to transmission tariffs. In particular, Article 4(2) states that;

Where appropriate, the level of the tariffs applied to producers and/or consumers shall provide locational signals at European level, and take into account the amount of network losses and congestion caused, and investment costs for infrastructure.

Meanwhile Article 4(4) requires that

Providing that appropriate and efficient locational signals are in place, in accordance with paragraph 2, charges for access to networks applied to producers and consumers shall be applied regardless of the countries of destination and, origin, respectively, of the electricity, as specified in the underlying commercial arrangement.

The attached guidelines therefore fulfil these requirements of the Regulation.

#### Current Position

Transmission tariffs in Member States already reflect most of the requirements of the Regulation in that they are, by and large “entry-exit” tariff systems rather than being distance based. The main component of tariffs is those related to the fixed costs of the network, usually called “charges for access to networks”. These may be imposed on generators, called the ‘G’ charge, and those for the load, called the ‘L’ charge. The allocation of these charges in all cases fulfils the criteria that the majority of the charges fall on load rather than generation. As well as the fixed costs of the transmission network, ie capital and operation costs,, transmission tariffs also usually include loss charges and other ancillary services. Generators and customers may also be required to pay a one-off charge for their initial connection to the grid. Charges related to congestion are also an important feature of tarification.

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<sup>1</sup> Regulation 1228/03/EC

There remain significant differences in the level of transmission charges, and the split between G and L charges between one Member State and another. In case of several transmission grids within one Member State, transmission tariffs could be different within the different transmission system operators.

Finally, charges relating to underlying commercial arrangements have been removed from January 2004 in Member States participating in the revised inter-TSO compensation mechanism. However some border charges remain for those Member States which do not yet participate in this mechanism.

## **Proposals in Guidelines**

### **i Harmonisation of use of system charges for generators**

To avoid distortions of competition, some harmonisation of the charges for access to networks of the generators connected to the transmission grid, ie the 'G' charge is desirable. Harmonisation of G charges, rather than L charges, is considered to be the most important since the location of production facilities and the output from them is thought to be more responsive to price signals. This is not to say that the level of network charges is the only determinant of the decisions to locate plant.

It is therefore proposed that G charges will be harmonised on the basis of the national average level of charges for access to networks to generators: "national average G". Member States will accordingly be able to have variations in charges for their internal regions ("national locational signals"). For each Member State, the average G charge will have to remain within the specified range. The possibility of a positive G is important for example for the financing of the TSO contribution to the inter-TSO compensation fund by the generators, which might be particularly appropriate in heavily exporting countries.

Within the Nordel, UK and Irish systems, interconnected by submarine cables to UCTE, the main continental system, different ranges for the 'average G' may be applied. It will be re-examined later and in any case before end 2006.

### **ii European locational signals**

Under the Regulation, all Member States will be required to participate in the inter TSO compensation mechanism, and to implement market based congestion management methods. This will lead to a large increase in the impact of locational signals at European level relating to the siting of generation and consumption.

Given the limited capacity of interconnection between different Member States, those countries with a general surplus of capacity over load will generally be low price areas. Those with a deficit will be higher priced regions. With market based capacity allocation at interconnectors, this price difference will be made explicit. Any new generation in surplus regions will therefore face either a low price in their home market or a high transmission charge to sell in higher prices countries. This will provide a clear locational signal. Similarly, compulsory participation in the inter TSO compensation mechanism will ensure that Member States which host cross border flows are suitably compensated for providing this service.

Consequently, at this stage it is not considered appropriate, in the sense of Article 4(2), to introduce through the harmonisation of G and L charges locational signals at the European level. However the situation needs to be closely monitored and long term locational signals will be considered later.

Given the existence of sufficient locational signals, all other charges relating to cross border exchanges must be removed, in accordance with Article 4(4).

## **ANNEX : DRAFT GUIDELINES**

draft

### **1 Harmonisation**

- 1.1. The value of the 'annual national average G' is an arithmetic average of all the hourly tariffs of the year, including off-peak and peak-tariffs, and the different seasonal variations. When the tariff includes a 'capacity' fee, the 'annual national average G' has to be calculated for a generator assuming that it is injecting electricity during 5000 hours per year at its declared power capacity. A weighted average, based on generation, will be included in the 'annual national average G' in case of variations in charges within the internal regions ("national locational signals").
- 1.2. The value of the 'annual national average G' relating to capital and operation costs' must be within a range of 0 to 0.5 €/MWh, with the exception of the cases in 1.3 to 1.5 below.
- 1.3. The value of the 'annual national average G' within the Nordel system (Finland, Norway, Sweden and Denmark) will be at maximum 0.85 €/MWh.
- 1.4. The value of the 'annual national average G' within the GB system will be at maximum [actual average G in GB] €/MWh.
- 1.5. The value of the 'annual national average G' within the Republic of Ireland and within Northern Ireland will be at maximum [actual average G in Irl] €/MWh.
- 1.6. Other charges relating, for example, to initial connection to the network, losses, and other ancillary services need not be harmonised.

### **2 Removal of international supply contract based charges**

With the exception of charges resulting from market based congestion management methods, charges for access to networks applied to producers and consumers shall be applied regardless of the countries of destination and, origin, respectively, of the electricity, as specified in the underlying supply arrangement. This includes all import, export and transit fees.

### **3 Reporting**

National regulators will submit the details of the charging structure of their TSOs to the Commission on 30 November 2004 and on the occasion of any amendments to the tariff structure relevant to these guidelines.