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IFIEC Europe

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DG TREN draft guidelines concerning

Regulation No 1228/2003 on Cross-Border Exchanges in Electricity

IFIEC Europe comments

1. DRAFT GUIDELINES ON INTER TSO COMPENSATION

The TSO compensation mechanism was designed to simplify international exchange and avoid any payment on cross border fees (except for some DC links). As far as this principle is respected, and no additional charges are applied either to interconnection users or to domestic users, IFIEC Europe will not find problems with the proposed guidelines.

However some aspects of the methodology could be refined.

- Sensitivity factor of 1% suggested to define the “horizontal network” shall be revised to be sure that volumes subjected to compensation are not inflated. Perhaps a factor between 3% and 5% would be more balanced.

- LRAIC (long run average incremental cost) standard values to estimate asset-use seem to be appropriate for a sum-zero compensation mechanism. However reference values for overhead lines are too distant. Numbers have not to reflect book values but simply a standard reference of LRAIC, therefore we suggest to use a single reference selected among individual values that, in any case, shall be provided by national regulators.

- Standard basis to annualise capital and O&M asset costs shall be in accordance with current efficiency values. A longer depreciation period (more than 40 years) seems to be consistent with economic life. IFIEC Europe suggests 50 years or more.

- Operating costs of 2.5% p.a. of capital costs seems overgenerous; IFIEC Europe suggests 2% p.a. or less. More generally, the basis for figures should be "best practice" rather than a "broad average of current regulatory practice in the different Member States".

- Economic evaluation of grid losses is not addressed in the guidelines and requires further work. A price reference is needed to estimate financial impact of the losses. Any reference to be submitted should, however, consider only variable incremental energy costs.

2. DRAFT GUIDELINES ON TRANSMISSION TARIFICATION

Grid prices for all network customers should be based on total energy being taken out or being injected into the grid irrespective of individual commercial transactions.

Therefore, IFIEC Europe supports the concept retained in the guidelines regarding a two-term postage stamp price: a generation price component (G) based on electricity being supplied into, and a load price component (L) based on electricity being taken out of the system. Such a pricing system is non-transaction based and makes any specific T-component superfluous.

Additionally, we would like to make some comments to the draft guideline submitted in order to harmonise transmission tarification across Europe:

- Transmission costs need to be ring-fenced to exclude any charges not directly related to the grid infrastructures: costs should therefore be limited to "useful life-time" amortisation, operating, maintenance and grid enhancement charges, including costs related to transmission losses. Ancillary services related to tertiary reserves must be charged separately. Miscellaneous costs resulting from energy policy decisions must not be charged to transmission or distribution.

- Notwithstanding difficulties to introduce changes in national legislation, G terms should be harmonised. All network users should contribute to the system costs. Setting a significant (e.g. 25%) relative reference for G term as compared to total system costs will be a first step.

- Location signals inside the countries could additionally be introduced by Member States to give appropriate incentives to generators and to improve the security of supply within a certain area.

- In order to enhance transmission system security, some consumers can offer load-shedding services. Specific user load-shedding could be essential to reduce overloads in transmission lines that can lead to system collapse. Load-shedding services to the TSO are offered in a limited number of Member States today and should be widely developed throughout the EU. Compensation for these services should be contracted with the consumer either by transmission tariff reduction or by annual fee.

3. CONGESTION MANAGEMENT GUIDELINES

Cross-border exchanges are a key element in stimulating economic efficiency and promoting competition in Europe.

Given the current state of the market (lack of competition in generation, insufficient unbundling, price distortions linked to market-design failures, insufficient cross-border transmission capacity, etc.), IFIEC Europe is concerned about the proposal to introduce so-called "market-based" mechanisms, such as auctioning, to allocate available capacity because such mechanisms will tend to favour decisions that result in capacity bottlenecks and maximized revenues, to the detriment of other economic considerations.

IFIEC Europe therefore considers the use of the so-called market-based instruments to be premature and proposes that the application of Regulation 1228/2003 on cross-border exchanges in electricity be postponed until effective competition can be demonstrated.

In the meantime, IFIEC Europe proposes a *transitional* regime based on :

- soft measures such as, but not limited to:
    - cooperation between TSO's to maximise the NTC and to limit loop flows caused by both international and national power flows.
    - allocation of "interruptible capacity" in addition to the firm ones.
- a basket of methods, or combination of methods, best adapted to changing local conditions, as defined in the so-called IFIEC Europe "dynamic toolbox" approach (pro rata, market-splitting, "coordinated cost plus", etc.).

In all cases :

- the selected allocation method should allow for the possibility of bi-lateral international supply arrangements, without recourse to hedging instruments;
- data covering historical contracts need to be published;
- all revenues received by TSO's in connection with congestion management and capacity allocation measures must be subject to regulatory scrutiny and the funds must be exclusively used to reduce congestions;
- national legislation should be amended to require mandatory national and regional cooperation between TSO's, within a binding legal structure with appropriate management structure(s).