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## **INTERNATIONAL FEDERATION OF INDUSTRIAL ENERGY CONSUMERS**

## **EUROPE**



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#### **Documents- Other documents**

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#### **COMMENTARY ON THE 2ND HARMONISATION REPORT AS ISSUED BY THE COMMISSION ELECTRICITY**

##### **A. Introduction**

IFIEC Europe totally supports the creation of open and non discriminatory energy market in electricity, throughout the European Union and considers that the 2nd Harmonisation Report is extremely helpful in pursuing this objective.

It is essential that the principles of the energy directives are implemented and enforced within each Member State and to ensure that the liberalisation process works satisfactorily; separation of the transmission system operator from generation and supply interests is essential.

The report raises several issues and IFIEC Europe considers that if effective co-operation is to be achieved, cross border transmission between one Member State and another is essential. For this reason IFIEC Europe fully participated in the report submitted to the Energy Consultative Committee on the 9th February 1999 which was unanimously approved and is fully indicative of all industrial consumers requirements.

##### **B. Cross Border Transmission Pricing**

###### **RATIONALE**

The electricity directive does not provide details in respect of cross border transportation, but clearly this is a major element to ensure a truly competitive market when recognising that in all systems electricity transmission is a natural monopoly. It is vital that the management of grid investments and operations should be completely separated from other electricity activities and non-discriminatory conduct established. The management of grid investments and operations should be conducted in the most efficient and competitive manner possible with the aim of achieving the least possible costs that are compatible with system security and stability. Transmission costs should be "ring fenced" to exclude any charges not directly related to the grid infra structure and costs should therefore be limited to amortisation, operating, maintenance and grid enhancement charges including costs related to transmission losses, together with allowances resulting from reductions in electrical flows between contracting

parties.

In considering the methodology IFIEC Europe believes great emphasis should be placed on the need for pragmatism and simplicity. Additionally, any invoice to a consumer would need to separate individually the commodity from the transport elements.

## PROPOSALS

- i) We strongly support the creation of an Association of Independent network operators at the European level (ETSO) to address all aspects of cross border transportation providing that such an association demonstrates transparency, ensures the views of all market participants are duly reflected and provide the opportunity for all network users to be involved in full consultation.
- ii) It is essential that information be published which clearly enable suppliers, customers and generators to clearly identify prices for transmitting power between points A and B throughout the European Union.
- iii) The “postage stamp” defined, is the average cost of transmission in a given network, and is strongly recommended when compared to other alternatives; thus enabling the function of a spot market/exchange operation which from an industrial consumers view requires the provision of comprehensive transmission tariffs. Due to the rationale outlined in the full Energy Consultative Committee report, it is inappropriate to consider distance related tariffs.
- iv) Recognising physical flows are different from contracted commercial flows, (i.e. a consumer will seldom be fed by the power station of the contracted producer), the following should be noted :

- transmission between two related networks can also affect other networks
- transmission within a single network can in fact impact on one or more neighbouring networks
- even though electrons can transit through other networks, it is impossible to describe each physical flow at a moment in time, although further work is currently being undertaken in this area
- grid operators should not introduce a tariff component relating to the transited countries, in the calculation of a transaction. The transited networks should be remunerated within the framework of an overall balance of the exchanges between the Transmission System
- the formula proposed would therefore be  $T=A_1T_1+A_2T_2$ ,  $T_1$  and  $T_2$  being the tariffs of the countries of  $A_1$  and  $A_2$  respectively, namely the producer and the consumer. Instead of establishing coefficient weightings, it seems more logical for the producer and the consumer to each pay their part of the national tariff to their respective Grid Operator. This means therefore that the producer pays the ‘tariff part of the producer’ of his national tariff, and the consumer pays the ‘tariff part of the consumer’; of his national tariff. The formula would be then  $T=P_1+C_2$ , where  $P_1$  and  $C_2$  are the ‘tariff parts of the producer’ and ‘tariff parts of the consumer’ in their respective country But as  $P_1$  and  $C_2$  will always be the tariff

components ‘producer’ and ‘consumer’ of their respective network, one can finalise the formula as follows:

$$T = P + C$$

Where P and C are the tariff components charged to the producer and to the consumer in their respective network, with a fair sharing nominally perceived as 50% each. This formula would be to apply for all the types of transactions, namely

- for the internal exchanges within a network : the tariff contributions of the Producer and of the Consumer will be paid to the national Grid Operator
- for the trade between two neighbouring countries : each network should be remunerated the respective part of its national tariff, namely the charges attributed to the producer or consumer. Each network will thus be remunerated for its incurred costs, either at the level of the power station, or at the level of the consumer
- for the transactions involving several countries : the networks of the producer and of the consumer will be remunerated as in the case for neighbouring countries

v) If certain networks are used more than others by cross-border trans electricity flows, these surpluses will be the subject of compensation between Network Operators. If this involves financial compensations, the Operators forced to compensate will carry out the compensation payments from the revenues coming from the tariff charges invoiced to their domestic producers and consumers. This proposal therefore establishes a separation of the contractual trade paid between two parties (producer - consumer) from that of the physical exchanges, compensated overall between all the System Operators on a periodic basis (i.e. week, month, year). There can be balances by time periods; but all the measurement and accounting mechanisms for such trade are already in place. There is no doubt as to the competency of the System Operators and we would propose that they use compensation mechanisms to settle the financial aspects involved

vi) Any contracts should be for relatively short term periods with specific relation to the location of appropriate spot markets e.g. Amsterdam/Madrid etc., particularly during the initial evaluation of the system, which may be for up to 5 years.

vii) As stated in the rationale above, network operators shall be responsible for their respective transmission losses and would therefore be compensated through the established “postage stamp” for the network.

## Related Issues

For the spot transactions, it is envisaged that the announced selling price comprises the producer’s selling price as well as its part of the transport tariff. This should equate to the price including only the variable charge with no capacity element for electricity delivered at the border of the consumer’s country/network. The charges bound on the intermediate transits are taken into account in the compensations between System Operators. These transited networks will not intervene in the fixing of the tariffs and will thus enable each producer and each consumer to establish the delivered price. The remuneration of all System Operators by

means of compensations after the event is better than the remuneration carried out beforehand, on the basis of somewhat arbitrary and approximate estimates.

The essential point of this tariff system is that all money paid for access to the system is collected from the users at their connection point.

It is considered that in most cases simple cross-border trade is the more likely and in such circumstances this proposal would probably cover some 95% of all transactions.

In the future when national “postage stamps” converge to similar values the possibility will arise for harmonisation within larger zones covering several networks (and, finally a unique “postage stamp” for the European Union could be foreseen). IFIEC Europe believes it is essential that common methodology is established as soon as possible.

### **C. Inter Connector Access**

IFIEC Europe supports wholeheartedly that non discriminatory access to interconnectors is of key importance for the development of the single market. For example, industrial consumers remain concerned that new transactions may be frustrated because of long term reservations of capacity. Clearly, this is a matter upon which regulation could be necessary.

### **D. Regulation**

IFIEC Europe supports the view that effective regulation is essential and that this should be dealt with at a National level. However, there is clearly the need to have EU guidelines or recommendations which would ensure Member States established sectorial regulators covering all substantive issues and ensure that regulation is applied in one Member State in a similar manner to the others. We additionally support the development of a simple and realistic system for dispute reconciliation in respect of cross border systems and recommend that this is within an acceptable commercial time scale with intermediate rulings if decisions are likely to be extended.

### **E. Taxation**

IFIEC Europe confirms that energy taxes are an ineffective way of achieving environmental targets, in reality energy taxes would probably be harmonised towards the higher rates existing within the European Union which would undermine international competitiveness without achieving significant environmental benefits. As an alternative to taxation, IFIEC Europe continues to support the development of negotiated agreements, which we believe are much more creditable in helping to meet greenhouse gas targets.

### **F. Conclusion**

IFIEC Europe urges the Commission to ensure that the directive is implemented in all Member States and that harmonisation rules are established promptly to deal with cross border transmission charging and interconnector access. In both cases transport mechanisms are necessary which do not discriminate between any of the grid users.

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