

## GUIDELINES ON TRANSMISSION TARIFICATION

18 July 2005<sup>1</sup>

### EXPLANATORY NOTE

#### Background

Article 8(3) of the Regulation on Cross Border Electricity exchanges<sup>2</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.

#### 1. CURRENT SITUATION

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 related to the costs that are considered fixed in the short run. These charges 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 Member States fulfils the criteria that the majority of the charges fall on load rather

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<sup>1</sup> For the background information, refer to the document ERGEG Public Consultation on Guidelines on Transmission Tarification – Evaluation of the Comments Received, 18 July 2005, [www.ergreg.org](http://www.ergreg.org).

<sup>2</sup> Regulation 1228/03/EC

than generation and that the major part of the electricity produced in the IEM is subject to a G charge regime which may put G at or very near to zero.

As well as the fixed costs of the transmission network in the short run, ie capital and operation costs, transmission tariffs often include specific charges for losses, congestion and other ancillary services.

Generators and consumers may also be required to pay a one-off charge for their initial connection to the grid usually called "connection charge". Charges related to losses, congestion and other ancillary services are also an important feature. These charges are not, however, considered to be part of the G charge for the purpose of these Guidelines.

There remain differences in the level of transmission charges, and the split between G and L charges between Member States. The structures of the tariffs are also different. In case of several transmission grids within one Member State, transmission tariffs could be different among the different transmission system operators.

Finally, charges for traders relating to underlying commercial arrangements have been removed from January 2004 for cross border trading between Member States participating in the inter-TSO compensation mechanism.

## **2. PROPOSALS IN GUIDELINES**

### **i Harmonisation of network access charges for generators**

To avoid distortions of competition, some harmonisation of the charges for access to networks of the generators, i.e. the 'G' charge is needed. Harmonisation of G charges, rather than L charges, is considered to be more important since the output from production facilities and the location of them is thought to be more responsive to price signals. However it should be emphasized that the 'G' charge is not the only charge a generator pays; connection charges have to be taken into account when making the investment decisions. The Member States also have different practises according to whether a generator is responsible for paying the costs connected to production related network components. It should also be emphasized that the level of network charges is not the only determinant of the decisions to locate plants. Other non-network related cost factors, such as fuel transportation costs or availability of cooling water, may also be important.

Tariff structures and charging principles may vary widely from country to country but also within a country depending on voltage level and region. It is therefore proposed that G charges will be harmonised at the transmission level and on the basis of the national average level of the G-charges. For each Member State, the average G charge will have to remain within the specified range, which should be transparently and non-discriminatory calculated for each country. Member States will accordingly be able to have variations in charges for their internal regions ("national locational signals"). A positive G charge can be important e.g. for the financing of the inter-TSO compensations especially in heavily exporting countries.

Within the Nordel, UK and Irish systems, interconnected by DC submarine cables to UCTE, the main continental system, different ranges for the 'national average G' may be applied and the ranges will be re-examined at a later stage.

The need for harmonisation of G-charges on other voltage levels and harmonisation of tariff structures should be investigated at a later stage.

## **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, especially short-term locational signals, at a European level relating to the siting of generation and consumption.

Given the limited capacity of interconnection between different Member States, the countries with a general surplus of capacity over load will generally be low price areas due to for example lower production costs or insufficient interconnection capacities. Those with a deficit will be higher priced regions. With market based capacity allocation of interconnection capacities, this price difference will be made explicit. Any new generation in surplus regions will therefore face either a low price for energy in their domestic market or a high allocation charge for interconnection capacity 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 compensated for providing this service.

Charges covering costs of losses and other ancillary services can give short-term locational signals and application of these charges is important for achieving an efficient operation of the network. The need for eventual harmonisation regarding these charges should be investigated in detail in the future.

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. The main reason for this is the uncertainty as to how efficient and accurate these signals can be since there are so many other costs to consider when making an investment decisions, and to what extent giving such signals through the G/L-charge can distort short term signals. However, the situation needs to be closely monitored and the details for harmonised long term locational signals will be considered at a later stage.

## **GUIDELINES ON TRANSMISSION TARIFICATION**

### **1 Harmonisation**

- 1.1. The value of the 'annual national average G' is annual total transmission tariff charges paid by generators divided by the total measured energy injected annually by generators to the transmission network. Annual average G shall exclude any charges paid by generators for physical assets required for the generators connection to the system (or the upgrade of the connection) as well as any charges paid by generators related to ancillary services or any specific network loss charges paid by generators.
- 1.2. The value of the 'annual national average G' must be within a range of 0 to 0.5 €/MWh, with the exception of the maximum values stated in 1.3 to 1.4 below.
- 1.3. The value of the 'annual national average G' within the Nordel system will be at a maximum 0.7 €/MWh.
- 1.4. The value of the 'annual national average G' within Great Britain, Republic of Ireland and Northern Ireland will be at maximum 2.5 €/MWh

### **2 Removal of international supply transaction 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**

- 3.1 National regulators will report to the Commission by 28 February 2006 on how the TSOs charging structures will comply in 2006 with the Guidelines. National Regulators shall provide the year 2006 value of the annual national average G to the Commission by the end of July 2007. Afterwards only amendments to the charging structures and G-values shall be submitted to the Commission yearly by the end of July.
- 3.2 The Commission will publish G-values in Member States as a part of their annual reporting. The first reporting will occur by the end of year 2007 including also the charging structures.