



EUROPEAN COMMISSION
IMPACT ASSESSMENT BOARD

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Opinion

Title **Guidelines on Inter transmission System Operator
Compensation and Tariff Harmonisation in Electricity
(draft version of 17 June 2009)**

Lead DG **DG TREN**

1) Impact Assessment Board Opinion

(A) Context

Regulation 1228/2003 establishes the principle of compensating transmission systems operators for costs incurred as a result of hosting cross-border flows of electricity on their networks (art.3). Since the adoption of the Regulation, compensation mechanisms have been agreed on a voluntary basis but these agreements have been short term in nature, difficult to negotiate and limited in their coverage. It is unclear whether a successor arrangement will be established when the current one expires at end-2009. Against this background, the Commission agreed with stakeholders in 2007 to propose a set of binding guidelines to be approved following comitology procedures as foreseen by art. 8 of the Regulation. According to the Regulation, such guidelines should also set out rules leading to a progressive harmonisation of the principles underlying the setting of charges applied to producers and consumers under national tariff systems. While in 2005 national regulators already agreed on a draft set of guidelines on transmission tariffication, these have only been implemented on a voluntary basis so far.

(B) Positive aspects

Despite the complexity of the issues, the report remains below the suggested limit of 30 pages. The executive summary of the report follows the suggested format and also deals with a complex subject matter in an appropriately limited number of pages.

(C) Main recommendations for improvements

The recommendations below are listed in order of descending importance. Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report.

General recommendation: In view of the complexity of the issues analysed, the report should make a much greater effort to provide the comprehensive background and clear explanations needed for the non-expert reader. Significant

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further work is also needed on a number of other important issues. The report should clarify the nature and the magnitude of the problems addressed and their relevance to the objectives of the European single market in electricity and the desire to support the development of appropriate cross-border transmission capacity. It should better justify the need for and proportionality of the proposed EU guidelines for a compensation mechanism and tariff harmonisation. Finally, the report should deepen the analysis of the policy options and the study of their impacts.

During the IAB meeting, DG TREN stated its intention to take on board these recommendations. Give the nature of the latter, the Board would like to examine a new version of the report on which it would issue a new opinion.

(1) Clarify the nature and magnitude of the problems addressed. The report should more clearly identify the nature and the magnitude of the problems addressed by making greater use of existing data and providing more extensive background information on the distinctive technical and economic features of the European electricity transmission sector. The problem identification should be rooted in a clear analysis of the specific challenges that the status quo poses for the objectives of the European single market in electricity and the development of cross-border transmission capacity. For the compensation issue, the report should identify clearly the limits of past voluntary solutions and the risk and consequences of a failure to agree a successor agreement. For tariff harmonisation, the report should substantiate the need for action in this area given the convergence in tariffs which has already taken place without intervention, and given the increasing degree of competition in the market. The link between this initiative and the Third Energy Package should be made clear.

(2) Better justify the need for and proportionality of EU action. Against the background of a clearer identification of the problems to be addressed and of their relevance for the development of the European single market in electricity, the report should better demonstrate the need for EU action. In so doing, the report should deal more directly with the fact that voluntary guidelines for tariff harmonisation already exist and that all ETSO members have managed to agree voluntarily on a proposal for a compensation mechanism. The fact that cross-border compensation entails relatively small sums should also be directly addressed in terms of the proportionality of the proposed measure.

(3) Widen the range and deepen the analysis of policy options. The specific provisions of Regulation 1228/2003 on a cost-recovery compensation mechanism should not pre-determine the range of acceptable policy options. The role that congestion rents may play, for example, as an alternative to a cost-recovery compensation mechanism should be analysed more extensively. Different options for the costing of cross-border flows should also be explicitly considered. Finally, the content of the various options concerning tariff harmonisation should be better specified, in particular clarifying the differences in substance between the status quo and the formal adoption of the draft ERGEG guidelines, identifying the exact amendments in the ERGEG guidelines contemplated under the third option and explaining what "Ramsey pricing" would imply.

(4) Strengthen the analysis of impacts. The report would benefit from a deeper and more evidence-based analysis of all relevant impacts, even if only to determine their marginal relevance (as possibly the case for consumer prices, for instance). More

generally, the report should analyse more explicitly the extent to which the options proposed would be in line with the wider objectives for the internal electricity market and be aligned with the other mechanisms intended to encourage the investment necessary to support cross-border flows (p.5 in the public consultation document) and ensure efficient network utilisation (first paragraph § 3.1). Finally, greater attention should be paid to the effects on and from third countries (and notably Switzerland in view of its important transit function).

(D) Procedure and presentation

While the report can be read as a stand alone, it is not presented in a way which is accessible to the non-expert reader. Given that it deals with a highly technical area, a much greater effort is needed to provide clearer explanations and more background information, especially on specific technical issues. Annexes should be preferably used to keep the main text within the suggested 30-page limit. Such annexes could include a technical background on the functioning of the electricity grid, an analysis of the different costs of cross-border flows, an illustration of the current structure of tariffs, an explanation of the role of congestion charges, and a short primer on the pros and cons of various pricing principles for the use of (electricity) network infrastructures. Technical terms should be clarified via explanatory footnotes or through a glossary to be annexed (see, for instance, control zone, G-charges, congestion and transmission losses). Annex C summarizing stakeholders' responses should be explicitly referred to in §1.1. Annex A and B should be drafted in less technical language and the status of the comparison between models in annex B relative to the comparison of options in the main text should be clarified.

2) IAB scrutiny process

Reference number	Comitology item
Author DG	TREN
External expertise used	No
Date of Board Meeting	15 July 2009
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