CEER Position Paper

Setting a Competitive G Across Europe

(Electricity Working Group, Tariff Task Force)

(1) The European Commission announced at the Xth Electricity Regulatory Forum held in Rome (8-9/7/2003), 'the need for further measures leading to a progressive harmonisation of notably basic G-charges in the internal market, to avoid distortions of competition between generators'. A "basic G-charges" refers to a component of G charges without any locational content. The majority of the Forum favoured as a first step, harmonisation through the determination of a range, going from 0 to a positive figure. The objective is to list the conditions that a positive G must fulfil everywhere in Europe in order to minimise the possible distortions of competition in the short run.

(2) At the Electricity Regulatory Forum in July 2003, the CEER noted that harmonising a basic G charge alone, may have little effect in reducing competitive market distortions Indeed, competition between generators is influenced by the entire G charge, and not only by arbitrary cost components.

(3) A range of arguments can be used to justify a charge on generators for the use of the grid and the CEER considers that such a charge might be appropriate. It might reflect the economic value for generators associated with the existence of a grid, and the costs imposed on national grids by exporting from the country. However, no commonly agreed economic principle is available to calculate such G charges in practice.

(4) The scope for harmonising a basic G charge within this paper is restricted to infrastructure costs. It does not include the cost of losses that can be charged on top of the basic G charge, for instance via marginal loss factors that send short run locational signals.

(5) Harmonisation should be done under an umbrella of general principles. The CEER considers that, in order to minimise competitive market distortions, any access charges for generators should respect the following principles:

- Non-transaction based;
- Avoid non-cost reflective extra charge for import, export or transit;
- Complement the development of competition;
- Cost reflective and non-discriminatory;
- Transparent and easily understood;
- Being included within a range of charges.

(6) Complete harmonisation of G charges across Europe is a key component of the internal Electricity market, but this objective can only be achieved in the long run. For a first step and given existing features of the European Electricity Market, harmonisation can occur at a regional level. Regions can be defined according to the following issues:

- Market integration (market design);
- Supply concentration issues in the existing market (including market structure) in presence of structural congestions at the borders.

(7) For the purpose of harmonisation, and consistently with the recent Strategic Paper of the European Commission, 7 interconnected regions can be identified:

a) Greece;
b) Italy;
c) Spain and Portugal;
d) The island of Ireland;
e) GB;
f) Nordic countries (Denmark, Finland, Norway, Sweden);
g) Continental plate (Austria, Belgium, France, Germany, Luxembourg, Netherlands).

(8) Within each of the above-defined region, the existing situation does not show major distortions of competition. This is because the regions are already engaged in an harmonisation process or because there is very little differences in the G charges among countries:

a) Greece (to be completed)

b) In Italy the situation is already harmonized, being the G charge (remunerating the infrastructure costs) very low. Practical figures show that G charges are below 0,3 €/MWh in line with the charges applied in the Continental plate.

c) Spain and Portugal are not well connected with other Member States. There is currently no G charge. On the Iberian energy market, competition between generators is not distorted in the short term, since their offer contains energy costs, and no infrastructure costs.

d) Within the island of Ireland there is harmonisation of G charges – there is a 25% G and 75% load split in Ireland and Northern Ireland, which facilitates trade within the region

e) In Great Britain, a split between 'G' and 'L' will be maintained. It is currently a 27% / 73 % split. The experiences of GB illustrate the need to provide appropriate market based locational signals to ensure trade and necessary investment.

f) In Nordic Countries, TSOs agreed on a G tariff harmonization model in April 2000, which consist of the following principles:

i. The loss component of the G should be calculated individually for each zone or node.
ii. The residual component that ensures cost recovery, is agreed to be within a range of **0,58** €/MWh +/- **0,35** €/MWh on average. The residual component can either be a kWh-based fee or a kW-based fee. The size of the interval shall be reduced over time.

g) In the Continental plate, harmonisation is already achieved in the current situation, because almost all those countries have a zero or very low G charge per kWh injected. Very small G charges would not substantially distort competition.

(9) Flexibility of the harmonisation conditions may be necessary in order to reflect different situations in different member states within each zone. Harmonisation of a basic G charge within each region should be completed in order that this basic G doesn't affect the dispatch resulting from the short run functioning of the energy market within each region. As a consequence, the acceptable range of charges for harmonising the basic G charge depends on the differences in prices within one region and basic-G should be applied without any discrimination associated with the type of primary energy used. Any discrimination of this kind would have a detrimental effect on short run competition and would therefore undermine the desirable efficiency likely to be brought by this competition.

(10) If G charge is small, a per kWh charge may be acceptable and easier to implement and control. Such charge does not introduce distortions of competition in particular for peaking unit and units close to retirement, which could otherwise be affected by a per kW charge.