

European Charging Issues Update

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Update

- The 11th meeting of the European Electricity Regulatory (“Florence”) Forum took place in Rome on 16 – 17 September
- No firm decisions/actions emerged from the forum on moving the liberalisation work plan forward
- Only the Harmonisation of Tariffs guidelines made it through to proceed to Commitology
- Guidelines on Inter TSO Compensation and Congestion Management were rejected and will not go to Commitology until mid 2005 (after next forum)

Inter TSO Compensation Mechanism

- The main issue is with the requirement for costs to be based on long run average incremental cost (LRAIC)
- Views expressed:
 - *“draft guidelines did not adequately reflect the intention of the regulation”*
 - *“definition of LRAIC needed to be clarified and not simply refer to replacement costs of assets”* (CEER)
 - *“concurred with the views of CEER concerning the definition of LRAIC”*
 - *“a series of technical improvements needed to be made”* (ETSO)

Inter TSO Compensation Mechanism

- Way Forward

- Further Modelling work will be needed (ETSO, EC, ERGEG) before a definitive methodology can be agreed
- Quantitative analysis of the existing ETSO scheme for 2003 & 2004 will be presented at the next Forum
- The concepts of LRAIC and cross border flows need clarification and the impact of different definitions on Inter-TSO compensation should be quantified by ETSO in Q1 2005
- The ETSO voluntary scheme can continue for one more year as long as the the present level of the fund does not increase.

Inter TSO Compensation Mechanism

- Impact on GB

- Only voluntary scheme available from the start of next year
 - 1 Euro/MWh fee to remain on IUs exporting via French Link
- NGC in discussions with Ofgem regarding GB approach
- NGC initial view:
 - Will only join an EC approved mechanism
 - Our existing charging methodology is consistent with the regulation
 - No changes to Interconnector TNUoS charges until GB joins an approved mechanism

Harmonisation of Tariffs Guidelines

- The EC presented the draft guidelines at the Forum
- Stated objective: “a first step in a progressive harmonisation of the level of charges paid directly by generation to reduce unnecessary distortions of the internal market”
- The draft fixes the current position as a starting point to ensure there are no further increases in divergence between member states
- There is no impact on GB as the starting point is likely to be fixed by next years tariffs

Next Steps

- Harmonisation of Tariffs Guidelines will proceed through committee process
- ETSO to continue working with EC on Inter TSO Compensation mechanism guidelines for next Florence Forum
- GB participation in mechanism will be confirmed with Ofgem
- Next Florence Forum due Q1 2005