

**European Energy Regulators Group
For Electricity and Gas**

Work Programme 2004

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1 ELECTRICITY FOCUS GROUP

Issues to be addressed:

A) Management and allocation of available transfer capacity of electricity interconnections, including:

- Review application of the principles and guidelines included in Regulation N° 1228/2003; and
- Study methods for facilitating the efficient integration of cross-border electricity transactions with wholesale markets.

B) Network tariffs, including:

- Monitoring implementation of the inter-TSO compensation mechanism 2004;
- Comparison of network tariff structures in Member States and analysis of possible harmonisation measures; and
- Study options for the introduction of locational signals at the national/ regional/ EU level.

Background

The recently adopted Electricity Directive and Regulation¹ sets out a revised framework for the single market for electricity. They anticipate among other things the free trade of electricity at retail and wholesale levels unimpeded by political borders. Such free trade across the EU will depend on addressing the heavily interrelated issues of effective separation of network activities, tariffication rules and inter-TSO compensation, balancing markets and their interaction with each other, and co-ordination of system operators.

Possibilities for effective cross border trade will also depend heavily on the availability and use of interconnection capacity between Member States. As for any internal transmission line, patterns of generation and consumption together with relative costs and prices may imply congestion on these lines. Congested interconnectors between Member States may be particularly visible since they are usually explicitly identified and controlled by the two TSOs either side of the congestion. The efficient operation of the single market requires, among other things, that congested interconnectors are managed such that access to them is obtained by those who value it most and that market situations in all the relevant areas is correctly taken into account. Such access will be facilitated where network operators maximize the interconnector capacity available, and offer it to market on a non-discriminatory basis.

¹ Directive 2003/54/EC, Regulation 1228/2003 on conditions for access to the network for cross-border exchanges in electricity

The 6th Florence Forum of 9-10 November 2000 reflected these points by concluding that network congestion problems should be addressed with market-based solutions and setting out some general rules for congestion management. Subsequent Fora have reiterated these points and called for the further introduction and development of such solutions where they are not used at present. The 8th Forum for example invited ETSO in collaboration with the CEER to study if and how a pilot system for co-ordinated congestion management might be implemented on a regional basis. It was noted at the July 2003 10th Forum that no new auctions to allocate interconnector capacity had been introduced at any western European border for the previous two years.

The Electricity Regulation complements conclusions of the Fora by setting in law broad rules that govern cross border trade, and empowering the Commission, acting within a Comitology procedure, to set binding Guidelines on Congestion Management. The Annex to the Regulation already contains an initial set of Guidelines. The Commission intends to work up further such Guidelines for implementation in the second half of 2004. In accordance with efficient market operation, the Regulation requires that network congestion problems be addressed with non-discriminatory market based solutions that give efficient economic signals to the market participants and transmission system operators involved.

The Commission at the 10th Forum presented a discussion paper outlining the need to complement and update the rules contained in the existing Guidelines, providing in particular more detail regarding the general provisions of the Regulation on co-ordination between TSOs, transparency and maximizing available capacity, and the treatment of congestion rents.

The CEER has taken forward a number of workstreams in order to progress Congestion Management issues raised by the Fora, the Directive, and Regulation. The CEER for example, in collaboration with the Commission, has produced an analysis of existing cross border congestions and the methods used to manage them. In response to an invitation from the 9th Florence Forum, the CEER in April 2003 forwarded to the Commission a set of five principles developed by the CEER that could form the basis for Congestion Management Guidelines. The CEER has also produced a response to the Commission's first view of the Congestion Management Guidelines which was given at the 10th Florence Forum.

Monitoring the implementation of the inter-TSO compensation mechanism 2004

Since 2002, interim inter-TSO compensation mechanisms have been in place, which compensate TSO's for the use external user's make of their networks, avoiding the previous pancaking of tariffs, and successively reducing transaction based access charges. The Regulation on Cross Border Exchanges of Electricity has established a more permanent inter-TSO compensation, in line with the recommendations of the CEER and the Florence Forum, as one of the measures needed to promote fair cross border trade of electricity. For 2004, the number of TSO's involved in the initial interim mechanism has been significantly enlarged, and the mechanism improved so as to eliminate the transaction based contributions, thus facilitating the transition of entry into force of the aforementioned Regulation. Monitoring the actual performance of the interim inter-TSO compensation mechanism is of utmost importance to identify and solve any problems that may appear in the application of the future mechanism to be defined in light of the Regulation.

Comparison of network tariff structures in Member States and analysis of possible harmonisation measures and the study of options for the introduction of locational signals at the national/ regional and EU level

The Directive and Regulation aim to ensure effective competition in the Internal Energy Market, and includes provisions to ensure that network access is undertaken on a non-discriminatory, transparent manner and is fairly priced.

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'.

Since 2002, the CEER has developed several works focused on tariff harmonisation and long term locational signals, in the following subjects:

- Harmonization of the grid access tariff for generators in Europe;
- Tariff Harmonisation and Long term Locational Signals in Network tariffs;
- Proposals for setting a competitive G across Europe with a basic G-charge.

Approach

The general objective is to develop congestion management methods allowing efficient integration of the cross-border energy transactions with wholesale markets, including timetables (or a roadmap) for step-by-step procedures. The objective is to work closely with the Commission and market actors to ensure co-ordination and transparency.

Work falls to three main areas:

- Continuing to contribute to the development of Commission Guidelines under the Regulation, including addressing questions raised at 10th Forum, also including detailed definition of the rules required by and resulting from the Principle 5: *"Congestion management procedures may only generate revenue in case of congestion. The procedure for its distribution should neither distort the allocation process in favour of any party requesting capacity or energy nor provide a disincentive to TSOs to decrease the amount of congestion"*
- Fostering further application of appropriate congestion management methods by :
 - Gathering information and examining the merits of the specific congestion management methods being applied within their context
 - Issuing recommendations in line with the 1228/2003 Regulation on:
 - i. market based congestion management methods
 - ii. their implementation rules
 - iii. their applicability in certain grid and market conditions and
 - iv. efficiency of the signals gained from these methods
 - v. use of congestion revenues
 - Promoting co-operation among national regulatory authorities with a view to introducing methods for congestion management consistent with the Regulation

- Working with ETSO and other interested parties as appropriate on pilot schemes for co-ordinated congestion management and any other relevant trials
- Ensuring availability and transparency of information required by the rules

- Develop thinking on how congestion management issues fit within the wider remit of models for network tariffication and electricity markets, including the role of Balancing Markets and Power Exchanges.

It will be necessary in taking forward such work to consider the relevant market context within which these issues fall, and the Commission's view of a step-by-step approach to the single market via the use of 'Regions'.

Monitoring the implementation of the inter-TSO compensation mechanism 2004

Supervision of the temporary inter-TSO compensation mechanism to be achieved through:

- Periodic meetings with ETSO in order to obtain first-hand information on implementation and operation details;
- Follow-up and benchmarking of the regulatory measures in Member States by which the temporary inter-TSO compensation mechanism has been implemented;
- Discussion with other stakeholders to verify that there are no anomalies in implementation or operation;
- Analysis and acting upon complaints, not withholding each regulators' mission and responsibility

Comparison of network tariff structures in Member States and the analysis of possible harmonisation measures and the study of options for the introduction of locational signals at national/ regional and EU level

The "Comparison of network tariff structures in Member States and analysis of possible harmonisation measures" and the "Study options for the introduction of locational signals at the national/ regional and EU level" have been discussed extensively by the former CEER Electricity Working Group. In this context the CEER papers will be made available to ERGEG and to the EC to help inform further analysis and possibly help develop the guidelines foreseen in the Regulation.

Timetable

The work is expected to take place during the year 2004.

Initially, Working Group meetings will be held every two months. In future, the frequency of meeting will depend on the relevant work loads of the groups TF's.

Resources/use of consultants

Eventhough the need for external assistance is not essential at the moment such a need could arise in the future. In this case, the group should be permitted to put forward proposals for the use consultants in a focused and clearly defined manner, for example to cover specific sub-topics or research.

Where such sub-topics are identified and the terms of reference defined, the process for the selection of the consultants, and the resources available to cover consultancy spend will of course need to be subject to European Commission approval.

Deliverables and outputs

Congestion management:

- Review of principles & rules on congestion management to be applied under the Regulation.
- Review of principles & guidelines of congestion management to be applied to merchant lines, in co-operation with the CEER's Electricity Infrastructure Task Force.
- Analysis of different congestion management methods, existing or proposed, in light of the revised principles & rules.

Network tariffs:

- Assessment of the actual implementation of 2004 inter-TSO compensation mechanism, identifying issues to be considered for the post-regulation ITC mechanism;
- Comparison of network tariffs structures in Member States;
- Recommendations on network tariff harmonization for the initial application of the Regulation; and
- Analysis of the different options to introduce locational signals and possible roadmap for their implementation.

2 GAS FOCUS GROUP

Issues to be addressed:

A) Storage

- Develop guidelines for access to storage

B) Network tariffs

- Monitoring implementation of entry-exit tariff structures in Member States and analysis of possible harmonisation measures
- Study options for the introduction of efficient cross-border mechanisms

Organisation

The Task Forces may be organised as follows:

- **Gas storage**
- **Entry-exit:** monitoring and reporting on implementation of entry-exit regimes.
- **Cross border transport:** issues regarding cross border tariffication and efficient cross-border mechanisms.

Timetable

The relevant reports for Gas storage and Entry-Exit should be produced in time for the next Madrid Forum.

2.1 GAS STORAGE TASKFORCE

Background

There is ongoing work by the Commission to develop guidelines for access to storage, in a similar manner to the Guidelines for Good Practice II for access to gas transportation networks.

The CEER has already developed and issued a paper with policy recommendations concerning the application of Article 19 of the Directive, namely the choice between negotiated and regulated Third Party Access (TPA).

Approach

It is important for ERGEG to work on this topic to ensure that effective and efficient guidelines emerge for access to storage. The taskforce will aim to develop a common position regarding key guidelines necessary for efficient access to storage.

Deliverables and output

- Proposals to DGTREN during the process of drafting the GGP for storage
- Preparing a position in time for the next Madrid Forum.

Date	Action
March	First meeting of Gas Focus Group (GFG). Setting the organization of the TF, in particular with New Member States and Germany.
March	Possible TF meetings with GTE and Eurogas in order to share views
March (end)/ April	Presentation of the main points of discussion the GGP on storage for the EC Specific WG on Storage.
April (end)/ May	Common position on storage-GGP at GFG-level to present in JWG.
June	Participation of GFG to JWG
June	Presenting final report to ERGEG for approval
July	Presentation results at Madrid Forum

2.2 ENTRY- EXIT TASKFORCE

Background

At the September 2003 Madrid Forum, it was decided that CEER and GTE should monitor the implementation of entry-exit systems for gas transportation throughout the EU, based on the check list and roadmap developed by CEER, as presented at the Madrid Forum.

Approach

The monitoring work will be based on a questionnaire sent to the TSOs via the national regulators.

The questionnaire will refer to the situation as of 1/1/2004. Future changes will only be included if they are envisaged to take place in 2004.

The questionnaire was issued on 13th February by the CEER President and includes the following components:

- Tariffs in general;
- Entry-Exit Tariffs;
- Capacity;
- Point-to-point capacity rights; and
- Entry-Exit capacity rights.

The deadline for receipt of completed questionnaire is 5th April 2004.

Deliverables and outputs

- ERREG report and presentation to the next Madrid Forum on implementation of entry-exit recommendations.

Date	Action
March	First meeting of Gas Focus Group. Setting the organization of the TF, in particular with New Member States and Germany.
April	Presenting draft report to Gas Focus Group
May	Comments of Gas Focus Group
June	Presenting final report to ERREG for approval
July	Presentation results at Madrid Forum

2.3 CROSS BORDER TRANSPORT TASKFORCE

Background

Gas already has a long history of cross-border flows. However, as gas crosses a TSO network it typically faces a different tariff and capacity allocation scheme each time. The CEER Medium-term Vision Position Paper argued for the establishment of reasonably common entry-exit systems in each Member State, and trade between local or national hubs. The ERGEG strategy needs to further expand on how trade can occur in a reasonably coherent manner, while still reflecting potential (justified) remaining differences in national approaches. This could also highlight which harmonisation issues are more or less important.

Besides tariffication, rules related to cross border gas flows have to be developed. This is vitally linked to the Gas Regulation, that envisages providing tariffication rule for cross border gas flows. At this stage there is an urgent need to develop (methods for) common tariffication rules in order to ensure a harmonised approach. The TF will therefore prepare a document outlining (methods for) common tariffication rules for cross border flows. At best – and as a working approach for the Task Force – these principles are intended to be included in the (Annex to the) Gas Regulation.

Approach

The CEER has also already identified the issue of transits of gas as important. Unlike electricity there is a potentially far greater difference in the regulatory treatment of transits in some Member States. This TF should also consider in a robust manner the interaction of transit and transportation – in particular the different approaches in Member States to this issue, possible justified/unjustified differential treatment of transit from transportation; the possible problems of transit pipelines for small countries; and issues concerning long-term contracts, access to transit pipelines, and any associated questions of interoperability.

The new Gas Directive institutes a regulated TPA regime for (future) transit. With regard to these transit volumes, the following questions may be considered:

- Is there a need for a "special treatment" of these international flows within the system of regulated tariffs? That is, under which conditions is it justified/appropriate to set different tariff structures for an existing pipeline which is crossing the country (or the entry-exit area) without any physical link with the network which is used for transit through the country and or transport within the country?
- Is it advisable to establish special categories of contracts with different tariff structures? If so, what might be recommended as criteria to justify such a category and subsequently use different calculation methodologies for the tariff? If so, how will the alignment be managed with the contracts that are based on different tariff structures? What are the subsequent pitfalls one has to bear in mind in this respect?
- How should the tariff be structured to increase the efficiency in the usage of the pipeline? Is capacity "overbooking" (capacity Hoarding?) allowed and if yes, to which extent or at which conditions? How to avoid "pan caking"?

The study would further look at:

1. how entry-exit areas would actually interact;
2. what are the practical steps a shipper would have to take to transport/transit gas;
3. identifying possible remaining distortions to cross-border trade, building on work already undertaken by the CEER;
4. an impact assessment in each area of the extent to which the interaction has the potential to distort the relevant markets; and
5. an assessment of the relative priority that should be given to addressing each interaction in order to minimise the resulting distortion.

It will also be necessary to examine the extent to which interactions can potentially undermine security of supply.

Deliverables and Outputs

- Preparing a document outlining (methods for) common tariffication rules for cross border flows but also recommendations on the extent of harmonisation necessary. At best – and as a working approach for the Task Force – these principles are intended to be included in the (Annex to the) Gas Regulation
- A report will be devoted to the remaining questions (related to facilitating efficient cross-border trade).
- A position paper will be made up before the next Madrid Forum

Date	Action
April	First meeting of TF
May	Possible meeting with GTE and European Commission in order to share views
June	Finalize a Common position paper including 1.) -3.)
July	Presentation results at Madrid Forum
September	Second meeting of TF
November	Finalize the study including 4.) and 5.)