

## Network Charges & Use of Congestion Income

European Commission proposal		
<b>Article 16</b> Network charges shall be transparent, cost-reflective, applied in a non-discriminatory manner and take into account the need for network security and flexibility.	Electricity Regulation	✓
<b>Article 16.2-8</b> NRAs shall introduce performance targets over both the short and long term to incentivise DSOs to increase the level of efficiency, foster market integration and security of supply and support investments and the related research activities	Electricity Regulation	✓
<b>Article 16.9</b> By 3 months, ACER shall provide a recommendation addressed to NRAs on the progressive convergence of transmission and distribution tariff methodologies	Electricity Regulation	≈
<b>Article 55</b> EC is empowered to adopt network codes as delegated acts on rules regarding harmonised transmission and distribution tariffs.	Electricity Regulation	≈
<b>Article 17.2-3</b> If the congestion income cannot be efficiently used by TSOs for the purposes set out, they shall be placed on an internal account line for future use.	Electricity Regulation	≈

### Distribution tariffs should be cost reflective, transparent and non-discriminatory

We share the European Commission's views that **distribution network tariffs shall reflect the network's fixed and variable costs**, be **allocated in a fair way** and **grant appropriate incentives for an efficient use of the grid** to all users and that the application of such tariffs may be differentiated based on users' consumption profiles. Grid charges should be borne by all users that contribute to raise network costs in a fair manner, in order not to create consumer divide.

### Using grid tariffs to minimise distortions

Transmission and distribution grid tariffs must above all provide a **level-playing field and seek to minimise distortions** on the development of the energy system. Grid tariffs should also **not include unrelated costs supporting other policy objectives** as this would distort production, consumption and investment decisions. Such taxes and levies should not be scattered across the tariff components and be charged/collected via clearly defined and separate mechanisms in order to provide transparency to both markets and consumers.

### Welcoming ACER's assessment of the need for progressive convergence of transmission and distribution tariff structures

We agree with the fact that ACER should provide a recommendation assessing **the need for progressive convergence of transmission and distribution tariff structures**. We also believe that such recommendation should provide guidance to NRAs by means of high-level principles in order to allow NRAs to account for specific national conditions. However, it seems **unrealistic to foresee only 3 months for ACER** to issue such recommendation based on sufficient stakeholders' involvement.

### Transmission tariffs structure shall be harmonised to ensure a level-playing field

EURELECTRIC welcomes the development of a network code on transmission tariffs, should ACER Recommendation conclude that it is necessary. The **harmonisation of the structure and ultimately the level of transmission tariffs are indeed needed to ensure a level-playing field**. For transmission tariffs applied to **generators**, their **level** should be set **as low as possible**.

### Respecting subsidiarity for distribution tariffs is the best way to respond to national specificities

**Distribution tariffs are a matter of national regulation** as they are closely linked to local specificities. An **EU-wide harmonisation approach to distribution tariffs** via a network code is **not justified** especially given their low impact on cross border trade. However, given the rapid technological evolution, which transforms the way distribution grids are used and the profound changes to the energy system, we believe that distribution tariff structure should be guided by the high level principles defined in Art. 16. In this sense ACER recommendation could be useful to provide high level guidance to NRAs, while respecting the principle of subsidiarity.

### Enabling DSOs to procure flexibility and develop innovative solutions incentivizing an efficient and high-quality service

We **welcome** the fact that **NRAs shall incentivise DSOs, through grid tariffs to increase the level of efficiency** (including reduction of losses) in their networks, foster market integration and security of supply, and support investments and the related research activities. However, these **incentives should be included also in the DSO remuneration schemes that are often disconnected from the grid tariffs**. In fact, most remuneration schemes in Europe already include such incentives. Therefore, it is not necessary to require regulatory authorities to introduce performance targets to raise efficiencies. NRAs should be flexible in choosing the regulatory tools to increase the DSOs' efficiencies and incorporate them within their overall regulatory approach.

### A more transparent use of congestion rent by TSOs is welcome

We welcome that any revenues resulting from the allocation of interconnections shall be used for guaranteeing the actual availability of the allocated capacity and/or maintaining or increasing interconnection capacities through network investments. Furthermore, **if the revenues cannot be efficiently used for the purposes set out above and there is no foreseeable prospect to do so in the future**, we believe that it should still be possible to use **congestion income for the reduction of tariffs**.

## Key proposed amendments

### Article 16.1

1. Charges applied by network operators for access to networks, including charges for connection to the networks, charges for use of networks, and, where applicable, charges for related network reinforcements, shall be transparent, take into account the need for network security and flexibility and reflect actual costs incurred insofar as they correspond to those of an efficient and structurally comparable network operator and are applied in a non-discriminatory manner. **Grid tariffs should also not include unrelated costs supporting other policy objectives, such as taxes and levies, as this would distort production, consumption and investment decisions.**

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#### Justification

*Those principles should be complemented by the following key missing element: grid tariffs should also not include unrelated costs supporting other policy objectives, such as taxes and levies, as this would distort production, consumption and investment decisions. Should this happen, such taxes and levies should not be scattered across the tariff components and be charged/collected via clearly defined and separate mechanisms in order to provide transparency to both markets and consumers.*

### Article 16.3

3. **Grid tariffs shall not be distance related and shall not provide locational signal. Only connection charges may be distance related in order to be cost-reflective and give locational signals. ~~Where appropriate, the level of the tariffs applied to producers and/or consumers shall provide locational signals at Union level, and take into account the amount of network losses and congestion caused, and investment costs for infrastructure.~~**

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#### Justification

*Grid tariffs shall not be distance related and provide locational signals since the distance of a consumer from the network is not a cost driver for the operation of the network. Only connection charges, in order to be cost-reflective and give locational signals, may be distance related.*

### Article 16.8

Regulatory authorities shall provide incentives to distribution system operators to procure **and develop** services for the operation and development of their networks and integrate innovative solutions in the distribution systems. For that purpose regulatory authorities shall recognise as eligible and include all relevant costs in distribution tariffs. **These include, among others, Research and Development, pilot project implementation and the launch of new technologies, as well as service contracts that network operators award for the operation and development of their networks. The Regulatory authorities may** introduce performance targets in order to incentivise distribution system operators to raise efficiencies, including energy efficiency, in their networks. **The fundamental goal of innovative solutions is to improve efficiencies and quality of service. In the development phase of innovation, on the other hand, no cost efficiency requirements should apply.**

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#### Justification

The Commission's recognition of the innovation needs in the distribution networks in art. 16 (8) is welcome. To ensure that DSOs are able to cover the costs for innovation, such proposal should be complemented by an explanation of what it is meant by "relevant costs" incurred by DSOs to achieve those principles. NRAs should incentivise DSOs to raise efficiencies. Yet, NRAs should be flexible in choosing their regulatory tools as performance targets are only one possibility of many. In fact, most European NRAs already apply regulatory tools with the aim to raise efficiencies. The introduction of the last caption is based on the ground that regulators should acknowledge that innovative grids will necessarily invest in OPEX and CAPEX and that new technologies may not always be successful and fail. A regulation that burdens the risk of failure only on DSOs causes DSOs to avoid the risk of innovation. Therefore it is justified to share the risk of innovation, because in the end DSOs will also share the benefits of innovation with the customers.

#### Article 16.9

By [OP: please add specific date – **twelve** months after entry into force] **and following stakeholder consultation**, the Agency shall provide a **non-binding** recommendation addressed to regulatory authorities on the progressive convergence of transmission and distribution tariff methodologies.

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#### Justification

ACER should provide, respecting the principle of subsidiarity, a non-binding recommendation assessing the need for progressive convergence of transmission and distribution tariff structures. Such recommendation should provide guidance to NRAs to implement high-level principles listed under Art. 16. However, it seems unrealistic to foresee only 3 months for ACER to issue such recommendation based on sufficient stakeholders' involvement.

#### Article 17.2

Any revenues resulting from the allocation of interconnection capacity shall be used for the following purposes:

- (a) guaranteeing the actual availability of the allocated capacity;
- (b) ~~and/or (b)~~ maintaining or increasing interconnection capacities through network investments, in particular in new interconnectors,
- (c) **and/or performing remedial actions such as cross-border or internal redispatching and countertrading.**

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If the revenues cannot be efficiently used for the purposes set out in points (a) and/or (b) of the first subparagraph **in the foreseeable future**, they ~~shall be placed on a separate internal account line for future use on these purposes~~ **may be used for the reduction of tariffs.**

#### Justification

Any revenues resulting from the allocation of interconnections shall be used for guaranteeing the actual availability of the allocated capacity and/or maintaining or increasing interconnection capacities through network investments. It should however be recognised that maintaining interconnection capacities can also be ensured through redispatching and countertrading. Furthermore, if the revenues cannot be efficiently used for the purposes set out above and there is no foreseeable prospect to do so in the future, congestion income may still be used for the reduction of tariffs. We support that TSOs shall report on the actual use of the congestion income.

#### Article 55.1

(k) rules regarding harmonised transmission ~~and distribution~~ tariff structures and connection charges including locational signals and inter-transmission system operator compensation rules; and

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#### Justification

Distribution tariffs are a matter of national regulation and as such they should not be subject for a network code.