Eurelectric views on the upcoming Network Tariff proposal

Electrification coupled with **clean and renewable generation** are the key to achieve **Europe's decarbonisation** and **energy sovereignty goals**. This requires European electricity networks to become **more flexible and resilient**. Europe's electricity networks see an unprecedented new connection demand both from end-users and generation, extreme weather events, physical and cyber-attacks, at the same time, European grids are already 30% aged on low voltage level, thus urgent modernisation and expansion is needed, resulting in a need for almost doubling investments in the next 25 years[1].

In parallel, affordability is on the top of the European Union's agenda in the **Affordable Energy Action Plan** and, more recently, the **AccelerateEU Communication**.

Against this background, the European Commission is expected to unveil a legal proposal on network tariffs. Ahead of this publication, we advise the following tools to be used and to be avoided: In the coming months, the Commission is expected to unveil a legal proposal on network tariffs.

What do we advise on network tariffs and connection charges?

1. **Use high rate of capacity fees**
   Use high rate of capacity fees to incentivise end users to optimise their capacities. Also, this is a better way to reflect that the majority (above 90%) of DSO costs are fixed.
   Tools: high rate of capacity fees for all customer groups

2. **Reclaim unused capacities**
   End-users shall give back their unused capacities to system operators which could unlock a significant amount of unused capacity without additional network investments.
   Tools: use-it or lose-it to release unused capacities, use high rate of capacity fees, clean connection queue from immature projects that do not comply with connection milestones.

3. **Incentivise peak load shift and unlock flexibility**
   Give incentives to end customers to shift their peak demand to off-peak periods.
   The electricity network has to be designed for the peak capacity, the aim is to smooth the peak period and shift some of the peak network use to off-peak periods and thus avoid additional network investments. Unlock cost reflective flexibility to optimise network investment costs.
   Tools: well designed static Time-of-Use (ToU) network tariffs, flexible connection agreements (FCAs), rules-based approach, local flexibility markets, locational signals in connection charges.

4. **Use locational signals in network connection charges**
   Use locational signals in connection charges to incentivise generators to locate near networks with available capacity (and in an optimal way demand as well), to bring down network costs.
   Tool: locational signal in network connection charges

5. **Unlock digital advanced technologies by equal tariff treatment**
   Give incentives to network operators to use digital advanced technologies by treating digital and physical technologies the same way in network tariff methodologies.
   Tool: balanced treatment of OPEX and CAPEX in tariff methodologies

[1] Grids for Speed, Eurelectric, 2024

What to avoid in network tariffs and connection charges regulation?

1. **Avoid setting minimum utilisation rate for networks**
   The electricity system has unique utilisation rates due to different end-user profiles and it has to serve customer needs in every single moment they wish to withdraw or feed-in electricity. However, the network needs to be able to serve the peak demand, so the capacity is driven by peaks. This is an inherent nature of networks which cannot be penalised. For example, many households use electricity in the morning and the evening for a few hours, their utilisation rate is low.

2. **Avoid lengthened investment payback time compared to asset lifetime**
   System operators pay network investments upfront and get their investment back over 40 years on average. They have already paid for the network investments for which they are currently receiving the network tariffs. Long term predictability and stability of regulatory frameworks and competitive returns (compared to other industries) is needed to attract capital. Thus, lengthened return or different rates of return should be avoided.

3. **Avoid two step regulatory approval and streamline processes**
   Network operators need to connect all customers on a neutral basis. Europe sees unprecedented amount of new connection requests. Network operators optimise their investments based on their long term plans in line with the TYNDP. Permitting and public procurement procedures already lengthen investments, and the industry faces workforce challenges. All processes shall be streamlined and speeded up, including regulatory processes. Thus, Regulators should approve long term anticipatory investment plans, but should avoid approval on very granular basis.

4. **Avoid special network tariffs and keep cost reflectivity**
   We suggest not to mix network tariff methodologies with social and industrial policies. Network tariffs shall be cost reflective for each customer group. If need to be, the subsidy shall be directly paid to that specific customer group.

5. **Locational signals shall be used in connection charges, not network tariffs**
   Locational signals work well in connections and drive new generation and demand to less congested areas and thus lower grid costs. Locational signals in use of network tariffs lead to inequality among network users therefore we suggest avoiding them.

For further reading, please see our response paper on **Network Tariffs**.