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<%@LANGUAGE="VBSCRIPT"%> <% Dim Recordset1 Dim Recordset1_numRows Set Recordset1 =
Server.CreateObject("ADODB.Recordset") Recordset1.ActiveConnection = MM_ifiec_STRING
Recordset1.Source = "SELECT * FROM electricity ORDER BY volgorde DESC"
Recordset1.CursorType = 0 Recordset1.CursorLocation = 2 Recordset1.LockType = 1 Recordset1.Open()
Recordset1_numRows = 0 %>
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CROSS BORDER EXCHANGES : IFIEC EUROPE POSITION ON PRICING PRINCIPLES

Memorandum in view of the Florence Regulators' meeting on March 30-31, 2000

All concerned parties to the Florence Regulators' Forum are aiming in this critical phase to find common agreement on a pragmatic, equitable and transparent solution for European transmission pricing that integrates cross border aspects. In this respect, IFIEC Europe appreciates the efforts of ETSO to put forth a clear proposal for rapid implementation in 2001.

On behalf of its members in Europe who, as industrial energy consumers and self-generators of power, are qualified users of the transmission grids in Europe, as well as major stakeholders in the Florence discussions, IFIEC Europe would like to clarify its position with regard to the key principles which should be retained as part of the final solution.

The IFIEC Europe views take into account the fundamental political objective to establish European pricing principles which are **globally cost reflective** and provide incentives for enhancement of the interconnected transmission grids to meet future requirements.

The IFIEC Europe recommendations hereunder focus on global cost evaluation and accounting at TSO-level, with the establishment of a postage stamp tariff at end-user level.

1. TSO's: ESTABLISH GLOBAL COST REFLECTIVENESS AND CLEARING MECHANISMS UNDER REGULATORY CONTROL

1.1. Cost-basis principle, including performance indicators

Cost reflectiveness should be dealt with between network operators according to clear and simple principles.

ETSO should be responsible for evaluating the global transmission costs, including those related to cross border exchanges.

While IFIEC Europe recognises that cross border exchanges between TSO's give rise to certain costs (notably related to losses), these costs would, however, appear to be marginal (around 3%) as compared to total systems costs in Europe.

Costs should be globally assessed each year according to a harmonised and transparent methodology of accounting principles shared by TSO's.

In order to keep overall costs related to cross border exchanges within competitive bounds, IFIEC Europe recommends that performance indicators be integrated into TSO management techniques, with appropriate regulatory review.

1.2. TSO accounting and clearing mechanisms

TSO's should develop a clearing mechanism for invoicing and settlement of payments between TSO's.

1.3. Regulatory control

TSO's should submit evidence of global costs related to cross border exchanges to appropriate regulatory authorities at both national and EU levels.

1.4. Exceptional costs related to congestion management

Compensation for exceptional charges related to specific congestion management problems should not be included in the assessment of global costs, but should be treated separately, on a case-by-case basis subject to common principles, and supported by verifiable evidence produced by the TSO and made available to all concerned parties.

Conditions for compensation could be defined within the scope of a separate service contract between concerned TSO's and grid users.

Provision for recourse and arbitration must also be provided.

2. END-USERS : ESTABLISH A POSTAGE-STAMP PRICING MECHANISM THAT REFLECTS THE GLOBAL COSTS OF THE TRANSMISSION SYSTEMS, INCLUDING CROSS BORDER EXCHANGES

Network costs related to cross border exchanges should not be transaction-based (i.e. no "t" factor).

Given the benefit to all grid users of the market fluidity and increased security linked to cross border exchanges, all grid users should contribute to the recovery of the related network costs.

Indeed, if global costs related to cross border exchanges were directly assigned to a small number of transactions, this would slow down the process of liberalisation and also impede progress in the development of spot markets within the Internal Electricity Market.

It is recognised that a simple and clear pricing formula is necessary.

IFIEC Europe continues to favour a pricing formula for cross border exchanges which is globally cost reflective, transparent and non discriminatory.

IFIEC Europe recommends that the global costs of cross border exchanges be integrated directly into the respective network postage stamps, on a pro rata basis to be determined among concerned TSO's.

The recovery of the global costs, including cross border exchanges, should be determined by national authorities in a two-term pricing formula, as follows :

$$P = G + L$$

Where P = price paid to relevant TSO for the recovery of global charges, including cross border exchanges

where G = generation (at injection point)

where L = load (at extraction point).

As a safeguard measure, IFIEC Europe recommends that the price resulting from this formula be capped, for example, by a value corresponding to the average postage stamp of the interconnected electrical systems in ETSO, as follows :

where P = average price in Europe paid to TSO's for the recovery of global charges, including cross border exchanges where n = number of interconnected electrical systems in ETSO.

The allocation of costs between G and L should be harmonised throughout Europe, with an equal sharing (50/50) between generators and consumers.

Invoices and payments should be administered locally, at the points of injection (G) and extraction (L).

3. INCENTIVES FOR DEVELOPMENT OF INTERCONNECTORS

The European interconnectors are essential infrastructures which should generally be financed through the EU budget. In particular, IFIEC Europe urges that the cost of development of these infrastructures should not be included in the general transmission pricing formula.

In order to create additional incentives for interconnected grid development, the possibility should be open to private third party investors to upgrade existing interconnectors and also finance direct lines at the border of neighbouring systems. In exchange, private investors should be granted the right to reserve a given amount of interconnected capacity.

4. CALENDAR

Once a pricing formula is adopted, ETSO should be entrusted with the mission to implement it immediately, without administrative delays.

It should be agreed by the Commission and Regulatory Authorities from the outset that a formal review should be undertaken within a reasonable delay (for example, 12 months) in order to permit necessary fine-tuning, on the basis of commercial experience by ETSO and the grid users.

<% Recordset1.Close() Set Recordset1 = Nothing %>