

Further harmonization of Electricity Grid Tariff methodology

Since the energy crisis, electricity costs have become a deciding factor in the competitiveness of various electricity intensive corporates as well as for key technologies for the energy transition. Electricity costs for corporates can be divided in three components: 1) wholesale prices, 2) grid tariffs for the use of electricity networks and 3) applicable taxes and possible state support to limit total electricity costs. The second component covers the operating and capital costs incurred by Transmission and Distribution system operators. Such grid tariffs need to be cost-reflective and may not be applied in a discriminatory manner.¹

Historically grid tariffs have been a small part of the total electricity price paid by most corporates. Due to increases in investments in electricity grids related to the energy transition, grid tariffs are steadily rising, and are becoming a significant component of the electricity price paid by corporates.

An important achievement of the European Union's internal market for electricity is the creation of a level playing field for electricity-intensive corporates. This is based on a high degree of price convergence on the wholesale markets (price component 1), wholesale prices) due to market coupling and expansion of interconnection capacity and as a result of EU regulation on the internal electricity market. This allows corporates to compete on other factors, supports innovation and prevents unproductive competition between EU Member States.

Because of the growing share of grid tariffs in the overall electricity price paid by corporates, differences between the regulation of national grid tariffs are now increasingly creating distortions to the level playing field.² This is a risk that has already been identified by ACER in 2015³. Furthermore, these differences in regulation fall outside the scope of EU state aid oversight.

These differences stem i.a. from choices by the national regulators with regard to:

- Exemptions for technologies related to the energy transition such as electrolysers and batteries; As shown by ACER in their 2023 report on grid tariff methodologies⁴, some EU countries offer complete or partial exemptions of grid tariffs to these technologies, as they are seen as stabilizing the grid. Other regulators offer no exemption at all. This reflects differences in interpretation of the cost reflectivity principle. These differences have a major impact on the business case of these technologies without state aid control. To illustrate the impact of such an exemption; the target of 4 GW electrolyser capacity in the Netherlands will require EUR 6-9 billion fewer subsidies if electrolysers are completely exempted from grid tariffs⁵.
- Different applications of degressive tariff structures that benefit electricity-intensive corporates. These differences in tariff structure design have a significant impact on the level playing field of these corporates. As an example: Dutch Zinc producer Nyrstar has its most efficient smelter in The Netherlands; it shifted production to other European facilities as the abandonment of degressive grid tariffs, combined with an increase of grid costs in the Netherlands has led to an eighteen-fold increase of grid tariffs for Nyrstar in 2024. While degressive tariff structures can benefit corporates competing on a global scale, the application of degressive tariff structures has implications that are undesirable from a social and an energy transition point of view, as it shifts costs to other users such as households, and can reduce the incentive for flexible usage of the grid.

¹ Article 18 of Electricity Regulation (EU) 2019/943.

² <https://www.bruegel.org/policy-brief/europes-under-radar-industrial-policy-intervention-electricity-pricing>.

³ https://acer.europa.eu/en/Electricity/FG_and_network_codes/Documents/Scoping%20conclusions%20for%20harmonised%20Transmission%20Tariff%20Structures%20in%20Electricity.pdf

⁴ https://www.acer.europa.eu/sites/default/files/documents/Publications/ACER_electricity_network_tariff_report.pdf

⁵ <https://open.overheid.nl/documenten/f3e7d87c-0407-4e31-a9ef-3495df8cde4d/file>

As investments in electricity grids will increase further as we move towards full decarbonization of our societies (in line with the EU Action Plan for Grids that estimates EUR 584 billion in grid investment is needed⁶), the distorting effect of these differences in national tariff structures will only become more detrimental to the level playing field over time.

The judgment by the ECJ on 2 September 2021⁷ has made clear that national legislators have no legal basis to issue guidance to the regulator on grid tariff methodology. This prevents legislators from addressing the abovementioned distortions to the level playing field. Therefore, we see a clear need for ACER and/or the European Commission to issue guidance to national regulators with regard to the grid tariff methodologies. This should lead to a higher degree of alignment on the nature and conditions of grid tariff exemptions, and to what extent degressive tariff structures are allowed. I.e., a strong Energy Union calls for strong central supervision.

N.B.: the goal is to arrive at a higher degree of alignment on tariff methodology, whilst not harmonizing the level of the grid tariffs. The methodology should reward efficient national choices with regard to grid expansion and operation as well as historical grid investments, whilst helping to safeguard the level playing field on the internal market for electricity users now and in the future. To this end, we call on the European Commission and/or ACER to issue this guidance as a matter of urgency.

⁶ https://ec.europa.eu/commission/presscorner/detail/en/ip_23_6044

⁷ <https://curia.europa.eu/juris/document/document.jsf?docid=245521&text=&dir=&doclang=EN&part=1&occ=first&mode=DOC&pageIndex=0&cid=3633292>