

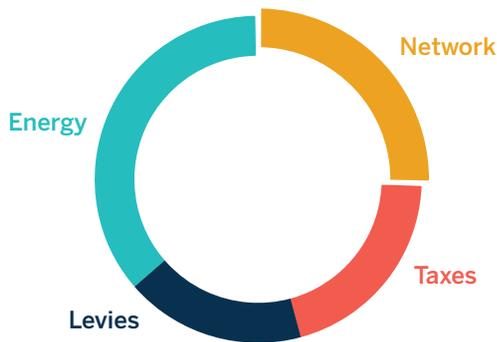


RAP®

# Fixed charges impede progress & drive up costs of the clean energy transition

The EU commitment to the clean energy transition recognizes that consumers will play an active role in the energy market—but tariffs must be designed to encourage that.

## Network charges are a significant cost to consumers



Source: European Commission

## Fixed charges drive inefficient consumption, higher costs

Fixed charges for the use of distribution networks take the power out of consumers' hands, discouraging energy efficiency, demand response, and self-generation.

When applied discriminately to emerging groups of consumers—like electric-vehicle owners or people who install solar panels—

they promote consumption at times of stress on the grid and increase costs to all by driving excessive grid investment.



## Many industries recoup fixed costs through per-unit pricing

Most industries, even those with high capital costs, don't rely on fixed charges. Hotels, petrol companies, airlines and grocery chains—all highly capital intensive—recoup their costs by charging for the volume of product sold. There's no reason pricing for electric grid services should be different.

Efficiency and equity are best served when the cost a customer pays for shared infrastructure reflects as closely as possible the costs that consumer imposes—not a fixed charge that ignores how much they use or when they use it.

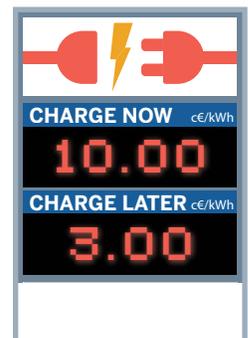
Monthly Petrol Bill	
<b>FIXED CHARGES</b>	
Oil Well	€60
Refinery	€40
Pipeline	€35
<b>USAGE CHARGES</b>	
Petrol (50 lt @ 0,3€/lt)	€15
<b>Total:</b>	<b>€150</b>



## Tariff design can empower customers, drive the transition

Design of network tariffs should empower consumers to make good decisions while ensuring that everyone pays their fair share.

Varying network charges by time of use is most important for consumers with large controllable uses, such as EV charging and solar feed-in, encouraging flexible consumption by empowering consumers to save money. For other consumers, this should remain an option for now.



## What do we mean by “fixed charges”?

- Some network costs vary directly with the amount of energy flowing, but most are investment and maintenance costs that vary only over the long-term.
- The charges operators seek to impose can also vary with the amount of energy used (“volumetric”) or be pre-set based on the network’s capacity (“fixed”); no rule says fixed costs should be matched by fixed charges—in most industries they are not.
- Some fixed charges are based on the maximum capacity used by a consumer over a certain period (“demand”), whilst others simply allocate a fixed lump of network costs to each consumer (“capacity”).

## Why should consumers and policymakers be concerned?

- The only network capacity a consumer is directly responsible for are the facilities from the local distribution feeder to their meter; the rest is shared amongst all consumers.
- Every consumer places a different burden on the shared network depending on how and when they use it, and consumers are increasingly able to control how and when they do so.
- Charges that reflect how much and when the network is used (“time-of-use” or ToU) encourage consumers to make choices that reduce the need for network investment, especially those adopting new uses like electric vehicles and distributed solar.
- If poorly designed tariffs lead to excessive network investment and escalating costs, those who can will simply leave the network, shifting costs to those who cannot.

## What does RAP recommend?

- Within the EU’s scope of authority: That guidance on “cost-reflectivity” be clarified to refer to the principle that a consumer should pay for the costs they impose on the network, not to the nature of specific customer charges.
- Within Member States’ scope of authority: That Member States develop network tariff options for recovering all network costs based on the following principles:
  - A customer should be able to connect to the grid for no more than the cost of connecting to the grid.
  - Customers should pay for grid services in proportion to how much and when they use the grid.
  - Customers who generate electricity should cover their fair share of grid costs, by paying more to use the grid when it’s heavily loaded, but less when it’s not.

## Where can I find more information?

- Visit [www.raponline.org/smart-rate-design](http://www.raponline.org/smart-rate-design) for in-depth tariff design resources.