

**CEER Comments**  
**on the European Commission's Discussion Document**  
**"Inter TSO Compensations"**

**Introduction**

The discussion document develops the articles in the Regulation that deal with inter-TSO compensation. The CEER comments here are organised following the order of the discussion document and include only those aspects where a discrepancy in understanding may exist.

**CEER Comments of the Commission's Document on ITC**

*Transits versus all cross-border flows & with-and-without transits vs. average participations*

CEER believes that it is premature, at this stage, to state that only transits should be considered when computing inter-TSO compensations. As indicated in the discussion paper, it will soon be possible to verify this presumption with the extensive data that is being collected by ETSO during 2003.

Therefore the CEER appreciates that the analysis and calculation of the models discussed must be carried out and the decision be made then, on what model to use.

*Article 3(6): Standard Costing Methodology*

CEER supports the use of standardised costs when computing inter-TSO compensations. It has been already established in article 3(6) of the Regulation that these costs will be calculated on the basis of forward looking long-run average incremental costs (LRAIC).

However, CEER considers that some potential difficulties with the use of this costing approach need to be mentioned. First, it needs to be realised that the purpose of this costing procedure is to compute inter-TSO payments, whose impact is to modify the pre-existing G and L tariffs by a small percentage. It seems therefore, that trying to convey efficient and strong economic signals via this small modification in the network tariffs would be difficult.

Moreover, the methodology and the parameters used for calculating standard costs need to be harmonised and justified. It will be important to understand and minimise appropriately any inconsistencies between regulated incomes and remunerations determined with reference to replacement costs.

The identification of the horizontal network is straightforward when the WWT method is used with real network flows. This task is not so simple when the average participations method is used.

*Remarks on LRAIC (Long Run Average Incremental Cost)*

The cost structure of electric networks is characterised by increasing return to scale.

The average cost of increasing transport on a given network in general is substantially lower than the average cost of the existing network.

A compensation based on calculated replacement cost of the network could overestimate the Long Run Cost for increased transport on the network, and could for this reason create inefficiencies if used in tariffs or prices paid by network users.

It seems further that compensation based on replacement cost bears with it some possible pitfalls. A main problem is the information on actual and relevant replacement costs. Another problem is related to depreciations, reinvestments and lifetimes.

Return on depreciations not re-invested is financial income on the depreciation fund. A correct assessment of the real Rate of Return (RoR) is also important. The RoR should be the real rate of return, not exceeding the average real RoR in the other and comparable low-risk investments.

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