



ETSO comments on the European Commission's Discussion document « Inter TSO Compensations »

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ETSO welcomes the discussion document prepared by the European Commission for the inter-TSO compensations and more specifically the pragmatic approach pursued for the future implementation.

Given the experience gained by the participating TSOs since March 2002, ETSO strongly believes that future mechanisms should maintain the main characteristics of the present system:

- simplicity (for setting up the system as well as its daily implementation),
- transparency (so as to ensure that all stakeholders understand principle and objective) and
- efficiency (so as to avoid spending more resources than needed to reach a fair compensation for transits).

The compensation mechanism should evolve step-by-step, founding on the successful implementation of the past two years.

General Comment

The document proposes different ways to manage the TSO compensation. ETSO stresses that, before adopting any model, an evaluation of its impact upon the effectiveness of the compensation mechanism has to take place based on real network situations for all concerned parties.

The inter-TSO compensation should be based on principles that are consistent with those adopted for transmission charging (G & L). ETSO comments made on the 'Harmonisation of network access charges' are therefore relevant also to inter-TSO compensation, particularly regarding the inclusion of asset costs in energy-based charges and the split between common used infrastructure and connection charges.

Principles for establishing inter TSO compensation

- Transits .v. all cross border flows

The assumption justifying to include only transit flows in the compensation mechanism is that including all cross border flows would be unnecessary complex since the costs of inflows and outflows can be easily compensated by national tariffs, in an equitable way, provided that injection charge (G) and off-take charge (L) are set at adequate levels. For instance, in an exporting country, an injection charge can reflect the costs due to outflows (and at the same time provide a locational signal). It is not necessary to include inflows and outflows in the compensation mechanism. Therefore, ETSO considers that the inter TSO mechanism should remain for the compensation of transits.

ETSO also stresses that networks are dimensioned for peak capacity requirements. This specificity is currently not taken into account by the ETSO mechanism. The inter TSO compensation is based on usage factors because it simplifies the design of the mechanism to compensate for transits. Also, how the money needed for the compensation is collected within the different countries could be included in the discussion for the harmonisation of national tariffs.

- With and Without .v. Average Participations

It should be noted that the “with and without” transit methodology considered by ETSO can be improved so that transit flows in some host network are assigned to specific TSOs where they originate or end, based on load flow calculations using real flow values (in other words, taking into account the law of physics). Whether there is a significant advantage by raising the complexity of the approach needs to be demonstrated.

Discussion of available models

ETSO stress the fact that the use of “average participation” aspires to a more consistent rule for assigning flows than that required for the “with and without” transit model. However, the model relies - as other models - to assumptions that do not reflect the reality of the physical flows in a meshed network. All methods have implicit imperfections and any model would finally find its limitations when it comes to the question of ‘resolution in time’. Thereby, other methods are able to assign responsibility for transit flows to network users (such as the ETSO model).

ETSO wants also to focus the evaluation on the requirement for simplicity and resources. One could wonder why the level of sophistication for calculating inter-TSO compensation should be much higher than when calculating national tariffs.

The model should be transparent, easy to implement, and be reproducible on a country-by-country basis.

Payment procedure

Funding should be shared equally between importing and exporting countries based on measured physical flows.

Standard costing methodology

As the method for the regulation depends on the long-run costs, the assets should be based upon the long-run planned costs (e.g. standard costs) for the assets, including the estimation of price levels for the net-equipment.

For some ETSO members, the cost of capital, the depreciation and the operating costs mentioned in the document are significantly different from their present accounting rules (for example, 6% WACC pre-tax would not be sufficient to pay back the contemplated investments in interconnections). Country specificities should be allowed so as to reflect geographical factors, labour costs, etc. Also, depreciation period may be different for substation, lines, cables, FACTS, etc. In that respect, ETSO stresses the need to apply a methodology and parameters that reflect full cost of capital for assets, and provide for a stable and fair return on a sufficiently long period.

ETSO is presently favouring the use of regulated costs for reasons of simplification with the determination of national tariffs and the granting of non-discrimination between national users and transits. A conceptual 'European Standard Costs' would not reflect real costs of individual TSOs and could lead to discriminate users of the vertical network (who pay regulatory costs) from users of the horizontal network.

For some countries, lower voltage assets could be compensated providing that their usage by transit flows is larger than a given percentage.

External countries

By reason of symmetry for countries participating in the inter TSO compensation mechanism, not only exporting countries, but also importing countries would have to contribute to the compensation fund. Therefore, the external countries should have an "entry" payment and an "exit" payment. These entry and exit payments should be calculated similarly to the contributions required from exporting and importing countries participating to the inter-TSO mechanism.

DC interconnections

The treatment of interconnections is currently being studied by ETSO. Before taking a final position, the influence of such networks on the Inter-TSO compensation mechanism is being analysed.