



EREG Comments on the proposal of Guidelines on Inter TSO Compensation (ITC) drafted by the European Commission

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Summary

- ERGEG has strong reservations about the early adoption of ITC Guidelines, as there are still a number of issues to be properly addressed. ERGEG has the perception that the adoption of the current proposal as ITC Guidelines, can be an obstacle to solve this important pending issues in a timely manner. ERGEG then recommends not to adopt the current proposal and maintain during 2005 the present transitory method.
- At the same time, activities to define an appropriate mechanism should be renewed as soon as possible with a reasonable deadline established by EU Commission. ERGEG is ready to participate in this process together with ETSO and other stakeholders.
- ERGEG has already worked on the criteria to evaluate the possible candidate methods to constitute the long-term solution

Criteria for the long-term solution

- The ITC mechanism shall take into account as far as possible all cross border flows, complying with Article 3 of the Regulation
- The method for network cost allocation must be consistent with the fundamental approach inspiring the construction of the IEM
- The method for network cost allocation must be consistent with the overall framework of transmission regulation, so that any mutual implications with other aspects of transmission regulation do not create undesirable conflicts, now or in the future
- Method should promote efficiency, be transparent, reasonable, cost reflective, non-discriminatory
- Technical soundness – method should reflect the underlying technical and engineering characteristics of networks
- Implementation – method must be cost effective to implement and data handling requirements must be manageable
- Ability to be easily understood, applied and verified – basic concept of the method should be easy to explain and communicate

Main Pending Issues

- The “Transit Key” is just an ad-hoc approximation and should be replaced by a mechanism reflecting the underlying physical situation.
- The proposed method takes into consideration only the “transits”. Utilization of all cross border network flows requires further examination by regulators and network operators.
- Network costs are based on the principle that forward looking long-run average incremental costs (LRAIC) equals the replacement costs of the existing assets valued at today’s price levels. This clearly overestimates network costs.
- Loss component defined in proposed Guidelines is a rough approximation and does not take into account at all the beneficial effects of cross-border flows.