

To: ACER - Agency for the Cooperation of Energy Regulators
Address: Trg republike 3 – 1000 Ljubljana – Slovenia

Sofia, November 14.2012

Dear Agency,

ESO EAD welcomes the attempts of ACER to investigate in thorough manner the ITC annual cross-border infrastructure compensation sum. We also thank to ACER for the opportunity to express our views on Consentec' study "Assessment of the annual cross-border infrastructure compensation sum" and on the essence of the ITC mechanism as such.

ESO EAD considers currently implemented ITC mechanism as an obstacle tool for further integration of European electricity market, because it is not cost reflective mechanism and provides wrong price signals to users and to investors for usage or for European electricity transmission infrastructure. Therefore ESO EAD provides it's own view concerning ITC mechanism in addition to the answers on consultation questions.

1) Has Consentec's study considered a sufficient range of potentially suitable options for assessing the ITC infrastructure fund? What other options do you believe should be included in the assessment?

First of all, the study has to consider the state of the art in the science dedicated to compensation the costs incurred due to electrical losses and investment in transmission infrastructure. On the contrary, Consentec uses the sum accumulated in the infrastructural fund allocated among the TSOs according to a "key". This key also fluctuates over the years according to sophisticated formulas that seem to suggest science, but in truth have neither physical nor economic meaning. For example the last key, according to the Multi-Year Agreement, consist of a 75% "transit factor" and 25% "load factor". The "transit factor" means the ratio between a national transit and the sum of all national transits. The "load factor" means the ratio between the square of transits divided by the transit plus vertical load on a national transmission system and the sum of all such terms for the different national transmission systems. In such case, Global Transit Share (GTS) doesn't take into account internal flows, which are physical by nature and cause hosting to involved power systems of TSOs. GTS leads to unduly increasing of calculated transits. On the other hand, the price for compensation for electrical losses is different from the cost of electrical losses in each network. This introduces a second kind of discrimination in the treatment of local and cross-border users of a network.

In addition to abovementioned, infrastructure assessment in the study is not in line with Regulation (EU) No 838/2010. For example, Bulgarian power system has four 110kV interconnections with neighbouring power system, respectively each investment on the level 110kV has to be considered when infrastructure is assessed. Instead of, asset classes C and F are not considered in the study. It has to be noted that the lack of any type of data, couldn't be a reason to make any approximations, assumptions and rejections. Finally, there is collision between LRAIC costing principal and the pricing principal, because deviations of net flow don't lead to relevant change of the transit.

2) Are the criteria adopted to assess these options and their application to the identified options appropriate? What additional or alternative criteria do you think should be applied?

Consentec uses assessment that is not in line with the Regulations, because it is not cost reflective and doesn't correspond to physically nature of transit. The development of a single electricity market across the EU critically depends upon, among other issues, a new approach to the compensation for costs incurred because of hosting cross-border flows of electricity in each national or regional network. The process of overcoming existing shortcomings must start with the definition of the problem and the acknowledgment of its magnitude. Here we dare to present a basic list of reasonable assumptions at the outset of this analysis. They sound so common and natural that the question arises: Is it necessary to formulate them explicitly? The answer "yes" is equally natural if we wish to avoid future distortions.

1. Internal and hosted cross-border flows result from the simultaneous injection and extraction of power by all network users in the meshed conjoint transmission networks, which belong to individual owners.
2. According to their legal rights, Transmission System Operators do not use the networks, (whether their own or those of their neighbours) for power transmission, since the electric power is not their property. TSOs provide power transmission service for the network users. TSOs use the networks for the delivery of system services, which are products different from transmitted power. Hence they have to pay to each other the costs incurred for the mutual delivery of system services (if they exchange any) and for loop flows, but not for electric power transmission.
3. Unlike the TSOs, the producers and the customers use the internal and the external networks for power transmission. Internal users have to pay for such use on a par with the crossborder users, i.e., importers have to pay for the use of network on a par with producers and exporters on a par with consumers.
4. According to the national tariffs most of the TSOs charge exporters on an equal basis with internal customers for the usage of the network according to the schedule of delivery, i.e., they are reimbursed for cross-border usage for power transmission. In such cases the existing ITC mechanism causes double charging for the systems of these same TSOs, which must be avoided.
5. If all TSOs charge importers and exporters on an equal footing with the internal customers, the main part of the task of Inter-TSO Compensation due to network usage for power transmission will be solved. The remaining small part due to network usage for system services and loop flows becomes the only proper task requiring Inter-TSO Compensation.

3) Of the options identified by Consentec, do you have any preferences? If so, please provide reasons for your preferences.

The options identified by Consentec are based on approximations, assumptions and rejections, which don't provide physical and economic meaning. It is obviously, that beneficiaries from ITC mechanism don't enlarge NTC on interconnections and their losses are at the same level as in the past. On the other hand, the TSOs which contribute the ITC fund operate power system, which are export or import oriented and they have to charge an extra ITC compensation their users by access tax. This create artificial barrier for trading across the borders, respectively creation of internal European market. The ITC fund has to decrease in the future to the level that corresponds to the both only: usage for system services and loop flows caused by TSOs.

4) Are the assumptions adopted for the illustrative numerical analysis appropriate? Considering the practical limitations of availability, what other data or assumption do you believe should be used in such analysis?

It has been noted above that the lack of any type of data, couldn't be a reason to make any approximations, assumptions and rejections.

5) How do you believe the different parts of the congestion revenues should be treated in calculating the ITC infrastructure fund and why?

ITC infrastructure fund has to be fully deducted with congestion revenues from the calculated ITC compensation for each country.

6) Do you agree with Consentec's assessment and the preliminary conclusions on the options for determining the ITC infrastructure fund?

We disagree with Consentec's assessment. Unfortunately, the existing ITC mechanism does not distinguish transits from loop flows. The most important confusions can be summarized thus:

- TSOs pay each other instead of the importers and exporters who own the electricity and who use the networks of the TSOs for the transmission of this power.
 - Local consumers pay to the local TSO a transmission (access) tax based on the amount of electricity consumed plus or minus an additional fee or subsidy according to some unfounded criteria for the usage of some unidentified networks by third users, in consequence of existing inter-TSO payments.
 - The price for the usage of the network infrastructure of a TSO has no sound basis
 - The price for the usage of a network infrastructure differs between EU users connected to a local network and those connected to any other network.
 - The price for the compensation for electrical losses in a network differs between EU users connected to a local network and those connected to any other network.
- ...of the Agreement and increasing of the fund will throw discredit on integrated internal market.

8) Are there any other issues that you believe should be taken into account in this review? In particular, how do you believe the on-going wider developments in the European energy market and regulatory arrangements should impact the Agency's proposal on the infrastructure fund?

In conclusion, we venture to suggest to the European Parliament, the Council, the Commission and the Agency to start activities towards the development and the implementation of a new approach for Inter-TSO Compensation. We find it natural to start the creation process with the harmonization of the main principles of this new approach. Our modest suggestions for the list of main principles are:

- The TSOs should be compensated for the costs incurred by the simultaneous transmission of the internal and of the hosted cross-border flows by the parties that cause these flows.
- Equal treatment should be given to the internal and the cross-border flows, i.e., there should be an equal treatment for the internal users and the cross-border users (the user should also to be the payer).
- the TSOs should receive compensation for the internal and cross-border flows from the users conjoined to his network, i.e., the TSO receives compensation for the internal and cross-border flows from the users extracting power from the border nodes on an equal footing with the users extracting power from the internal nodes or/and from the users injecting power into the border nodes on an equal footing with the users injecting power into the internal nodes.

- the TSOs should receive compensation for the System Services and loop flows by the TSOs extracting System Services or loop flows from the border nodes on an equal footing with the users extracting System Services or power from the internal nodes.
- Electricity trade is based on a single time interval, e.g., one hour. The same approach should be applied for the use of the network.
- Electricity trade is based on the measured MWhs. The same should apply to the use of the network.
- Compensation payments should be made regularly, e.g., every month, and should be based on the ex-post settlement, performed over single time intervals (hours), in order to reflect the costs actually incurred in accordance with the measured extractions/injections.

Finally, we believe that a broad scientific and public discussion of the proposed main principles is needed during the harmonization stage of the ITC reformulation process as a part of further improvements in the legislation on cross-border trade and for the establishment of a single European Power Market. We see the publication of all related to transmission charges data by ENTSO-E according to p. 4 article 15 of Regulation 2009/714 as a necessary precondition to this discussion. Without full transparency, as p. 1 in article 14 stipulates, the level of the public's knowledge is too limited for the correct formulation of a broad public problem and even more for its fair solution.

Sincerely,

Ivan Yotov
Executive Director




ELECTRICITY SYSTEM OPERATOR EAD