

**CONFINDUSTRIA'S POSITION ON "ERGEG DRAFT PROPOSAL ON GUIDELINES ON INTER TSO
COMPENSATION MECHANISM**

Confindustria is concerned with some of the issues raised by the ERGEG proposal on a new Inter TSO Compensation Mechanism.

First of all, **Confindustria does not think it is right to apply the new mechanism from January the 1st 2007**, since we still miss some parameters to evaluate the expected results of the proposed mechanism.

Confindustria regrets that **the regulatory impact assessment for the proposed mechanism is lacking** and, from a consumer's point of view, **it is essential to know how the new mechanism will impact payments procedures and transmission tariffs.**

There is a link between national transmission tariffs and Inter TSO Compensation Mechanism that has not been taken in due account, as well as there is a link between Inter TSO Compensation Mechanism and Congestion Management Mechanism that should be further developed in advance of any operational change in the Compensation Mechanism.

There are three mechanisms compensating for some of the network: the risk is then, from a consumer point of view, to pay for the same item more than once, or to have an altered level playing field, if some member states have their network paid for by the Inter TSO Compensation Mechanism (and this can happen in case of small network with a lot of transactions occurring at their borders).

In detail, some elements of the proposal have to be better assessed. These concern: the sensitivity factors; the network scenarios and the way different voltage levels will be considered in the unit costs determinations; the way DC lines are considered; the regulators' role.

On this last issue, it is worth remembering that some countries haven't got an energy regulator and that even in Member States the NRAs have different powers on tariffs and cost accounting. Since the Inter TSO Compensation Mechanism should be cost oriented, cost data supplied by each regulator should be submitted to binding rules and verified (by external subjects).

It is important that the cost base includes only network assets and excludes any other cost.

The proposed approach risks to be detrimental to **perimetric countries**: their contribution to inter TSO transactions should be better analysed, in order to understand if it is possible to introduce a more economically efficient method, even through a less conventional approach.

It is important to include Switzerland in the proposed Mechanism, on reciprocity and transparency bases.

The proposed Mechanism cannot be the only tool to recover all Hosts TSOs costs until cost and criteria used by NRAs to define transmission tariffs are different.

In the end, Confindustria notices that the financial mechanism can have very different results; it is important then to have a **gradual approach to its implementation, that can be developed inserting caps** at different steps of the mechanism.

Who is Confindustria

Founded in 1910 Confindustria is the lead organization representing the manufacturing, construction, energy, transportation, ITC, tourism and services industries in Italy.

It brings together more than 120,000 voluntary member companies of all sizes, amounting to 4,500,000 employees. The organization consists in 105 local Associations established in 18 Regional Confindustria locations, 104 Sectorial Associations, 18 National Sector Federations, and 14 Associated Members.

Small, medium-size and large enterprises are the protagonists in this development and growth and together represent an associative system that is seen to be one of Italy's greatest strengths throughout the world.

In promoting the interests of Italian industry over 90 years, Confindustria has assumed a positive and leading role, becoming a reliable organization with a primary role in Italy's economic, social and civil development.