

**Opinion of the Polish Regulator on  
the ERGEG Draft Proposal on Guidelines on Inter TSO Compensation  
(E06-CBT-09-08, 10 April 2006)**

**General remark**

The Energy Regulatory Office, Polish Regulator, expresses a concern about the IMICA model and the results that have been received from ETSO. The results of calculations - for many countries – are clearly wrong, especially when Net Sensitivity Factors (SF) are applied. It leads to unavoidable conclusion that it must be something wrong with this method and underlying assumptions.

Because this method has not been checked and analyzed in detail (due to time factor) and as it not understood well enough, it seems to be very irresponsible to apply this method now in to the Guidelines. For example, the Reference Exchanges seem to have little to do with real energy flows on borders in Europe. Amplified by the Net SF they seem to compensate TSOs in an unfair way.

Furthermore, we have serious doubts if this method as it is proposed eliminates the flaws of the current mechanism. Our feeling is that the flaws are not eliminated, however it is difficult to prove at this stage it as it was no time to conduct deeper analysis of this system.

Therefore the position of the Polish Regulator is that the WWT method should be proposed to the European Commission as a basis for the ITC Guidelines.

If for any reasons the method proposed in draft Guidelines is supposed to be applied it has to be a temporary solution with fund capping applied. Detailed remarks are listed below.

**Detailed remarks**

1. Sensitivity factors

It should be underlined that the **net sensitivity factors (Net SF) should not be used** in the Guidelines. Only two other options for SF (i.e. positive or absolute) could be included. In both cases a capping factor for the total fund should be included for calculating transit keys and compensations. But it should be clearly stated in Guidelines what kind of sensitivity factors can be used in calculation.

2. Capping

1. Point 2.5 – possibility for capping the unit costs by the Commission. General idea is good as the spread of unit costs between TSOs is very wide and in some cases it may be unjustified. A more detailed procedure for capping is necessary to be introduced in the Guidelines. According to the Guidelines the Regulators should submit the costs by the end of September. Only after this date Commission can take any further steps. A procedure for Regulators to audit transmission costs submitted by other Regulators should be introduced and in justified cases a cap on unit costs should be applied by a common decision of Regulators.
2. Point 3.2 i) – possibility for capping the total payments: It is written: “... leads to unreasonable payments compared to the national remunerations of the grids the decision to cap the amount of receipts and payments of compensations shall be made

by the Commission after the proposal from regulators”. It is not clear what “unreasonable” means. It should not be included in the Guidelines.

Two ways of capping are possible instead:

- a. the remuneration from ITC mechanism should not amount to more than  $m$  % (e.g. 10%) of the total TSO’s network transmission costs. Introduction of such a cap could be difficult though as a detailed procedure is necessary to describe the mechanism, to make capping ex-ante or ex-post, month by month or yearly, etc.
- b. introducing a capping factor ( $m$ ) and writing it down in the Guidelines in point A1.7 where the compensation is calculated and in point A1.8 where the contributions are calculated.

The point A1.7 should be written as:

“A1.7 The transit key.

Transit key  $k$  shall be used to calculate the net payments for entity  $k$  (compensation equation)

$$\text{Compensation}_k = m \cdot \text{Transit key}_k \cdot \text{total cost of grid}_k$$

where

- (a) total cost of grid is defined according to Section 2 of the Guidelines
- (b)  $m$  – capping factor as agreed by the Regulators according to point 3.2

The point A1.8 should be then:

“A1.8 Contribution paid by each entity  $i$  shall be based on the reference exchanges  $X_{ij}$  defined for each hour of the year for that entity. Contributions are equally split among exporting and importing entities. Each entity  $i$  will pay a contribution equal to (contribution equation):

$$\text{Contribution}_i = m \cdot \left( \frac{1}{2} \sum_{j,i'} X_{ij}^i \left( \sum_i r_{ij}^i \frac{\text{total cost of grid}_k}{\text{total MW} \cdot \text{km}_k} \right) + \frac{1}{2} \sum_{k,i'} X_{ki}^i \left( \sum_i r_{ki}^i \frac{\text{total cost of grid}_k}{\text{total MW} \cdot \text{km}_k} \right) \right)$$

where the first part of contribution is the payment for hours when entity  $i$  is exporting and the latter part of contribution is the payment for hours when entity  $i$  is importing”.

The point 3.2 should then be written as:

“3.2 The capping factor  $m$  will be applied on the total amount of receipts and payments of compensations. The value of the capping factor shall be issued ex-ante by the Commission after the proposal from the regulators.”

It is an issue of key importance and because it is not yet decided on what SF are to be applied, it may influence the total fund considerably (see remark 1). The impact of introducing the forward looking long run average incremental costs is also not known yet (and it is expected that these costs will be higher then the regulated ones), draft Guidelines should have clear statements about capping.

Therefore we insist on including the described above capping mechanism in the Guidelines which are about to be released (preferably option 2). The level of capping factor will be

agreed at a later stage once the IMICA method is analyzed deeper in detail, discussed and agreed, but the mechanism should be described and included in draft Guidelines right now.

### 3. Assets to be included in compensation mechanism.

In point 2.6 of the draft Guidelines there are different classes of assets defined that are to be remunerated by the ITC mechanism. The current proposal does not state clear enough that only the highest voltage levels assets should be remunerated. A clause in point 2.6 should be added that remuneration scheme normally should cover only assets of classes A, B, D and E, and only in well justified cases, approved case by case by the Regulators asset classes of C and F can be included. The reason for this is that normally lower than 220 kV assets (lines and EHV/HV transformers) are not transmission assets and should not be included in the remuneration scheme. The present text of the Guidelines leaves the gate open for including also assets of lower voltage levels.

### 4. Other comments

1. It should be clearly stated how many snapshots are to be used to calculate SF in the infrastructure part. In the loss part it is stated that at least 72 snapshots will be used. The same number (at least) should be stated for infrastructure part. The number of snapshots should be clearly defined.
2. In point 2.6 (b) it should be clearly stated if the financial costs are to be included or not.
3. According to the mechanism, a method of calculation contributions from non-participating entities is described. But further details are necessary to share the contribution between countries neighbouring to the non-participating entities (in case there are two or more neighbours). It can be done e.g. in proportion to commercial (nominated) flows.
4. In point 2.6 it should be clearly stated if the cost of providing additional lengths of new transmission lines (forward looking long run average incremental cost of the new assets) should include the costs of buying the land where the line will be located or the land will be leased. A common approach should be introduced. An approach where the land is leased should be considered.