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CNE COMMENTS ON ERGEG DRAFT

PROPOSAL OF GUIDELINES ON

INTER-TSO COMPENSATION

(E06-CBT-09-08)

May 22nd 2006

CNE COMMENTS ON ERGEG DRAFT PROPOSAL OF GUIDELINES ON INTER-TSO COMPENSATION (E06-CBT-09-08)

CNE stresses the importance of this Public Consultation process as an additional, necessary effort leading to the development of the Internal Electricity Market. Any common step forward embodying this cardinal objective will be welcome by Spanish regulator, whose truthful engagement to this process and its success has been proved from its very beginning.

Given the nature and intrinsic complexity of the task we deal with, any model -no matter how "good" it might be- necessarily comprises the need for certain simplifications and their accompanying strengths and weaknesses. These comments confine themselves to the recently proposed IMICA model that these draft Guidelines include and to how this model is proposed to be implemented. Since time scarcity has not allowed to properly debate and develop the main regulatory principles involved within ERGEG's usual technical fora, CNE includes hereby some reflections about how possible methodological flaws could be minimised.

In particular, the main improvements to be implemented from CNE's view relate to following topics:
- Positive (or absolute) sensitivity factors (instead of net ones),
- Average losses approach (instead of an incremental losses one),
- Effectively used asset value (instead of whole asset value),

These three points would, in particular, lead to a fairer consideration of benefits for interconnected systems.

4.1 Positive sensitivity factors
Net sensitivity concept relies on assumptions that do no reflect generally accepted technical and economic principles applied in transmission investment, and so rules

commonly used as planning and tariffication criteria. Net factors will most probably lead to unfair cost sharing among users, especially where dependency on a limited number of snapshots could result in wrong compensations that might be based on seasonal, volatile counter-flows.

To illustrate the unbalanced allocation of costs, let us imagine an interconnection between two countries, with nominal capacity of 1000 MW, in an off peak hour. This interconnection is loaded 101 MW in export direction in the Without-transit situation (fictitious situation). Adding the transits (real situation) the flow is 1 MW in export direction (assuming then, that there are flows of 100 MW in import direction).

Being an off peak hour, and having only 1 MW use (or even 100 MW), any planning procedure would assign nearly cero infrastructure cost to these scenario, being the interconnection built for other purposes. However, using net sensitivity factors, the system exporting will be rewarding others many times the value of the interconnection. If this situation is not permanent (i.e. the flows are volatile and varying daily, weekly or seasonally) the exporting system will not save any cost of investment at all, but will have to pay compensations for non-realized savings (savings which appear due to the rough simplification done in the model). Furthermore, even in the case the flows were permanent, given that in the example there is more than enough capacity already installed to host all native flows, the system would not save any infrastructure costs due to cross border flows.

Rather than being just a theoretical malfunction of the model, this effect will appear to some extent in all the calculations done with the IMICA model, as it has been presented in the proposed guidelines.

Capping has been introduced to compensate such situations, but in fact it can only correct the "n" times to be paid, maintaining the overall erroneous allocation of costs (benefits). Capping has been presented as a tool for smoothing possibly dramatic changes in relation to present payment sums, but in fact it is also a way of masking and indefinitely extending basic conceptual errors involved in the methodology.

CNE suggest the replacement of any mention to net sensitivity factors by positive (or absolute) sensitive factors, thus re-writing partially paragraphs 3.2 and A.1.2 b).

4.2 Average losses approach

An incremental approach allocates proportionally more losses to cross border flows than to internal flows, due to the non-linearity of losses; on the other hand, an average losses approach allowing non-discriminatory treatment of both internal and external users is consistent with a sensible infrastructure treatment and results in typically lower compensations.

In our view costs of infrastructure and losses must be allocated to internal and external users applying the same principles, as it has been proposed for infrastructure and is implicit for the energy in the wholesale market, leading to the creation of a true Single Electricity Market. Applying a pure With or Without Transit model for the calculation of losses lead to a clear discrimination of native and transit flows, due to the quadratic nature of losses, that should be reconsidered (a simplified approximation may be to divide the calculated effect by a factor of 2).

Chapter A2 of Annex A to draft Guidelines should be therefore rearranged by replacing present incremental approach by an average-based one.

4.3 Effectively used asset value

It's CNE's view that compensations are intended to recoup extra-costs derived from real use of networks by external users, not necessarily full infrastructure expenditure. As a consequence of this, only the actual use of infrastructure exercised by cross-border flows - in relation to its effective capacity, rather than to the utilization made by internal users- should be considered (i.e., if only 1 MW of a 100 MW capacity asset is used by an external user, then he should pay just for that very single MW, not for the whole of the 100 MW-size investment).

As a practical example of this effect, let us consider that broadly accepted reliability criterion "n minus 1" means that out of a range of transmission lines connecting two countries, at least one of them remains -in average terms- not utilized, most frequently resulting in a use factor well under 100% of nominal thermal capacity (say 50% in his example).

In connection with previous point, if it were assumed, as now proposed, that interconnector users are to be charged the whole asset costs, who would be paying for the non-effectively used 50% of spare capacity? And secondly, who would benefit of it?

With the scheme now subjected to public consultation, only flows on the interconnection are to pay for this infrastructure. However the major benefit of the unused capacity is not for those using the interconnection but for the internal users of both systems interconnected, that would benefit from an enhanced security of supply and higher system stability derived from primary regulation exchanges. The users of the interconnection may also profit from this back-up infrastructure (depending on the particular rules in the interconnection), but in proportion to the total demand in the two systems and not to the capacity used in the interconnection (in most cases the costs to be assigned to cross-border-trade for these back-up infrastructures would then not be significant).

If the cost of unused interconnection capacity is to be allocated to interconnection users, a clear disincentive to cross-border electricity trading is given, thus betraying the very core spirit and letter of Regulation.

Therefore, cost allocation description in paragraph 2.6 should apply only to that proportion of asset capacity or length effectively used by cross-border flows.