

DRAFT PROPOSAL ON GUIDELINES ON INTER TSO COMPENSATION

10 April 2006

ASSOELETRICA comments

22 May 2006

Who is ASSOELETRICA

ASSOELETRICA is the Italian association of electricity companies. A Member of Confindustria (Confederation of Italian industry), it represents about 140 enterprises among whom are producers (including self-producers) and traders operating in the liberalized market of electricity. Assoelettrica's members represent about 85% of the total electricity generated in Italy and 75% of the sales in the liberalized market. Assoelettrica's institutional goals are to represent its members' interests to Italian and European institutions and organizations; to favor common interest agreements; to contribute to the development of electricity production, transport, distribution and supply; to represent its members' interests with the Trade Unions; to supply information, training and advice to the members.

Comments to the draft proposal

Speaking generally we would like to emphasize that in our opinion as it stands at the moment, the IMICA method will not be able to enter into force from 1 January 2007, given that any new method concerning this delicate matter should be fully tested. Moreover, the first simulation results show that the overall compensation that should be paid by the Italian TSO, and in consequence by the Italian final consumers, could be more than three times the value of the present method. Even if Italian market stakeholders (producers, consumers, traders) and regulatory bodies are concerned to foster electricity market integration and reach a single European energy market as soon as possible (even through the construction of AC and DC merchant lines), it is a shared opinion that the Italian power system mustn't be charged as if it was the entity most responsible for transits across the European electricity grid. Of course, if this EU-wide tariffication mechanism is confirmed with its dramatically negative outcomes, Italian operators could revise their position concerning the issue of market integration.

As far as specific aspects are concerned we underline that:

- The determination of costs is not well defined: they are quantified in an arbitrary way (all Regulators across Europe use different economic systems to evaluate the annual remuneration of their respective TSOs) and there is not an objective reason in calculating the overall unit cost as a weighted average of the costs of the existing network asset (80%) and the LRAIC of the new network assets (20%). Moreover, the proposed identification of standard asset categories doesn't indicate by which elements each national regulation shall reconcile its locally-defined asset

categories with respect to those reported in the draft Guidelines text. It is in fact well known that double/multi circuit lines are dealt with differently from country to country: defining the total circuit length of transmission network assets is indeed crucial for the sensitivity factors and reference exchange definitions. We think that once an objective method has been defined some authority (DG TREN) should verify its correct application.

- It should be clearly stated that the costs of losses must be equally charged to the operator assigners of the exporting and importing cross border transit capacity; the way in which the responsibility for losses related to transits is indicated is vague and far from being satisfactory to allow the compensation for losses to work properly.
- Any reference between the use of Rents produced by market based Congestion Management mechanisms and the remuneration of transits is clearly missing. Regulation 1228/03 clearly states at Art. 6, Point 6, comma (a) that a possible use of Congestion Rents is to lower the transmission tariffs, so exactly matching the scope of the Inter-TSO Compensation. This means that the costs of the existing network infrastructure are potentially already paid by the final consumers in the field of congestion management; this could also be true in countries strongly transited and with steady and strong net transfer capacity limits on its borders (e.g. Denmark). Therefore the repeated payment by the EU consumers for the same infrastructure should be avoided. From this point of view the relationship between the incomes deriving from congestion and those deriving from TSO compensation mechanism must be absolutely clarified by each European Regulator; on the contrary, the persisting absence of transparency in the use of grid usage revenues endangers the validity of any invoicing action between TSOs and market actors, since invoices do not include the due and legally required invoicing components relating to any financial settlement.
- It is not clear how DC lines are treated.
- It is not clear how the payment procedure will take place and in what time scales.

Once all these weaknesses have been overcome, only after a significant testing period lasting some years, should the new method be then accepted and adopted. Of course, a gradual application of the method is also possible. From this point of view it should be clearly noted that a capping mechanism could work for example on the percentage annual increase for every single State, in the event that the contribution dramatically changes from one year to another, without clear elements justifying this discontinuity in contribution (e.g. radical changes in flows which justifies the increased liability of a power system, an extremely high increase of interconnectors and transmission assets across an EU affected significantly by trans-EU power exchanges: neither of these things have been either proven or observed in the last two years in the EU).