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Dear Ms Shortall,

Guidelines on Inter TSO Compensation

Scottish and Southern Energy (SSE) is one of the largest energy companies in the UK. It is involved in the generation, transmission, distribution and supply of electricity; energy trading; the storage, distribution and supply of gas; electrical environmental and utility contracting; domestic appliance retailing; and telecoms.

I am therefore writing with SSE's comments on the ERGEG consultation on guidelines for the inter-TSO compensation mechanism.

ERGEG state that any inter-TSO compensation scheme will in broad terms need to:

- determine the costs of the relevant parts of participating TSOs' transmission networks used to host cross border flows;
- allocate these costs to each TSO on the basis of the extent to which each TSO has hosted cross border flows; and
- finance these costs by identifying and charging on a volume basis those TSOs where cross border flows originate and/or end.

It will also be necessary for each TSO to recoup costs arising from transmission users connected to its network.

We agree with these broad principles of the inter-TSO compensation scheme. We believe that it is important to ensure that a proportionate cost of the cross-border transmission network should be targeted at those parties benefiting from the capacity.

In designing the scheme, we also believe that there should be a number of additional tests to ensure that the scheme is fit for the purpose.

These tests should include:

- ensuring that there is no cross-subsidy between transit and local use;
- ensuring that there is a consistent price basis across the system operators;
- ensure that transits are correctly identified and calculated; and
- consistency with local transmission charging methodologies.

Cross Subsidy

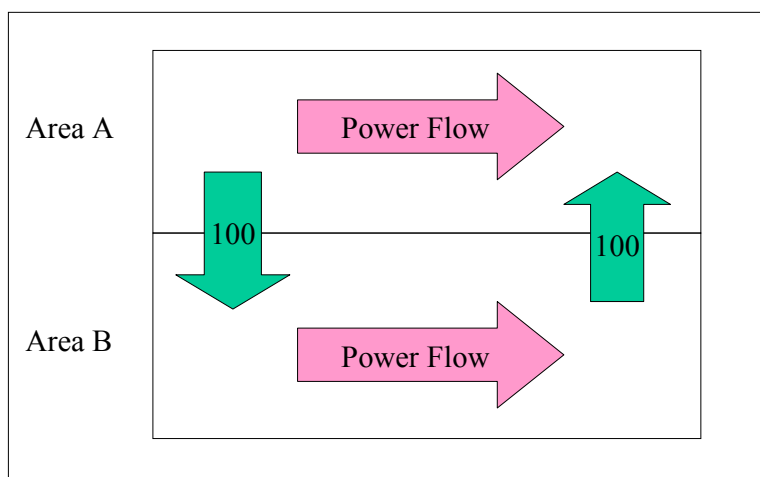
The mechanism will enable a TSO that hosts cross-border trades to recover a portion of the cost of its network from the central fund. The calculation of this portion must accurately reflect the transit costs. If the cost is over stated, then local users would, in effect, receive a cross subsidy which could distort competition. Similarly if the costs are understated, then local users would be funding some transit assets.

Consistent Price Basis

Since the ITC fund will be used for Europe-wide remuneration of transit costs, it is important to set a consistent price basis across the various TSO networks. This will give confidence that TSOs are not seeking to recover excessive amounts through the ITC scheme.

Calculation of Transit Flows

ERGEG have identified the issue of loop flows and the risk of double counting these through a model which simply defines "transit" as the lower of import and export. This can be illustrated as below.



The diagram illustrates that Area A exports 100 MW to Area B in the West of its area and imports the same amount in the east of the area. Under a simple transit definition of the lower of import and export volumes, both Area A and Area B would be hosting a transit of 100MW. However, if the main power flow in from West to East in both areas, it is clear that only Area B in this example is hosting a transit flow.

It is therefore important that only genuine transit flows are calculated by the methodology, otherwise there is a risk of TSOs being inappropriately rewarded for non-existent transit.

Consistency with Local Charging Methodology

The implementation of the ITC charging methodology will see transmission charges across the EU being set on an entry – exit basis, with transits dealt with by inter TSO charges. To create a level playing field across Europe, it is therefore important to harmonise as far as possible the transmission charging arrangements across Europe. At the very least, we believe that the proportion of local charges paid by generator compared to demand customers should be aligned. Our preference would be for all charges to fall on demand, so as to create a level playing field for generators across Europe.

I hope our comments are useful, but if you need any further information please give me a call.

Yours sincerely,

Rob McDonald
Director of Regulation