



EESTI ENERGIA
OÜ PÕHIVÕRK

Inter TSO Compensation Mechanism (ITC)

Raivo Attikas
OÜ Põhivõrk
October 2007

Scope of ITC mechanism

- The contributions of all ITC Parties to an inter-TSO compensation fund, intended to cover all or part of the ITC Parties cost for the use of national transmission networks for transit flows included those induced by cross-border trade;
- The payments from the inter-TSO compensation fund to each ITC Party, as compensation for the use of the national transmission network for transit flows included those induced by cross-border trade;
- The payments between ITC parties resulting from calculations of contributions and compensations;

Background

- ETSO members signed the first voluntary ITC agreement in 2002 ('CBT').
 - Remove border tariffs and increase efficiency in the IEM
- Regulation No 1228/2003 in force from 1 July 2004
- 'CBT' agreement 2002 – May 2007
- Interim ITC June – December 2007
 - SETSO countries joined
 - **Estonia joined**
 - **Latvia, Lithuania, UK, Ireland, Northern Ireland not joined**
 - Czech rep., Slovakia opted out

The work of EC and ERGEG

2004-2006

In Regulation 1228/2003 EC has described the outline of an ITC model. The Regulation also states that detailed guidelines on ITC shall be published.

ERGEG was appointed by the Commission to make a proposal on an ITC model. The regulators group have drafted guidelines based on three different models (CBT, WWT and IMICA) in the period 2004-2006. ERGEG has, however, not succeeded to agree on a proposal. In March 2007 the Commissioner wrote a letter to ETSO:

"The Commission needs now to take the lead on this subject. We will count on technical assistance of ETSO and ERGEG to have a satisfactory result. We think that IMICA method, on which both ETSO and regulators have been working lately, is the most promising one among the methods that have been discussed to reach an immediate solution. It is, however, necessary to work on items which cannot be solved by purely technical calculations, but also need some political judgment, such as the overall size of the compensation fund.

The Commission intends to propose draft guidelines on the ITC mechanism to the Electricity Cross-border committee during spring 2007, based on IMICA method"

3 September 2007

Based on the letter and communication with the EC, ETSO assumes that the EC intends to start a Comitology process late 2007. However, to start this process, extensive technical support from ETSO will be needed.

ETSO work to find the solution 2007

In ETSO there are different positions on how the ITC model should be designed. Most members find it necessary to have a compensation scheme based on both losses and infrastructure. However, other members find it sufficient to have a compensation scheme only based on losses to secure a further development of the IEM.

For the design of the model some members argue that it is possible to find a technical correct model to compensate for both infrastructure and losses, while other members have a more pragmatic view on the choice of model. Even though there are different approaches, all members acknowledge that ETSO should try to agree on an ITC model and that border tariffs are not a viable solution.

Several models have been proposed within ETSO and ERGEG over the last 5 years. Among these are CBT, Average participation (AP), Marginal participation (MP) and the current models. The different models have gained support from different members, and it has not been possible to agree on one common model.

ETSO position on next ITC 2008-2009

Current methods not suitable for immediate guidelines:

- No 'perfect' technical and economical solution available, due to problem complexity and unclear regulation
- Then impossibility to move to any method changing significantly net results for countries

Restart basic work with a maximum deadline of 2 years

In the meantime, voluntary agreement for 2 years with ALL members (mandatory condition)

Agreement 2008-2009

1. Basis for the agreement

- Cost and compensation estimated on the basis of the previous agreements and the calculations presented to the ETSO SC in recent months
- Interim solution June-December 2007
- Cost incurred by hosting cross border flows

2. The compensation for infrastructure is fixed ex ante

3. Compensation for losses WWT (real losses)

- Based on real flow and prices 2008-2009

4. The agreement is designed to fulfill the expectation that TSOs in all countries will join

Agreement 2008-2009

Basis for the agreement

- ITC parties should sign a new agreement for 2008 and 2009.
- The signature will be subject to regulatory approval
- **If one party does not get regulatory approval, the contract will not enter into force**

Agreement 2008-2009

Treatment of Estonia, Latvia and Lithuania (Baltic Countries):

- Due to weak connection between the Baltic and the European grid, the Baltic TSOs will participate as one single ITC party
- It will not be border tariff between Finland and Estonia
 - The Baltic countries will collectively pay a contribution of 2,2 M€
 - 2,2 M€ will be divided proportionally by ownership in ESTLINK cable.
- This yearly contribution will be independent of changes in flow to and from the Baltic countries.
- This net contribution shall be finally fixed and shall not be affected by the volatility of losses or scheduled flows with Perimeter Countries.
- Estonian, Latvian and Lithuanian TSOs shall organize their respective mutual inter-compensation mechanism under relevant contractual arrangements among them within the framework of their co-operation under the principles of the EU law and respective national legislations.

Next steps

- 12th October 2007 in Vilnius all TSO-s are supposed to sign the ITC agreement for years 2008-2009
- Until 15 November regulators should make decision
- According to our knowledge, our regulator will not accept the ITC costs in our tariff
- If regulators reject to include contributions into national tariffs and TSO-s will not voluntarily follow the agreement then **there will be uncertainty on the next year's ITC!**

ITC beyond 2009

- ETSO will establish a working group in November 2007 to develop a more sustainable solution for ITC for the future
- The scope is to provide a fair remuneration of the actual cost incurred as a result of hosting cross-border flows of electricity.
 - The working group should also address special pending issues such as loop flows and the relationships between ITC and congestion rent
 - It is further vital that the method does not create any obstacles to the IEM
 - Need for changes in the Regulation will be a possible issue.
- ETSO will be open and transparent and cooperate with regulators, commission and market actors

Thank you,
for Your attention