



December 22, 2005

ETSO PROPOSAL FOR THE 2006 CBT MECHANISM

Introduction

Based on the agreement reached at the past Regulators Florence Forum meeting on 1st and 2nd September 2005, ETSO proposes the mechanism described below to compensate the use of national transmission systems by cross-border trade (CBT-mechanism) for 2006 or part of 2006. This mechanism goes in line with the requirements of regulation on cross-border electricity exchanges implemented since July 2004. Imports and exports are given equal weight as regards potentially causing transit.

The proposal relates, as the case so far, to the compensation for the use of national transmission networks by cross-border trade (transits). More particularly, the proposal does not affect or grant access to national networks (covered by EU directive and national legislations) nor does it cover capacity allocation and congestion management issues for which dedicated solutions are required.

The ETSO proposal maintains the principles of an inter-TSO compensation that is function of the transit hosted by each country as measured from the flows on the interconnections with the adjacent control blocks. The proposal allows for some degree of subsidiarity in the design of details.

The principles of ETSO proposal for the CBT mechanism of 2006

For defining this CBT-Mechanism, three steps have been followed:

- i) Definition of the Horizontal Network (HN): a uniform model and criteria for the identification of the horizontal network of each country is applied.
- ii) Definition of the costs of the Horizontal Network used for transits and of the transmission losses in this network, i.e. the mechanism for the calculation of the CBT-fund and the inter-TSO compensation: it harmonizes the costing scheme for the relevant horizontal network.
- iii) Definition on how the fund is financed.

a) Definition of the HN

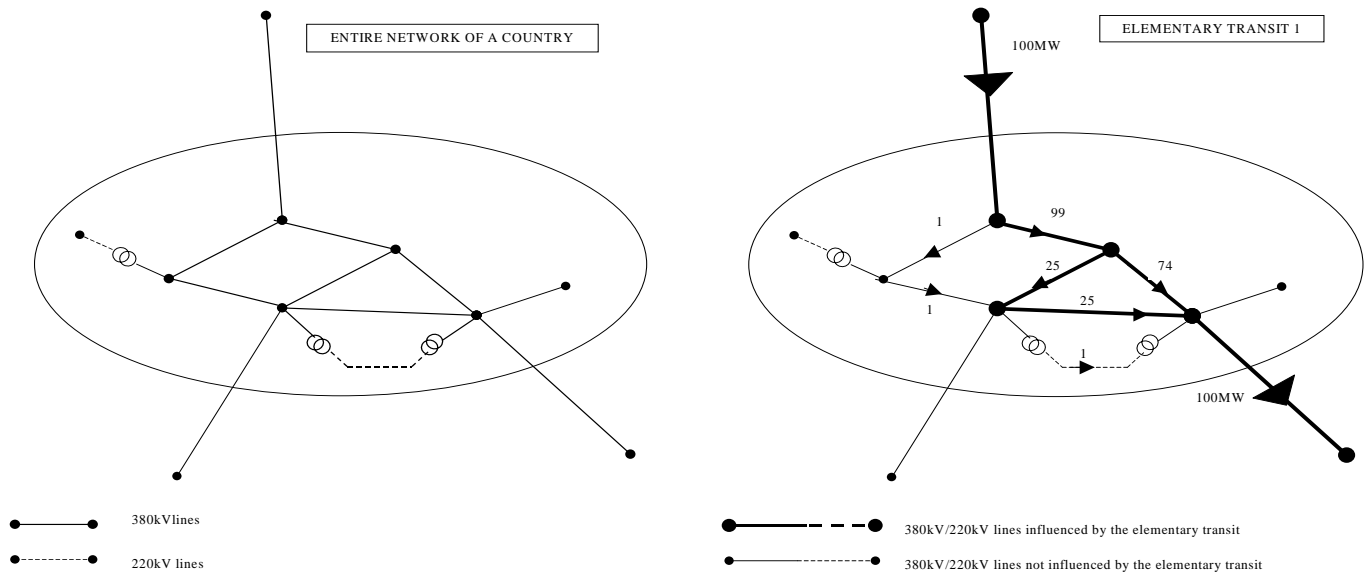
The *HN* is defined by applying a technical auditable approach.

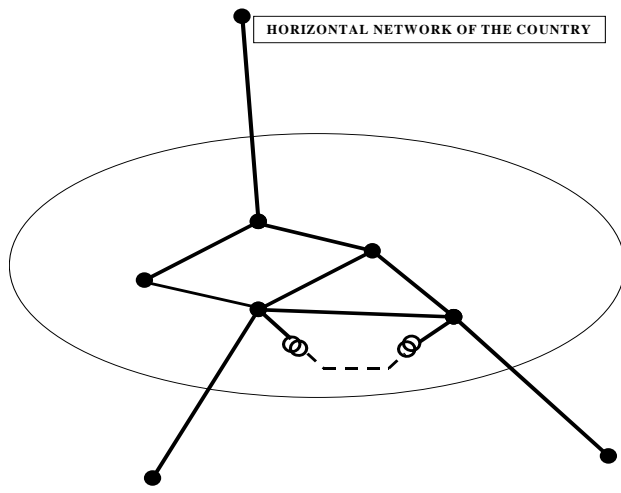
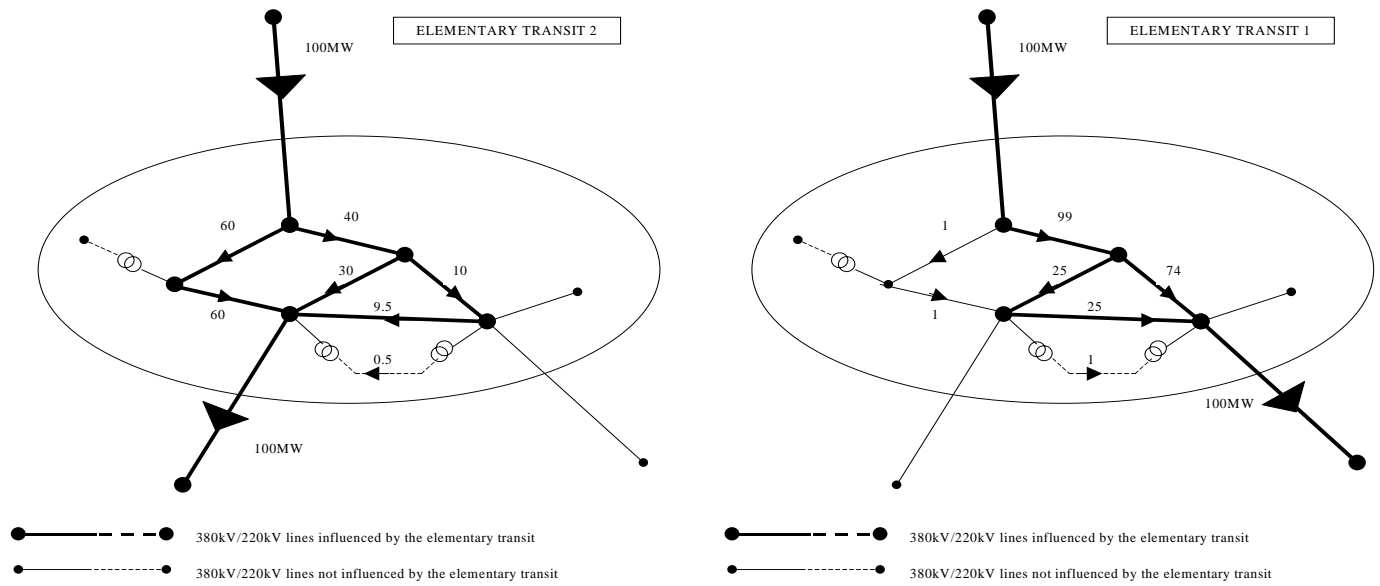
To ensure coherency within Europe, transits taken into account in the determination of horizontal networks must be standardised in terms of magnitude and in terms of pattern (by pattern, we mean the way a transit of given magnitude enters and exits through the different tie-lines of the country/TSO).

Therefore, a standardised transit magnitude of 100MW is used. Then standardised transit patterns must reflect the diversity of possible transits, with various influences on the transmission grid. This is why all possible “one-to-one” transit patterns are considered,

i.e. transit patterns with an entering flow in one tie-line (100MW) and an exiting flow in another tie-line (100MW), and zero flows in all other tie-lines. For a country/TSO with N tie-lines, there are $N(N-1)$ such “one-to-one” transit patterns.

It can easily be shown that any real transit can be decomposed as the superposition of several one-to-one transits. Therefore, using one-to-one transits will yield very relevant horizontal networks.





In order to decide whether a given grid element must be included in the horizontal network of a country/TSO or not, the method identifies which elements bear a flow - caused by applying the standard transit applied between two tie-lines – that is greater or equal to 1 MW. Elements with transit flows that are lower than the threshold value are removed. The calculations are undertaken country by country, TSO by TSO and CBT party by CBT party respectively.

Socialized HVDC links are included in this calculation, but merchant links are excluded.

b) The share of transits or cost claim of each country: transit key

The *share of transits* in the HN is defined by using the transit key.

This solution gives a result that is a share of the overall amount of the infrastructure costs identified by the ATF-approach. It can be combined with the harmonised definition of HN thus applying an established method on a HN defined with more transparency.

The transit is defined as the minimum of import and export flows measured hour by hour at the interconnection lines between countries. The transit key is then calculated by dividing the transit by the sum of transit and the load of the country (see formula). It is not related to peak capacity but to the average use of the network.

$$KEYep(k, M) = \frac{\sum_{m \in M} Tep(k, m)}{\sum_{m \in M} Tep(k, m) + \sum_{m \in M} L(k, m)}$$

k (country)

M (first *M* months of 2006)

Where *Tep*(*k, m*) is transit in GWh and *L*(*k, m*) is the monthly load in GWh

c) The costs of the HN

The costs of the HN are defined using the regulated costs of the entire HN.

Each TSO has used its "regulatory asset" base agreed by the respective regulators and published.

As regards losses, the data used for their calculation corresponds to hourly measured flows for the first 6 months of 2005, extrapolated to one year. The average loss model used in 2005 has again been implemented.

d) The amount of the ETSO compensation fund

The amount of the ETSO compensation fund (395 M€) is the result of technical justifiable and transparent criterion, assessed on the basis of the information mentioned before.

e) Financing of the ETSO compensation fund

The ETSO compensation fund will be divided in two parts:

- ***A first part that takes into account the contribution from the perimeter countries.*** This is raised from an explicit injection fee of 1€/MWh on the declared exports from exporters/traders of these countries to the area of the signatories of the new 2006 CBT mechanism.

The perimeter countries are: UK, Morocco, Croatia, Albania, Former Yugoslavian Republic of Macedonia, Bulgaria, Romania, Russian Federation, Ukraine, Byelorussia and Serbia and Montenegro. The perimeter countries are entitled to charge a fee for declared exports coming from the continental ETSO area.

- ***A second (main) part called “net flow” part of the fund:*** "Net Flow" is defined as the country hourly net flow in export or import directions. The charge for net flow is the same irrespective of whether it is in the export or import direction. It is raised from the contribution resulting from the national tariffs included in the "L" and/or the "G" component; the decision is left to subsidiarity and therefore to the individual TSO and its Regulatory Authorities.

The flows from all DC links, including merchant links, are included in the net flow calculations.

The concept of "edge countries" has been maintained as in the past year to treat the funding depending on the Net Flows for those Parties that border with at least one CBT country and at least one perimeter country.

The reasons for the application of this method are:

- For an edge country (e.g. Finland, Greece), with net import both from a perimeter country and a CBT country, the import from the perimeter country does not cause any transit in the CBT country.
- The same applies for an edge country (e.g. France) with net export both to a perimeter country and a CBT country.

For these two cases it was therefore considered questionable that perimeter country flows shall be included in the calculation of the net-flow contribution to the CBT fund for the edge country. A reduction of the perimeter country contribution to the net-flow calculation has consequently been agreed so that:

- First, a preliminary net flow with just the CBT countries is calculated. In this way only the flows that affect the CBT area are kept.
- Second, the preliminary net flow calculated is reduced by an amount equal to the maximum possible transit from a perimeter country to a CBT country through the edge country.

f) Clearing Process and Settlement of differences

Settlement is required because each part of the contribution is estimated ex-ante, based on the 2005 data, while the actual contributions paid to the fund are based on the real data from 2006. As the effective income at the end of 2006 may be different from the expected ETSO fund, the settlement of differences will be reported to the following year.

This ETSO compensation mechanism, applied since 2002, will likely take place for the last time for a part or the whole of 2006, depending on the Comitology process. ETSO will actively participate in the elaboration of a new mechanism proposal for 2007, that should continue to have as main goal to remunerate the network use.