

To: ACER - Agency for the Cooperation of Energy Regulators
Address: Trg republike 3 – 1000 Ljubljana – Slovenia

Sofia, November 14.2012

Dear Agency,

ESO EAD welcomes the attempts of ACER to investigate in thorough manner the ITC annual cross-border infrastructure compensation sum. We also thank to ACER for the opportunity to express our views on Consentec' study "Assessment of the annual cross-border infrastructure compensation sum" and on the essence of the ITC mechanism as such.

ESO EAD considers currently implemented ITC mechanism as an obstacle tool for further integration of European electricity market, because it is not cost reflective mechanism and provides wrong price signals to users and to investors for usage or for European electricity transmission infrastructure. Therefore ESO EAD provides it's own view concerning ITC mechanism in addition to the answers on consultation questions.

1) Has Consentec's study considered a sufficient range of potentially suitable options for assessing the ITC infrastructure fund? What other options do you believe should be included in the assessment?

First of all, the study has to consider the state of the art in the science dedicated to compensation the costs incurred due to electrical losses and investment in transmission infrastructure. On the contrary, Consentec uses the sum accumulated in the infrastructural fund allocated among the TSOs according to a "key". This key also fluctuates over the years according to sophisticated formulas that seem to suggest science, but in truth have neither physical nor economic meaning. For example the last key, according to the Multi-Year Agreement, consist of a 75% "transit factor" and 25% "load factor". The "transit factor" means the ratio between a national transit and the sum of all national transits. The "load factor" means the ratio between the square of transits divided by the transit plus vertical load on a national transmission system and the sum of all such terms for the different national transmission systems. In such case, Global Transit Share (GTS) doesn't take into account internal flows, which are physical by nature and cause hosting to involved power systems of TSOs. GTS leads to unduly increasing of calculated transits. On the other hand, the price for compensation for electrical losses is different from the cost of electrical losses in each network. This introduces a second kind of discrimination in the treatment of local and cross-border users of a network.

In addition to abovementioned, infrastructure assessment in the study is not in line with Regulation (EU) No 838/2010. For example, Bulgarian power system has four 110kV interconnections with neighbouring power system, respectively each investment on the level 110kV has to be considered when infrastructure is assessed. Instead of, asset classes C and F are not considered in the study. It has to be noted that the lack of any type of data, couldn't be a reason to make any approximations, assumptions and rejections. Finally, there is collision between LRAIC costing principal and the pricing principal, because deviations of net flow don't lead to relevant change of the transit.

2) Are the criteria adopted to assess these options and their application to the identified options appropriate? What additional or alternative criteria do you think should be applied?

