



**Southeastern Europe
Transmission System Operators
SETSO Task Force**

***8th Athens Forum - Athens, 22.-23.06.2006
Report on SEE ITC Mechanism***

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2006 SETSO ITC mechanism

- ➔ **Due to missed merging with ETSO and in order to continue SETSO ITC mechanism in 2006 intensive negotiations started after 7th Athens Forum (November 2005)**

- ➔ **Three options were considered**
 - "Capping factors"
 - "50% Edge Country Concept"
 - "EC-EAR Assistance"

- ➔ **"50% Edge Country Concept" option was accepted by all SETSO ITC parties as last compromise solution**

- ➔ **2006 SETSO ITC Agreement signed on 15th of February 2006**

2006 SETSO ITC Agreement – problems recognized

- ➔ **Problems present in SEE region jeopardizing ITC mechanism**
 - foreign utilization of SETSO grids due to geographical “sandwich” position of the region (flows originating and ending mainly in ETSO)
 - application of Edge County Concept not suitable for some SEE TSOs
 - 1 €/MWh of injection fee for Import from Perimeter Country not acceptable in SETSO region
 - absence of ETSO – SETSO interface mechanism

"50% Edge Country Concept"

- ➔ **Compensation calculations based on the transit key calculation (as in 2006 ETSO ITC mechanism)**
 - standard costs for assets
 - regulated transmission losses cost
 - sum of assets costs and transmission losses costs on the "HN" multiplied by a transit key

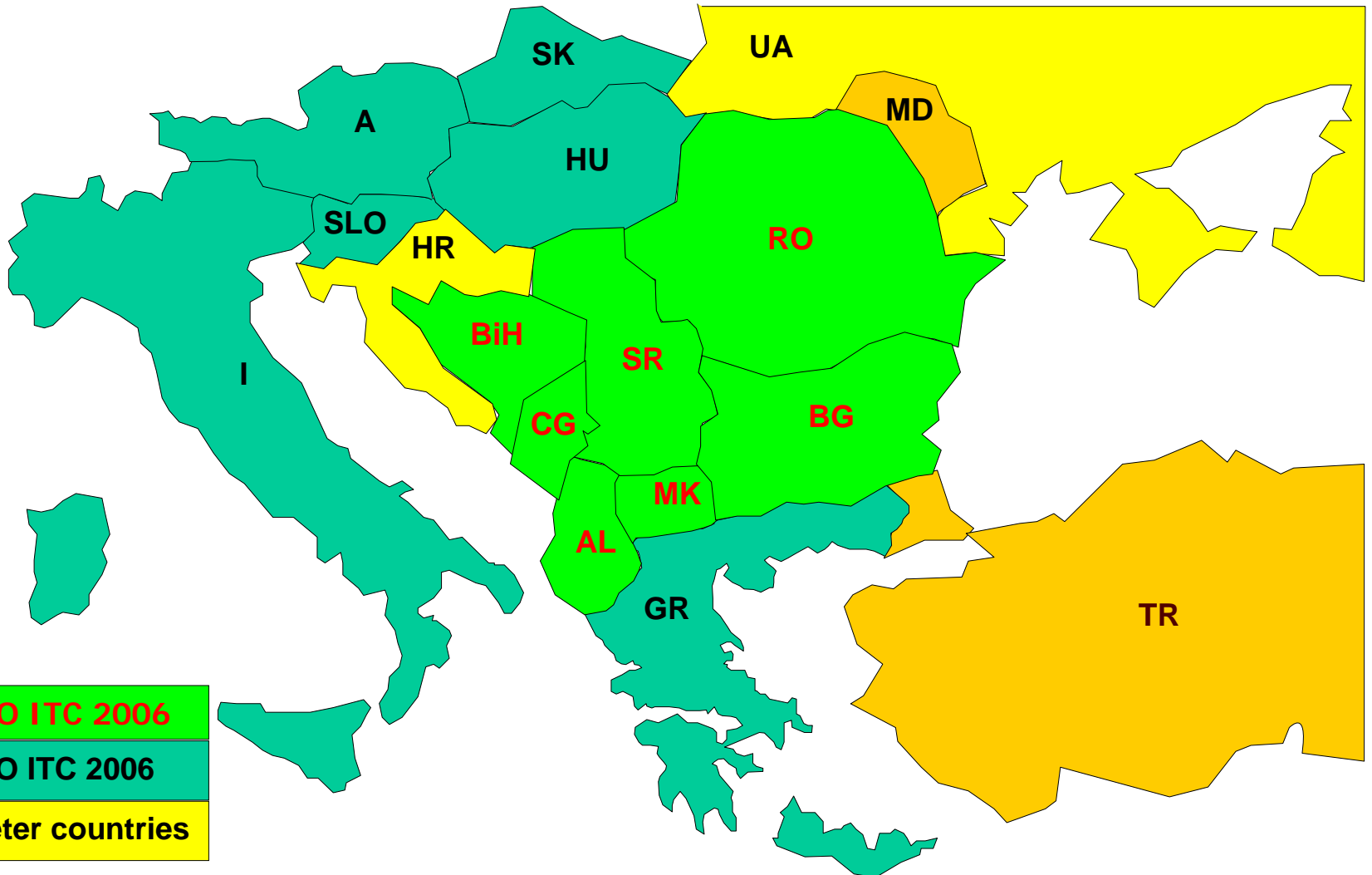
- ➔ **Contribution calculations based on potential causation basis (Net Flow basis) with changed ITC Fund financing. Two parts of the ITC Fund:**
 - injection fee (1,99 € / MWh) on declared imports from neighbouring "perimeter countries"
 - Net Flow contribution (in export/import direction)

"50% EC Concept" – Fund financing

- ➔ **Concerning financial positions of SEE ITC parties two extreme situations were recognized**
 - pure EC concept applied (as it is applied in ETSO ITC mechanism). High Net Flow fee price (2,52 €/MWh)
 - EC concept totally deleted (merged ETSO – SETSO ITC). Low Net Flow fee price (1,45 €/MWh)

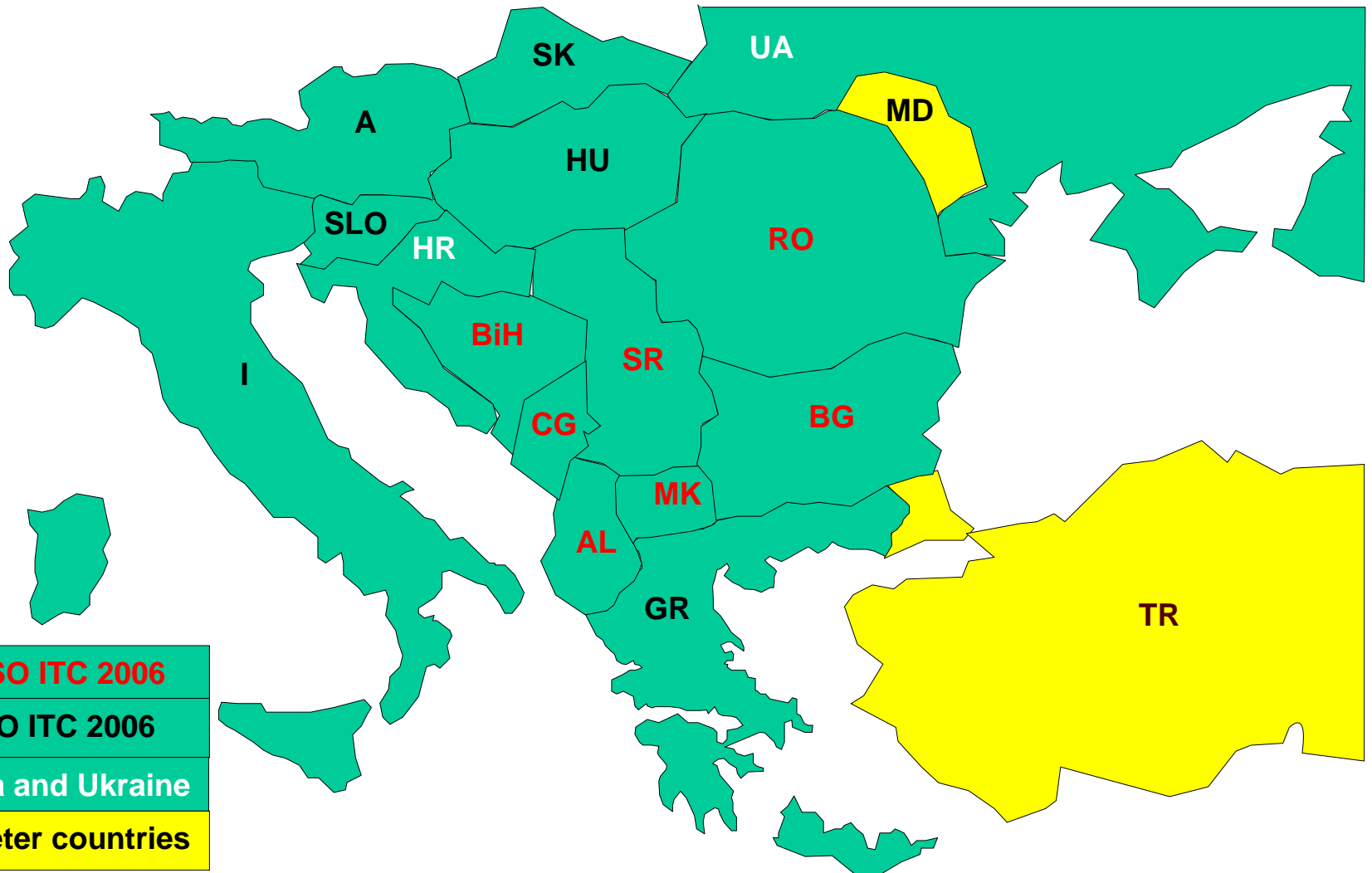
- ➔ **SEE ITC party NF contribution calculated in three steps**
 - NF contribution calculated with EC concept applied
 - NF contribution calculated totally without EC concept applied
 - Final NF contribution calculated as an average of previous two steps

"50% EC Concept" – Full EC concept



SETSO ITC 2006
ETSO ITC 2006
Perimeter countries

"50% EC Concept" – no EC concept



"50% EC Concept" – Fund financing

- ➔ **Injection fee for Import from Perimeter Countries equalized with ex-ante Net Flow fee (1,99 €/MWh)**
 - SETSO ITC mechanism distortion reduced
 - ETSO – SETSO pancaking remain, no reciprocity on interface (1 €/MWh versus 1,99 €/MWh)

- ➔ **SEE ITC Fund capped on 28.3 million €**
 - fund decreased with 3.5 million €
 - financial influence of foreign (mainly ETSO) utilization of SETSO grids reduced
 - 3.5 million € - half of the cost incurred by foreign flows (rough estimation made by ad-hoc ETSO – SETSO Interface WG)

Future ITC mechanism - Guidelines on ITC

- ➔ **ERGEG Guidelines on Inter TSO Compensation under preparation**
- ➔ **Guidelines on Inter TSO Compensation – costs incurred**
 - the costs associated with network assets based on two components: *LRAIC* and *costs of existing network assets* (the weighting should be 20% and 80 % respectively)
 - reference price for the losses taken from a quoted power exchange or from any other market based tendering process for bulk energy

Future ITC mechanism - Guidelines on ITC, cost allocation methodologies

- ➔ **Infrastructure cost allocation methodology: IMICA (Improved Modelling for Infrastructure Cost Allocation) relies on three concepts**
 - sensitivity factors - evaluating the impact of flows on the network (transit)
 - reference exchanges - basis for compensations to be paid
 - transit key in MWh·km

- ➔ **Losses cost allocation methodology: WWT (With and Without Transit) – comparison of losses**
 - in actual situation with transits
 - situation when transit flows are removed

Future ITC mechanism - Guidelines on ITC

- ➔ **EREGG could not find a consensus on the ITC guidelines**
- ➔ **Final decision postponed for October 2006**
- ➔ **EREGG asks collaboration with ETSO**
 - to get more clarifications on the IMICA methodology
 - to get more results of simulations on the basis of 2005 data
- ➔ **Improvement of IMICA is needed concerning:**
 - capping or scaling down factors
 - treatment of Loop Flows

2007 SETSO ITC mechanism - Looking for solution, feasible options

- ➔ Due to uncertain future of SETSO ITC process several options analyzed. Options 1 and 2 are supported by all SEE TSOs:
- ➔ Option 1: Pure merging with ETSO ITC mechanism with new ITC methodology applied. Integration of 8 (Croatia included) SETSO countries in 2007 ETSO ITC Agreement, 8 additional signatories of the ETSO ITC Agreement
- ➔ Option 2: Integration of clustered SETSO countries in 2007 ETSO ITC Agreement, one additional signatory of the ETSO ITC Agreement
- ➔ Guidelines on ITC provide possibility for merging (point 1.2 of guidelines – *“Participants and Participation”*)

2007 SETSO ITC mechanism - Looking for solution, discarded options

- ➔ Options 3 and 4 are analyzed but not supported by all SEE TSOs
- ➔ **Option 3: Implementation of autonomous SETSO ITC mechanism with new ITC methodology applied.**
 - pancaking on ETSO – SETSO interface remains
 - problems and distortions due to geographical position of SETSO remain
- ➔ **Three possible sub options:**
 - implementation ETSO - SETSO interface mechanism in order to remove or reduce pancaking
 - if possible independent SETSO ITC mechanism with adjust ITC methodology and appropriate capping
 - independent SETSO ITC mechanism with EC-EAR financial assistance, relieve costs of SEE TSOs for missing ITC merger
- ➔ **For all three sub options merged ETSO - SETSO simulations and deeper analysis needed**

2007 SETSO ITC mechanism - Looking for solution, discarded options

- ➔ **Option 4: Implementation of autonomous SETSO ITC mechanism with present SETSO ITC methodology applied**
 - same problems and distortions due to geographical position of SETSO remain
 - uncertain scenario, agreement reached through hard compromises made by all SETSO ITC parties

- ➔ **Option 4 is not feasible. All SETSO TSOs signed 2006 agreement as last one**

2007 SETSO ITC mechanism - Looking for solution

➔ Requirements for integration on SEE side: all necessary SETSO data delivered and available

- Horizontal Network consistency and costs
- 72 recorded load flows: 2005 SETSO data set delivered to ETSO, ongoing 2006 SETSO data set collection
- hourly cross border flows: 2005 and 2006 data sets ready to be delivered
- Data Administration: EKC available to work with ETRANS/RWE, internal SETSO data and settlement administration available
- large experience gained during past ITC agreements
- strong commitment of SEE TSOs

➔ No obstacles for merging from technical side

2007 SETSO ITC mechanism - conclusion

➔ General considerations and decisional support

- Integration considered necessary due to the strong commercial interaction, SEE “sandwich” geographical position
- In line with EU Regulation 1228 and already signed Treaty establishing Energy Community
- Strong commitment of all SEE countries towards market oriented reforms
- SETSO appeal to Athens Forum for support of the merging of SETSO and ETSO ITC mechanisms
- EC to provide a clear position on ITC merging in 2007

➔ **Merging of ETSO – SETSO ITC mechanisms is crucial for SEE ITC process survival**

End of presentation

Thank you for your attention