

# **IFIEC's response to ERGEG Consultation on Electricity Regional Initiatives:**

ERI Coherence and Convergence Report  
Public consultation paper, 10 September 2008

## **Introduction and highlights**

1. IFIEC has always been strongly in favour of market integration and thus supports the Regional Initiatives established by ERGEG. These initiatives can mark a first step towards a truly integrated European electricity market, which is the ultimate goal. Therefore IFIEC demands that the Regional Initiatives should not result in regions that incorporate an integrated internal market but are totally different from each other. Instead they should lead to further integration. Such harmonization should be kept in mind during the ongoing work within the seven different regional markets, to avoid that integration within the regions will go in different directions, making it only more difficult to achieve the goal of a single integrated European market.
2. Within this process, it is of utmost importance in the medium term to effectively remove the remaining obstacles for cross-border-exchanges such as congested interconnectors.
3. The several regions are advancing at different speeds regarding proposals and implementation of different measures. Moreover, many issues have advanced rather slowly, and most deadlines in the regional action plans have passed and have been postponed; for example, market coupling in the CWE region is not fully implemented and regional investments plans have not been published. Thus, IFIEC is disappointed about the progress so far, and is very much concerned about possible future progress. Therefore, in the months to come, the parties involved need to catch up the lost time, so as to prevent any further delay.
4. In the Regional Initiatives, TSOs and regulators should make available their written proposals on the different topics to all stakeholders for consultation on a regular basis. This is to ensure that the knowledge and needs of all market parties are incorporated at all stages of the process.
5. From IFIEC's point of view, the following issues are the most important in the movement towards integrated regional electricity markets:
  - harmonization between regions
  - grid investments
  - maximise capacity available to the market
  - efficient capacity allocation
  - transparency

## Harmonization between regions

6. IFIEC welcomes the ongoing coordination and harmonization within the different regions and accepts that these may be at different speeds and detail. In this instance, care is needed to be sure that the developments in the different regions are compatible, so as to facilitate integration not only within regions (in the short term) but also between neighbouring regions (in the medium term), and ultimately to create an integrated European market. This need arises already today, since for example the CWE region is coupled to the northern region via the NorNed cable and the market coupling project between Denmark and Germany.

## Grid investments

7. Congested borders are the main obstacle to an integrated European electricity market. To remove congestion, more grid investments, especially, but not exclusively, in cross-border capacities are needed. This issue is completely lacking in the convergence paper, but it should be addressed in an appropriate manner by the Regional Initiatives. Taking into account that creating an integrated internal market for electricity is the basic aim of the process initiated by EU policies, overcoming structural congestion is of utmost importance.
8. To identify the necessary capacity expansion, a coordinated medium-term investment plan should be drawn up jointly by the TSO's in every region. As basis for such a coordinated investment plan, TSOs need to develop a common transmission model as referred to in the convergence consultation paper (p.8). Some regional action plans already identify the need for such an investment plan. However, no visible progress has been made yet.
9. IFIEC is convinced that an independent European System Operator (ESO) as a trustworthy observer can propose and promote grid reinforcements and align operational procedures to better integrate the markets and guarantee system security. However the current debate seems to be driven more by political or corporate interests rather than by the willingness to align investments and operational procedures.
10. A positive development can be seen e.g. by the institution of a common coordination center by RTE and Elia that is intended to facilitate coordination with regard to the day-to-day operation of the grid. Such coordination should be extended to other TSOs to identify necessary grid expansion projects and align operational procedures such as calculating cross border capacities. However, IFIEC stresses that for effective cooperation between TSOs, they must be independent from the interests of vertically integrated companies.
11. After identifying the necessary investment projects, elimination of existing bottlenecks via extension of the grid should be given priority. Accordingly, any revenues resulting from the allocation of cross-border capacity have to be used for investments increasing interconnector capacity. Only thereby it is possible to overcome market segmentation in the long run. In this context it is welcomed, that the "3<sup>rd</sup> package" foresees an amendment of article 6 of regulation 1228/2003 to the effect that such revenues have to be earmarked for maintenance and extension of physical capacity.
12. National authorization procedures constitute an enormous barrier to investment, because capacity expansion is delayed for a long time. Therefore, the parties in each regional market should address this problem to the governments responsible, so as to possibly achieve according changes in legislation.

## Maximize capacity available to the market

13. As long as congested borders exist that require management of congestion, the capacities offered to the market participants have to be maximized, in line with the requirements of Art. 6(3) of regulation 1228/2003. Existing physical capacities have to be efficiently utilized, i.e. energy flows that run in opposite directions have to be netted, and possible interdependencies of flows across several borders and bottlenecks have to be considered. These technical procedures should be handled in such a way that as much capacity as possible is offered. This maximizing principle may only be restricted by consideration of network security.
14. This might be achieved by calculation of scarce cross-border-capacities based on actual physical flows. This task should be performed on a daily basis with up-to-date data. Such flow-based capacity calculation and allocation may be technically difficult and may lead to internal congestions being shifted to the borders, thus reducing the cross-border-capacity available. This is underlined by the results of the current TSO model in the CWE region, as reported in the consultation paper, leading effectively to a reduction of the available capacity. This is not acceptable. However, the alternative option of bilateral NTC-calculation does not maximize the capacity that can be made available to the market and should therefore be replaced by flow-based allocation in the medium-term. IFIEC therefore welcomes the TSOs' efforts to improve their common network model with the aim to create a flow-based-method that really maximizes the available capacity.
15. Due to the problems mentioned above, flow-based calculation and allocation has to be strictly monitored by regulators to make sure that cross-border-capacity is maximized as far as possible.
16. In this process, the splitting-up of already existing national or regional markets has to be avoided. For this would reduce liquidity and increase market power and therefore contradict the overall target of creating an integrated European electricity market. Other instruments like counter trading and re-dispatching should be considered as effective means to increase the cross border capacity made available to the market.
17. In addition, when implementing such a capacity calculation and allocation, it is essential to maximize the capacity that can be used by market participants. It must not be the aim of such a capacity calculation and allocation to maximize the income of TSO's (regardless of the use of congestion revenues).

## Efficient Capacity Allocation

### Short term

18. For short-term-markets, IFIEC favours an implicit auction approach which integrates the purchase of capacity and energy and thus increases the efficiency of the system. The experiences made with the trilateral market coupling between Belgium, France and the Netherlands are encouraging in terms of price convergence and usage of the cross-border capacities made available by the TSOs. Therefore IFIEC welcomes an expansion of this system to the CWE region (Germany). Also, quickly implementing market couplings on other borders is welcomed. But as the experiences on the Danish-German border shows, it needs to be done carefully, i.e. intensive simulation calculations should be done in advance, so as to minimize the possibilities of mistakes such as flows in the direction of the low-price region.

### Long term

19. There is a clear need for long term transmission rights. Since industrial energy users have a clear need for visibility and long-term contracts, which often are concluded bilaterally, the purchase of cross-border-capacity for longer time-periods must be possible. Such long-term transmission rights are only needed in a transition period until all structural congestions within Europe is removed and an integrated electricity market throughout Europe is achieved. During this transition period it is essential

that terms and rules for these explicit auctions are harmonized within each region, so as to facilitate the direct participation of industrial customers in the capacity auctions. Here, special attention has to be paid to the problem that the rules within each region are open to amendment so that a harmonization between different regions is still possible. This is especially important for countries which are part of more than one region.

### **Harmonization**

20. IFIEC welcomes the setting-up of common auction office responsible for performing the long-term auctions on the basis of a single set of harmonized auctions rules within different regions, such as CASC in the CWE-region. Such companies should be envisaged in the other regions as well. For the auctions rules to become effective, a formal decision by all relevant national regulators should be required. Only thereby, effective regulatory oversight as well as the legal positions of all market parties can be secured.

### **Transparency**

21. Transparency of wholesale data is important to create a level playing field. Only in a situation of balanced, symmetric information between market parties it can be expected that players develop trust in the market and the price setting mechanisms. Moreover, transparency is also needed to monitor possible abuse of market power by dominant players.
22. With regard to transparency, great improvements have been made by the various transparency reports within the Nordic, CWE and CEE regions which are harmonized to a high degree. Now it is important that these requirements are implemented by the national regulators. And it is equally important that all other regions catch up by publishing and implementing similar transparency reports. To ensure European-wide transparency, it is important that publication requirements are harmonized, data are published in a uniform format and in a common language, and publication is internet-based.
23. In doing so, it is important that transparency requirements are well-balanced: Neither some important data may be left out, nor may the data to be published be defined too far-reaching. E.g. consumption data of large industrial users must be treated carefully, since the market power issue (which is the ultimate reason for transparency) is located purely at the supply side. Regarding consumer units there does not exist such a problem because no consumer possesses a large market share. Moreover, when made public, the electricity consumption of large consumer units (e.g. electrolyses) allows for the calculation of the final production of this unit and thus creates distortions in the market for this final product.

### **Integration of balancing markets**

24. In the process of integrating the national or regional markets, the integration of balancing markets is a worthwhile aim. But it should be given a lower priority than the aims of grid investment and maximizing cross-border-capacity. Balancing markets account for a much smaller proportion of the market than long-term or day-ahead-markets and are a much smaller proportion of the costs borne by the grid users and customers.
25. In this regard, specific capacity reservations for balancing energy would be detrimental, since this would unnecessarily reduce capacities available to market participants. Instead, cross-border balancing trade should be managed by TSOs within the limit of the capacity available after gate-closure of day-ahead-markets.
26. Integration of balancing markets may require major changes of the national balancing market rules. This needs a coordinated approach which carefully takes into account aspects of network stability as well as market expansion.

November 2008