**INTERNATIONAL FEDERATION
OF INDUSTRIAL ENERGY CONSUMERS**

IFIEC Europe
Brussels, 4 December 2006

IFIEC Europe represents energy intensive industry throughout the EU. IFIEC Europe believes that competitive energy supply, responsible use of energy, consumer choice and flexibility are necessary for competitive and sustainable industrial activity in Europe.

Cross border framework for Transmission Network Infrastructure consultation

IFIEC welcomes ERGEG's consultation paper on the European Transmission Network Infrastructure. A well functioning internal electricity market, without trading barriers on national borders is of great importance to industrial consumers of electricity.

The European grid for transport of electricity is highly meshed. Operational methods and investment decisions from a supra-national perspective are essential for achieving an internal market for electricity. This requires proper incentives for Transmission System Operators (TSO) decision making, regulation (rTPA) and enforcement ideally on a European level (or on a regional level initially to test procedures before moving to a pan European scheme).

Remove negative incentives for TSOs

In the consultation paper ERGEG shows that TSOs do not have proper incentives to invest in order to reduce cross border congestion. In an example, ERGEG points out that to increase efficient trade between countries A and B, it is possible that a TSO in country C will need to invest in its own grid. IFIEC agrees with ERGEG that "a TSO is not generally obliged under its current national standards to take into account the need to optimise transmission capacity available in neighbouring systems". TSOs do not economically optimise the grid, because proper incentives are lacking. IFIEC is of the opinion that any solution should be aimed at removing these negative incentives for TSOs. In order to do this, it must be clear why TSOs do not optimise the total grid and what incentives are in play.

TSOs can use cross border capacity for free

TSOs can use the grid of neighbouring TSOs as an alternative for their internal transport. These flows are called loop flows. Huge amounts of cross border capacity are being reserved by TSOs for these loop flows, which reduce capacity for the market. In doing so, the economic value of this capacity - expressed by the price difference between the two countries – is not taken into account. The so-called "inter-TSO compensation mechanism", which should compensate TSOs for loop flows does not take the economic value into account. The cross border capacity is allocated preferentially and for free to accommodate loop flows, where market parties would have to pay the auction price. This is an easy and cheap alternative for TSOs for investing in their own grid and for overcoming internal congestion in day to day operations. The situation that TSOs can use or reserve cross border capacity without paying the real value of this capacity, is a major obstacle for increasing cross border capacity.

TSOs have commercial interests

Many TSOs are vertically integrated with commercial electricity generating companies. Cost and income of TSOs reduces or respectively increases commercial profits. This means that vertically integrated TSOs take commercial interests into account when deciding on issues like investment or operations affecting cross border capacity. Ringfencing the financial flows of vertically integrated TSOs, which should be dedicated to public TSO tasks, could reduce this commercial influence. As the preliminary results of the Sector Inquiry by the Commission show, strict supervision on the usage of congestion revenues is essential. However, IFIEC stresses that ringfencing financial flows does not remove commercial interests of integrated companies in TSO decisions on the cross border capacity available to the market.

IFIEC urges ERGEG to find solutions for removing these negative incentives for TSOs, when searching for ways to increase cross border capacities available to the market. These solutions need a legal basis and should be implemented in a European Grid Code, which was proposed in the Green Paper. IFIEC stresses that by removing these negative incentives, large improvements seem possible without having to invest huge sums in new physical cross border capacity.

Avoid exemption rTPA for "merchant" interconnectors

The objectives of the rTPA-regime are non-discriminatory access, maximisation of capacity and market facilitating allocation. Implementation of the directives has led to regulated regimes in the member states, which are continuously being improved to achieve these objectives. Granting exemption of rTPA to new interconnectors would remove the EU from these objectives, which are essential to realise an internal electricity market.

Therefore, the possibility to exempt new investments in infrastructure from the rTPA-regime, as allowed in the directives, must only be used as an ultimate exception to the rule and then under defined conditions. Limiting an exemption to only a part of the rTPA-regime for a limited period of time or over a limited part of the interconnector should be fully used.

Create European Grid Code and European Regulator

A Grid Code is needed as a series of principles for development of supply in pan-EU systems. A common set of principles and binding rules are essential if TSOs are to improve market integration. Without binding rules it is unlikely that TSOs as a whole will take a consistent position in acting on the steps needed. It follows that supervision and enforcement are also essential on an EU level. National regulators do not have the necessary jurisdiction and cross-border dealings present a new responsibility that can only be agreed across EU and included in the final Code. IFIEC Europe believes that DG TREN has a major role in facilitating the development of this Code and overseeing its implementation.

END