ifiec europe
international federation of industrial energy consumers

Securing competitive energy for industry

Response to the Consultation launched by ETSO – Europex on 10th April 2008 Interim Report on congestion management

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Introduction

1. IFIEC Europe represents the interests of industrial energy consumers in Europe for whom energy is a significant component of production costs. Energy prices, security of supply and sustainability are key concerns for these enterprises.

2. IFIEC has always been strongly in favor of increased integration of electricity markets as a mean to improve competition and security of supply. We therefore highly welcome the work initiated by ETSO and Europex on the implementation of new congestion management methods.

3. However, IFIEC notes that many deadlines regarding market integration have not been met. TSO's should come forward with concrete proposals improving market integration. These proposals should include investment plans, common calculation of cross border capacity and improved allocation. Proposals in these areas are crucial to solve congestions at an affordable cost without compromising security of supply.

4. In addition, IFIEC calls for more cooperation between TSO's on an operational level to improve market integration and security of supply. The incident on the 4th of November 2006 shows that immediate and concrete steps are needed. We cannot wait until the "third package" has been approved or implemented. Ultimately this should result in a complete cooperation, in the form of a European System Operator.

5. TSO proposals should be discussed with all relevant stakeholders and amended where necessary, in order to improve market integration. IFIEC is willing and disposed to cooperate in the design of robust solutions aiming at higher wholesale market integration across Europe. Also, IFIEC supports the creation of ACER, which should have a clear authority for setting out the general framework and timing for the market integration processes.

Response to consultation questions

1. What are the most important criteria determining the success or effectiveness of regional and inter-regional capacity allocation and market integration developments? For example:

- *a) The extent to which regional and inter-regional harmonisation is necessary/desirable, versus solutions which build on existing local and regional variations?*
- *b) The pursuit of solutions aimed at accelerating the speed of developments across Europe as a whole, versus allowing for different rates of progress by some regions where necessary?*
- *c) The degree to which the chosen approach is able to facilitate (in varying degree) progress across Europe as a whole, as opposed to only the most mature market regions?*
- *d) The "optimality" of the capacity allocation methods (and how optimality should be measured)?*

6. The success or effectiveness of capacity allocation and market integration developments are primarily measured by the effect of resulting cross border trade on competition. Criteria to measure improvements should include the following indicators :

    - Increase in availability of cross border capacities in congested areas
    - Reduction of incumbents' market share
    - Reduction in the number of hours of congestion at borders
    - Increase of investments in cross border interconnections and other transmission lines to eliminate congestions
    - Increase of cross border capacity made available to the market (i.e. flow-based capacity calculation, flows netting, re-dispatching, …)
    - Fulfillment of long and short term needs according to market requirements through and adequate split of available capacity
    - Capacity allocation should be based on maximizing the flows and not on maximizing the revenues

7. Allowing differences in the rate of progress in different regions is probably inevitable. The lack of progress in one region however, should not be an excuse to delay progress in other regions. Harmonisation is to be kept in mind during the ongoing work to speed up market integration in all regions.

2. What should be the relative focus and prioritisation between regional and interregional developments, and how does this vary depending on the market timescale (Forwards, Day Ahead, Intraday)?

8. With consensus on solutions for market integration on a more general level for the EU, it should be possible to implement solutions on a regional basis first, without risking that interregional implementation becomes later impossible or at a price of losing previous wins in efficiency and competition.

9. IFIEC supports an extensive use of implicit auctions as the optimal way to maximize interconnection usage. Because market coupling links cross border capacity to spot exchanges, these should be operating 7 days per week and be made accessible to demand-side players for lower costs and improved conditions. However, before spot markets are coupled, it is crucial that a proper monitoring of possible market manipulation is set up by the relevant regulators. Obligations for producers to detail every single physical units in their bids may contribute to a higher competition and it helps the regulators to easily identify any anticompetitive behaviour.

10. Long Term contracts are the base of power sourcing of large intensive users. To improve competition into this market segment it is necessary to facilitate the access to interconnections also under a long term basis. To increase cross border capacities, TSO's should be obliged to offer interruptible capacities to market parties, which are able to reduced their load on demand by the TSO. It should be possible to offer a significant amount of cross border capacity under such conditions. This would enable industrial users to add to the goals of market integration directly, whereas now mostly traders and energy companies are involved.

3. We have identified potentially significant challenges as regional developments cover wider geographic areas, involve greater numbers of stakeholders and span wider more diverse jurisdictions. Furthermore, alternative ways forward exist, implying that choices need to be made. In this context we would welcome your views on the following:

- *a) Does there need to be a defined European vision and set of priorities, or can this evolve through various local and regional initiatives?*
- *b) Is it appropriate to rely on consensual and evolutionary 'Bottom Up' processes, or is there now a case for adopting increasingly 'Top Down' approaches through centrally driven EU initiative, potentially delivered via regulatory or legislative routes?*
- *c) Is the current definition of ERGEG regions within Europe the most appropriate in the context of market integration processes described in this paper, or is there a need to redefine these using other criterion than the mainly geographic determination today?*

11. A defined "top down" European vision and a set of priorities are needed as a guideline for the implementation of solutions in the different regions. This should safeguard that later the different regions can be integrated without difficulty.

12. A legally binding European grid code, including market codes which promote market integration, would be very much welcomed by IFIEC. We support the creation of ACER, which should have a clear authority for setting out the general framework and timing for the market integration processes. This should evolve from TSO proposals and consultations with all stakeholders involved.

13. On the operational side, effective market integration requires a deep information exchange between TSO's on generation and grid topology (today most TSOs do not exchange real-time data of topology, generation or demand). Information should be made available from different time frames up to real-time. Relevant information and specific assessment of system adequacy should be disclosed by TSO's to all market participants.

14. Flow based methods are superior not only to calculate transmission capacity but also to asses system security. Today, as no TSO oversees the European system as a whole, flow based methods can not be implemented easily. This fact hampers real time operation making more difficult to anticipate flows at the interconnections and to manage the so called "loop flows". Currently, TSO's overcome the lack of cooperation through conservative estimations of cross border capacities, in order to avoid the need for re-dispatching near real time.

15. IFIEC Europe calls for the immediate establishment of a body in which TSO's of EU countries cooperate, in expectation of the setting up of the European Network of TSO's, which is required in the proposed third package. This organization would be in the proper position to propose and implement the market codes agreed, without compromising security of supply at any time. Also more cooperation on the operational level would be possible. We call upon ETSO to further debate the process of setting up an such an organisation and the process of the involvement of stakeholders like IFIEC and European bodies like the European Commission and ERGEG.

16. Ultimately, the cooperation of TSO's should evolve into one European System Operator. This would remove many barriers for integrating electricity markets related to both investments and operations.

4. With respect to the Day Ahead timeframe, we have identified three broad options, which potentially differ in terms of the degree to which harmonisation and centralisation is necessary, the approach to geographic extension, and the magnitude of the implementation challenge they present.

a) Which approach, or combination of approaches do you believe will most effectively facilitate the 'glidepath' to the IEM?

b) Do you have suggestions for alternative approaches to those broadly described, and what would be benefits of these?

17. As where the final result is concerned, IFIEC has a clear preference for a unified Pan-European solution. However, we need fast progress in order to increase European competition as quickly as possible. From that perspective we could accept lower-quality alternatives offering quick results. Any transient solution should not block the way to a single European electricity market or reduce the efficiency and transparency of markets with higher design and liquidity today.

18. We would like to note that a large part of cross border capacities should be easily made available to market participants to enable Long Term contracting. For this purpose LT capacity should also be allocated on an interruptible basis for industrial users. Capacity not used should be returned without a cost to Day-ahead market coupling.

5. With respect to the Intraday timeframe, we have identified four options (and some combinations are also possible). What is your opinion on these, in particular with respect to:

a) Achieving adequate levels liquidity in Intraday timescales for market participants, and the interaction with other market timeframes (Day Ahead)?

b) Optimal utilisation and efficient access to cross border capacity?

c) Maintaining network security and interaction with TSO balancing regimes?

d) Susceptibility to capacity hoarding.

19. The amount of capacity allocated to intra-day markets should not be withheld from estimated available capacity. It should preferably come either from non-used firm capacities or from new estimations being performed by TSOs in shorter terms.

20. TSOs extra requirements to balance their control areas beyond what normal mechanisms provide (tertiary reserve) should have a priority in the intraday trade over any other market agreement. This provision will support TSOs to correct unintentional deviations due to sparse and intermittent power production from renewable sources.

6. With respect to the Forwards timeframe, what do you see as the priorities regarding the development of regional and interregional market integration?

21. The highest priority is to increase the amount of capacity on the Forwards timeframe which is made available and traded. This can be achieved by the following measures:

- Increase capacities made available through netting of import and export, re-dispatching, common calculation methods including flow based and making available interruptible cross border capacity
- Remove incentives for TSO's to "push congestion to the border" by treating loop flows differently
- Maximise TSO's coordination
- Harmonise market design and cross border transport conditions