Internal Market of Electricity

Cross border allocation and congestion management

Basic principles

Cross-border congestion management and capacity allocation methods are determinant for ensuring fair and non-discriminatory access to the European electricity network and achieving a competitive Single Electricity Market.

Critical factors for the successful management of cross-border congestions include:

- avoiding congestion through optimal use of the existing infrastructures and through increasing capacity where necessary,
- obligation for unbundled TSO's (Transmission System Operators) to co-operate under the scrutiny of CEER (Council of European Energy Regulators),
- absence of market abuse and gaming,
- transparency of real-time information concerning network capacity availability,
- fair and non-discriminatory treatment for all network users.

Given the current "imperfect" market conditions, IFIEC Europe favours a "Dynamic Toolbox" approach to manage cross-border congestions, whereby a mix of techniques is adapted to different local control area conditions.

The Dynamic Toolbox contains two basic types of measures:

1. "soft" measures

Optimisation of the timing of scheduling of co-ordinated allocation,

NTC (Net Transfer Capacity) calculation and optimisation, with regard to TSO risk under the scrutiny of CEER,
Low-cost optimised investments for de-bottlenecking,

Allocation of "interruptible capacities", in addition to the "firm" ones,

Development of FACTS (Flexible Alternating Current Transmission System).

2. "Financial" measures

- **Rationing**: a temporary solution, in absence of a functional market
- **Market-splitting**: based on pools and well-defined cross-border capacities; pre-requisites are: active TSO cooperation, spot markets, limited market concentrations
- **Co-ordinated re-dispatching**: allocation of additional capacity at minimum cost and frequency; cost-based or market-based pricing, depending on market concentration; pre-requisites are: active TSO cooperation, low price differentials and sporadic congestion
- **Auctioning**: subject to "gaming" by dominant players and non-transparent allocation of revenues; pre-requisite: perfect market conditions. Under current market conditions, IFIEC Europe strongly opposes the extended use of auction mechanisms to allocation capacity of cross-border transmission lines.
- **First-come/first served** (and other "old" systems): generally not acceptable because of existing or potential discrimination among grid users

3. "Structural" measures

- **Rational use of electricity**: implementation of public policies with appropriate economic signals to encourage responsible use of electricity
- **Infrastructure development**: In order to address structural, long-term congestion bottle-necks, IFIEC Europe recommends that optimised projects of new interconnections, FACTS, etc. be elaborated and undertaken as soon as possible.

From the industrial energy consumer's point of view:

- The primary features of any cross-border allocation and congestion management scheme must be simplicity, transparency, maximum use of transmission capacity and low cost.
- All revenues received by TSO's in connection with congestion management and capacity allocation measures must be subject to regulatory scrutiny. The funds should be used to reduce congestions.

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