

European Regulators Group  
for Electricity and Gas (ERGEG)  
c/o Council of European Energy Regulators (CEER)  
Rue de Titien 28  
B-1000 Brussels

8 January 2010

## **Regional Initiative Progress Report Swissgrid response to public consultation**

Dear Sir or Madam,

On behalf of Swissgrid, the Swiss TSO, we are pleased to hereby provide our response to the public consultation on the ERGEG Electricity Regional Initiative Progress Report. Since for Swissgrid the part "A. ERGEG Gas Regional Initiative" is not of relevance, Swissgrid answers only to the questions concerning the Electricity Regional Initiatives (ERI).

Switzerland as a Non-EU country is not formally involved in the ERGEG Electricity Regional Initiatives. However Swissgrid and formerly ETRANS have followed and supported these initiatives very closely from their beginning. Switzerland together with France and Germany initiated more than 60 years ago the European interconnected Electricity system that provides the basis for electricity exchanges between countries and that still is the foundation for the development of the European electricity market. It is obvious that such an achievement should be maintained and developed even under the new environment of an European Integrated Electricity Market (IEM). Swissgrid therefore stands for integrating the markets around Switzerland including our country in the most efficient way. This is a key prerequisite to cope with the huge challenges of the electricity industry for building a sustainable future electricity system with integrating large amounts of renewable energy sources and with meeting the European climate goals.

Swissgrid respectively its predecessor ETRANS asked therefore already several years ago to voluntarily participate in the ERI CSE and to actively promote harmonisation and further development of rules at the Italian borders. More recently discussions arose about the integration of all Swiss borders in the ERIs. Swissgrid welcomed such ideas outlining the strong and long lasting interdependencies in terms of physics and markets between Switzerland and countries belonging to the ERIs CWE, CEE and CSE. For Swissgrid it is obvious that in a first step Switzerland should be integrated into the activities of all three surrounding ERIs and further on cross-regional harmonisation and integration should be looked for.

As far as it concerns the current consultation of ERGEG about the ERIs we like first to highlight that from our point of view a lot of important work has been done and significant progress has been achieved. Swissgrid likes to congratulate ERGEG for having lead this process successfully. We hope that the future role of the ERIs will allow for an even stronger participation of Switzerland in this work.

## B. ERGEG Electricity Regional Initiative

### B.1. From your point of view, what is the main achievement of the Electricity Regional Initiatives process?

A major achievement of the ERI CSE, in which Swissgrid voluntarily and actively participates regarding its Southern border to Italy, was the creation of common, harmonised auction rules for capacity auctions at all Italian borders. This was an important contribution to the overall goal of the regional initiatives and simplified cross-border electricity trading in the ERI CSE.

As a next step, ongoing work in the ERI CSE prepares the establishment of a common auction office. While the *ERGEG Regional Initiatives Progress Report* mentions the creation of a TSO Auction Office (TAO) at all Italian borders (cf. page 26), in fact the TAO will only be an intermediate solution implemented only at the French-Italian border. Starting from January 2011, the Capacity Allocation Service Company for the Central West European Electricity market (CASC-CWE) shall be the single service provider to run the auctions for *all* Italian borders. Compared to the original plan of a TAO this new arrangement represents a more future oriented step since it is going beyond a purely regional approach. In the long run this should facilitate a merger of the regions CWE and CSE towards a single European electricity market.

### Capacity calculation

### B.2. What should be the framework conditions for having flow-based capacity calculation based on a common grid model implemented in practice?

The key prerequisite to improving capacity calculation – whether flow-based or traditionally NTC-based – is the availability of more detailed generation dispatch information to TSOs.

### B.3. What do you believe should be the short- and long-term goals for a regional approach to capacity allocation?

For Swissgrid especially the ERI CWE and CSE are of direct importance. In these two regions, we consider the following short- and long term goals as relevant:

For CSE:

- Implementation of CASC as an auction office for all Italian borders (planned for 2011).
- Further development of short-term allocation mechanisms, such as intraday trading (see below).
- Coordinated NTC calculations for all time frames. Indeed, the development of a common d-2 NTC process is foreseen for 2010.

For CWE:

- Integration of the northern Swiss border in the ERI CWE, because of the significant similarities and interdependencies between these adjacent market areas.

### B.4. Do you consider transparency requirements for capacity calculation sufficient? If not, what do you need additional data/information for?

As outlined above, there is a need for more detailed generation dispatch information in order to further improve the results of capacity calculation.



## Capacity allocation

### **B.5. What practical steps should be taken at an interregional level to ensure an efficient and harmonised approach to capacity allocation in the 1) long-term; 2) day-ahead; and 3) intraday markets?**

Indeed, interregional approaches to capacity allocation should be considered whenever there are compatible market designs in place. The integration of the northern Swiss border in the ERI CWE is a prime example of such an opportunity. Importantly, interregional cooperation should not impede ongoing work within ERIs, nor should it exclude certain capacity allocation timeframes in favour of others (see next section).

### **B.6. What are the future challenges in ensuring that allocation mechanisms across all timeframes can work together?**

Our view is that the biggest challenges in capacity allocation are related to the timeframes close to real-time, i.e. balancing, intraday and day-ahead. In fact, these are the timeframes that are becoming crucial to handling an increasingly volatile and rapidly changing generation pattern. Therefore, we recommend that an improved design for capacity allocation should start at the timeframes close to real-time and ensure physical delivery based on generation and network conditions and balancing needs. Building on a successful real-time market design, forward timeframes can be derived consistently. As previously mentioned, this requires generation dispatch information being available in more detail and closer to real-time.

As a recent report from the European University Institute / Florence School of Regulation (<http://cadmus.eui.eu/dspace/handle/1814/12815>) suggests, "a full debate on market design is needed.[...] In the longer run a 'repair only' approach will not work. TSO central dispatch (nodal pricing) is probably the way forward." Energy spot markets must be re-integrated with transmission system operation for all time frames (including balancing) to work together properly.

### **B.7. Do you consider that achievements by different regions towards a harmonised set of rules at regional level for long-term capacity allocation merit further work or should there be more emphasis put on inter-regional harmonisation (considering that this may impede short-term regional progress)?**

We do believe that further regional work on long-term capacity allocation issues is needed and promising. As an example, the 2011 introduction of a common auction office in the ERI CSE highlights that major progress is still being achieved within regions. At the same time, we would like to mention two more aspects: First, we expect the biggest challenges to reach the IEM and the integration of variable renewables not in long-term, but in short-term (close to real-time) capacity allocation. In the case of the ERI CSE, the introduction of cross-border intraday trading would be an important step in this direction, which depends however on the creation of an Italian intraday market. And second, inter-regional approaches should be considered to pave the way towards the IEM, starting with markets that were historically close to each other, such as the Swiss and the surrounding CWE markets.

### **B.8. Do you think that extending the geographical scope of existing auction offices is advisable/feasible?**

As outlined before, whenever market structures allow, the extension of the geographical scope of auction offices should be considered. Indeed, the introduction of CASC as a single auction office in CSE in 2011 is a concrete step in this direction.

**B.9. Do you agree with price market coupling as the target model for day-ahead capacity allocation?**

We do believe that price market coupling is an important intermediate step to improve day-ahead capacity allocation. In the longer run, though, market coupling is unlikely to solve the major challenges posed by the EU climate targets and the integration of large amounts of variable renewables, as it won't help to integrate different time-frames (including the balancing market) nor to solve intra-zonal congestions. Therefore, in order to define a true target model, we suggest to further analyze other models, such as nodal pricing.

**Balancing**

**B.10. How important do you consider further development of cross-border balancing solutions? Which model do you consider appropriate and efficient?**

We do consider further development of cross-border balancing as a priority issue. The European congestion management so far has led to a rather fragmented system of several national markets. The national ancillary services markets (incl. balancing) are rarely liquid enough to work efficiently, which has caused inappropriately high procurement costs of ancillary services. Since they represent a substantial part of overall electricity costs, this is a real burden to consumers and the European economy in general.

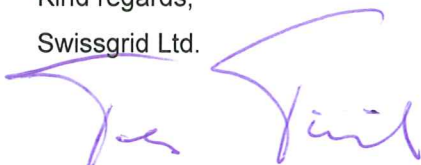
While the first decade of European electricity market reform has (rightfully) focused primarily on facilitating cross-border electricity trading, the second decade should focus on the (re-)creation of cross-border ancillary services markets. In this regard, transmission capacity reservations for ancillary services based on a TSO-TSO model or a TSO-BSP model should be considered to reach a social optimum. In the longer run, the re-integration of ancillary services into the energy market (as with nodal pricing) should be studied as an alternative.

**Transparency**

**B.11. Do you share ERGEG's view that significant progress in transparency has been reached thanks to the ERGEG Regional Initiatives? What steps should be taken in order to enhance transparency further?**

Yes indeed, we do share the view that significant progress in transparency has been reached thanks to the ERGEG Regional Initiatives. On one hand, the existing Vulcanus platform provides operational data between TSOs (in the former UCTE region). On the other hand, the newly created entsoe.net (formerly ETSO Vista) platform provides relevant information to market participants and the public. However as previously described, there is a need for additional transparency in the field of generation dispatch information.

Kind regards,  
Swissgrid Ltd.



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