



ERGEG Consultation on the Draft Guidelines on Congestion Management and Transmission Tarification – AEP¹ Comments

1. Main Points

- The Association generally supports the Congestion Guideline, though some further drafting improvements could be made;
- We particularly welcome the increased clarity about market-based mechanisms and the greater emphasis on inter-TSO coordination;
- We are opposed to the use of reserve prices in auctions (para 2.10);
- There should be a clearer requirement on TSOs to maximise available capacity, and incentives should be developed to encourage this;
- Greater emphasis should be placed on the development of secondary markets in interconnector capacity;
- Week-ahead forecasts should be provided for interconnectors (para 5.2.3);
- It is particularly important that regulators ensure proper implementation of the Guidelines – compliance with the existing Congestion Guidelines has so far been disappointing at many borders;

- The Transmission Charging Guideline, on the other hand, is extremely disappointing and does nothing to address a significant market distortion;
- ERGEG acknowledges that some harmonisation of average G is needed, but simply proposes a continuation of the status quo; charging levels in the UK and Ireland are set well out of line with those elsewhere in the EU and are significantly higher than estimated by the European Commission;
- The Association favours a harmonisation of the percentage generation/demand split rather than the absolute level; capacity rather than energy flow should be used as the basis for calculating charges;
- We agree with ERGEG that connection charges also need to be addressed.

2. Congestion Management

The Association welcomes the Guidelines on congestion management and notes a number of improvements from previous drafts, in particular the statement that capacity allocation should be done via either explicit or implicit auction.

¹ The Association of Electricity Producers (AEP) represents the interests of the electricity generation sector in the UK, with a membership of more than 100 companies. Between them, the members embrace virtually all of the fuels and technologies used for commercial electricity production, from coal, oil, gas and nuclear power to wind, wave and hydro and production from a wide range of waste products.

The following are comments on specific parts of the proposed Guideline.

1. Introduction: a clear definition of “secure network operation” is needed, since changing the transmission security standard can itself create or alleviate congestion. In our view, the security and reliability rules mentioned should be dealt with in parallel with this Guideline. It should be noted that standards will differ according to the size and characteristics of power systems. For instance, there will inevitably be some differences between security standards on the Irish and UCTE networks.

Para 1.8: The Association supports closer coordination between the UK, French and Irish TSOs. It was recognised at the regional mini-forum in London that the establishment of an All-Island market between Northern Ireland and the Republic of Ireland could affect the establishment of coordinated allocation procedures between the UK, France and Ireland. The respective regulators need to work together closely to ensure that the three markets develop in a consistent fashion. It is helpful that a deadline is specified for the introduction of coordinated capacity allocation.

Para 1.12: Penalties for the non-use of capacity should be proportionate.

Para 1.13: The text should place more emphasis on the development of secondary trading. The TSO will not necessarily be involved in the reassignment of unused capacity, which might be sold on to another market player.

Para 2.1: We welcome the clear statement that congestion management should be market-based. We support the use of both explicit and implicit auctions, whichever is more appropriate at a given interconnector, and do not believe that one method should automatically be given precedence.

The increased emphasis on inter-TSO coordination is also helpful. This should help overcome the problem of different approaches to ATC estimation, which tend to result in the lowest value being offered to the market.

Para 2.4: We welcome the strengthening of the obligation on TSOs to harmonise congestion management methods where trade on other interconnectors is significantly affected. An obligation should also be placed on regulators to promote such harmonisation.

Para 2.5.4: We believe that cross-border balancing mechanisms need to be transparent and open to all market participants. The costs of post-gate-closure balancing trades between TSOs need to be made explicit.

Para 2.5.14: We welcome the proposal to foster secondary markets, though the wording should be strengthened. One obstacle which needs to be tackled in this area is the fact that system operators have the final say in re-assignments and reallocations.

Para 2.10: We are opposed to the addition of the words “non-cost-reflective”. Reserve or guide prices, whatever their basis, do not represent a market-based mechanism of allocation. If capacity has been offered and bids have been received, then it must be allocated accordingly.

Para 3.8: We agree that TSOs should not tackle congestion by displacing it to the border. It is important that regulators apply the Guidelines to all congestion, whether it manifests itself at national borders or not. However, the wording should make clear that the capacity restrictions referred to are only acceptable in the short term, not “until a long-term solution is found”, which could delay progress indefinitely.

Section 4: We welcome the coordinated approach to congestion, e.g. in paras 2.1 and 2.4. However, we are concerned that the need for multiple regulatory approvals of congestion management schemes could lead to unnecessary complications and delays. ERGEG should in our view propose a simplified procedure for handling these issues.

Section 4 should have a requirement on TSOs to maximise available capacity.

Para 4.9: We welcome the commitment to developing intra-day allocation, which should make an important contribution to increasing trade.

Section 5: We support the transparency requirements in the Guideline. However, commercial confidentiality must be observed when, for instance, auction results are published. We suggest that section 5 includes a reference to Art. 12 of the Electricity Directive. Regulators should also have an obligation to protect commercially confidential data.

Para 5.2.3: The proposed ERGEG amendment substantially weakens the Commission text. Weekly data give additional precision, since they provide hourly rather than seasonal information. We believe that TSOs should be required to provide week-ahead forecasts.

Section 6: TSOs should be expressly incentivised to maximise available capacity and avoid congestion. The impact of a revenue-neutral mechanism (*Introduction Para 5*) is that TSOs will be inclined to “play safe” and adopt very conservative approaches to making capacity available. TSOs should be allowed to keep some proceeds from auctions, but this should be linked to a revenue mechanism which varies with the amount of interconnection made available.

Para 6.2: We welcome the transparency criteria regarding use of income from congestion management charges.

3. Tariff Harmonisation

The Association believes that significant trade distortions will occur unless there is some harmonisation of transmission charging approaches. However, while ERGEG acknowledges the need to harmonise the G charge in Section 2 para i, its proposals do nothing to achieve this, since they simply enshrine the status quo. There is no logical reason why charges in the United Kingdom should be significantly higher than charges in countries to which it is connected via submarine cables. In the Association's view, ERGEG's proposal is not consistent with Art. 8.3 of the Cross-Border Regulation, which requires the Guidelines to lead to "a progressive harmonisation of the underlying principles" for setting charges.

The Association favours a harmonisation of the % split between generation and demand rather than of charging levels. The guidelines point out that European countries vary according to how they calculate network charges. It would therefore be difficult to harmonise absolute charging levels in the short term. There is, however, no reason for not harmonising the split of charges.

The following are comments on specific parts of the proposed Guideline.

Section 1 Final Para: the Commission's reference to border charges still existing within the EU market is accurate; one example is the "injection fee" payable by exporters from the UK to France. The Association believes that ERGEG should focus on removing such border charges rather than "skating over" the issue through careful drafting.

Section 2.i: ERGEG rightly states that connection charges also need to be taken into account. However, the draft does not follow this through by recognising that the total charge (G + connection) paid by generators is the important factor.

The Association agrees with the statement that non-network-related charges are often important in siting decisions. However, this is not an argument for not harmonising the generation/demand split: differential costs for cooling water and fuel transportation costs arise from natural factors. Network charges, on the other hand, are administratively imposed and efforts should be made to reduce any distortions they produce.

Para 1.1: Analysis in the GB market has clearly shown that capacity usage at peak is the main driver of transmission investment. In this light, the Association believes that it would be more logical to base charging on capacity rather than energy flow.

Para 1.4: We believe that an average G charge of €2.5/MWh for the UK, which is far higher than for any other Member State except Ireland, is inequitable. The €2.5/MWh figure cannot be justified on the basis of providing locational signals within the UK, since charges on individual generators can be set above and below the average. Such a figure, which represents 6-8% of the wholesale price, would significantly distort cross-border trade, and would not provide a level playing field for UK generators. The ERGEG figure is also considerably higher than that estimated by the European Commission.

Para 3: We do not understand why the timetable is so unambitious: regulators are effectively given eighteen months simply to calculate the G charge. In contrast, the Congestion Guideline, which requires major changes to existing practice, gives one year (to 1st January 2007) to introduce coordinated capacity allocation. We do not see why regulators could not provide an average G figure by early 2006.

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