

IBERDROLA's response to

"ERGEG's Call for Evidence on Incentive Schemes to Promote Cross-Border Trade in Electricity" (E08-ENM-07-04)

IBERDROLA welcomes and appreciates all the efforts from ERGEG aimed at reaching higher levels of transparency and competition in order to improve cross-border trade in electricity markets.

This kind of initiatives will definitely contribute to a level playing field in the European power markets and will lead to better market integration across Europe.

Regarding "*ERGEG's Call for Evidence on Incentive Schemes to Promote Cross-Border Trade in Electricity*", we really think the approach to tackle first the short term measures, that is, the ones that had to do with better calculating, assigning and using the capacity currently existing is the proper one.

We have taken part as members of EURELECTRIC and EFET in their respective answers that we basically support.

However, some of indicators suggested in the consultation document, like the number of congested hours or the congestion costs, might be affected by other aspects like the price differences in markets that are subject to a great volatility. In order to evaluate more properly if the existing capacity is really being used by the market, Iberdrola would like to suggest two additional indexes.

1. Number of non-congested hours when economic flow is available.

We consider a non-congested hour takes place every time all the available ATC capacity is not nominated by participants. In addition, we consider an economic flow when a positive market spread exists between two interconnected countries in the studied direction.

This indicator would be a more elaborated version of the "Number of Congested hours" proposed by ERGEG since it would reflect the hourly price reference on each side and the behaviour of the agents participating in the interconnection.

This way, the indicator would show the accuracy of market participants' nominations and how efficient the interconnection use has been. A higher degree of competition would involve a lower number of non-congested hours when economic flow is available.

2. Number of agents participating in capacity auctions.

It is well known, that the greater the number of participants in a market the better price signal is provided. Therefore, we believe that the number of

agents participating in explicit auctions could be a positive indicator of the degree of competition in an interconnection.

It must be taken into account that all subsidiaries and affiliates from a certain agent should be considered as a unique participant.

Both indicators could be added to the ones proposed by EFET in order to create a more rounded incentive scheme since they take into account the degree of competition in the interconnection.

These two proposed indicators show that some interconnections are not efficiently managed as in the case of France – Spain Interconnection.

Due to Spanish Regulation RDL 5/2005, the so called ‘dominant operators’, i.e. those with a higher share of 10% of generation or power supply in the Iberian Electricity Market (MIBEL), are not allowed to purchase energy outside the Iberian Peninsula in order to import it to Spain.

Studies carried out on the basis of these indicators show that the interconnection is not congested a significant percentage of hours in which importing energy from France to Spain is economically viable (EPEX Spot France < OMEL) ¹ as the following data reflects:

	As a percent of total hours in the year (8760)	As a percent of hours when the price in Spain exceeds that in France
Until Feb. 2006	32%	59%
From March 2006	47%	71%

Since the introduction of the ban on Dominant Agents in the year 2006, the number of economic but non-congested hours has increased as it is reflected in the table above.

In addition, less competition can be measured by the loss of revenues that arise from insufficient competitive pressure in the interconnection capacity auctions. Since there are fewer participants in the France – Spain direction, there is less competition than in the opposite direction.

¹ The criteria used to determine these numbers is:
- Economic flow is available when the price in OMEL is higher than the price of EPEX Spot France for a certain hour.