

# **CEFIC COMMENTS ON ERGEG DRAFT FRAMEWORK GUIDELINES ON CAPACITY ALLOCATION AND CONGESTION MANAGEMENT FOR ELECTRICITY – Ref: E10-ENM-20-03 (8 September 2010):**

## **INTRODUCTION**

Since the end of the 1980s, EU Member States adopted the idea of de-regulating the traditional, monopolistic and regulated electricity sector in order to open up the markets for competition at European level. Since then great efforts have been undertaken by EU authorities and regulators to achieve a competitive and integrated market.

Nevertheless, in the opinion of Cefic at present only partial progress has been made in integrating the electricity markets of the EU Member States with a view to opening them up to competition. From a global point of view the Chemical industry in Europe today remains affected by competitive disadvantages regarding electricity costs. Prices in the EU Member States stay high because most markets have remained largely national and therefore lack real competition. Furthermore, the additional costs for electricity consumption rose by authorities (e.g. public service obligations, climate policy, social measures etc.) and are often passed directly on to industrial consumers. This cost pass on further exasperates the competitiveness of EU chemical industry making the situation more problematic, in particular with regard to the requirement of financial measures to mitigate EU electro-intensive industries exposure, i.e. to the risk of carbon leakage.

Due to these experiences the Chemical industry has developed its own solution proposal, including four interrelated and all necessary sets of measures:

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| Target Models:       | transparent & efficient pricing mechanisms                                 |
| Market Integration:  | progressive elimination of internal “electrical borders”                   |
| Structural measures: | for more efficient & harmonized market functions                           |
| Transitory measures: | assuring industry competitive position until market functions efficiently. |

Please find more details on our position with respect to a future Market Design for Electricity in our Position Paper released in June 2010.

## **GENERAL COMMENTS ON THE ERGEG TOR PROPOSAL**

We would like to highlight that these Guidelines, defining the international market design in Europe at long-term (2015 – 2020 minimum), are crucial for electro-intensive industries because cross-border issues directly define the possibilities to purchase electricity from other Member States, thus the level of competitiveness between generators and, therefore, the prices.

The electricity market liberalisation aimed to create a unique European market. Of course today, the whole Europe may not be managed as a “copper plate”. Nevertheless, the Guidelines should incite TSOs to tend to the European market, enlarging progressively market zones by suppressing borders since it is not impossible.

Where significant congestions require “cross-border management”, the best solution seems to be a real “coordinated flow-based method” with a common model of the European grid

- for all congestions, because even inter Member State connections via either DC or point-to-point lines induce power flows in Member State grid branches which interact with other, national and international, transactions
- for all timeframes, because, even for long-term capacity allocations, the real impact of transactions on network branches must be studied, to consider their partial mutual compensation.

However, the Guidelines should consider that the “flow-based” method proposed by ENTSO-e is a simplified one: model linearization, pre-imposition of borders, GSK, ...

Face to this situation, the Guidelines should make explicit the performances of a full flow-based method and the restrictions caused by each simplification, accepting or not each simplification with regard to its impacts.

Concerning Zone Sizes, we remind that, because a real flow-based method select the best offers satisfying grid constraints, zone definition has no influence on congestions and only depends on a economical choice of the market size. Some ones imagined small bidding zones to better locate offers against congestions when using GSK and the simplified ENTSO-e method. This problem disappears if transactions declare their nodes.

We therefore strongly insist on the need to avoid GSK by imposing each market actor to declare the off-take/injection nodes of its transactions; it is possible and is a very better solution as to reduce market zones ! (NB: this is not a nodal pricing, the fixing remaining at zone level).

Concerning day-ahead power exchanges, if a zone contains only one large generator, import via market-coupling will not prohibit this generator to make the fixing price it wishes. Competition between several significant generators is needed inside each Price Zone.

On another hand, the existence of a border, even if rarely congested, implies monthly and yearly capacity allocations with strong limitations of both volume and duration. The consequence is the practical impossibility of long-term bilateral contract between consumer and generator across the border. Because, typically, only large generators wish to contract with large consumers and because some Member States contain only one large generator, the historical one, large industrial consumers need international competition between generators.

Therefore, to create competition between large generators, some Zones should be enlarged.

Each Price Zone should include large power plants of, minimum, three generation companies in competition.

This mutual competition is possible between power plants with similar costs, so it is in a Region which might become a Price Zone.

## **COMMENTS ON PARTICULAR SECTIONS OF THE DRAFT GUIDELINES**

### ***SECTION 1.1.6 – Capacity calculation process:***

We suggest modifying the sentence as follows: The CACM network code(s) shall ensure that the process for the determination of the common grid model<sup>2</sup> / common base case and the transaction selection mechanism does not discriminate between exchanges internal to a control area / zone and cross-border (cross-zonal) exchanges.

### ***SECTION 3 – To Achieve Efficient Forward Market:***

Please, refer to our answers to questions 14 and 15.

## **CEFIC RESPONSES TO SPECIFIC QUESTIONS**

### *GENERAL ISSUES*

1. Are there any additional issues and / or objectives that should be addressed in the Capacity Allocation and Congestion Management IIA and FG?

#### Cefic response

Yes. An objective and some practical issues lack.

One of the key objectives of electricity market liberalization lacks: to create a European Market ! Today, a lot of people find normal to maintain a patchwork of local markets, separated by “electrical borders” subject to custom duties ... in Europe ! Some markets contain only one large generator able to contract with large consumers which do not benefit from competition.

Guidelines should impose that Code proposes method which tend to, in fine, an unique European market and may not permanently maintain borders between local markets.

The criteria “to create practically competition between generators” lacks.

- Concerning day-ahead market: guidelines should impose to use the method selection criteria “contribution of the cross-border management method to market resistance to gaming”.
- Concerning long-term markets: each border, even if rarely congested, implies allocation of its yearly and monthly capacities, with volume and duration limits prohibiting inter-zone long-term bilateral contracts.

Consequently, Guidelines should impose that competition between several large generators inside each local market zone to be warranted by the Code solution.

2. Is the vision of the enduring EU-wide target model transparently established in the IIA and FG and well suited to address all the issues and objectives of the CACM?

Cefic response

No. See answer to Q1.

3. Should any of the timeframes (forward, day-ahead, intraday) be addressed in more detail?

Cefic response

Yes. The integration of markets of longer terms as one day, which include both organized market tools, so as the Forwards, and bilateral negotiated long-term contracts. The Guidelines neglects the need of a framework guaranteeing large consumers will be able to negotiate and conclude long-term contracts with several large generators in competition.

4. In general, is the definition of interim steps in the framework guideline appropriate?

Cefic response

Yes.

5. Is the characterisation of force majeure sufficient? Should there be separate definitions for DC and AC interconnectors?

Cefic response

Yes, the characterization of Force Majeure is sufficient.

No, the definition of Force Majeure should be the same for AC and DC. Guidelines should impose that TSOs elaborate the same definition for both national and international issues, because the target is to manage similarly national and international equipments and transactions.

6. Do you agree with the definition of firmness for explicit and implicitly allocated capacity as set out in the framework guideline? How prescriptive should the framework guideline be with regard to the firmness of capacity?

Cefic response

Yes, for firmness definition.

Concerning firmness prescription, Guidelines may impose TSOs to warrant similar firmness face to both national or international events. Practically, an incident on either an interconnector or a national line may have the same consequences, so as need of

re-dispatching. The worse case is the trip of the consumer site connection line, implying the shut-down of the consumer and a positive imbalance for its supplier. It is thus logical to homogenize requirements on firmness TSOs must warrant.

7. Which costs and benefits do you see from introducing the proposed framework for Capacity Allocation and Congestion Management? Please provide qualitative and if applicable also quantitative evidence.

#### Cefic response

The actual version of the Guidelines would not change the situation in CWE. But the Zone Size and the choice of the Flow-Based Method (really coordinated flow-based or simplified with GSK and pre-defined borders) may influence the situation, creating or not competition between generators.

Our past experience is that negotiation in competitive environment permits price reductions around 10 percents. Therefore, a method which really creates competition for all markets, from day-ahead up to long-term bilateral contracts, may create de-congestion costs if these ones are lower as some percents of the energy price.

### *SECTION 1.1: CAPACITY CALCULATION*

8. Is flow based allocation, as set out in the framework guideline, the appropriate target model? How should less meshed systems be accommodated?

#### Cefic response

A real coordinated flow-based method (optimizing an economical function with, as constraints, the grid equations and limits) must be applied anywhere, also in less meshed networks and for point-to-point interconnections because the power flows they induce in Member State grid interact with national and other international transactions. As example, Spain-France or France-UK transactions create currents in French grid branches, interacting with the French and CWE transactions.

But...

The Guidelines do not clearly define "flow-based" method.

Do they accept the simplified method proposed by ENTSO-e which

- pre-imposes the existence of borders, not needed with a real flow-based
- uses GSK to connect the offers to the nodes, instead of to impose users declare their transaction nodes; with, as consequences, a bad knowledge of national flows, a need of redispatching and, even, national transaction priority on international ones.

The Guidelines should clearly define the specifications of the "Flow-Based Method" and the simplifications which are accepted.

9. Is it appropriate to use an ATC approach for DC connected systems, islands and less meshed areas?

Cefic response

No. See answer to Q8.

10. Is it necessary to describe in more details how to deal with flow-based and ATC approach within one control area (e.g. if TSO has flow-based capacity calculation towards some neighbouring TSOs and ATC based to the others)?

Cefic response

Flow-Based should be generalized. But the problem remains if TSOs+PEX select the transactions independently for each Region.

Guidelines should recommend to tend to a Flow-Based method at European scale, with constraints based on the European grid model, even if the economical function is a combination of regional economical functions optimizing the “Fixing Prices” at regional level.

11. Is it important to re-calculate available capacity intraday? If so, on what basis should intraday capacity be recalculated?

Cefic response

YES. Because

- on one hand intraday may require a better precision for grid security near to real-time
- on another hand, all longer-term transactions and their injection/off-take nodes are well known, via the nominations, permitting this increased precision.

## *SECTION 1.2: ZONE DELINEATION*

12. Is the target model of defining bidding zones on the basis of network topology appropriate to meet the objectives?

Cefic response

No. Because

- It does not satisfy the objective to tend to a European market and will definitively maintain many borders on congestions.
- It will reduce Zone Sizes, dividing some countries in several zones. But, the consumers of a congested area paid, before liberalization, the same regulated electricity price and, recently, the same transmission tariff as other consumers of

this Member State; but the TSO used their money to invest in other areas maintaining their one congested; now, they would have to pay their energy at higher price because of previous TSO choice? It's unacceptable!

- A lot of so smaller zones will contain large power plants of only one generator, without any competition.

Additionally, it is a false problem, because putting borders on congestions is only requested to locate offers with regard to congestions, with the GSK and the simplified flow-based method of ENTSO-e.

It should be abnormal to reduce Zone size and competition because of a method simplification !

The simple solution is to impose actors to declare the off-take/injection nodes of their transactions ! N.B.: which does not imply a nodal method, because the price fixing may be at large zone level.

13. What further criteria are important in determining the delineation of zones, beyond those elaborated in the IIA and FG?

#### Cefic response

The Zone Size should optimize benefit, from competition between generators, for the markets; both the day-ahead power exchanges and the longer term markets (forwards and bilateral long-term contracts).

A critical criteria is "to create competition between generators" !

Each Zone should include large power plants of, minimum, three generation companies in competition.

This mutual competition is possible between generators with similar costs, so they are in a Region.

A border which is not frequently or strongly congested should be eliminated. We may extend our answer to Q7 to say that a border between zones, the average price differential of which is lower as some percent of the energy price should be removed.

We imagine Zones should be extended up to the Region (so as CWE).

Additionally, a generation company which is dominant in its Member State will no more be dominant in a very larger zone. This one will be able to invest in new power plants without the reproach of reinforcing its dominance. Therefore, is this solution in favor of security of supply.

## SECTION 2: FORWARD MARKETS

14. Are the preferred long-term capacity products as defined in the framework guideline suitable and feasible for the forward market timeframe?

### Cefic response

It might be acceptable for transactions up to one year.

It does not permit multi-year international transactions, so as long-term bilateral contracts that some industrial consumers want to secure their own investments.

15. Is there a need to describe in more detail the elaborated options for the organisation of the long-term capacity allocation and congestion management?

### Cefic response

It is needed to impose a viable solution for long-term bilateral contracts with actor from another Zone.

Because, yearly capacities are limited, Flow-Based method should be used, considering partial “netting” of network branch currents induced by all transactions, even if this solution imposes obligatory use” of FTR / PTR or “contracts for differences”.

See your § 3.

Additionally, the yearly capacity allocation procedure should take place very earlier (November) to permit industrial consumer to participate and, after the allocation and depending on the result, to have time enough to sign its energy purchase contract and to provide its TSO with its new supplier name.

## SECTION 3: DAY AHEAD ALLOCATION

16. Are there any further issues to be addressed in relation to the target model and the elaborated approach for the day-ahead allocation?

### Cefic response

Yes. The need of rules guaranteeing the fair comportment of actors on power exchanges and to facilitate the control by regulatory authorities.

## SECTION 4: INTRADAY ALLOCATION

17. Are there any further issues to be addressed in relation to the target model and the elaborated approach for the intraday allocation?



### Cefic response

Yes.

The Guidelines might provide a mechanism against “gaming” between day-ahead and intra-day markets, to avoid a generator does higher price offer to day-ahead market, to increase to market fixing, while doing an opposite transaction in intraday to optimize its costs without benefit for the market.

This one might be that the intraday cross-border fee be higher as the absolute value of the day-ahead price differential between transaction zones.

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| 18. Does the intraday target model provide sufficient trading flexibility close to real time to accommodate intermittent generation? |
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### Cefic response

Yes, if gate closure near to real time.