

## **Public Consultation on ERI Coherence and Convergence Report 2008 Comments by VERBUND-Austrian Power Grid**

APG welcomes the opportunity to comment on ERGEG's report on Coherence and Convergence of the European Regional Initiatives.

APG is involved in three ERI regions: Central East (CEE), Central South (CSE) and in Central West (CWE) as observer. Additionally APG is member of SETSO Task Force and contributes actively to the development of the SEE market area (currently based on the SEE – Treaty). The focus of our comments will be on issues to be harmonised on European Level in order to facilitate a future integration of regional markets into a European Electricity Market. We allow us to repeat some of our remarks made already to the last ERI convergence report as they are still valid today.

### **1. Capacity Calculation**

There is an ongoing discussion in different regions on the need for a flow-based approach in defining available capacities for cross-border transport. This discussion is also driven by first comparisons between the two methodologies and it appears that the flow-based approach might lead to lower capacities over certain time frames. One of the main reasons why a flow-based approach is needed are the loop flows where trading activities on some borders impact the available capacities on other borders (reducing thus the trading opportunities there). When TSOs need to reduce critical flows with the so-called NTC approach on one border they may not be successful to prevent critical flows stemming from other borders which endanger the secure operation of the grids. Hence, for highly meshed grids as for example in the centre of Europe or in the SEE area a flow-based approach is urgently needed to optimise regional trading opportunities and at the same time allow for secure grid operation. If the connection between two areas can be fully physically controlled by a group of bordering TSOs and if these TSOs manage to coordinate their activities to control the flows it may not be necessary to have a flow-based approach as a first priority for allocation management.

Concerning the question of more or less capacities, it has to be pointed out that there is always a trade-off between the capacities made available for trading and the security of grid operation. If a flow-based approach is introduced to avoid critical situations it should be clear that in these critical situations we cannot have both: more security and more capacities. Nevertheless, the major advantage of a flow-based methodology is that it indicates automatically the most congested and critical elements in the whole region as a result of the trading behaviour of market participants and independently of the settings of the individual TSOs. Additionally, this gives TSOs the opportunity to apply counter measures like re-dispatch on those lines where it is most effective for the region and it gives clear signals where future investment in lines would be most beneficial for the whole system. Congestion management can never create additional capacities, this can only be achieved by additional investment in new lines or improvement of existing lines.

### **2. Auction Mechanism – Platforms**

At the moment we see different platforms being developed for coordinated Auctioning and for Market Coupling. The example of Market Coupling between Germany and the Northern Region has shown that slight differences in the allocation algorithms can lead to serious problems on the market. APG's position is that there is an urgent need for coordination and harmonisation of the procedures and algorithms used at the platforms

(auction offices and/or PXs) in order to avoid distortions of the market. This is also a key for further harmonisation of the regions at a later stage.

As the regions are progressing at different speeds it could be helpful to enhance cooperation between the ERIs in order to avoid duplication of work and double financing especially for TSOs being part of different regions.

### **3. Revenue Distribution**

After the publication of the EU Regulation 1228/2003 TSOs installed bilateral explicit auctions at all congested borders in Europe where the congestions revenues were equally divided between the two partners. With the introduction of a flow-based approach the distribution of revenues needs to be changed so that the revenues flow to those lines which are the reason for cross-border congestion – and where appropriate measures need to be introduced (e.g. counter-trading or re-dispatch). This would also mean that Regulators of different countries have to agree to such a concept in advance so that part of the congestion rents can be earmarked for congestion management activities and are not taken into account as TSO income to be used for reduction of the national tariffs. TSOs are now evaluating different schemes for revenue distribution which could result in different solutions for different regions. APG would strongly plead for one European scheme for revenue distribution that equally applies to all ERI regions and to the SEE area.

### **4. Auction Rules, particularly issue of Firmness of Capacities**

In the course of this year a discussion started on the firmness of capacities and whether the TSO should be obliged to compensate traders in case of curtailments with the market spread between two countries and not only with the value of the transmission right itself. The argument for doing so is that some market participants believe that TSOs are the only party able to control congestion and that the compensation should give an incentive for TSOs to use curtailments only in emergency situations where other measures are no longer applicable. In principle the congestion management guidelines are already asking for measures to keep the firmness of assigned capacities and allow to use the congestion revenues for measures to keep these capacities firm. To give money back to the market even goes a step further and might lead to a situation where TSOs have to pay back more than they collected in the capacity auction, thus transferring the trading risk completely to the TSOs.

APG's position is that is too premature for such a solution as we do not have a fully functioning congestion management system yet:

- One problem, for example, might be that a capacity curtailment on a certain border is due to a generation or line outage in another country/region not directly linked to this border. As long as we have not introduced consistent congestion management systems (at least at regional level) which inherently tackle the above mentioned problems, like e.g. via regional flow-based approaches, we do not yet see a possibility for applying such measures. Without identifying the source of the problem we can not force a neighbouring TSO to compensate for a problem which might not be in his sphere of influence.
- It is also questionable whether TSOs should be held liable for problems located on the generation side which have an effect on transmission lines. How could a potential misuse of such a scheme be prevented if ,for example, big generators in one country hide or provoke problems just in order to receive firmness payment without having to deliver the energy. Hence, such a scheme could

give an incentive to market participants to make profit out of such situations and therefore negatively influence security of supply.

- An additional problem would be that the Regulators have to explicitly agree to such schemes which might consume all the congestion rents – and a rule would be needed for capping these payments or that in case the congestion rents are exhausted no payment would be made at all.
- Furthermore we also would like to point out that according to the currently applied allocation schemes usually options are allocated to market participants. Thus, netting of such rights is not possible and TSOs have no guess about the final usage of the transmission rights and therefore the “real” usage of the grid. Therefore a more suitable solution would be to allocate also obligations to market participants. Such kind of products would directly lead to more capacities because of the netting effects and lower prices for market participants.

### **5. Cross-border Balancing**

The implementation of cross-border balancing markets needs to take into account the potentially congested borders. We still miss a clear advice from ERGEG or the Congestion Management Guidelines on how to treat this problem effectively. Should TSOs reserve some capacities for cross-border balancing on congested borders which are not offered to the market (e.g. by increasing the TRM) or should market players offering balancing power also be obliged to acquire capacities on congested borders? The latter alternative would perhaps result in big risks for providers of balancing power as they might not be able to get enough capacities at a competitive price.

Another issue to be investigated might be an efficiency problem when transporting balancing power over long distances or changing location of production of balancing power within larger control zones.

### **6. Integration of Intraday-Markets**

APG is missing the discussion of the interaction between congested borders and intraday markets. It would not be feasible to install a coordinated and flow-based allocation system in a region involving all borders while at the same time organising bilateral intraday allocation based on, for example, NTC values. APG proposes that there is an obligation to integrate intraday market procedures into the coordinated flow-based allocation systems and link these procedures to the regional auction offices responsible for the regional allocation.

### **7. Treatment of Merchant Lines**

There is a need to harmonise the treatment of Merchant Lines or exempted DC lines within the Congestion Management. It might be the case that the transports on such lines create problems on parallel lines or on lines after the ML/DC lines where TSOs then have to take counter measures or even curtail other market participants. It is clear that ML/DC lines have to be treated differently in the coordinated auction – e.g. no auction is necessary or the auction income has to be assigned to the ML/DC lines owners. But ML/DC lines should be definitely included into a system of coordinated capacity definition and into a coordinated system of re-dispatch/counter trading as these measures may be triggered by flows caused by these lines.

## **8. Powers of Regulators**

In our comments to the 2007 report we mentioned the problem that the competences of Regulators greatly differ in the various countries, which is the reason for some difficulties in the decision making process caused by lack of decision-making power or contradictory request of regulators. We welcome the proposals made in the current drafts for the Third EU Energy package to tackle this issue on European level.

## **9. Definition of Regions/’Internal Congestion Management’**

Due the limited legal competence of the European Union Congestion Management is currently only regulated for cross-border issues. At the same time the Guidelines say that internal congestion should not be shifted to the national borders. To fulfil this request would mean to auction line capacities within a Member State or to find other solutions e.g. by introducing different price zones in a country which reflect the actual congestion (as in the case of the Italian market). Such “Internal Congestion Management” schemes should be compatible with the cross-border congestion management. The second problem is the current physical influence of one ERI on other ERIs which is neither identified at the moment nor can it be controlled without a coordinated approach between the ERIs. It might be worth to study how much efficiency is currently lost through the current definition of the regions or if differently defined regions would help to reduce this unwanted uncoordinated influence.