

European Regulators' Group for Electricity and Gas (EREG)
28 rue le Titien
1000 Bruxelles
BELGIUM

25 March 2010

Call for Evidence: Incentive Schemes to promote Cross-Border Trade in electricity

Swissgrid Response

Dear Sir or Madam,

We are pleased to hereby provide Swissgrid's response to your call for evidence "Incentive Schemes to promote Cross-Border Trade in electricity". Swissgrid deems this issue as very important but due to its complexity we would like to reply in a more general way to your inquiry instead of addressing specific questions.

Swissgrid, legally and habitually committed to work for the public benefit, is well aware of the basically welfare enhancing effects of cross-border electricity trade and, even though not explicitly incentivized by Swiss legislation, is therefore offering maximal capacity to the market subject to the constraint of total countrywide security in a heavily transit-burdened system. This constraint is certainly binding as particular borders need to be treated as an integral part of the entire system. As a consequence, the design of incentives to promote cross border trade is rather demanding, as complex interdependencies have to be taken into account. For example, if an incentive leads to a distortive and disproportionate increase of electricity intake from a particular border, other borders could be at risk and internal bottlenecks could arise.

So, instead of setting particular necessarily rudimentary incentives on specific goals, a way to go ahead could be to set the lever at shifting the TSO's motivation from the traditional legal and habitual grounds to a genuine intrinsic profitability rationale that entails a risk-management-culture (e. g. monetary benefits for providing higher NTCs by taking the risks of increased probability for costly remedial actions) that is already present in many other industries with very high damage-potential (aviation, nuclear, mining,...).

Having this general remark in mind, the following can be said about the indicators proposed in your call for evidence.

Even though a single indicator like social welfare is theoretically favourable, as it reduces the information cost and leaves maximum autonomy with the TSO, the difficulty of finding sound assumptions, regional scope and the correct assessment of the controllability of variables by the TSO render it practically unfeasible. This is also the case since, even with the best intentions of the TSO, capacity-offering will remain inefficient in the absence of proper locational signals for generation and systematic inefficiencies due to explicit auctions, both of which are not directly controllable by the TSO.

A part-consequence of this is, that Swissgrid is generally sympathetic with incentives that accelerate the attainment of the target models, where market coupling can be seen as a first step but bigger efficiency gains are to be expected from sustainable models. However, again the main problem here is the lack of

controllability of the attainment of such a goal by a TSO and therefore Swissgrid cannot fully support such an indicator either.

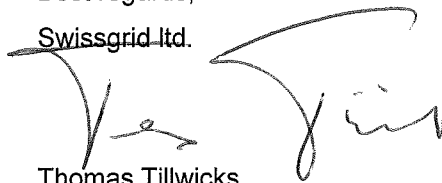
The other proposed indicators don't seem practicable and, more generally, the sole focus on the short-term is deemed inadequate as short- (incentives) and long-term (infrastructure investment) measures are certainly complementary.

Apart from these specific comments, it is important to note that genuinely optimal capacities need not only to take into account those necessary for trading-activities but also those for balancing- and other needs. Additionally, incentives must exceed both the financial risks and the operational risks of the TSO for implementing particular actions. Moreover, they must not interfere with the rest of the tariff regulation scheme (incentive to build a new line in a barely tapped area vs. operational cost bench mark).

Put together, Swissgrid maintains that a sole focus on the TSO's responsibilities for cross-border-trade is too one-dimensional and therefore suggests the collection of standardized European TSO-KPIs as a prerequisite for eventually being able to design more comprehensive incentives.

Best regards,

Swissgrid Ltd.



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