

European Regulators' Group for Electricity and Gas
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ERGEG call for evidence on Incentive Schemes to promote Cross-Border Trade

Vattenfall welcomes the opportunity to respond to the ERGEG consultation on incentive schemes to promote cross-border trade. Cross-border trade is very important in order to reach the goal to create an integrated internal electricity market. The ERGEG paper is very interesting, although highly theoretical, which maybe shows that there is a need to develop the concept further before any concrete incentive schemes are decided.

General comments

Congestions anywhere in the interconnected system are affected by the power flows in all parts of the system, which means that increased flow in some parts may create congestions in other parts. This is not easy to handle by maximizing the cross-border trade everywhere, the value of capacity on certain borders may be higher than on other borders. Consequently, the long-term goal should not be to maximize cross-border trade, but to maximize utilization of transmission capacities as such, regardless whether a particular transmission line is a cross-border or internal one. The ultimate goal should be to maximize social welfare in the power system taking into account the obvious fact that transmission capacities are scarce and bottlenecks may occur from time to time.

Due to the information gap between regulators and TSOs, ERGEG wants to create incentives for the TSOs to maximize cross-border trade, so that TSOs would like to maximize the trade for their own economical purposes. This objective is good and incentive regulation is needed, because there will always be an information gap between regulators and regulated companies.

However, there is also a need to be cautious, since the incentives to promote cross-border trade has to be aligned with other objectives and incentives for a TSO, so that there will not be an unbalance in the operations of a whole TSO – the TSO has to take care of transmission both internally and on the borders. Also different TSOs may have different basic internal objectives due to ownership structure, either low transmission tariffs or maximum profits, and it may not be easy to take that into account in the incentive schemes. Finally, regulation has to be simple, transparent and fair, and in case there should be different incentives for different parts of the TSO business, there is a risk that the regulation becomes too detailed.

There is clearly – in order to maximize the benefits of trade – a need to have the models discussed in the paper, but regulators should not necessarily have them. The TSOs should have them, and they are also currently building them, starting regionally in conjunction with the auction offices.

For simplicity, and in acknowledging the information asymmetry, the regulatory set-up should avoid deterministic network modeling and instead use benchmarking methods

which forces regulators and TSOs to actively participate in a dialogue. The best solutions should not cloud the possibilities of reaching good interim solutions. Thus we urge that ERGEG allow for early initiatives on regional level rather than waiting for a lengthy political process of finding an overall European perfect solution.

Except modeling TSOs may also need better data, or rather better data exchange with each others in order to analyze the state of their system, and improve system security. It might also be a need to develop more refined system security criteria, e.g. the N-1 criterion may not be sufficient in all parts of the system. This could not be encouraged by incentives for cross-border trade only. Risk for black-outs and brown-outs are real threats, which is a matter for the whole system and not only for borders.

There is clearly a strong need to reduce the information gap, but to start with, monitoring may be more useful. E.g. collecting data on available capacity, and discussing with the TSOs the explanations for capacity reductions is more important, and this also builds knowledge and understanding on both sides. (In such discussions the reason being internal congestions are not good answers.) So, more regulatory oversight over TSOs' congestion management of the whole system is important, there is a need to build knowledge and transparency. This is sufficient to start with, then decisions on incentives can come later.

Congestions anywhere in the system should be handled where they appear, not on the borders. This has to be checked by regulators more carefully. Incentives for solving internal congestions to increase cross-border trade (which is costly irrespective of whether it is done by re-dispatch, by counter-trading, or by market splitting, or even with introduction of locational marginal pricing), may be to the benefit of customers in other countries. This is a very important discussion that should be done between Member States and between the regulators and could not be solved by incentives for cross-border trade.

Question 1: In the current regulatory and institutional framework could incentive schemes be a useful tool for promoting cross-border trade? If so, why?

Talking into account that on many borders interconnection capacities available for trading have decreased over the last years *and* considering the natural information asymmetry between TSOs and regulators, it is undoubtedly useful to introduce incentive schemes for TSOs to promote cross-border trade.

Incentive schemes should however be very carefully constructed in order to solve the right problems and not create new ones. If incentives that are for example only pointed at increasing cross-border capacity are likely to increase the amount create further internal congestions. Incentives to solve internal congestions where they occur instead, of incentives to solve congestions at borders might for example be more powerful. Furthermore it could be useful to think of similar incentives for cross-border and internal congestions, in order to avoid that congestions is pushed to the border or the other way around.

Incentives should be positive (to reward TSOs when certain projects are successfully and in due time fulfilled) as well as negative (penalties for failing to improve).

Question 2: If not, which regulatory or other framework would be more suited to promoting cross-border trade?

The most important issue is to promote technical and organizational cooperation between TSOs across borders.

Question 3: Do you agree with the features of an “ideal” incentive scheme? If not, why not? What features should an “ideal” scheme have?

Yes, in theory, but it is difficult to see the practical application. If an ideal incentive scheme is not readily available, there shouldn't be a too strong focus on finding the ideal incentive scheme. This is especially true because TSOs across Europe operate in substantially different environments. However, to improve possibilities for cross-border trade, a start with an incentive scheme - that can be further improved along the way - should be made as soon as possible.

Question 4: This paper presents “short-term” incentive schemes for improving capacity calculation and allocation methods. Should an incentive scheme address these short-term incentives together with longer-term incentives, e.g. for infrastructure investments? If so, how?

In principle short-term and long-term incentives should be addressed simultaneously, since they affect each others, and could not easily be divided. E.g. new capacity is coming into operation continuously and short-term congestions affect the long-term value of reinforcements.

Question 5: Which approach presented in this paper do you favor: an incentive scheme based on a single indicator of performance reflecting the efficiency of congestion management as a whole (Chapter 2), or one or several incentive schemes aiming at fostering one or several specific projects or topics related to congestion management (Chapter 3)? Why?

No view. Single performance indicators are often complex to implement, especially if the context to which they applies differs from TSO to TSO.

Question 6: Which, if any, of the indicators presented in Chapter 2 do you favor? Why? Do you have any alternative proposals for a single indicator of performance?

No view. ERGEG could consider to further look into project-specific indicators, as the other all have their drawback and project specific indicators are not only easier to target, but also simpler to implement.

Question 7: Which, if any, of the incentive schemes presented in Chapter 3 do you favor? Why? Do you have any alternative proposals for a specific project or combination of projects which could usefully be incentivised?

No view, but it is important to collect data and analyze in order to increase transparency and knowledge. Financial incentives could be given to TSOs if major projects – that are in line with the EU target model - are realized in due time and within budget (e.g. market coupling, cross-border balancing).

Question 8: Despite the potential limitations of all indicators for implementing an incentive scheme, do you share the view that their publication before any incentive scheme is set could help promote the development of cross-border trade and represent a step towards increased transparency?

Yes, very much so. By publishing the indicators of incentive schemes before they come into force, TSOs will be able to anticipate to these schemes and can show their commitment.

Question 9: If so, at which frequency and on which geographical scope (bilateral/regional/European) should these indicators be designed and published?

It is important that the scope of the incentive schemes is at least bilateral, but where necessary regional or even European in order to cover all aspects. On the one hand side this is important as TSOs are absolutely dependent on each other when it comes to projects relating to cross border trade. On the other hand incentive schemes with a bilateral or even regional focus, stimulate TSOs to cooperate with each other; a prerequisite for successful cross border trade.

Question 10: What would be alternative options for promoting cross-border trade?

Building knowledge among regulators and agreeing on how to divide costs of solving internal congestions to the benefit of increased cross-border trade.
Furthermore it is important to accept and work from existing solutions, rather than reinventing the wheel (see market coupling process). This is absolutely necessary to speed up the process and avoid unnecessary development cost

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With kind regards



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