

**MAVIR's views  
about ERGEG Public Consultation Paper  
on Cross border framework for transmission network infrastructure**

MAVIR ZRt., the Hungarian Transmission System Operator highly appreciates the ERGEG Consultation Paper, which is one of the best summaries of the problems and issues to be solved in order to facilitate the European Internal Electricity market while ensuring the security of supply.

Because of its geographical situation Hungary is strongly affected by the issues of cross border trade and the use of domestic network by market participants of other countries.

We fully agree with the main conclusions of the Paper, especially, that

- the authorisation procedures for construction of new infrastructure shall be streamlined, shortened and harmonised;
- the legislative and regulatory bases have to be expanded from national focus to more regional even pan-EU focus.

Referring to the kind invitation of ERGEG we would like to give some remarks and proposals for consideration during the consultation process.

Regulatory framework

We are convinced that the **root of the problems** experienced in the UCTE synchronous area is illustrated most characteristically by the example of paragraph 36 of the ERGEG Paper:

***„It may be the case for example that in order to increase efficient trade between countries A and B, network reinforcement is required in country C. It is not clear in this situation how the necessary network reinforcement in country C is identified or paid for.“***

The present power systems in Europe are not yet suitable for long-distance and bulk power transfers (because they were built for the purpose of mutual help in emergency situations and not for the free trading). Therefore, development of a single European grid for a real European electricity market can not be achieved only by proper organisational and legal measures (i.e. common rules and standards), but it needs a lot of investments. The essential condition for this the real, transparent and stable return of investments. Under the present regulatory regimes in most countries of Europe, the **costs** of investments in transmission infrastructure **in transiting (C) countries are born by the end-users of these (C) countries** (i.e. without having benefited from the

transit). The present Inter-TSO Compensation System **does not cover the investment costs** for transit in transiting countries. Therefore at present neither the TSO nor the regulator of country C is motivated in building new transmission infrastructure which is not in the benefit of consumers of country C. **Improvement of the compensation system** (which means also the raising of the amount of the fund) can be a good solution for covering the relevant costs in country C by market participants of countries A and B.

However, concerning overall cost, long-distance transiting electricity can be more expensive than installing new generation capacities close to consumption areas. That is why the generators should be made interested in building generation capacities closer to consumption areas. For this **proper allocation signals** and **stable legal - regulatory environment** are needed.

### Transmission System Operators

Taking into consideration that the power systems on the European continent (UCTE systems) are highly meshed, every measure in a national system affects cross-border flows and trade in others. For example, a small system has very limited possibilities to keep under control heavy transit flows (i.e. overcome overloads) coming from far beyond the neighbouring systems and going too far over the neighbouring systems. In addition, the technical and market issues are interdependent and can not be dealt separately. Therefore, for further and quicker progress, we agree that a **closer level of collaboration is needed** between national **regulators** and national grid **operators**, with appropriate powers for common rules and approaches.

First steps can be taken on regional basis, but a measure taken to solve a problem in one of the regions can cause new problems in the neighbouring regions. Therefore we stress that simultaneously it is also necessary to organize a **synchronous system level** co-ordination and collaboration, in order to rule the interactions among the regions. We propose to set up a **service provider** to guarantee the synchronous system level co-ordination. We think this synchronous system level service provider necessary to ensure the secure and coordinated operation of the market and the transmission grid.

Budapest, 28 November 2006