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European Regulators' Group
for Electricity and Gas
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EREG consultation on Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity

Vattenfall welcomes the opportunity to respond to the ERGEG consultation Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity. Efficient and non-discriminatory utilization of the European transmission grid is a prerequisite for the development toward a true pan-European electricity market.

The consistent, coherent and practicable target model for the organization of the European electricity market in all time frames should be defined, promoted and implemented as soon as possible. Vattenfall urge for a swift implementation. Key for successful European developments in this field is cooperation and coordination and transparency.

The consultation documents, *Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity* (hereinafter the FG) and Initial Impact Assessment (hereinafter the IIA) provides thorough assessments and ground for future grid codes. However, if the final FG will still have general reference to the IIA, the final assessments and conclusions in IIA reflecting the results of the public consultation have to be clear enough to be a suitable basis for a sustainable organization of European electricity market.

The impression of the FG and IIA is the intent to move from predominating national considerations to solutions furthering European market integration, in the forward, day ahead and intraday markets. The change in mindset and the future implementation will bring net benefits to European society by enabling efficient utilization of the European transmission grid in combination with well functioning and liquid electricity markets. From Vattenfall point of view an equal treatment of all power sources, i.e. no priority network access and dispatch is essential for a proper capacity allocation and congestion management.

A necessary requirement for a well functioning market is the commitment to manage congestions efficiently from an overall perspective, i.e. take the right measures at the right places and time in a transparent manner. Even though flow based capacity allocation is the preferred solution for the day ahead time frame the intermediate step could be to adapt the coordinated ATC method in a single price coupling mechanism based on a common algorithm. Furthermore, implicit continuous intraday trading (as proposed by the IIA) and Financial Transmission Rights constitute important facilitators for efficient operation of transmission and generation resources.

Questions for Consultation

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?

The FG should cover all time frames relevant for congestion management. Vattenfall deems the coordinated development of transmission grid infrastructure in connection with appropriate location of new generation units as a substantial part of congestion management complementing the efficient and non-discriminatory utilization of the existing transmission capacities.

An area of further concern is that when capacity allocation and congestion management is harmonized at a European level this has impact on the real time operation, thus the proposal have consequences also for the real-time and balancing market integration which is out of the primary scope of the consultation documents and thus need to be coordinated with forthcoming FGs for the balancing market. In addition, coordination with Comitology Guidelines on Governance and on Fundamental Electricity Data Transparency is essential as well.

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?

The FG and IIA address vital issues for implementation of the EU target model. The time frames; forward, day-ahead and intraday, are transparently described and presented. Policy options are well aligned with the overall target model.

Regarding the objective to achieve efficient forward electricity market, the IIA include the option of having Physical Transmission Rights with UIOSI. Vattenfall supports the view that physical transmission rights must be abandoned once price coupling is introduced, otherwise there is an overwhelming risk for inefficient utilization of the transmission grid. The criteria for instead moving to Financial Transmission Rights, i.e. reliable prices, must be regarded as fulfilled once price coupling is introduced and available capacity between bidding areas thereby managed implicitly.

Regarding the objective to design efficient intraday market, the IIA concludes that explicit auctions should only be envisaged as a very short term solution. Continuous implicit

trading has proven to serve its purposes and should be easy to implement throughout Europe.

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

See comment above under question 1.

Time frames before real time operations should not be addressed without keeping efficient real time operations in mind. Hence, the important compatibility with Framework guidelines for balancing market integration

The FG stipulates that volume of transmission rights for long-term capacity shall be determined by TSOs. Preferably the volume or the percentage for different time frames should be decided by the Regulatory Authorities already in the FG. One possibility would for the regulator to specify a predefined percentage level of capacity to be auctioned on different time frames. The process for capacity calculation and auctions should be perfectly transparent and criteria for decision on capacity to be auctioned in different time frames should be developed.

A prerequisite for the capacity auctions to be consistent throughout the internal market for electricity is that the timeframes and places of fulfilment for contractual relations are defined ex ante. The forward capacity auctions need to rest on the same grid model and TSO coordination must be ensured.

Additionally, secondary trade of transmission rights could be arranged by TSOs with power exchanges as market operators. As the target model rests on a single price coupling and a single algorithm. The same entity could provide a common platform also for capacity rights which would ensure compatibility and directly provide a support for future pan-European trade both common auctioning and secondary trade.

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

N/A

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

An EU standardized definition of Force Majeure is needed. The final terms of Force Majeure, should rely on extensive consultation with all stakeholders and not only between TSOs and regulatory authorities. Neither technology, nor geography should decide whether a case is force majeure or not.

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?

The paragraphs on firmness and compensation seem more relevant for physical rights than for financial rights. The FG should be more precise regarding firmness and the connection to type of capacity product. When Financial Transmission Rights has been implemented, sold capacity should be regarded as completely financially firm. Only in the case of physical rights could Force Majeure be applicable.

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.

There will be socioeconomic gains of more efficient utilization (closer to optimal) of existing network assets as most beneficial trades occur across the whole region. This will also facilitate more cost efficient dispatch as well as strengthening Security of Supply through enhanced trading possibilities (balancing in different time-frames). But the practical experiences show that the process of grid reinforcement has to start long before a congestion occur and must be based on mid and long term forecasts of load and generation pattern. However, socioeconomic evaluations of congestion management and network investments are a key ingredient to accompany such a proposal.

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?

Yes, the flow based allocation is appropriate for the target model. But even though it is part of the target model it may not be used as a reason for delaying single price coupling in Europe. Hence, it is not an initial condition that all cross-border connections are treated in the same manner across the regions. When a system is developed, a stepwise approach starting from simple and transparent rules in an interim period may be better than elaborating the perfect solution before changing the system. If a faster implementation of inter-regional market coupling is possible with coordinated ATC it should be implemented as soon as possible. The ATC approach could then be regarded as an intermediate step. However each intermediate step should result in a socioeconomic gain and not prevent from reaching the final target.

Once the flow based allocation is implemented, an exemption from the flow based approach must be motivated with saved costs through less complexity. In the long run, harmonized application of rules is a cornerstone for a fully integrated market across borders.

The easiest way to uncover the needs of a grid is to enforce transparent congestion management. That avoids the rather sticky discussion on whether networks are meshed or

radial, and it also ensures that the actual flows are as close as possible to the technical capacity of the grid.

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

See question 8. The overall goal should be a harmonized approach with consistent capacity calculation and equal allocation mechanisms for AC and DC infrastructure.

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 neighboring TSOs and ATC based to the others)?

See also question 9. However, as long as the bilateral dealings between the TSOs lead swifter implementation and result in more efficient use of the underlying infrastructure it is better that the regulation approve of simple but working rules rather than enforcing implementation of complex and arguable solutions.

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

Vattenfall see a strong need for a re-calculation of capacities, if the uncertainties (e.g. RES-E generation forecast) of the day-ahead capacities can be reduced by it, to ensure that all available capacities will be offered to the market. As long as the capacity allocation process rests on a ATC model there will be a demand for well informed regulators and regulations that provide credibility and transparency for when and how capacity for cross border trade is updated closer to real time (i.e. after the day-ahead forecast).

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?

Generally yes, Vattenfall deems the definition of zones as a fundamental basis of the wholesale market and all related businesses. Thus the zones must be sufficiently stable to facilitate a well functioning and liquid wholesale market in all timeframes. That's why process and rules how to change the bidding area delineation must be known in detail

Vattenfall welcomes a periodical reassessment of zone delimitation and recommends linking this process with the periodical elaboration and consultation of the 10-Year Network Development Plan of ENTSO-E.

Congestions should be managed efficiently from an overall perspective, i.e. take the right measures at the right places and time in a transparent manner.

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

The elaborations in the IIA, p 33-34 on abuse of market power is somewhat contradictory providing various views on the subject. It is important to separate any concerns regarding competition and possible market power abuse between retail and wholesale markets. The transmission system is the most important prerequisites for competition. The market power of an actor in the wholesale market is not correlated to the congestion management method.

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?

The preferred long term capacity products should be Financial Transmission Rights. In the future, FTRs should replace any existing physical rights currently auctioned in Europe. As FTRs rely on locational prices, a transition from physical rights requires that reliable price references are established and that all day-ahead capacity between areas is managed centrally by power exchanges. As the target model relies on a single price coupling mechanism only Financial Transmission Rights should be auctioned thereby maximizing the amount of transmission capacity available in the price coupling mechanism.

The ERGEG suggestion not to allow different types, i.e. both options and obligations together on a particular border is not regarded as the most feasible solution. Instead, the TSOs should auction FTRs as obligations and options, distribution decided in the auction based on market players' bids. This would follow the empirical experiences in PJM and ERCOT, thus would rest on robust tested solutions.

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

The set-up of the long-term capacity allocation mechanism should preferably be elaborated in more detail. As the capacity to be auctioned must be based on the underlying infrastructure and especially in case of flow based allocation it will also depend on a simultaneous assessment of generation, demand and grids call for consistency with day ahead allocations. Further, the amount of transmission capacity to be auctioned on different time-frames has to be evaluated in a consistent matter and coordinated between TSOs.

The regulators should decide if, and if so when a TSO may buy back sold capacity previously auctioned.

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?

With regard to potential congestions within a bidding area it is important to define the methods applied to resolve internal congestions e.g. counter trade and how such measures affect the day ahead capacity.

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?

Swift implementation is important, a step-by-step approach is recommended. In relation to this a clear definition of potential intermediate steps and estimation of realistic timelines is a prerequisite. Also, cooperation between TSOs and PXs is needed to ensure concrete results.

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

In general, the development of cross-border intraday markets will facilitate the integration of RES-E in an economically sound way. In order for the EU to reach its RES target a quick implementation is of uttermost importance. The option of continuous implicit trading has an advantage with regards to flexibility and implementation and should thus be promoted.

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With kind regards



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