

**IFIEC responds to ERGEG Consultation on the “ERI Convergence and
Coherence Report”**

IFIEC has always been strongly in favour of market integration and thus supports the Regional Initiatives established by ERGEG. These initiatives mark a first step towards a truly integrated European electricity market, the latter one being the ultimate goal. Therefore IFIEC agrees with ERGEG that the Regional Initiatives should result in regions whose internal markets are planned to converge with each other, rather than become separate islands which would make it more difficult to achieve the goal of a single integrated European market. Such harmonization should be kept in mind during the ongoing work within the seven different regional markets and be supported also by the 3rd legislative package.

Congested Interconnectors are critical to this process, so it is of utmost importance in the medium term to remove these and any other remaining obstacles for cross-border-transmission.

The several regions have adopted different action plans that include certain deadlines for proposals and for implementation of different measures. Unfortunately, these deadlines have in many cases not been met by the parties involved, mostly TSO's and power exchanges. Thus, IFIEC is disappointed about the progress so far, and is very much concerned about possible future progress. Therefore, in the months to come, regulators must pressurize the parties involved to catch up the lost time, so as to prevent any further delay, and publicize the names of organizations failing to lend their full support to this process. Moreover, stakeholders including industrial energy consumers should be involved on a more regular basis than in the past to make sure the knowledge and needs of all market parties are incorporated at all stages of the process.

From IFIEC's point of view, the following issues are the most important in the movement towards integrated regional electricity markets:

1. Grid investments

Creating an integrated internal market for electricity is a basic aim of the liberalisation process initiated by EU policies. Overcoming structural congestion is therefore of utmost importance. Accordingly, elimination of existing bottlenecks via grid investments in cross-border-interconnections or other transmission lines that limit interconnection capacity needs priority.

This issue is completely lacking in the convergence paper, but it should be addressed in an appropriate manner by the Regional Initiatives. Accordingly, any revenues resulting from the allocation of cross-border capacity have to be used for investments increasing interconnector capacity. Only thereby it is possible to overcome market segmentation in

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the long run. In this context IFIEC welcomes the “3rd package” amendment of article 6 of regulation 1228/2003 to the effect that such revenues have to be earmarked for maintenance and extension of physical capacity.

To identify the necessary capacity expansion, a coordinated medium-term investment plan should be drawn up jointly by the TSO's in every region. IFIEC remains of the opinion that such a process is more likely to proceed quickly and effectively if ownership of grids has been “unbundled” from suppliers, and TSO-cooperation has improved.

Authorization procedures constitute an enormous barrier to investment, because capacity expansion is delayed for a long time. Therefore, the parties in each regional market should address this problem to the governments responsible, so as to possibly achieve according changes in legislation.

2. Maximize capacity available to the market

As long as there still exist congested borders that require the management of congestion, the capacities offered to the market have to be maximized. Existing physical capacities have to be efficiently utilized, i.e. energy flows that run in opposite directions have to be netted, and possible interdependencies of flows across several borders and bottlenecks have to be considered. Also, co-operating TSO's need to consider the economical benefits of using re-dispatching as a method to increase the availability of cross-border-capacities. These technical procedures should be handled in such a way that as much capacity as possible is offered. This maximisation principle may only be restricted by consideration of network security.

Calculation of scarce cross-border-capacities based on actual physical flows might be a step forward in this respect. However, flow-based capacity calculation and allocation is technically difficult and may not be easy to monitor by regulators, leading to internal congestion being shifted to the borders. IFIEC is concerned this could reduce the cross-border-capacities available to the market. However bilateral NTC-calculation is also problematic, since it does not maximize the capacity that can be made available to the market.

In addition, when implementing flow-based capacity calculation and allocation, it is essential to maximize the capacity that can be used by market participants. It must not be the aim of such a capacity calculation and allocation to maximize the income of TSO's (regardless of the use of congestion revenues). Also, the flow-based method must be clearly understandable to all market parties, and it's outcomes predictable.

As regards to cross-border balancing-trade, specific capacity reservations for balancing energy would be detrimental, since this would unnecessarily reduce capacities available to market participants. Instead, cross-border balancing trade should be managed by TSO's within the limit of the available capacity (integration of balancing markets).

Here, IFIEC awaits a concrete proposal by TSO's.

3. Capacity allocation

The capacity available to the market should be divided in a balanced way into capacity for longer periods and capacity that is allocated on a day-ahead-basis. On the one hand, there is a need for short-term optimization which points to the necessity of day-ahead-capacity allocation, but on the other hand, for industrial energy users, bilateral

cross-border long-term-contracts for energy must remain a valuable option, which is only feasible when a certain amount of capacity is allocated on a longer term-basis (one year or longer).

- Day-ahead capacity allocation.

For the day-ahead-allocation, IFIEC sees market coupling as a step forward from the “old” system of explicit auctions, since purchasing capacity and energy simultaneous increases the efficiency of the system. It removes purchases of cross-border-capacity in the “wrong” direction (i.e. from the higher-price region to the lower-price region). First experiences with the trilateral market coupling between Belgium, France and the Netherlands are positive in terms of price convergence and usage of the cross border capacities made available by TSO’s. An extension of market coupling to the CWE-region therefore is welcome, as well as the planned introduction of market coupling at other borders (e.g. between Germany and Denmark). This process should not be slowed down; the foreseen timetable (e.g. January 2009 in the CWE-region) must be met. To avoid any slow-down, the introduction of market coupling should not necessarily be linked to the introduction of a flow-based system of capacity calculation (PTDF). It is preferable to introduce market coupling quickly and possibly add flow-based calculation at a later stage instead of postponing the introduction of market coupling in an effort to introduce both steps simultaneously.

- Long-term capacity allocation

There is a clear need for long term transmission rights, even if the theoretical properties of market coupling may be superior. Since industrial energy users have a clear need for visibility and long-term contracts, which often are concluded bilaterally, the purchase of cross-border-capacity for longer time-periods must be possible. IFIEC notes that the auctioning of cross-border-capacity is a transitionally method only, to deal with congestion on borders until a single electricity market without borders is realized. In this transition period it is essential that terms and rules are harmonized within each region, so as to facilitate the direct participation of industrial customers in attaining cross border transmission rights. Here, special attention has to be paid to the problem that the rules within each region are open to amendment so that a harmonization between different regions is still possible. This is especially important for countries which are part of more than one region.

4. Transparency

Transparency of wholesale data is important to create a level playing field. Only in a situation of balanced, symmetric information between market parties it can be expected that players develop trust in the market and the price setting mechanisms. Moreover, transparency is also needed to monitor possible abuse of market power by dominant players.

To improve transparency, the following requirements are important:

- Create binding rules for information disclosure. A mere self-regulation via non-binding guidelines is not enough.
- Harmonization of publication requirements is necessary.
- Data should be published in a uniform format and in a common language. Publication should be internet-based, so that data can be accessed easily.

- Data should be made available to all market participants at the same time, as close to real-time as possible, in a non-discriminatory way.

The transparency report issued by the regulators of the CWE-region provides a good basis for data transparency. Albeit one caveat remains. Regarding individual data of large consumption units, they should not be made public in a disaggregated way. If one keeps in mind the fact that transparency is essentially needed because the market for electricity is subject to a structure characterized by market power, it becomes clear that this problem is located purely at the supply side. Regarding consumer units there does not exist such a problem because no consumer possesses a large market share. Moreover, when made public, the electricity consumption of large consumer units (e.g. electrolyses) allows for the calculation of the final production of this unit and thus creates distortions in the market for this final product.

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