bne-Statement on:

ERGEG Public Consultation Paper Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity

We agree with the aim and tenor of the Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity. However we have comments on several details of the Guidelines.

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?

The Guidelines, based on the Initial Impact Assessment, advocate a model providing implicit auctions and a zonal or, ultimately, a nodal fragmentation of the market. We agree that this model will lead to optimal or close to optimal short-term capacity allocation and generation within a stable framework. But this model does not consider the mid-term and long-term impact on the emergence of new generation within a changing framework.

In central Europe massive investments in new grid capacity and in new generation capacity are planned and consequently the framework will change massively within the next decades. Thus the "critical elements" in the network will change over time, having an impact on the prices in the zones or at the nodes. Potentially, even a single new network element or a single new generation unit has an effect on the prices determined by the implicit auctions.

The requirement concerning the delimitation of zones in a zonal model (as described in Nr. 1.2.3) would engender a frequent change of the delimitation of zones. In particular the requirement that there must be no significant internal congestion and that the impact on other zones must be proven to be negligible will force TSOs to frequently adapt the delimitations.

For potential new generation investments the market prices will be even more difficult to assess if the zones are regularly changed. With a nodal model, the prices at the nodes would change with every new infrastructure element, making it even more difficult to assess the development of prices. As a consequence, the risks for new generation will rise significantly and new generation projects will be jeopardized – at the same time jeopardizing the economic efficiency, energy efficiency and CO_2-goals of the EU.

With respect to defining zones another problem needs to be considered, namely market power. The zones need to be sufficiently large to contain a number of competitors large enough to prevent market power abuse. If a single market participant is able to significantly influence prices within a zone, the market outcomes will not be efficient, even if the congestion management is.

We conclude that large zones can have a beneficial effect on middle- and long term welfare, even if re-dispatch and temporary congestion are allowed to a certain extent. We therefore advocate to change Nr. 1.2.3 and 1.2.4 in order to constitute larger zones with a high degree of competition among generators and a long-term reliability of price signals. After all, the management of congestion is only a second-best effort – to eliminate the congestion by building new lines would be a simpler and more effective solution.

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 proposed draft framework guidelines include provisions to foster the forward market and to use Financial Transmission Rights of Physical Transmission Rights to that end. With changing delimitations of zones, a concept of Physical Transmission Rights raises the question of how to deal with a firm transmission right between zones that were changed in the meantime.

The intended regime for Physical Transmission Rights would only work satisfactorily, if there would be no dominant market participants – a fact that does not hold for central European markets. Dominant market players could have an incentive to withhold transmission rights which would in turn lead to non-optimal market outcomes. We would therefore prefer to enable risk hedging for cross-border trading exclusively by Financial Transmission Rights. At least the release of Physical Transmission Rights should be limited in sum to a third of the average available capacity.

Berlin, 10.11.2010