Public Consultation on Compliance Monitoring Report 2008
Comments by VERBUND-Austrian Power Grid

Comments on subsection 3.2

APG is concerned about the development regarding the firmness issue related to capacity allocation. It seems that the current development is purely market triggered and security of supply issues are not taken into account properly. In particular the discussion on how to guarantee the firmness, either physically and/or financially, have some flaws because of the current state of the regional cooperation and the measures used. Without a proper regional coordination, which directly takes into account source and sink of problems (which can be in different countries), no effective solution is deemed possible. As a consequence unreasonably high congestion management costs may occur and/or a reduction of available cross-border capacities may be a consequence.

APG is supporting the desired development towards more and firm capacities for the market. Nevertheless, security of supply issues have to be respected and the regional dimension/influence have to taken into account as well. Hence, we see e.g. the introduction of firm products where traders have to indicate the usage of the products during the auction process as well as regional coordinated approaches (e.g. flow-based explicit and/or implicit ones) as the necessary precondition for providing such services.

Comments on subsection 4.2.13

APG is criticised for not paying any reimbursement for curtailments due to maintenance. We have to clarify that of course we reimburse market participants with 100% of the auction price in case of unscheduled maintenance work.
Nevertheless in order to maximise the long-term capacities we follow the approach to directly announce maintenance periods in advance during the bidding process. Therefore we always directly inform market participants about those maintenance reductions and ask for respecting it in the bidding behaviour. Hence, curtailment due to during the bidding process announced maintenance is obviously not reimbursed.

Comments on subsection 5.1, 5.2 and 5.3

APG is especially pleased that in section 5 ERGEG has linked the discussion on Transmission Tariffication to the discussion on ITC. Since the cross-border tariffs were been removed and replaced by an ITC scheme, the importance of the link between these two mechanisms has increased due to growing cross-border power flows all over Europe. From our point of view, ITC is an international tariff, technically implemented in such a way that there is limited information on the distance between sending and receiving party, thus facilitating power trade across Europe without pancaking effects. As such, the ITC needs to be implemented in a technically more complex way than the national tariffication schemes, but its results have to be an integral part of the latter.

We fully support the opinion of ERGEG that the ITC solutions implemented in the past and present do not sufficiently comply with the Regulation in force. We will elaborate on the reasons for this.

Weak implementation of voluntary ITC scheme due to missing ITC guidelines
In the past years ETSO has agreed on a voluntary scheme to implement an ITC between the European Countries. The negotiations have been always difficult as the provisions of the Regulation lead to diverging interests between countries which become net payer in the ITC scheme and those becoming net receivers. The lack of legally binding guidelines for the implementation of ITC opens much space for interpretation. In a voluntary agreement a consensus is finally needed which in the case of ITC leads to a weak implementation of the rationale of the Regulation.
ERGEG is pointing out that the fund size has always been in the range of 350-400 M€. We have to add that this fund size is due to capping (e.g. to 45% of the actually calculated fund size for the

agreement 6-12/2007) and not due to the cost of horizontal network and amount of flows. Tests on more detailed, flow-based calculation procedures (that determine the TSOs responsible for the origin and end of power flows more exactly), as also demanded by ERGEG in this paper, have indicated that the ITC fund should on one hand be larger and the transit countries should recover a larger fraction of their network costs from international tariff, i.e. ITC, on the other hand.

Equal treatment of national and international users is the basis for the extension of transit infrastructure

Transit countries host power flows as a result of the Pan-European trade of electricity between regions of generation surplus and regions of lack of cost-effective generation and thus play an important role in facilitating an efficient improvement of the economic welfare of the entire EU. We would like to point out that, according to established economic theory, the optimum overall welfare gain is reached for transport prices that are not equal to zero. Therefore, an ITC scheme that appropriately reflects the wording and meaning of Regulation 1228 accordingly is of utmost importance. One element of such a scheme is fair treatment of national and international users of the individual network parts. A user physically not connected to a network must be made responsible for the same amount of payments as a user that is directly connected to this network. In the meshed transmission system, any capacity addition will reduce the impedance of this network area and thus allow for higher amounts of energy to be transmitted; the related external usage of this infrastructure needs to be covered by ITC. Any deviation from this principle is an implicit unequal treatment of those who have financed it directly (national users) and those who are using it indirectly. APG does not see a sufficient degree of equal treatment in any of the past voluntary ITC agreements. As an example, in subsection 5.1, the value of 1.4 € / MWh for the net flow price of the 2007 scheme is mentioned. Due to a multitude of capping and limitation mechanisms, the exporting and importing countries have traditionally paid around 1 € / MWh after netting. We would like to point out that, according to the above considerations, this price is extraordinary low for those countries that export or import large amounts of energy and thus use transmission resources of other countries to a large extent, when compared to actual national transmission tariffs. This freewheeling can be seen as an incentive to use infrastructure of other countries as an economically attractive alternative to invest into the own generation infrastructure. This incentive due to the lack of an appropriate ITC might lead to underinvestment on the one hand (at the generation side of large importers) and an inappropriate technical pressure to invest and adversely affect the own customers on the other hand (in the transit countries). Both tendencies are entirely against the ideas of the internal market.

Conclusions

We strongly urge ERGEG to support the countries hosting cross-border flows of other countries in their struggle to obtain a cost-reflective, detailed (e.g. flow-based) and fair ITC mechanism, laid down in concise guidelines. Any deviation from the principle of equal treatment of national and international users of the networks will complicate the financing of transit infrastructure by adversely affecting national users and thus slow down the process of market integration. APG will not be able to continue supporting the massive investments that have been foreseen in our network and which will, to a remarkable extent, benefit external users, as long as we have no certainty about efficient cost sharing. This also applies to costs for existing infrastructure that effectively arise in our network and that are, nowadays, borne over-proportionally by our national customers.