

## Position paper of the CEER on Congestion Management

(Florence, February 22, 2002)

1. The CEER is glad to note that substantial improvement has been achieved in the ways congestion is dealt with at cross-border lines. At some borders, market based congestion management systems (among which are: explicit auctions, implicit auctions and market splitting) are in place and significant improvements have been made in the provision of information to market parties regarding available capacity and allocation procedures. The CEER appreciates that the Guidelines on Congestion Management, as formulated in the conclusions of the Sixth Florence Forum, still form a sufficient basis for market based allocation systems but they leave on a preliminary basis room for other allocation mechanisms.
2. The CEER especially welcomes the work on congestion management being performed by ETSO in the areas of clearer definitions of relevant concepts and the development of more sophisticated procedures for congestion management. In this respect, the CEER especially values the recent work of ETSO on systems for co-ordinated congestion management where bilateral trade and trade through power exchanges may stand side-by-side.
3. Additionally, the CEER appreciates the work being done by the Commission in analysing the available capacity of the electricity interconnections within the European power system and the insights provided by those studies.
4. Nevertheless, additional steps must be taken with respect to congestion management in order to facilitate electricity trade in the common European electricity market. This is most notably the case for continental Europe where systems for congestion management have only recently been implemented or are still being considered to be implemented.
5. In this respect, the CEER observes that even today, there are congested interconnections without an allocation mechanism for scarce capacity in accordance with the Guidelines. The CEER urges the involved transmission system operators to publish proposals for fair, efficient and non-discriminatory allocation systems for scarce capacity in accordance with the Guidelines on Congestion Management as soon as possible.
6. However, the CEER is concerned about the consequences of the emergence of these congestion management systems for European electricity trade as they are

developed without a view on the European market as a whole, which potentially leads to pancaking.

7. The CEER notes that congestion management cannot be viewed separately from other issues, most notably network tariffication, since both aim to achieve the most efficient network use by all network users. In this respect, CEER stresses as a main goal that the European internal electricity market is best served by increasing the capacity of many interconnections.
8. With respect to existing systems for congestion management which have been implemented in continental Europe, the CEER suggests the following points for further improvement.
9. Most importantly, the CEER stresses again the importance of effective operational unbundling of network operation (more particular: capacity allocation) from generation and trade which is required for obtaining a level playing field between vertically integrated companies and other market parties. Managerial independence of network companies, transparency of technical and economic network access rules and confidentiality of sensitive business information, as required by the Directive, must be implemented and assessed by national authorities and the Commission in order that market parties can be fully confident in the fairness of competition.
10. With respect to the available capacity of interconnections the CEER stresses the importance that the involved transmission system operators develop closer technical co-operation, enhance their information exchange mechanisms, harmonise their nomination procedures, start designing and implementing co-ordinated systems for congestion management, and publish lavishly as much information as possible for the benefit of market parties. This information should include:
  - the method by which capacities are calculated, and allocated to market participants
  - extensive and up-to-date information about current and projected available capacity per interconnection as a function of time, including information about projected reductions in the available capacity, and
  - relevant information about priority reservations of interconnector capacity, which includes the amount reserved for the transmission reliability margin and the amount reserved for existing long-term contracts.
11. In order to enhance the confidence of all stakeholders in the congestion management system applied, the CEER strongly suggests that the implementation of any new congestion management procedure should be preceded by an appropriate consultation of these stakeholders.

12. The CEER stresses the importance of implementing the Guidelines on Congestion Management expeditiously and fully for the allocation of interconnection capacity in the European Union. Furthermore, the CEER advises to benefit from the experiences of the different types of allocation mechanisms currently implemented for a future evaluation of the Guidelines.
  
13. The CEER notes that in the design of systems for congestion management, special attention should be given to implementing these systems in such a way that pancaking of cross-border congestion fees, whenever congestions exist, does not occur. Preferentially, congestion management systems should be implemented in which the congestion fee truly reflects the real economic (market) value of access to the congested interconnector and where transaction costs are reduced as far as possible.
  
14. The CEER encourages the transmission system operators who allocate capacity through a system of explicit auctioning to publish a transparent description of the auction rules including the timeframe for application for capacity and a clear definition of the products being auctioned, especially with respect to the firmness of the capacity auctioned. The transmission system operators are furthermore invited to facilitate the emergence of secondary markets for auctioned capacity in order to encourage trading of capacity rights.
  
15. Finally, the CEER stresses that every effort should be made that the use-it-or-lose-it principle is strictly applied to any capacity allocated on interconnections irrespective of the allocation procedure implemented.
  
16. The CEER observes that power exchanges have obtained an active role in some congestion management procedures. The CEER encourages transmission system operators and power exchanges to explore the ways in which power exchanges may be used in congestion management.
  
17. In order to specify future actions with clear objectives and a clear time frame the CEER suggests that the EC, ETSO and the CEER endeavour to take the following actions:

### **Proposed agenda**

18. The CEER urges ETSO to initiate a study on the application of soft measures for increasing the available interconnection capacity. Furthermore, the CEER suggests the Commission to study legal ways to optimise the amount of capacity

which is offered to the market. Additionally, the CEER suggests ETSO to start a joint study into the level of operational risk which is acceptable for transmission system operators associated with congestion management and available tools for hedging these risks.

19. The CEER will make an inventory of the institutional arrangements which have been/are being implemented for congestion management. Special attention should be given to:

- the actual operational unbundling in vertically integrated companies between transmission on the one hand and generation and trade on the other hand, and
- the ways congestion revenues are handled, their final recipients and the purpose for which congestion revenues are used.

This inventory should lead to appropriate actions in those cases where operational unbundling is still insufficient and to a public report that inspires confidence with market players with respect to the independence, fairness and efficiency of transmission operation in Europe.

20. The CEER invites ETSO to start a joint study of the systems for congestion management which have been implemented in Europe. The study should evaluate among others to what extent European auction products and procedures might be standardised, how nomination procedures may be adapted to facilitate European trade and how a pilot system for co-ordinated congestion management might be implemented (regionally) in Europe. This study should be finalised by October 1<sup>st</sup>, 2002, in order to provide input to the autumn 2002 Florence Forum.

21. The CEER suggests that the Florence forum includes in its final conclusion a tight time frame for further work on congestion management, including the following steps:

- The Commission, member states, regulators and transmission system operators should aim to have market-based systems for congestion management implemented at each systematically congested border before January 1<sup>st</sup>, 2003.
- Furthermore, although full harmonisation of allocation procedures is neither possible nor required in the medium term, (regional) harmonisation of several key aspects of congestion management procedures is necessary in the near future. This especially concerns issues like product definition, the provision of information about available capacity (as a function of time) and nomination procedures.
- The Commission, member states, regulators and transmission system operators should strive to implement a pilot system for co-ordinated congestion management in continental Europe not later than January 1<sup>st</sup>,

2004. The CEER invites ETSO to put forward within a few months a suggestion for a region where such a pilot is feasible and appropriate.