

# CONTRIBUTION TO THE ERGEG PUBLIC CONSULTATION ABOUT 'CROSS BORDER FRAMEWORK FOR TRANSMISSION NETWORK INFRASTRUCTURE'

1<sup>st</sup> of December 2006

## 1. Purpose

ERGEG has launched a public consultation about “Cross border framework for transmission network infrastructure”. The consultation is aimed specifically at electricity interconnections and its main purpose is to get opinions from the different stakeholders about the process of developing and finally constructing new interconnections. Some examples on the situations of particular interconnections are also included.

In the following note, the contribution of Iberdrola to this subject is included.

## 2. Introduction

The idea that the overall supply of electricity can consist on four different activities (generation, transmission, distribution and retail, or properly supply) has allowed in practice the introduction of competition in the activities of generation and supply. In the case of transmission and distribution, these activities have the characteristics of natural monopolies. The efficiency in their operation and eventual expansion must then be obtained keeping them under a regulated regime<sup>1</sup>, and obliging the owners of these facilities to allow their use to external parties on equal terms and under a general TPA regime.

Transmission, understanding by that activity, the transmission of electricity at high or extra high voltage<sup>2</sup> must then be considered a regulated business. That means in practice that:

- Costs of operation and maintenance of the transmission network must be considered, in general, and with the exception of the generation evacuation lines, as a global and overall system cost. That means that

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<sup>1</sup> The only exception are the so called merchant lines. In this facilities, the owner grant access to individual third parties in exchange of a particular toll or compensation.

<sup>2</sup> Transmission companies are also usually responsible or in charge of providing system or ancillary services. They act as ‘system operators’. This is also a function that must be performed by a single company in an area and under regulated terms. In any case, this functionality is not included under what we call ‘Transmission’. For us, Transmission means just the operation, maintenance and expansion of the physical infrastructure.

the owners of the transmission network<sup>3</sup> must receive a regulated compensation for operating and maintaining<sup>4</sup> their networks that can and should include incentives for better management of these networks.<sup>5</sup>

- The expansion of the transmission network shall also be regulated. The identification of the future needs and reinforcements, i.e., the planning, of this network must be performed<sup>6</sup> by an independent authority with sufficient time of advance, and the final construction and financing approved by the regulatory authorities in each Member State.

The planning of the transmission network identifies new facilities, but does not usually enter into the detailed path of each transmission line. This is a task that comes later, identifying alternative paths or corridors where the construction of the new transmission line can be initially feasible. Feasibility studies include different considerations, like costs, technical and environmental feasibility, and compliance with previous use of the land. Once the detailed project of the line is finished, the different permits must be obtained. This is the stage where more problems appear, due to the high social sensibility that exists towards every type of infrastructure, in particular if those more closely affected do not see in the new facility an immediate or direct advantage for them.

It is in this last stage where transmission companies need more support to complete the infrastructure that is needed. They are having particular difficulties in obtaining the permits from the different authorities that take part in the administrative process of authorisation. Faster and simpler methods are required so that new and needed lines are not delayed or even finally stopped due to artificially long and complex process of authorisation.

### 3. Transmission in the Regional Markets

The integration of national markets in regional ones has also implication for the activity of transmission. As it is established in the Regulation 1228/2003 on conditions for access to the network for cross-border exchanges in electricity, the former charges for transit on individual transactions have disappeared, introducing in its place compensation among TSOs. At the same time, the limited capacity of interconnection among areas is assigned using market based methods. Some projects are also being launched to allow for a coordination of assignment in capacity in larger areas. Regionalisation has certainly an impact on the activity of Transmission.

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<sup>3</sup> Same thing will apply to the distribution activity

<sup>4</sup> This compensation must also allow them to recover investments costs

<sup>5</sup> Typical incentives for network operators that also benefit customers are higher availability or reduction of losses.

<sup>6</sup> TSOs can in practice performed this planning. Regulators or other authorities must give their approval to this plan.

This regional dimension at the phase of operation shall also be reflected in the planning and construction of new lines. First of all, in a regional market, the areas that form this market must have a sufficient level of physical integration or capacity of interconnection. In the European Council of Barcelona in 2002, this level of interconnection was set at 10% of the installed capacity of each Member State.

Besides, the planning of transmission, including the financial agreements of all the transmission facilities that have to do with the transit of electricity, in particular of the interconnections, should be made at regional level. In this regard, there is already an initiative in the Nordic countries that must be supported and copied in the rest of the regional electricity markets that are in the way of being formed.

However, it is also in both the detailed project and the authorisation phases where the main problems for the development of new interconnectors appear. The interconnection between Spain and France is a clear example of this situation. In order to advance in overcoming the current problems in the identification of the detailed path and the authorisation process, both States have required the services of the European Commission. In the case of transmission infrastructures, like railways, the Commission has actually appointed European Coordinators in order to facilitate the final deployment of needed infrastructures. We feel that this solution, or any other in which the European authorities are involved, is the true and only solution in cases, like the above mentioned interconnection, where no easy agreement can be found among the countries involved in one interconnection.

#### 4. Final remarks

IBERDROLA welcomes the initiative of ERGEG to present and launch a public consultation about the problems that hamper the development of electric interconnections in the IEM. We share the opinion of ERGEG that the lack of interconnection capacity is one of the main difficulties for final completion of the IEM.

We have mentioned before, and it is also included in the consultation paper, that it is in the detailed design and in the authorisation phases where the principal difficulties for the construction of new transmission facilities and for interconnections appear. New provisions must be developed to shorten and simplify the process of obtaining the final permits for the construction of transmission infrastructure.

We also share the opinion that in many cases, there is a lack of coordination among the Member States in all that has to do with the interconnection infrastructures: planning, construction, operation, licensing,... In order to solve the problems in the development of new interconnections among Member States, it is necessary to involve the European Institutions in this task.

In this regard, we think that the figure of a European Regulator with powers in everything that has to do with cross border trade, including the development of new interconnections, and the operation and capacity allocation of the existing interconnection infrastructure among the Member States is really needed.