

CEER Comments
on the European Commission's Discussion Document
"Guidelines Relating to Congestion Management"

Introduction

The discussion document is a proposal to develop the articles in the Regulation that deal with congestion management.

CEER considers that the time has arrived to work on the detailed development of a comprehensive framework for congestion management which can be drawn from the provisions of the Regulation and therefore welcomes the Commission's initiative to foster a step ahead. The said framework shall also foresee the implementation in different market contexts of the mechanisms for congestion management introduced by the Regulation. CEER however stresses that for full fledged proposals to be presented for evaluation, all aspects of a complete market design have to be considered. In this respect, notwithstanding the primacy of the Comitology process envisaged under the Regulation, a suitable starting point are the principles and rules that the CEER forwarded to the Commission in October 2002 and April 2003, notably their developments on market power abuse, non discrimination against medium term OTCs and other transactions, detailed requirements on exchange of information between TSOs and effective maximisation of the capacities. Additionally, specific concerns about diversities in the market design at regional levels within the EU and about peculiar situations at the interfaces of the IEM with non-EU Countries, being electrically interconnected to Member States, suggest to introduce a careful implementation of the cited framework, through the introduction of a phased and gradual approach.

Notwithstanding this work to be carried out, CEER welcomes that the discussion document partly takes into account the principles and rules that it has proposed recently. CEER especially welcomes the proposed introduction of its proposed rules on transparency.

As far as the other important issues raised by the Commission in its discussion paper are concerned, CEER wishes to mention the following aspects, where some discrepancies may exist or some clarifications are needed (the numbering used is the numbering in the Commission's document), together with additional aspects which are relevant to the effective implementation of the Regulation itself.

Background

The CEER proposes to refer to [...] the significant improvement and the introduction of effective short term locational signals [...].

Co-ordination

An essential ingredient of any sound proposal will be an adequate level of co-ordination between the TSOs. This includes obligations to exchange e.g. detailed and accurate forecasts of the generation and consumption pattern, to run a common load flow ahead of real time on the basis of which a co-ordinated response to the requested commercial nominations shall be given. This also requires a revision of the operational rules, to follow the present re-formulation of the existing UCTE rules and extending them with the rules on balancing and system services.

Another important ingredient is an adequate level of co-ordination between Power Exchanges, where present, and between Power Exchanges and TSOs, aiming at defining coherent time schedules and facilitating trade on the Power Exchanges. It is further necessary that the gate closures of the Power Exchanges are coherent with the conditions of access to the interconnections.

However, there is no reason to impose that Power Exchanges manage a portion of cross border capacities. This may on the contrary be counter productive in very densely meshed networks, where grid constraints and loop flows have an important influence on the acceptable transactions over available capacities, as power exchanges may not properly take them into account. Furthermore, where forward markets lack liquidity or hedging products are not efficiently implemented, management of cross border by Power Exchanges can discriminate against OTC transactions which represent overwhelming majority of the trades, especially those relating to medium term commitments, which are recognised to be very important to share the risk (hedging) on price volatility among generators at one side and suppliers and consumers at the other side. All these issues, among others (such as those listed in CEER's rules on congestion management), should be considered when examining the opportunity to implement implicit auctions for transmission capacity allocation.

Maximising the use of interconnectors.

An effective implementation of the use-it-or-lose-it rule by the TSOs where the "lost" capacity is reattributed can be a first step on the way to the implementation of an integrated balancing market which can provide to the wholesale market agents the degree of flexibility needed. Very seldom derogation to the said rule could be envisaged under a case-by-case approach, when it can be demonstrated that better flexibility and efficiency of the use of specific interconnection can be obtained differently especially in the cases of Countries in which the liberalisation of the electricity sector has not been introduced yet. An adequate succession of nomination gates or a close co-ordination scheme between TSOs and Power Exchanges may also contribute to take care of this issue.

CEER stresses that the conversion of physical rights into financial rights cannot be envisaged without taking into account its implications in terms of security of supply.

CEER agrees that the more co-ordinated is the scheme of congestion management, including the use of a common network model and also a common set of security constraints, the less will be needed the complex specification of the impact of loop flows, which will not require a separate treatment.

An essential point in this respect is to integrate the balancing markets which enable the TSOs to manage in real time the flows on their grid by modifying its generation and consumption pattern.

CEER agrees that a basic ingredient of the co-ordinated mechanism will be to consistently manage the interface between single price zones in very fluctuating operating conditions. If the generation and consumption patterns result from the zonal markets which roughly model the network, important modifications will be required in real time. Only an integrated balancing market, consistent with the wholesale rules, can efficiently and competitively manage such important modifications.

Although power exchanges contribute to the transparency and give an appropriate platform for the efficient arbitrage and hedging, the CEER believes that an obligation should not be put to the Member States to establish a power exchange only for solving the congestion management problem.

Treatment of congestion revenues

In order to avoid giving adverse incentives to the TSOs to maintain congestion, congestion revenues, if any, should be neither managed nor shared by TSOs unless properly supervised by regulators. In any case the said revenues shall be devoted to specific and precise destinations external to the TSO's account and interests. The requirement to use congestion revenues for infrastructure expansion may not solve the problem of adverse incentives as there is no reason that congestion revenues should be related to the cost of the required investments in interconnection capacities.

Therefore, the proposed additional guideline that the congestion revenues shall be shared between the TSOs according to the value of the transmission capacity would not provide improved signals or incentives to any stake holder and might even do harm to the objective of economic efficiency and competition.

CEER agrees that transparency in every step of the process of congestion management, in accordance with the CEER principles and rules, must also apply to the treatment of congestion revenues, whose allocation should not favour any party or provide adverse incentives to TSOs to under-invest.

Additional aspects

Some additional aspects suggesting a phased approach can be shortly summarised as follows:

- in specific regions of the IEM, particularly at the interfaces with non-EU Countries, the so-called 50-50 approach to split into two halves the available capacity has been applied along with the provision of two segregated and autonomous allocations. CEER recognises that the said approach could be put under discussion since the Regulation applies;
- by applying the market-based mechanisms for the congestion management in all Member States in presence of reserved quotas of the available capacity at the interfaces with the non-EU Countries where the Regulation is not effective, it can result in an overall distortion of the IEM. CEER puts forward a proposal to the Commission to carefully take into account the mentioned problem in the Regulation provisions;
- the objective for congestion management is to contribute to the efficiency of competition on the electricity markets. Power exchanges with market splitting or capacity auctions are the best allocation methods to pursue the said objective. Nevertheless, such objective is not warranted if the market does not present conditions of effective competition and, in such cases, economic theory is not able to provide for clear and preferable solutions. CEER suggests to conduct an analysis of the conditions prevailing and of the likely effects of alternative solutions to be performed before adopting a definitive solution. Ultimate target of the latter initiative could be, after having reviewed the existing arrangements in Europe as well as assessing their pros and cons in relation with different market contexts, to draw some conclusions on the preferred models to be implemented, depending on the specific circumstances of the markets.

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