



## **EC Strategy paper**

### **Medium-term vision for the internal electricity market**

#### **COMMENTS BY UCTE**

UCTE welcomes the “Medium-term vision for the internal electricity market”. UCTE appreciates that the document results from a preliminary consultation during which UCTE had the opportunity to express its views.

##### ***UCTE’s role in the electricity market***

Since the beginning of interconnection in Europe, UCTE’s activities have been steadily focusing on the reliability issue, both within the operational time frame relating to reliability rules, and within the investment decision time frame relating to the analysis of medium and long term system adequacy.

The comments below are to be seen in this perspective.

##### ***Overall objective***

The overall objective is to create a competitive market where customers have the option of choosing their supplier, and where suppliers act “competitively” in a true economic sense. Removing or, more realistically, reducing impediments to cross-border exchanges is indeed a crucial and one of the most effective means to reach this objective in the medium term. Nevertheless, the unique nature of the product electricity makes it necessary to keep in mind that structural long-distance (cross-border) transmission of electricity may not be seen as an objective in itself. In a long-term vision, an *efficient* competitive electricity market is a market where supply is competitive on a local level, where market and access conditions are harmonized at European level and interconnections are used for leveling out the market field and for mutual assistance between areas.

##### ***Legislative framework and institutions***

UCTE is also firmly committed to its mission of drafting and further developing rules for the UCTE Operational Handbook. We consider these rules as the main “Reliability Building Blocks” forming basic prerequisites for a well-functioning market.

The strategy paper explicitly expresses the concern that these rules should not impede cross-border trade and market development. UCTE's view is that reliability rules facilitate cross-border trade and market development. In this respect, UCTE will continue its efforts to steadily increase flexibility (regarding time frames, cross-border exchange of ancillaries, etc...) in terms of their implementation, while keeping the reliability of the system at its present level.

### ***Improved interconnection between Member States***

UCTE firmly supports the further development and the optimal use of cross-border capacity. We therefore welcome the measures proposed to overcome the barriers to interconnection development.

Since the establishment of the 10% target for cross-border interconnection capacity between Member States, UCTE has steadily questioned the rationale behind this target. It is indeed very modest for several smaller countries and high for bigger countries. Due to the long delays for realizing interconnection capacity, such an objective would only fit into a long-term vision. However, we have pointed out above that cross-border capacity in itself is not appropriate as a long-term objective. In this respect, the time frame for developing interconnection projects is significantly longer than for generation projects.

Where the use of underground EHV cables is envisaged, this should be made conditional on the prerequisite that the high specific costs of underground EHV cables are offset by the economic benefits obtained from a market perspective on a sufficiently long timescale. The practical cases which have been examined by UCTE and its members tend to demonstrate that this might only be the case for a small number of short "missing links" in densely populated areas (besides specific DC undersea interconnectors). Hence, the impact of underground EHV cables on overall European cross-border capacity will remain rather insignificant. Presenting cables as a standard solution would generally prejudice line projects and has so far led to significant increase of investments in grid infrastructure.

### ***Improving Market Structures***

An important part of the UCTE Reliability Rules concern the primary and secondary control and tertiary (or minute) reserve. These ancillary services form the supply-side underpinnings of balancing markets. It may be expected that these rules, which are mainly focusing today on the individual control blocks, will gradually evolve in order to allow mutual exchange of reserves and integration of the balancing markets, mentioned as one of the objectives in the paper.

However, with respect to further integration of balancing markets, it should be borne in mind that there is a trade-off between the availability of interconnection capacity for commodity markets (day-ahead, intra-day, etc..) on the one hand, and for exchange of reserves or real-time balancing on the other hand. When maximizing cross-border capacity for commodity markets, this will inevitably lead to a limitation of capacity for cross-border balancing. It should also be mentioned that, the closer the time frame for "gate closure" of the commodity market approaches real time, the smaller is this trade-off.

UCTE is ready to consult market players and regulators with a view to optimizing this approach, taking into account the said trade-off.

### **Consistent approach to System Adequacy**

UCTE has since long considered the System Adequacy statistics and forecasts as one of its main missions. In 2002, it was decided to extend the time horizon for the forecasts from 3 to 5 years for quantitative data and to 10 years for indicative qualitative data.

Recent events have reinforced the interest in this information service. In its “system adequacy forecast” for the period 2003-2005, UCTE has indeed identified the increasing risk for Italy and the improvement of the situation in 2003-2005 for Spain, starting from a delicate position.

Surprisingly, the paper mentions further that *“in an integrated market, a unilateral approach to security of supply would not be appropriate. This implies a clear code of conduct on TSOs wishing to take action to restrict cross-border flows in emergency situations”*.

This clause might reveal some misunderstanding of the role and motives of TSOs. When real emergency situations occur, TSOs have the duty to take all necessary actions to “keep the lights on”, since the economic value for customers of “lost load” is several orders of magnitude higher than the economic gains of cross-border exchange. Thanks to the well-proven reliability rules, such situations occur very seldom in the UCTE area, and TSOs have no reason to cause emergency situations without dire necessity.

In this respect, UCTE strongly recommends, in the interest of security of supply, that the *“Code of conduct for emergency situation”* put on the indicative timetable of the Commission for the year 2006, be established as an integral part of UCTE’s (and other synchronous associations’) reliability rules and not as a separate, potentially conflicting Code. Through this rule-setting, UCTE is ready to ensure that the restricting effects on cross-border flows in case of emergency situations will be limited to the strict necessity, both geographically and in terms of trade volumes.

UCTE fully recognizes that security of supply, especially regarding system adequacy, should be managed on a regional market level. Therefore, the Reliability Rules should not focus solely on national control blocks, but also allow and even promote a gradual development of control block integration on regional level.

UCTE welcomes the possibility offered by the new Directive to TSOs to intervene in the tendering procedure for additional generation capacity or for demand-side management measures in case of security of supply problems. This possibility does not imply that in all Member States such kind of TSO intervention will be deemed appropriate, depending on the market model.

### **Consistent Support Framework For Renewable Energy Sources (RES)**

UCTE fully supports the community objective concerning the development of electricity from RES.

On the technical and operational level, UCTE members want to point out that, for a successful development of RES, among which wind energy will play a major role, sufficient attention shall be given to the following aspects:

- Lack of harmonization of the market models supporting green energy may put increased strain on the interconnectors at the expense of commercial “commodity-priced” electricity exchanges and even to the detriment of system security.
- Several projects regarding renewable energies will necessitate the development of new transmission infrastructure, for which the authorization procedures may prove to be problematic.

- The non-dispatchable nature of wind energy significantly affects power system operation regarding ancillary services and the need of balancing power.

### ***Removing Other Distortions***

UCTE emphasizes that it should indeed be a high priority issue of the Community to remove distortions between the functioning of markets within the Union. Indeed, market distortions put a strain on the interconnections. This may not only distort trade or jeopardize system security, it may also have an adverse effect on the creation of efficient and market-based incentives for transmission investments.

### ***Relations with third countries***

UCTE fully agrees with the medium-term objectives of the EC. They are fully in line with UCTE's mission to facilitate market developments by providing a reliable platform.

Several accession countries are long-standing and fully integrated members of the association. It is a primary goal to synchronously reconnect the first with the second synchronous area, comprising the South-East European countries. In 2003, Romania and Bulgaria joined in as full members after successful completion of the tests assessing compliance with the reliability standards.

UCTE is keen on reaching a common clear perspective on future arrangements for the electricity markets in the enlarged EU and CIS and Baltic countries. In this respect, UCTE recently investigated the impact of additional transits, caused by an extension of the synchronous area to the CIS and Baltic countries. The results showed that additional East-West transits are strongly limited due to the already existing congestions from East to West inside the UCTE area (e.g. between Poland and Germany).

In May 2003, UCTE decided to launch a broader technical feasibility study, taking also into account the necessary organizational measures in the electricity industry to ensure compliance, and their contractual basis.

Concerning the Mediterranean area, UCTE is in the process of investigating several interconnection scenarios.

In order to adequately fulfil its role as facilitator for market development, UCTE has applied for Community funding regarding the studies of interconnection with third countries.