

## **Position paper of the CEER on Congestion Management**

(Florence, February 21–22, 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 many 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 the implementation of market-based allocation systems for congested interconnections.
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 European Commission in analysing the available capacity of the electricity interconnections within the European power system and the insights provided by those studies.
4. Finally, the CEER observes that the systems for market-based allocation of scarce capacity, especially the system of market splitting in the Nordic area and the newly installed systems of explicit and implicit auctioning, have received a warm welcome by market participants and regulators.
5. 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.
6. In this respect, the CEER observes that even today, there are systematically congested interconnections without a market-based allocation mechanism for scarce capacity. The CEER urges the involved transmission system operators to publish proposals for allocation systems for scarce capacity in accordance with the Guidelines on Congestion Management as soon as possible.

7. With respect to existing systems for congestion management which have been implemented in continental Europe, the CEER suggests the following points for further improvement.
8. Most importantly, the CEER stresses again the importance of effective operational unbundling of network operation (more particular: capacity allocation) from generation and trade. A successful congestion management system does not only require efficient operational unbundling, but also that market parties can be confident that the unbundling requirements are implemented correctly and are guaranteed by national regulators and the European Commission.
9. With respect to the available capacity of congested interconnections the CEER stresses the importance that the involved transmission system operators publish lavishly as much information as possible for the benefit of market parties. This information should include:
  - the method by which capacities are calculated,
  - extensive and up-to-date information about the 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.
10. Additionally, the CEER would welcome closer co-operation between the involved transmission system operators in the areas of:
  - calculating available capacities;
  - developing enhanced information exchange mechanisms;
  - more accurate models for increasing the reliability of the data as well as for harmonisation of nomination procedures,
  - designing and implementing co-ordinated systems for congestion management, and
  - network planning which might affect cross-border flows and for greater co-operation in additional interconnector planning.
11. 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.
12. 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 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.

13. 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.
14. 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 a congested interconnection.
15. The CEER suggests the European Commission, as a sequel to the work on available transmission capacity, to initiate a study on ways to provide incentives to transmission system operators 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.
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. The CEER stresses the importance of implementing the Guidelines on Congestion Management expeditiously and fully for the allocation of capacity at the systematically congested interconnections.
18. 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**

19. The CEER requests the EC to 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 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 European 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 European 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 desirable.