

CEER position paper

Principles on the management and allocation of available transfer capacity of interconnections

Principles for Congestion Management

In order to stimulate the emergence of a European electricity market, Member states and regulatory authorities should take all appropriate actions in order to facilitate cross border trades within the European Union in view of fostering fair and efficient competition. As the development of infrastructures is a major issue in the long term, they should give prime attention to the development of those network parts which contribute to the improvement of interconnection capacity. They should also ensure that rules for market and grid operation, especially those related to congestion management, result in appropriate incentives to the TSOs to develop the infrastructures when economically justified.

Nevertheless, given the existence of network bottlenecks in the European electricity network, the scarce network capacity should be allocated to the market in such a manner that it optimally facilitates fair and efficient competition. This means that all systems for congestion management applied should comply with the following *principle on economic efficiency*:

PRINCIPLE #1. Congestion management method(s) should operate in an economically efficient manner and, when it is possible, provide appropriate economic signals for both efficient economic dispatch of existing plant and efficient investment in additional network infrastructure and/or generation.

The congestion management methods should contribute as much as possible to the improvement of competition within the European market and notably to the contestability of the international market parties. They should neither facilitate nor consolidate the abuse of market power by local actors and should prevent anticompetitive behaviour. To this end, congestion management procedures should comply with the following *principle on promoting competition*:

PRINCIPLE #2. Congestion management method(s) should promote effective competition, should not aggravate market power and should be non-discriminatory.

Since sufficient and reliable information is a crucial requirement for having fair and efficient competition, Member States and regulatory authorities should make sure that all information on the rules of the electricity market and on the operation and access rules of the transmission and distribution grids, including the allocation procedure for obtaining access to interconnections, are made clearly and publicly available to all market parties well in advance, as long as they have no confidential nature and do not allow parties to game the system. Such rules should also be kept

stable for a reasonable period of time. More specific, all congestion management procedures should comply with this *principle on transparency*:

PRINCIPLE #3. All relevant information related to cross border trade should be published in a transparent manner.

As scarcity of interconnection capacity results in price differences between both sides of the congested interconnection, it is important that as much interconnection capacity as possible becomes available to the market, as this has a direct effect on the height of any price difference between the two separated markets. Therefore, all systems for congestion management should comply with the following *principle on maximising the available capacity and capacity use*:

PRINCIPLE #4. TSOs should ensure that the maximum capacity of the interconnections and the transmission networks affecting cross border flow is made available while maintaining the network security standards at an acceptable level.

Especially since some congestion management methods generate revenues in situations where there is congestion, Member States and regulatory authorities should ensure that appropriate incentives, notably financial incentives, are given to both market parties and TSOs to act in a rational and economic way with regard to network use and investment decisions. Therefore, all systems for congestion management should comply with the next *principle on the application of congestion revenues*:

PRINCIPLE #5. Congestion management procedures may only generate revenue in case of congestion. The procedure for its distribution should neither distort the allocation process in favour of any party requesting capacity or energy nor provide a disincentive to TSOs to decrease the amount of congestion.

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