



POSITION PAPER

on

EUROPEAN SINGLE ELECTRICITY MARKET CROSS BORDER TRADING

Roma, October 2002

Groupement Européen des entreprises et Organismes de Distribution d'Énergie

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EUROPEAN ELECTRICITY MARKET
CROSS BORDER TRADING**

OBJECTIVE

The objective is to allow European traders to freely establish electricity contracts and to transmit energy from the generation location to the delivery point, following easy and affordable proceedings.

PRINCIPLES

Most of the European Organizations playing a role in the Electricity Market, and specially GEODE, agree in the following principles:

- ➔ All traders have the will to act freely in a competitive market in fair competition.
- ➔ That requires
 - equal conditions of access to the market
 - a strong and reliable European network

These principles are supported by the European Commission through a liberalisation process, that introduces a new trading philosophy in the market. If these principles are overruled, fair competition simply will not exist.

One of the most significant principles of the liberalisation process is that all players are allowed to trade energy with any other player in a single European Market and that they are allowed to transfer energy from the generation site to the delivery point, using the European Network.

GEODE believes that a single European Electricity Market should be controlled by a single European Transmission System Operator: "One Market, One Operator".

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This European TSO would react to the bilateral contracts between agents in the European Electricity Market, in the same way that any national TSO is acting Today to solve any restrictions that may appear in the network.

Congestions would be solved according to common regulation and all European consumers would share the costs.

This should be the goal for cross border trade in a European market without internal borders. The European Electricity Market should be considered as any other Market in Europe.

The general trend of Europe is to remove all internal borders for economic activities. It makes no sense that electricity, one of the basic products for the industry and services and one of the most sensitive products for European citizens quality of life, continues being structured in 15 different markets with borders limiting trading.

It is time for the European Electricity Sector to be coherent with the rest of economic activities and, to operate the European Electricity Market as a single market, where free and fair trade should be possible and equal opportunities for all agents mandatory.

In the medium term, any other solution will not be acceptable.

The European Electricity Market must be preserved.

CROSS BORDER FACTS

The cross border electricity trading is characterised by the following facts:

- ➔ The determination of the real path that energy will follow from the generator to the final electricity user depends on:
 - The topology of the European network.
 - The European load profile.
 - The European generation profile.

This situation introduces restrictions to different possible cross border interchanges.

- ➔ The determination of the real path in Operation Planning mode (from few hours to weeks) is a very complex activity and, according to the

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previous point, it will require information about network topology and generation and load profiles of for the considered period.

- In some cases this information, if available, is commercially and economically very sensitive. Therefore, it must be considered as confidential and only available to organisations without economic interest in the electricity traded, like System Operators.
- The System Operator, has the responsibility to guarantee network security and, in consequence, it manages the system Power Flows, taking into consideration the interchanges with other interconnected networks.

In accordance with these principles and facts, a methodology must be developed to make possible cross border trading to all European traders.

PROVISIONAL SYSTEM

The cross border methodology supported by some European players is based in the following aspects:

- Possible traders on energy must obtain “rights” for both:
 - The use of different European networks.
 - The use of interconnection rights among different networks.
- Each one of the mentioned “rights” has a different settlement method:
 - The use of different European networks is compensated by a tariff, which is independent of generation and delivery points.
 - The interconnection rights will depend on the interconnection that can be through an option system, depending on the level of congestion.
- The selection of the “administrative” path energy will follow, is independent of the “physical” path and, players can propose any possible “administrative path”.
- Each different “administrative” path may have, and it normally has, different cost.

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In this framework, it is clear that players will require too much information from different sources and powerful tools to select a path with small congestion probability and small costs. In addition to that very specialised staff will be required.

Some practical problems must be emphasized:

- The wide distribution of information required to analyse congestions in the European Transmission System, may be against some national regulations, and it is clearly against the most essential security criteria.
- Availability of the required tools and necessary staff to use the information is only possible, in practice, for the biggest European Transmission or Distribution Utilities and to for traders linked to their business or holdings.
- With such complex proceedings, it may happen that if a contract is established between two traders, they can only get partial transmission rights, making the contract no feasible.

In practice this will create two different levels of traders: In the highest-level traders linked with the biggest transmission or distribution companies. In the lower-level, the small traders.

PROPOSED PROCEEDING

GEODE's clear objective is:

**to allow European traders to freely establish electricity contracts
in a competitive market in fair competition
and to transmit the energy from the generation location to the delivery point,
following easy and affordable proceedings.**

To determine the best possible proceeding, to achieve the mentioned objective, some questions can be formulated:

- Who has all the information in Operation Planning and Real Time, necessary to evaluate the feasibility of the international contracts?
- Who has the necessary tools to evaluate international con feasibility and the staff required to use them?
- Who has the responsibility to determine the feasibility and security of the international interchanges?

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For sure the small trader doesn't; The Transmission System Operator has.

In addition of having the information, the resources and the responsibility, the Transmission System Operator (TSO) has a settlement to be transparent, non-discriminatory and independent decision making.

The Transmission activity is regulated and the TSO has regulated income and in general, no direct economic interest with the players that acquire cross border rights.

All these elements make the Transmission System Operator as the best option to guarantee a free and competitive market based in fair competition between traders.

CONCLUSION: TOWARDS A SINGLE EUROPEAN TRANSMISSION SYSTEM OPERATOR

As we said, in an ideal scenario, a single European Electricity Market should be controlled by a single European Transmission System Operator: "One Market, One Operator".

However this solution is not feasible, because actually there is one TSO per each Member State, instead of one European TSO. Then national TSO's must provide to players trading with electricity, methodologies and tools to establish contracts within them in a fair and secure way.

The procedure to establish physical bilateral contracts between agents from different Members States should maintain the following principles:

- ➔ Any two Agents in the EU can establish buying and selling electricity contracts accordingly with the rules of a free market.
- ➔ Any agent establishing a physical bilateral contract, will communicate it to its national TSO, giving all technical information requested (counterpart...)
- ➔ National TSO's will use their resources to coordinate with other national TSO's involved, and take all needed measures to make feasible and secure for the system the bilateral contract.
- ➔ TSO's will put in place a system to deal with congestions based in redispatching mechanisms, acting in coordination with other national TSO's involved, as it is done at national level.

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- ➔ All costs incurred by the Cross Border Trading, including system losses, transmission fees and congestion management, will be settled by the TSO's involved and transferred to final customers.

This procedure is very simple for traders and this simplicity allows all traders to participate in the European Electricity Market.

A more complex procedure would require specialized resources to establish optimal and affordable economic conditions, participation in auctions... In such a case, not all traders would have the external resources needed to trade in the market, creating two different levels of traders: High level traders with capacity to have information and resources and lower level traders.

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