

Subject: Regulation 1228/2003 on cross-border exchanges in electricity – draft guidelines

Dear Mr Jones,

Thank you very much for giving me the opportunity to express the opinion of UCTE on the draft guidelines on cross-border exchanges in electricity. We appreciate the broad consultation and the role you still plan to attribute to the Florence Forum.

As you know, UCTE covers an area that does not only include all synchronously interconnected continental European EU-members, but also some countries not members of the EU. As usual, UCTE sets its focus mainly on technical issues. However, we feel entitled to give at least some comments on tariff issues dealt within the draft guidelines since any signals given by tariffication and related financial means will inevitably influence flow patterns and thus are a concern of the operational real time and security businesses of UCTE. The influence of taxes and subsidies for renewables are prominent examples. Also, the fact that frequently the UCTE-TSOs in the EU are addressed as a base case in the guidelines, allowing exceptions for others, shows us the necessity to make ourselves heard.

Draft guidelines on Inter-TSO Compensation

Details of the determination of the Horizontal Network and the compensation payments should mainly be commented by those who have successfully implemented the mechanism in the past, i.e. ETSO.

UCTE TSOs are concerned since investments necessary to secure security of supply depend very much on a solid cost base for national tariffication, taking into account the national regulatory framework as well as historical and technical particularities. Therefore, any standardising cost base defined in these guidelines should remain strictly limited to CBT-issues; those in charge of implementing the guidelines should take care that this standardisation does not influence national cost determination that might potentially jeopardise investments.

Draft Guidelines on Transmission Tariffication

We welcome the focus on a harmonisation of the basic G-charge on a national average level leaving the introduction of national locational signals to subsidiarity. Limiting G-charges in the UCTE area (i.e., the base case) at or close to 0 €/MWh avoids market distortion by transmission charges.

Since locational signals are an issue also for UCTE, we welcome the acknowledgement and underline the importance of the role that market based congestion management methods play in this context. First only deemed short-term signals by definition, these signals have proven to be an increasingly stabilising factor for the IEM during the past years.

Draft Guidelines on Congestion Management

We welcome the importance attributed to this issue and the respect given to security standards. Proper congestion management is certainly a prerequisite for a secure operation of

the system, and security standards should be respected not only at an 'acceptable' level but at the necessary level.

The importance of market based congestion management mechanisms goes without saying. Such mechanisms are not only a benefit for the market but also in terms of transparency, TSO-coordination and common standards. Unfortunately, a clear definition of market based mechanisms is missing in the guidelines.

We would like to underline that the guidelines should address mainly cross border issues with regard to congestion management. Even though there is certainly a strong relation between internal congestions and congestions at borders, a harmonisation of internal handling of congestions might delay the international harmonisation. It should be left to the national TSOs and their regulatory authorities to decide on the method that suits best with national structures.

A crucial issue for security is the question of redispatch. There is certainly a high potential to improve international coordination on this issue; so-called curative redispatch can ease critical situations where non-cost measures are no longer sufficient. Therefore, UCTE also in its own work sees the necessity to improve the system of curative cross border redispatch provided that a sound financial basis can be established.

However, in contrast to curative redispatch, we do not believe that a 'virtual copper plate' or any 'virtual capacity' created by systematic use of extensive preventive redispatch would be helpful. Allowing the market to exceed limits set by physical constraints by hiding these limits and socialising the incurred costs can easily endanger system security and works against the locational effect of congestion management which is acknowledged in the Regulation on Tariff Harmonisation. Therefore we very much doubt whether redispatch is an appropriate ex-ante means to optimise capacity.

Finally, TSOs have always accepted their responsibility for a secure operation of the transmission system. This requires a certain control over attributed capacity. TSOs have proven to meet this task, in many cases successfully in a joint manner. Therefore, we think that national agencies for capacity attribution are not necessary since this task can be – and has been – fulfilled by TSOs. Agencies would potentially create administrative overhead and would certainly not accept responsibility for mistakes that could endanger system security.

Dear Mr Jones, I hope that I have highlighted issues in the draft guidelines that are of high importance to UCTE and that I have expressed our concerns.

I look forward to receive new, amended versions of the guidelines and remain at your disposal for further discussions

Yours sincerely

Martin Fuchs