

## ii. Significant progress needed on a number of issues

Fernando Lasheras, Director of the Iberdrola Brussels Office and Chairman of Eurelectric Subgroup on Cross Border Transactions, welcomed the introduction of the Regulation EC/1228/2003 on conditions for access to the network for cross-border exchanges in electricity. This Regulation, he says, is an important and necessary step for achieving the proper integration of the different electricity markets in Europe, but progress requires action on a number of fronts.

Inter-TSO compensation, congestion management and harmonisation of transmission charges among producers and consumers are, as required by the Regulation, essential for efficient cross-border trading, but it is also important to invest in interconnection capacity.

The proper and coordinated operation of markets across Europe will not only lead to a more efficient allocation of capacity in existing interconnections, but will also help identify what new capacity is needed in the production or in the transmission network.

### Inter-TSO compensation

The most important advance in this area has been the elimination of the transaction-based charges so that compensation for transits or cross-border flows is made at TSO level.

Once this particular subject has been solved, there are only two other aspects of interest: transparency, that is, better information about the way the compensation is calculated, and approval by the regulators of the specific costs involved in the compensation.

### Harmonisation of charges

One important principle in the design of electricity markets is what is usually known as a 'level playing field'. To achieve this requires transmission charges to be harmonised. Applying the same level of charges to different generators is a basic requirement already in the Regulation, but from our point of view, it is not enough and could create practical difficulties in implementation. It is efficiency, that is, lower generation costs, and a proper value of the energy produced, that needs to be considered when assigning transmission charges. Only the removal of infrastructure charges from generators can guarantee a level playing field that will result in equal and efficient competition amongst generators and, as a consequence, will reduce the overall costs of generation across Europe. ►



Congestion management

One important aspect of congestion management is that physical flows do not always follow commercial flows. The determination of available commercial capacity often involves a simplified model to represent the way in which commercial flows are distributed amongst the physical interconnections. More coordination amongst TSOs involving exchange of data and models can certainly help make available capacity as large as possible, while complying with the necessary levels of security. The method and technical standards applied in these calculations have to be approved by Regulators and made public to the stakeholders involved in cross-border trading.

The second important step in congestion management is the allocation of available capacity. There are, as is well known, different methods for allocating this capacity. In the Regulation it is clearly stated that "network congestion problems shall be addressed with non-discriminatory market based solutions which give efficient economic signals to market participants and transmission system operators". From Eurelectric's point of view, only explicit auctions and implicit auctions or market splitting comply with these requirements. Countertrade is also a valid method to be used only if congestion is neither severe nor recurrent, but it cannot be considered a market based method of allocating capacity.

	Value	Change	%Change
	3,006.62	38.97 ▲	1.31%
	2,649.71	33.35 ▲	1.27%
X	807.90	2.93 ▲	0.36%
	10,744.54	96.03 ▲	0.90%
	1,367.40	13.28 ▲	0.98%
EX	626.42	4.70 ▲	0.76%
	61.33	0.49 ▼	0.79%

Market splitting, where available capacity is only handled by market exchanges, can be considered an ideal solution from the point of view of efficiency, as available capacity is properly netted and the revenues derived from the allocation respond to real scarcity. However, it requires a higher degree of harmonisation amongst the exchanges involved and also sufficient liquidity. If neither of these conditions is met, explicit auctioning with netting the day before must be considered the proper solution to allocate scarce capacity. This is a market based method and will certainly provide economic signals to traders or the TSOs involved. ▶



Market coupling, in which bilateral trade is allowed along with market splitting for the day ahead, could be a compromise formula once the exchanges are more coordinated or have more liquidity. In any case, restraining the allocated capacity to individual users on the grounds of exercise of market power will certainly reduce the economic value of the congested interconnection. Furthermore, the proper use of the 'use-it-or-lose-it' or 'use-it-or-sell-it' rules can guarantee that all available capacity will be offered to the market.

Revenues generated in the process of congestion management should be primarily used to guarantee the allocated capacity or regarded as an income by the Regulator when approving transmission tariffs in the countries concerned. Revenues could also be used to develop new interconnection capacity.

#### New interconnection capacity

The internal energy market will not generate maximum benefits unless there is sufficient capacity among the different national markets. The European Council agreed in Barcelona in 2002 that all Member States should have by 2005 a level of electricity interconnection equivalent to at least 10% of their installed production capacity.



In our opinion, investment in interconnectors must instead be primarily determined on economic grounds, that is, on the value of the additional trade that the interconnection will bring about, including the increase in security of supply that the interconnection will mean for the countries involved. This economic assessment can only be done properly if the different electricity markets are operated correctly, including the assignment of capacity in the different interconnectors. TSOs will have to determine if new capacity is needed at national borders and, if properly authorised by the Regulators involved, TSOs will need to construct the new infrastructure, funded by users having to pay for access in the case of merchant lines, or more probably, through regulated lines, where the investment will be recovered through the national embedded transmission tariff. ■

**EURELECTRIC is the association that represents the common interests of the European electricity industry in public affairs. Its objectives include supporting the process of energy market liberalisation and the pan-European integration of the electricity industry.**