



ETSO Comments on the EC Energy Sector Enquiry -Electricity Section

2 May 2006

Introduction

The Preliminary Report for Electricity identifies five main areas of progress:

- 1. concentration and market power*
- 2. vertical foreclosure,*
- 3. lack of market integration*
- 4. lack of transparency*
- 5. price formation*

In the following comments, ETSO will focus on points 3 and 4, namely the lack of market integration (which covers cross-border network access and congestion management issues) and the lack of transparency (which covers the availability and publication of relevant data). These two subjects represent the most relevant areas concerning TSOs activities and are currently the subject of ongoing development work within ETSO.

Lack of Market Integration

Coordination

There would appear to be several instances of criticism within the text (notably paras 503 to 514) where a lack of co-operation and coordination between TSOs is identified as contributory cause of congestion. ETSO does not believe this to be justified in all cases and would suggest that the physical data supplied in response to the enquiry has been misinterpreted in the reports conclusions. ETSO would be happy to provide any assistance in clarification in this area.

It is important to stress that since the time the enquiry and timeframe of the data supplied for analysis substantial progress has been made in the evolution and coordination of congestion management methods. ETSO has recently published its updated report '*An Overview of Current Cross-border Congestion Management Methods in Europe*' (also downloadable under www.ets-net.org), which describes congestion management in the EU by interconnection. The report highlights the progress that has been made and demonstrates an increasing degree of coordination in joint congestion management procedures for cross border lines.

New interconnection capacity / NTC vs. installed capacity

ETSO fully supports the need for increased cross-border capacity, however, would stress that a fundamental requirement for this, is a stable and adequate regulatory framework which, incentivises TSOs to build new interconnectors. We believe significantly more emphasis is needed in the development of such a sound political and regulatory framework in order to facilitate the conditions under which interconnector investments can take place.

Another and often very considerable barrier to new line build, whether internal or cross border, is the difficulty that TSO's face in achieving rights of ways and permissions from national or local administrative authorities. Table 24 which compares NTC to installed generation capacity, whilst providing a useful indicator does not convey any context of these barriers, or of the geographic and logistical challenges that exist for individual interconnector construction projects. The 10% target cannot be universally applied as a benchmark against which progress can be judged and may need to be re-defined within a regional context.

Congestion management methods and inefficient use of capacity

wrong sign nominations / arbitrage mistakes

Figure 64 shows for the interconnections France/UK and Germany/Netherlands that there are a number of hours where net nominations are against the logical sense, i.e. from the high price area to the low price area. Again, it would appear that the physical data supplied in response to the enquiry has been misinterpreted in the reports conclusions by comparing actual hourly price differentials evident in real time with net nomination profiles which take place at D-1 for the day ahead. This analysis does not take into account the proportion of the capacity that is available at the day ahead stage, which in some cases is a relatively small percentage, nor does it recognise the effect of the nomination of longer term capacity rights which support commitments to forward energy delivery contracts. It should be stressed that these topics are among those currently tackled in the framework of the F/D/Benelux energy forum.

Efficiency deficits (e.g. 511/512)

ETSO does not support the reports conclusions that explicit auctions are inherently inefficient and in fact concurs with the conclusion of the Florence Forum that explicit auctions combine well with forward energy products. Explicit auctions may also work efficiently at the day ahead stage when congestion management methods are combined with effective UioLI principles and secondary trading opportunities. A combination of long and medium term explicit auctions and implicit day-ahead auctions may also be an effective solution as is already proposed e.g. in the Tri-Lateral Market Coupling project between the Netherlands, Belgium and France.

Lack of Transparency

ETSO welcomes the development in which transparency has been realised as a core issue for functioning electricity markets.

Even if - compared to market integration and congestion management issues - the solutions are still at an earlier stage of development, ETSO is willing to help the various initiatives and to take a leading role where required and possible.

As a consequence of the 12th Florence Forum, ETSO has published in December 2005 a list of data European TSOs need to pursue optimal use of the power system.(see: http://www.etsonet.org/activities/congestion_management) This list is welcomed in the enquiry report. ETSO is working on analysing operational and legal aspects that need to be solved when implementing the identified data.

Also, ETSO is ready to comment, analyse and pro-actively accompany the transparency initiatives from ERGEG. Next steps will include the analysis of the availability of data, their added value to the market, the creation of a suitable legal framework for their exchange, as well as practical standards for their exchange.

To be clear from a TSO perspective, ETSO would like to stress that TSOs are generally very supportive of data provision and transparency to facilitate the market, however, an appropriate balance is required in terms of the responsibility and accountability for the use and publication of such data.

ETSO believes that there is an undue emphasis on TSOs as providers of information without consideration of the relationships that exist and the responsibilities of the source(s)/owner(s) of such information and a clear appreciation of the TSOs' dependence on the quality and availability of this data.