



ETSO comments on ERGEG's Public Consultation Paper – Cross border framework for transmission network infrastructure

1. Introduction

ETSO welcomes the opportunity to comment on ERGEG's consultation paper on 'Cross border framework for transmission network infrastructure.' ETSO fully supports the aims of the paper as a step towards encouraging greater investment and therefore working towards the development of a competitive single EU market for electricity.

ETSO would like to take this opportunity to remind ERGEG of the two papers published by ETSO in 2006: 'Roles and Responsibilities of TSOs and other actors in Cross-Border Network Investment'¹ and 'Overview of Procedures for building 110kV to 400kV lines'². These papers set out ETSO's views on cross border network investment; however ETSO would also like to make some more detailed comments specifically in relation to ERGEG's paper.

2. Planning Permissions and Authorisations

Time consuming building permissions and licensing procedures are a significant obstacle and discouragement to cross border transmission investment, not least because of the threat of stranded investments. It can take up to 10 years, or even longer in some areas, to build an internal or cross border line, while in contrast an investment in a standard gas fired power station can be completed within 2 to 3 years. From a system development and investment perspective this mismatch leads to a situation where investment returns are highly uncertain and potentially economically inefficient.

Delay is created by the number of different bodies involved in the authorisation and environmental impact assessment processes e.g. ministries, regions, local authorities etc. This is compounded by the veto powers of regions. Also, in relation to cross border lines, TSOs have to comply with two different national processes, which results in the project being driven by the slowest process and it being difficult to coordinate and communicate information to the public.

ETSO agrees that the planning process should be expedited and the problems with multiple layers of authority be addressed. Attention should also be given to the incompatibility of different national systems. This should be done in conjunction with changes to the regulatory framework, in order to ensure the creation of an overarching stable environment conducive to investment.

¹ <http://www.ets-net.org/upload/documents/cross-border%20network%20investment%20paper.pdf>

² [http://www.ets-net.org/upload/documents/procedures%20400%20kv%20lines5-04-06%20\(2\).pdf](http://www.ets-net.org/upload/documents/procedures%20400%20kv%20lines5-04-06%20(2).pdf)

3. Regulatory Framework

There is currently no coherent legislative or regulatory framework to support investment in cross border infrastructure. TSOs can be reluctant to invest in assets with 25 to 40 year life spans when it is unclear how that investment will be remunerated. The 'regulatory gap' whereby regulators only have authority within their Member State, also contributes to the uncertainty. The absence of a stable regulatory framework acts to discourage potential investors from making any investment in cross border infrastructure.

However caution needs to be exercised in any expansion of or redesign of the existing regulatory regimes. It is difficult to foresee how proposals for merchant and regulated projects could coexist on the same border. The development of a regulated approach may however reduce the timeframe of projects (the Article 22 Exemption process is very resource intensive) and hence encourage interconnector investment. Developing the regulatory framework could also serve to shorten lead times in the planning permissions and authorisations stage.

4. Inter TSO Compensation (ITC) Scheme

The paper states that the ITC scheme allows the TSO to recoup some costs of investing in and running its network. The ITC scheme provides a mechanism whereby a TSO is compensated for hosting cross-border flows of electricity on their network. The scheme in its current form does not provide, and is not designed to give, a means by which a TSO can recoup some costs of investment in cross border infrastructure. Therefore the ITC scheme, in its current form, does not provide a means by which cross border investment will be encouraged.

5. Roles and Responsibilities

The paper suggests that TSOs be mandated to engage in more intensive cooperation in relation to European transmission issues, for example in the areas of information sharing, emergency planning etc. ETSO agrees that cooperation between TSOs on a European level would be of benefit but expresses caution that the wider remit should be appropriate.

ETSO is currently coordinating important workstreams across Member State TSOs in the areas of system security rules, transparency etc. This could be further enhanced through the more formal grouping of TSOs envisaged by the recent Green Paper. ETSO is ready and willing to explore this potential development further with the Commission.

The paper also suggests that Regulators be given a broader remit, in order to oversee cross border investment. ETSO agrees that there should be greater cooperation and collaboration between regulators, as this would go some way to easing the uncertainty surrounding the current regulatory framework. However the introduction of a new regulatory body would serve only to add to the existing delays by creating additional bureaucracy. ETSO feels that existing structures, i.e. ERGEG, could facilitate greater cooperation. This cooperation would be assisted by the introduction of a harmonised decision making process. The potential for cooperation within existing structures is currently being demonstrated through ERGEG's Regional Initiatives.

ETSO feels that in order to promote a stable framework that is conducive to investment, the roles and responsibilities of Member States, Regulatory Authorities and TSOs should be clearly defined. ETSO would suggest that the roles and responsibilities of these key market participants should be as follows:

- Member States and Governments should be responsible for creating and maintaining the overarching policy and framework, which would speed up the timing of applying for permitting procedures, enable regulatory cooperation, and ensure appropriate remuneration of costs incurred on one system that benefit another.
- Regulatory authorities should cooperate with each other on implementing a long term stable framework. This framework would underpin appropriate rates of return on long life investments. They should provide guidance on cost allocation and recovery mechanisms, assess the costs and benefits of new infrastructure and also provide guidance to potential merchant developers.
- TSOs would continue to take responsibility for planning and developing the European network, closely coordinating real time system operations, and undertaking joint technical studies into the resilience of the grid.

6. Security Standards

Apart from the national grid codes, the synchronised electricity regions in Europe have developed regional grid codes via their regional associations i.e. UCTE, NORDEL, UKTSOA, ATSOI and the Baltic TSOs. These grid codes are updated when necessary and fully reflect the specificities of the areas in which they apply.

Overarching security and reliability standards across all of Europe are unnecessary and may even be counter productive in terms of both security and economy. It would also be very difficult to give such standards a legal basis, particularly in light of the variable regulatory regime, as discussed earlier.

However there is scope for greater cooperation between TSOs in this area. To this end, ETSO is currently working closely with the Commission in developing the area of Operational Network Security. ERGEG has been privy to this work. This will look at greater compatibility at cross border points, an area not covered by current codes or regulatory frameworks, addressing the cross border issues still needing further work both for market development reasons and for system operation. It would be of benefit to monitor this area and its outcomes and then progress from there rather than introducing new measures. Care should also be taken to recognise where cooperation is already occurring between TSOs e.g. UCTE, Nordel etc.

It would not be appropriate in this document to comment on the outcome of any technical investigations in advance of the UCTE and other reports on the subject of the incident which occurred within the German control block over the weekend 4/5th of November. If there are any issues which need to be addressed, ETSO will comment on these after the results of the investigations have been published.

7. Transparency of Information

ETSO fully supports the drive for greater transparency of information in order to facilitate confidence in the market and to this end ETSO is making a proactive move forward with the launch of its Transparency Platform (ETSOVista)³. ETSOVista will create a central repository of information and enable close to real time publication of operational data relating to cross-border points.

When assessing the need for a wider mandate on TSOs in relation to information sharing, consideration should be given to the information that is already available in the public domain. For example ETSO currently produces a system adequacy report, which assesses the capacity / demand situation for the upcoming 15 years. This allows the market to assess where there may be opportunities for investment. Obligations on the exchange of generation and demand information should take into account that generators must provide this information to TSOs in a timely manner and give their permission for this information to be published.

8. Conclusion

In conclusion, ETSO would like to make the following comments

- The timescales involved in the planning permissions and authorisation process can delay an investment by many years and therefore a means of accelerating the planning process would be welcome.
- The regulatory framework creates uncertainty and therefore can discourage investment. A clear and stable framework must be created.
- It is important that roles and responsibilities are clearly defined and that appropriate relationships between TSO and regulator are maintained.
- Existing bodies provide the basis from which greater cooperation and enhanced remits can be achieved.
- Overarching European security standards are unnecessary and may even be counter productive. The priority should be to address the situation at cross border points.
- ETSO welcomes the opportunity to comment on ERGEG's paper and would be happy to meet with ERGEG to discuss any of the above points.

³ www.etsovista.org