



ETSO COMMENTS ON THE EC GREEN PAPER FOR A EUROPEAN STRATEGY FOR SUSTAINABLE, COMPETITIVE AND SECURE ENERGY

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1. Introduction

The European [electricity] Transmission System Operators (ETSO) welcome the opportunity to comment on the Commission's Green Paper on A European Strategy for Sustainable, Competitive and Secure Energy. ETSO has already provided a preliminary response to the Green Paper and now uses this opportunity to make further detailed comments and proposals.

ETSO fully supports the development of a truly EU energy policy that includes all existing and future energy sources. Difference in geography, electricity consumption profiles, weather conditions and natural resources provide in our view more opportunities than threats so as to achieve sustainable and secure energy for Europe, at the lowest possible cost.

ETSO encourages therefore a strong enforcing of the compatibility of the different EU and Member State legislations on various interacting topics (e.g. IEM, security of supply, cogeneration, RES, CO₂ emissions, balancing mechanisms, transparency v. confidentiality rules etc.). All this will in our view benefit the single EU market providing the specificities of the Member States are fully exploited.

Regarding energy market development in general, the proposed actions in the Green paper are mainly focused on the regulated part of the business, e.g. networks, TSOs and regulators. However, some of the major market problems as perceived by the consumers and traders (e.g. lack of competition, concentration of market power and high electricity prices) relate to the deregulated sector. It would be appropriate that more emphasis be given to these issues and concrete actions proposed, including e.g. those that lie in the competence of national and EU competition authorities.

In responding to the paper our comments are mainly concentrated on those areas that directly affect TSOs. That is, completing the internal energy market in electricity and guaranteeing security of supply. ETSO also uses the opportunity to briefly comment on the climate change issues in the Green Paper.

A general point which is relevant to all of our comments is the need for close alignment between the Green Paper, the EC Sector Inquiry and the ERGEG Regional Initiatives if focus is to be retained on those issues which will really improve the European electricity market and duplication of work is avoided.

2. Completing the Internal Electricity Market

2.1. European Grid Code

The Green paper introduces an idea of a **European Grid Code**. The term Grid Code is often used for a catalogue of technical rules and standards that are necessary for secure power system, grid planning, grid access etc. ETSO considers that a European Grid Code, in the above sense, does not need to be developed **at European level**. Apart from the national grid codes, the synchronized electricity regions in Europe have already developed their regional grid codes via the sister organizations of ETSO such as: UCTE, NORDEL, UKTSOA, ATSOI and the Baltic TSOs. These grid codes are updated when necessary and fully reflect the specificities of the areas where they apply.

The need for regional grid codes between TSOs stems from being part of the same electrical system and not from belonging to the same market area. A single pan-European Technical Grid Code would be counter-productive in terms of security and economy. Grid and generation physical characteristics of different synchronous systems (and sometime different countries) require different rules and therefore their harmonisation would not in itself improve system security nor encourage greater cross-border trade.

The Electricity Regulation 1228/2003 already sets out conditions for network access for cross border trade. So it would be best to focus first on the implementation of the Regulation before assuming further work is required. This is particularly the case where the Regulation envisages binding guidelines on congestion management, an inter-TSO compensation scheme and tariffs, the first of these being scheduled to come into effect in the coming months.

However, achieving greater compatibility at cross border points (which are not covered by current codes nor regulatory frameworks) would constitute a significant step forward in facilitating the cross border trade of electricity. ETSO therefore believes that an alternative piece of work could be useful at European level (although probably developed first at regional levels). It should address the cross-border issues still needing further development both for market development reasons and for system operation.

One outcome of this work could be a kind of TSO handbook on market-relevant cross-border rules.

Such work will demonstrate the progress that has already been made in developing technical arrangements at cross border points and clarify what still needs to be done. We should not ignore the fact that differing technical (and commercial) regimes are interconnected at present across Europe and that significant trade opportunities are being utilised by the market players across these interconnectors. Obvious examples would be the links between Great Britain and France, between the Nordic market and Germany and the link being developed between the Nordic market and Holland.

On the commercial aspects of cross border trade, ETSO has already played a very active role (with the EC and ERGEG) in the development of the congestion management guidelines. ETSO also intends to encourage further development in this area with the launch of a Transparency Platform in the autumn of 2006. This will create a central repository of information and will enable close to real-time publication of operational data relating to cross border points. This will contribute to increased transparency and improved market confidence and will be the start of a work programme in examining what other cross border issues need to be developed to enhance liberalisation and security of supply. ETSO is commencing its internal discussions on such a work programme at present.

As indicated in the introduction above, we feel that the proposals in the Green Paper in this area need close alignment with the EC Sector Inquiry and ERGEG's Regional Initiatives work launched earlier this year. Failure to align these three topics will be to the detriment of greater cross border trade opportunities and security of supply.

2.2 EU Regulator

ETSO agrees that a closer level of collaboration between regulators is required, especially in order to encourage cross border investment. It is clearly recognised by ERGEG in its regional initiative document that a 'regulatory gap' exists in attempts to improve the level of compatibility between rules and for timely decision-making process. Closer working relations between regulators and network operators will be crucial to closing this gap. However, ETSO does not feel that a 'European Regulator' is required at this stage. Giving TSOs a more formal consultation role is an important step in achieving greater cooperation between regulators and network operators, this will be discussed further in section 3.

2.3. Priority Interconnection Plan

The functioning of the market and power system calls also for important strengthening of the European grid through **new interconnectors**. The Green paper mentions this but offers very little to overcome current hindrances for investing in cross-border lines. ETSO wants to stress the need for concrete actions to incentivise these investments and to streamline the authorisation procedures.

Currently there is no coherent legislative or regulatory framework to support investment by TSOs in cross border infrastructure. Without such a climate, arbitrary targets, such as minimum levels of interconnection at 10%¹ or priority interconnection plans, will be meaningless. This is because TSOs cannot be expected to invest in cross border infrastructure with 25 to 40 year life spans if it is not clear how that investment would be remunerated. In addition the problem of obtaining planning permission should not be ignored as, twinned with investment uncertainty, it provides the biggest threat to cross border investment.

¹ Barcelona European Council 15 and 16 March 2002

ETSO has recently published a paper on Cross Border Investment suggesting how the current barriers that are preventing investment in cross border infrastructure can be overcome. Broadly our proposals are as follows:

Member States and Governments should be responsible for creating the overarching policy and framework, which would

- enable permitting procedures to happen in practical and realistic timescales and ensure their compatibility for cross border lines;
- extend the regulatory arrangements (including return on investments) to cross border investment;
- clarify how investment in one member state that is for the benefit of the region should be financed; and
- incentivise generators to locate plant in economically desired areas.

Regulatory authorities should implement a long term stable framework

- giving a long term guarantee of sufficient rate of return on investments;
- providing guidelines on: cost allocation principles between national systems, the treatment and recovery of third party costs, and revenue-recovery principles;
- implementing methods to evaluate the costs and benefits of new interconnection capacities; and
- providing guidelines to potential merchant developers and ensuring their compliance.

TSOs would retain responsibility for planning the development of their networks, performing feasibility and technical studies in a coordinated manner in order to identify required investments and building/upgrading where necessary in a timely and adequate manner.

ETSO would be pleased to discuss these proposals with the EU Institutions.

3. The Internal Electricity Market and Security of Supply

3.1 Formal Grouping of TSOs and European Centre for Energy Networks

ETSO supports the idea of creating a **Formal Grouping of TSOs**. We understand it as a new layer of coordination among TSOs and between TSOs and the EC for reasons of supply security and the efficient development of the IEM. It could be formally set up by the EC following the pattern that gave place to ERGEG, the Regulator body. However, it should be clarified by the EC whether such grouping would also cover gas and oil at the same time.

As to the proposal of the Green Paper on creating also another network institution, **European Centre for Energy Networks**, ETSO considers that the activities of both the Centre and the Formal Grouping as described in the green paper could be merged in the same body.

The new body could then work on issues such as the ones described in the Regulation for Cross-border Electricity Exchanges (congestion management and inter-TSO

compensation mechanisms), those related to the Security of Electricity Supply Directive and others such as the enhancement of market transparency via the collection, analysis and publication of relevant information as well as the increased operational coordination in the real time control of the European power supplies. In our view, this Grouping would also help in advancing more quickly on the development of the regional markets. For instance, the development of regional Multilateral Agreements could be considered a useful tool to manage regional energy flows and to guarantee the local area operational security.

Such new body should cover all EU TSOs, report to the EC and work in close cooperation with ERGEG.

3.2. European Energy Supply Observatory

ETSO understands the role of such an observatory as covering the whole energy sector in a similar way to what the IEA already does for all industrialised countries. So the question may arise whether the IEA could carry out also regionally focused monitoring instead of creating a new institution.

As regards electricity, the Formal TSO Grouping (as described above) could provide all relevant data. It is worth noting that ETSO was very active in the development of the Security of Supply Directive (2005/89/EC) and is now involved in several activities that could be relevant to this proposal. For example the Generation Adequacy Report, assessing long term production adequacy, is published annually based on the work also performed by our sister organizations: UCTE, NORDEL, UKTSOA, ATSOI and the Baltic TSOs. The Winter Outlook Report, assessing production adequacy for the upcoming winter, will also be published for the first time later in 2006. If such an observatory is created, a close relationship with bodies such as ETSO is crucial in order to avoid unnecessary duplication of work.

4. Climate Change

ETSO fully supports the development of a European energy policy that includes all existing and future energy sources. All generation sources should be encouraged and enjoy a level playing field, as the benefits of a diverse mix of primary energy sources for the generation of electricity are widely acknowledged. We also need to be aware of the system impacts of different types of generation. For example, increased levels of intermittent generation, such as wind, significantly increase the need for capacity of other generation that would need to be kept in service to operate on low wind days, in order to retain a secure plant margin.

It is important that the future of the EU Emissions Trading Scheme is clarified, as the current uncertainty surrounding the scheme may lead to investments being delayed. The possibility that the form and duration of phase 3 may not be confirmed until 2010/11, when plant margins are already falling steadily, is a significant concern as investment decision for new capacity need to be made sooner than this.

5. Concluding Remarks

ETSO has already worked closely with the EU Institutions and specially the Commission in developing measures such as the Congestion Management Guidelines and the Electricity Security of Supply Directive. ETSO intends to continue its work in this area with the launch of its Transparency Platform and also through detailed studies of Operational Network Security, Demand Side Response and both short term and long term system adequacy.

As we have set out in this response, ETSO believes that the main trends set up in the Green Paper are very positive but that further clarity is required on a number of the proposals and looks forward to working with stakeholders to further develop and implement them. However focus should be given to ensuring that any new proposals complement existing measures and work areas, avoiding unnecessary duplication and additional layers of bureaucracy. In this regard it is important that there is close alignment between the Green Paper, the Sector Inquiry and ERGEG's Regional Initiative.

A key issue that needs to be addressed is lack of adequate investment at cross border points; however mandatory targets will not achieve this. Instead focus needs to be given to clarifying the framework and the roles of the parties involved.

ETSO is committed to further developing its work in these areas and looks forward to working closely with the Commission and the other Institutions in the future.