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Copy to:
Mr Günther Oettinger, EU Commissioner for Energy
Mr Philip Lowe, EU Commission, DG Energy, Director-General
Mr Alberto Pototschnig, ACER, Director

9 May 2012

Re: Open letter regarding the ENTSO-E briefing paper on interconnected system operation conditions in Continental Central Europe

Dear Mr Dobbeni,

I am writing to give some reaction, on behalf of the European Federation of Energy Traders (EFET)¹ to your open letter to Commissioner Oettinger dated April 17, 2012, and the accompanying ENTSO-E briefing paper to the European Commission on Interconnected system operation conditions in Continental Central Europe dated March 13, 2012².

Comments on ENTSO-E's general conclusions and recommendations

We share some of the ENTSO-E conclusions. In particular we agree that the primary reason for increased "unpredicted flows" is the intermittent injection into national grids of large volumes of power generated from renewable sources benefitting from support mechanisms and priority dispatch. This is now becoming a serious impediment to both the internal market and the

¹ EFET is an industry association which was set up in order to improve the conditions of energy trading in Europe, mainly in electricity and gas markets. Established in 1999, EFET represents today over 100 companies in 27 European countries. EFET works to promote and facilitate European energy trading in an open, transparent market unhindered by national borders.

² Full documents available at : https://www.entsoe.eu/news/announcements/newssingleview/article/entso-e-briefing-paper-to-ec-regarding-risks-to-interconnected-system-operations-in-central-europe/?tx_ttnews%5BbackPid%5D=28&cHash=fa7212eae657703b981a34bfd8da094f

proper management of European networks. We also agree on the ongoing need for additional transmission infrastructure and for multinational co-ordination of countermeasures between TSOs.

However we have concerns about your recommendations in terms of market design which would lead to negative impacts on the liquidity and competitiveness of European power markets.

In particular, the proposal (point 5 of the conclusions) to consider the Central and Eastern Europe region as an “early trial region for the [application of] new bidding areas” seems to be a very premature and disproportionate response to the issue.

It is also relevant to note in that respect that the draft Capacity Allocation and Congestion Management (CACM) network code³ is currently under consultation until 23 May 2012 and cannot be considered as a reference document today. The proposed process for the assessment of bidding zones is largely insufficient to take into account the numerous market implications of such a change and the potential impacts on market confidence in case of variations in the perimeters of bidding zones. These elements were already discussed between ENTSO-E and stakeholders in 2011 in the AHAG Capacity Calculation Workstream⁴.

We also fundamentally doubt that changing the market design could be the adequate measure to properly manage intermittent power injections when such injections are largely insensitive to price signals due to their natural or subsidised low marginal costs.

Finally we disagree with the implication that moving gate-closure close to real time limits the operational flexibility of TSOs. In fact the possibility for market players to manage their positions in intraday will reduce the burden on TSOs (increased ability to manage balanced positions). The need for TSOs to develop their skills and tools for efficiently managing large scale physical flows closer to real time is only linked to the flexibility allowed for injecting important amounts of variable power generation into national grids. The need to develop intraday trading is also a consequence of this increased variability closer to real time.

Scope for improved co-ordination between TSOs

In general, many of the issues identified in the briefing note will be dealt with more effectively once *all* the elements of the CACM network code and

³ For additional information, please refer to: <https://www.entsoe.eu/resources/network-codes/capacity-allocation-and-congestion-management/>

⁴ For additional details, please refer to the attached document “AHAG Capacity calculation project. Synthetic document and main achievements”, chapter 6.2.1 Definition regarding zones, pages 19 to 22

other parts of the EU target model are operational. In particular, the network codes should introduce process-related arrangements allowing for better coordination of operational countermeasures. Indeed, while EFET is conscious of the challenges of the current transitory period, we are also of the view that the difficulty to manage closer to real time variations of physical flows may often be a consequence of a lack of system operational “control tools” to act on physical injections and physical flows and of the lack of coordination between TSOs, rather than their inability to predict power injections from RES generators.

A concrete example are the quarter hourly figures on the deviation in forecast and actual RES in-feed, published by the German TSO TenneT for its control area. The maximum deviation amounted to just 315 MWh in November 2011 and 297 MWh in January 2012. Considering the installed capacity of wind turbines and solar panels of more than 10,000 MW in the TenneT control area, these figures demonstrate that rather accurate predictions of RES in-feed must be available to TSOs.

Therefore, the potential for dealing efficiently with “loop flows” will mostly be enhanced through a better co-operation between TSOs. This will indeed make available a much wider range of options in terms of remedial actions, as mentioned in the ENTSO-E briefing paper itself.

Coordination and development of new remedial actions is therefore of crucial importance in that respect. A key element for this would be the ability of TSOs to share operational knowledge on respective networks and to agree, under the umbrella of ENTSO-E, on operational methods and cost sharing arrangements for coordinated cross-border re-dispatch of RES or non-RES plants or for multi-TSOs topology measures (or phase shifters operation). This, together with the adequate sharing of information on RES forecast injections, would probably be the correct answer for a better management of large scale physical flows. Such methods therefore urgently need to be put in place.

Enhanced TSOs cooperation would also likely lead to increased welfare resulting from a better allocation of existing resources and more efficient countermeasures. In the long run, structural physical constraints would of course need to be relieved through adequate investments in order to adapt the network infrastructures to the new load and generation patterns and to complete market integration.

The CACM network code solution

ENTSO-E is currently drafting and consulting on its network code for CACM. It is therefore in a perfect position to draft the detailed procedures and methods for congestion management – including cross-border re-dispatch – and cost sharing that would allow efficient coordination between TSOs.

At minimum, network codes must require TSOs to agree, under the umbrella of ENTSO-E, on methods and cost sharing for coordinated, cross-border re-dispatch of RES or non-RES plants, making use of existing congestion revenues from the capacity allocation process. Such methods need to be put in place, in order to render the European target model fully operational and to comply with the Framework Guidelines. This would enable the network codes to define how the management of physical congestions should be efficiently coordinated, how discrimination between cross-border and internal transactions should be avoided (thus relieving commercial congestions) and as a consequence how market functioning would be much better facilitated.

As well as allowing secure N-1 network operation, the objective of the network codes should be liquid wholesale markets with large and stable price zones. This is an essential condition for market confidence and reliable price signals for the various timeframes.

The current version of the CACM network code needs to be strengthened in this respect. At present it does not provide significant improvements to the existing framework for capacity calculation and network management and therefore runs the risk of seeing significant regional and national differences and inefficiencies persist. By adopting firmer definitions of the procedures and methods for operational management of physical congestions, ENTSO-E would create the truly European approach which is at the core of the Third Energy Package.

Cross border curtailments in SEE

Finally on a related note, as mentioned in our letter to Mr Staschus dated April 23, 2012, we are seriously concerned about severe impediments to cross-border trading in electricity in South-East Europe. Export restrictions were imposed in the early part of 2012 by several TSOs in the region. We are of the view that the restrictions constitute an infringement of the requirements of the Regulation 714/2009 and an abuse of statutory monopoly position over international high voltage system management⁵. Limitations on cross border transactions were allegedly based on a state of emergency, respectively *force majeure*, although no such situation was, in fact, evident. We wonder if any action is being taken by ENTSO-E to prevent this type of behaviour. If not, this certainly sends a wrong signal to TSOs as far as increased cooperation is concerned – including for the management of loop flows.

We remain at your disposal for any questions you may have.

Yours sincerely,

On behalf of the European Federation of Energy Traders



Jan van Aken
Secretary General

⁵ For additional details, please refer to the EFET letter to Mr Staschus on recent restrictions on exports of electricity in South East Europe, dated April 23, 2012, in attachment.