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ERGEG Public Consultation on Guidelines on Congestion Management

Statnett welcomes the proposed guidelines. It is important to finalize the guidelines so they can enter into force from 1 January 2006.

We would like to underline the principles listed for the Congestion Management guidelines on page 1 of your explanatory note of 2 May 2005. Especially economic efficiency, promotion of competition and transparency are important according to our more than ten years of experience with market based congestion management.

With respect to mechanisms for congestion management in paragraph 2 of the guidelines, we would like to stress the differences between explicit and implicit auctions. They are both market based methods, but explicit auctions allocate only capacity while implicit auctions allocate both capacity and energy. Implicit auctions therefore automatically fulfil the requirement that capacity should be allocated to those who value the capacity the most.

Explicit auction is a good starting point for introducing market based congestion management methods, but it does not give any guarantee regarding efficiency and socio-economy for the energy exchange related to the capacity allocation. We have seen several bad examples on the border between Denmark and Germany in the last years, especially in sudden stressed situations.

Implicit auction requires a power exchange to perform combined capacity and energy allocation. When such institutions are in place and have reasonable liquidity, it should be a goal to move towards implicit auctions as soon as possible.

Paragraph 3.8 of the draft guidelines deals with the practice of limiting interconnection capacity to solve internal congestions in own control area. It should first be noted that the practice is not a market based method for congestion management and it is therefore contradictory to the basic principles in the guidelines. The practice should only be possible to use to a limited extent.

As is stated in § 3.8: "In any case, if the congestion within the control area limits the interconnection capacity, it must be only to the extent that it is justifiable from the technical viewpoint and for reasons of operational security. Such a situation can only be tolerated until a long-term solution is found. The methodology and projects to achieve the long-term solution shall be described and transparently presented to all users by the TSOs".

Investment in new transmission capacity is of course a long-term solution that will improve the capacity situation and alleviate the congestions.

A long-term investment plan can, however, only be an acceptable answer to a congestion problem in the time scale of several years. In the short- and medium-term, other market based congestion management methods must be used until the investment is in place. It should therefore in this paragraph more clearly be distinguished between short- and medium-term congestion management methods that can be used to solve the problem of limiting interconnection capacity due to internal control area congestions, and the ultimate long-term solution of investment in new transmission capacity.

Firm transmission rights are described in paragraph 4.1. If the intention here is physical transmission rights, our opinion is that these FTRs are contradictory to the principles listed for the congestion management guidelines. FTRs are counterproductive with respect to the development of an efficient Internal Electricity Market. In situations where FTRs could be used, the problems are better be solved by financial products.

Should there be any need for more detailed explanations or clarifications we will be happy to support you in finalization of the guidelines.

Yours sincerely,
Statnett SF

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