



Whatever happened to our cross-border transmission capacity?

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The **calculation and allocation of cross-border transmission capacity is one of the most fundamental tasks of TSOs** in the internal power market. Assiduous fulfilment of this task would allow market participants to make exports and imports of electricity in volumes approaching the physical capacity of HVAC interconnection points and of DC interconnectors. The wholesale market could thereby help bring the benefits of liberalisation to consumers in every Member State of the European Union, irrespective of variations in national supply and demand.

In reality, **cross-border transmission infrastructure is widely under-used in most of Europe. Actual capacity allocation by TSOs is at levels well below 50% on average of the thermal capacity** of HVAC interconnection points. Only a small portion of the deficit can be justified by reliability margins properly reserved by TSOs, in order to ensure system security. EFET¹ member companies have observed ever more instances of TSOs restricting access to cross-border transmission capacity, in order to manage internal congestion and/ or to reduce their exposure to re-dispatch payments. **The practice of reducing allocated capacity at borders in order to avoid internal congestion measures and related costs is forbidden by European Union law (Article 16 and Annex I to Regulation 714/2009).**

“Trust in the allocation by TSOs of cross-border transmission capacity, up to the maximum consistent with legitimate transmission reliability margins, is a cornerstone of the internal power market,” says Peter Styles, Member of the EFET Board and Chairman of the EFET Electricity Committee. “To underpin this trust TSOs must make their calculation methodology transparent. Artificial reductions motivated by a desire to avoid modest re-dispatch or countertrade costs within a particular control area are not to be tolerated, unless they demonstrably result in an optimisation of overall social welfare at regional or European level.”

Transparency and accuracy of the capacity calculation methodology used by TSOs are primary aims of proposals made by ACER in its Recommendation 02/2016 launched last year. The Recommendation is duly reflected in article

¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and a competitive economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

14.7 of the draft Electricity Market Regulation proposed this year as part of the Clean Energy Package by the European Commission (EC). **An important element of these proposals is that regulators and market participants obtain visibility of the locational availability of transmission capacity, including at interconnection points. In such a manner they can check that TSOs do engender the greatest possible social welfare across the whole internal power market.**

We observe with disappointment that TSOs, and ENTSO-E on their behalf, currently expend a lot of effort to oppose the ACER and EC proposals. As the culmination of its recurring advocacy since the beginning of the year, ENTSO-E has published in early July a position paper entitled: “*Optimising available transmission capacities for trade while ensuring system security*”. This document misrepresents the ACER and EC proposals.

EFET refutes all four components of the ENTSO-E “view at a glance”, set out at the front of its document:

1. The “optimisation of cross-zonal capacity” claimed by ENTSO-E in fact involves artificial reductions of transmission capacity allocated at several borders and non-allocation of any sort in the forward timeframe at several others.
2. The “limitations” of cross-border capacity envisaged by ENTSO-E do not necessarily require new investment to solve them; operational measures at the discretion of all TSOs would in many cases offer a much quicker, simpler and economically more efficient resolution.
3. It is misleading to describe measures such as counter-trading and re-dispatch as “costly remedial actions” – in contrast to topology measures and reductions in cross-border capacity, which supposedly comprise “non-costly remedial actions”. This qualification as “costly” or “non-costly” stems from the sole perspective of a TSO’s profit and loss account. Whenever the reason for counter-trading or re-dispatch relates to internal congestion or to other system management needs, not anticipated at the time of allocation of cross-border transmission capacity to the market, these measures should be considered normal practice; their overall cost for society will often be lower than the comparable cost of reductions or curtailments in cross-border transmission capacity.
4. There is no such notion under EU legislation governing the internal electricity market as “a trade-off between market needs and security of supply”. If TSOs will **just conduct their calculation of transmission capacity available for cross-border allocation in a transparent, objective and non-discriminatory manner**, then the market will be well served and the reliability of the system will be in no manner jeopardised.

TSOs are currently consulting on new capacity calculation methodologies. At this time we call upon ENTSO-E rather to spend its time and energy pushing its members to develop and detail elements of their proposed methodologies. In particular, the methodology for the expansion of flow-based capacity calculation for market coupling throughout most of continental Europe needs

attention. So far ENTSO-E still includes internal congestion officially in the flow-based calculation algorithm, and thereby embeds the potential for TSOs artificially to restrict the availability of cross-border capacity.

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