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POWER TO THE PEOPLE OF EUROPE

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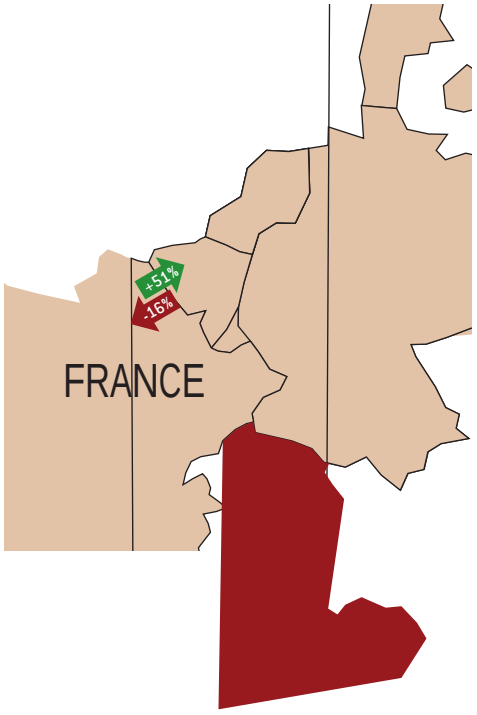
POLICY CHALLENGE

The challenge of creating a single electricity market is twofold: available transmission capacity must be increased and the operation of existing networks and power plants must be improved. Only EU-level electricity network design can deliver the required network infrastructure. The European Commission should therefore continue to push for binding European network planning, based on both technical and cost-benefit analyses, while member states need to move away from the artificial setting of single national prices. Electricity prices must be able to take into account the physical constraints of meshed international networks, resulting in market-led optimisation of the operation of the system and ultimately reducing prices.



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1. Partial evidence suggests that the efficiency gains could be huge:

3. See Pollitt (2009), Buglione et al (2009) and Bunn and Zachmann (2009).

4. One obvious draw-

cost in both systems. In reality, however, elect

increased security margins for cross-border trade because of growing shares of intermittent renewable production. Thus, decreasing availability of cross-border transmission for commercial operations becomes an increasingly limiting factor for market integration.

In conclusion, the remaining inter-

would increase cross-border transfer capacity and thereby global welfare are not being built because the national regulators do not take into account welfare gains in other zones[10]. Thus, those investments are typically not optimal with respect to the SEM.

To resolve this issue the EU has come up with different, not fully coherent, solutions:

1 Definition of priority projects linked to possible access to EU funds: in 2010 the old Trans-European Network guidelines will be replaced by an 'EU Energy Security and Infrastructure Instrument'. This instrument is intended to be based less on projects proposed by individual member states (and their national interests) but is to be developed from a European perspective on security of supply and efficiency. As EU funding is limited and discretionary, decisions are subject to intra-EU distribution considerations. This instrument might fix some bottlenecks but is not an integral network development solution.

2 Presentation of a coordinated network development plan: in 2010 the European Network of Transmission System Operators for Electricity in cooperation with the Agency for Cooperation of Energy Regulators and the European Commission will prepare a Ten-Year Network Development Plan. This non-binding plan will combine the bottom-up approach underpinning national or regional investment plans with top-down policy goals (primarily the EU's so-called '20-20-20' green target). However, the absence of formal obligations on grid users to provide the information necessary to calculate prospective load-patterns, and the lack of a European network model within the European Network of Transmission System Operators for Electricity and the Agency for Cooperation of Energy Regulators, will make it difficult to obtain an accurate picture of the investment needs. Furthermore, the means of implementation of this non-binding plan are rather weak. Consequently, it is unlikely that the first Ten-Year Network Development Plan will deliver an ambitious blueprint for a European electricity network.

significantly better use of transmission capacity and not allow efficient coordination of power plant scheduling internationally. Both would require a coordinated optimisation of system operations instead of coupling nationally optimised single-price zones.

In summary, the proposed

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