

Nordisk Ministerråds Elmarkedsgruppe

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Nordenergi response to the Electricity Market Group on NordREGs report *Grid investments in a Nordic perspective*

Nordenergi, the joint collaboration between the Nordic associations for electricity producers, suppliers and distributors, welcomes the opportunity to comment on the report on grid investment in a Nordic perspective from NordREG requested by the Electricity Market Group under the Nordic Council of Ministers.

The European Union's ambitious 20-20-20 targets regarding climate and renewable energy (RES) increase the need for a well functioning and integrated electricity market in Europe. Both developments call for significant grid expansion.

Joint Nordic and European planning of the transmission infrastructure, as for example done in the ENTSO-E's ten-year network development plan, is a very important tool to obtain cross-border investments and internal investments that have an effect on cross-border transmission capacity.

In general, Nordenergi finds that the paper gives a good overview on how investment needs are recognized and how potential investments are evaluated. It is also an interesting evaluation of different financing models for cross-border interconnections.

However, due to its focus on crossborder capacity, the study fails to address significant problems that the Nordic countries face due to delayed internal grid investment. The insufficient strength of Swedish North-South connections and the internal Norwegian bottlenecks leading to a high number of price areas are important examples. Missing internal capacities can have significant consequences on the utilization of existing cross border capacity, therefore investment in internal and cross border transmission grids need to be considered at the same time.

Explicit framework for common Nordic investments

Nordenergi notes that the framework on financing grid investments is quite similar in the Nordic countries as to processes and evaluation criteria, and that there seem to be rather few formal limitations for the TSO to invest in other countries. However this entails a lack of rules or legislation in the Nordic countries explicitly describing on how TSO could participate in common Nordic investments. In addition, investments that do not give a domestic gain but a total welfare gain for the Nordic countries as a whole, can be hard to get a domestic license for. Therefore, Nordenergi recommends that regulators

start developing the necessary framework in order to remove the obstacles as soon as possible to enable grid investment from a Nordic and European perspective. The framework should be based on voluntariness for the TSO to finance investments located also in another country.

Some experience is obtained in the former Nordel cooperation but it must be further developed to ensure that all economical investments are made and the Nordic perspective is extended to include a more European perspective. It is also important that all stakeholders are involved at an early stage in the planning process and that the entire process is carried out with a high degree of transparency. In general, it is important in the process to take a more commercial approach and include the fact that other parties than the TSO's also may invest in transmission lines.

One issue in the financing of transmission lines is congestion income. In this respect it is important to discuss and find common ways on how to use the money collected from congestion. The 3rd Energy Package states that congestion income must be used for new lines and improvement of existing lines. It can only be used for tariff reduction if it is approved by national regulators. Nordenergi supports the use of congestion income to finance new lines and improvements, and urges the regulators to make common guidelines for the calculation and the use of congestion income, and the exception approval from the regulators. A part of congestion incomes could be put in a common pool to fund Nordic grid investments.

Harmonization of tariff structure

As congestion income is not sufficient to finance all the internal and cross border investments, tariffs are another important source of income for the TSOs, as mentioned in the study. As investment needs are increasing probability is high that tariffs will follow. Nordenergi suggest that NordREG starts an evaluation on the impact of different tariff systems on locational decisions and competition in a common market with regards to grid investments.

Neutrality towards private network investment

Reaching the EU 2020 goals makes considerable investment in grid necessary. Investments by private companies play an important role to the solution of this challenge and should therefore be encouraged. Therefore, Nordenergi urges that projects by private investors (so-called merchant lines) are also included in the considerations on grid investment. Clear and neutral criteria and transparency concerning their inclusion or non-inclusion is essential.

Investment from a European perspective

According to the study, grid investments are generally evaluated from a predominately national perspective. Nordenergi finds that this could be improved by adding a regional/European perspective. The calculations have to be based on not only national, but also on Nordic and European social welfare. This will ensure the most cost-effective investments for Europe as a whole. Otherwise, national or Nordic views will create non-optimal solutions.

Smoother and common European licensing procedures

Another issue to address in building new transmission lines is licensing procedures. In the paper it is stated that the licensing processes are quite similar in all Nordic countries but that there is a lack of criteria explicitly taking Nordic perspective.

In order to be able to actually build new grid, it would be beneficial to agree on easier and harmonised procedures with respect to approval of new transmission lines. Nordenergi finds that a work on harmonisation between the European countries must be initiated in order to minimise the barriers for a successful deployment of the grid.

Yours sincerely,



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