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OUR REF.: RELIANC/3C/152152

ERGEG

To the attention of Mrs Asta SIHVONEN PUNKKA
ERGEG Vice Chair
Rue le Titien, 28
1000 Bruxelles
Belgium

Brussels, the 24th of May, 2007

Dear Madam,

Subject: RELIANCE - Coordination of the European transmission network
research activities

The RELIANCE Consortium¹, consisting of transmission system operators (TSO), power producers, distribution system operators (DSO), research institutions and consultants, is now at the stage of delivering the final results. As per your suggestion, at the ERGEG Electricity Focus Group meeting on March 15, 2007, we hereby submit a brief summary of the project findings and an explanation of the important support that we solicit from ERGEG.

RELIANCE: A Proposal for the European Centre for Electrical Networks (ECEN)

The joint performance of the European electrical transmission system operators in terms of sustainability, competitiveness and security of supply is of crucial importance for the future European economic and social development. Current and future challenges on the electricity system, such as the market-induced power flows, massive integration of renewable and distributed energy resources and increased requirements on the information to grid users require important investments in research and development. The RELIANCE Consortium, argues that the success will depend on (i) a sufficient number of experts in the electricity sector, (ii) the generation of new innovative solutions and knowledge, and (iii) a regulatory environment that supports the retention of experts and the creation of this knowledge.

¹ The RELIANCE Consortium is made of SUEZ-TRACTEBEL, ELIA, ENERGINET.dk, TERNA, RED ELECTRICA, STATNETT, TENNET, ELES, EDF, FGH, FEEM Servizi, ISET, SINTEF, TECHNOFI, University of Manchester, K.U.Leuven and CEPS

The results of the RELIANCE project are twofold: a set of prioritized projects in five orientations and a proposal for a joint research organization for electricity system research; the European Centre for Electrical Networks (ECEN).

The orientations are to optimize the reliability to support electricity as a vital, cost-efficient energy system; to increase the integration of the electricity market, to support the massive penetration of RES and DER, to improve the system robustness and resilience, and to achieve a sustainable grid development.

ECEN is designed to be an efficient, flexible, transparent and stakeholder-driven organization that also assures continuous funding of mission-critical projects that previously have received no or intermittent funding.

ECEN is intended to be financed by a fixed membership fee for each TSO, covering Pan-European projects of joint interest and the institute overhead, and through direct funding of projects initiated by transmission operators or other stakeholders.

The Role of Economic Regulation for ECEN

The current TSO regulation framework is decentralised and each national regulation authority has implemented a mechanism that specifies the regulated tasks and their allowed reimbursement. While almost all regimes promote cost-reductions through high-powered caps of prices and/or revenues, provisions for research and development that concern cross-boundary or pan-European system issues and/or carry high technological risks are ad hoc or not at all incorporated in the economic regulation. In addition, the interconnection of the grid hampers the possibility to implement effective national regulation based on interruption costs. This implies that some TSO, in particular fully privatized firms with profit-maximizing objectives, have no or negative incentives to participate in research initiatives that go beyond pure short-term minimization of operational cost.

The full participation of the European TSOs in ECEN is dependent upon an adequate recognition of the ECEN membership fee in each respective national economic regulation. The exact mechanism depends on the regulation framework deployed and does not need to be specified at the outset. Possible approaches vary from simple recognition of eligibility under low-powered regimes to protection from future indexation and generic reductions under high-powered regimes (item pass-through).

A Proposal for ERGEG endorsement

In recognition of the particular importance of a positive signal from the regulatory authorities for the rapid and wide adherence to the Centre by the TSOs, we would like ERGEG to endorse the project. More specifically, we suggest three imminent actions by ERGEG:

A Statement of Interest by the Council as to the societal interest of the Centre for the development of the European electricity system. As a consequence, ERGEG expresses its interest of participation in the executive structure of the future Centre. The RELIANCE Consortium acknowledges that such Statement does not limit the right by ERGEG to make an independent decision when the final legal structure of the Centre has been decided.

A Statement of Principle regarding the preferential treatment of the fixed ECEN membership fee in the economic regulation of each participating transmission system operator. A reasonable delay can be set for the national regulators to study the adequate implementation in their respective regulatory framework. The RELIANCE Consortium acknowledges that such Statement is not intended to prescribe particular regulation tools, nor to waive the statutory obligation of each regulatory authority to assess the eligibility of any expenditure.

A Keynote Address by a senior representative, mandated by ERGEG to orally present the viewpoint on (1) and (2) above at the RELIANCE final conference in Slovenia in September 2007. The final ECEN/RELIANCE conference will also include addresses of senior representatives for the transmission system operators, the European Commission, sector organisations and research providers. The objective is to close the conference with a critical number of members joining the Centre as to permit a rapid launch.

Working together with the European Commission and ERGEG on the realisation of the integrated European energy market through technical, economical and institutional means, the RELIANCE Consortium expresses its gratitude for the attention that ERGEG devotes to this proposal.

On behalf of the RELIANCE Consortium,



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