

CORE DISCUSSION PAPER
2004/90

**INEFFICIENCIES IN EUROPEAN CONGESTION
MANAGEMENT PROPOSALS**

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December 2004

Abstract

An efficient congestion management system is a necessary condition to remove obstacles to the cross border trade of electricity in Europe and hence to move towards an internal electricity market. Locational marginal pricing (LMP) is progressively becoming the benchmark of congestion management in the United States. It is conceptually simple, compatible with basic economic theory and physical realities, and effective in practice. Proposals for congestion management in Europe depart in several ways from this benchmark. We discuss these proposals and illustrate some of their inefficiencies. A special emphasis is placed on the restrictions to trade implied by the implementation of zonal approaches.

¹The article was written while the first author was visiting CORE financed by an Electrabel Fellowship.

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An earlier version of this paper was presented at the CMI Electricity Project Transmission Workshop, Cambridge, 18-19 July 2003.

This paper presents research results of the Belgian Program on Interuniversity Poles of Attraction initiated by the Belgian State, Prime Minister's Office, Science Policy Programming. The scientific responsibility is assumed by the authors.