

EFET

## The European Federation of Energy Traders

September 2005

# EFET Commentary on France-Belgium-Netherlands Market Coupling Project and Establishment of Belpex

## 1. Introduction

EFET welcomes most of the Conclusions <sup>1</sup> of the European Regulatory Mini-Forum for Central Western Europe, held on 17 December 2004 in Brussels.

The comments we make in this paper refer to these Conclusions and to explanations given to our members by APX, Elia and Pownernext in the course of late 2004 and early 2004. They are also in line with recent papers EFET published about Congestion Management<sup>2</sup> (a vision paper) and Transparency<sup>3</sup> (a position paper). **We intend our comments to be taken into account in joint consultations on market arrangements and congestion management by DTe, CRE and CREG, whilst realising that our paper is not organised according to these regulators' joint questionnaire.**

EFET supports in principle the introduction of market-based coordinated congestion management at a sub-regional level between France, Belgium and the Netherlands, together with the launch of the Belgian power exchange ("Belpex"). Both market coupling through co-ordinated implicit and explicit auctions and the establishment of a Belgian exchange can contribute significantly to the first phase of a transition towards a regional integrated North-Western European market. Another part of this first phase must involve revision of the severely restrictive estimates of the transmission capacity, which is available to the market at the relevant borders. Any second phase should involve the German TSOs getting more closely involved in the initiative, the extension of closely co-ordinated congestion management to the French-German and French-Swiss borders and a re-appraisal of the

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<sup>1</sup> Draft 10-02-2005 (version 4) published on website [www.europa.eu.int](http://www.europa.eu.int), under Florence Forum.

<sup>2</sup> EFET vision paper: Reforming the Management of Electricity Transmission Congestion in the EU Internal market, November 2004, available on the EFET website, [www;efet.org](http://www.efet.org) under Position Papers Electricity.

<sup>3</sup> EFET position paper: Transparency and Availability of Information in Continental European Wholesale Electricity Markets, July 2004, also available on the EFET website.

arguments for allocating any given percentage or quantity of cross border capacity exclusively for day ahead bids on the Dutch and Belgian exchanges.

## **2. Evolution to market-based allocation mechanisms on all borders**

Article 6 (1) of the Regulation states:

*“Network congestion problems shall be addressed with non-discriminatory market based solutions which give efficient economic signals to the market.”*

We observe that not all of the current allocation mechanisms comply with this requirement.

### Dutch-Belgian border

On this border, explicit auctions are already in place. The current yearly and monthly explicit auctions in place on the Dutch-Belgian border seem to reliably indicate the anticipated price differential between both markets. We emphasise, that it is desirable to keep explicit auctions for periods further in advance of real time (year, or more, and month or months ahead) in place. EFET would be happy to be consulted on changes to the associated auction rules in due course.

We believe it is possible, that the daily auction becomes more efficient through the provision of a market coupling mechanism. Indeed, at present the day-ahead price difference between both countries is difficult to predict and does not always reflect the final spot market price difference. A market coupling mechanism will address this flaw. In the short run, the netting of yearly and monthly nominations together with the network investments mentioned in Annex 1 should increase the capacity that can be offered for the daily allocation mechanism.

*In the year or so following the first introduction of Belpex we appreciate the argument for carving out a fixed proportion of daily capacity for the functioning of the implicit auction mechanism. Once established, however, we advocate a move to 100% commercial allocation of anticipated available capacity years or months in advance, with purchased physical capacity rights defaulting to financial in the day-ahead market coupling through the exchanges, only at the option of the capacity right owner, acting in the OTC market.*

The advent of flow based capacity calculations should preclude the splitting of the two markets on many days; once that has happened, and once corresponding liquidity in a broader Dutch-Belgian wholesale market has improved, the regulators should re-examine the need to reserve any fixed proportion of transmission capacity exclusively for use in the coupled power exchanges.

### French-Belgian border

On the French-Belgian border, only first-come, first-served allocation mechanisms are in place, which are clearly not market-based, and thus do not comply with the Cross-Border Regulation.

In the France to Belgium direction, there is a monthly and a daily capacity allocation. The amounts of capacity offered in the monthly allocations vary a lot from month to month.

In the opposite direction, there only is a monthly allocation mechanism.

This situation leads to the following flaws:

In 2004 the Powernext price was higher than APX during 3511 hours, or 40% of time, which should have given Dutch players the incentive to export power towards France; the average price difference on these hours was about 2 €/MWh. A Dutch market participant willing to export from the Netherlands towards France encounters a lot of administrative hurdles, however, which in turn create a huge risk.

- First of all he has to nominate an export from Belgium to France to Elia before 8:00 day-ahead, under the condition he has been allocated sufficient monthly capacity on that border.
- Furthermore he needs to have bought monthly or yearly capacity from the Netherlands to Belgium, which also needs to be nominated before 8:00 to Elia and TenneT.
- If he has no yearly or monthly capacity, he needs to buy daily capacity on the Dutch-Belgian border via the explicit auction.
- Whenever he fails to obtain this capacity, he will be obliged to buy in Belgium the already nominated export towards France.

Many market participants do fear the operational risks. In practice only some better-positioned players (i.e. Belgian generators) can afford to risk such an export. This complex way of working can be avoided with trilateral market coupling. We expect it will also reduce the observed 2 €/MWh price difference, and thus make Dutch (plus Belgian) and French prices converge.

Based on the Cross-Border Regulation, EFET welcomes the planned replacement of the current FCFS monthly capacity allocations in both directions by an explicit auction, similar to that on the Dutch-Belgian border. Any additional capacity created by border-related transmission reinforcement should also be auctioned on a monthly *and on a yearly* basis.

*As in the case of the Dutch-Belgian border however, we advocate in due course a move to 100% commercial allocation of anticipated available capacity years or months in advance, with purchased physical capacity rights defaulting to financial in the day-ahead market coupling through the exchanges, only at the option of the capacity right owner, acting in the OTC market.*

### Evolution on the French-German and French-Swiss borders

EFET welcomes the fact that all market participants attending the Brussels Mini-Forum were in favour of replacing the current first-come, first-served allocation mechanism on the French-German border. A lot of pro-rata curtailments took place in the direction from Germany to France during the first months of 2005. In order to manage this new situation, RWE Netz and EnBW Netz decided unilaterally, without market consultation nor consultation with neighbouring TSOs, to implement a one-sided and uni-directional (Germany to France) explicit auction mechanism. EFET addressed its concerns in a letter to them in May 2005. Since then a market information meeting was held by the two TSOs in June, and we understand they remain in dialogue with E-Trans in relation to Swiss interconnections.

Even if Germany will not join the trilateral market-coupling project from the start, we believe that the pay-as-cleared, bilaterally or multilaterally coordinated explicit auction mechanisms implemented on most German borders provide an appropriate avenue for medium term harmonisation with the approach taken by RTE, Elia and TenneT at the Belgian borders. It is essential that the affected TSOs and exchanges with a stake in congestion management at the French-German and French-Swiss borders try to converge towards completely compatible allocation solutions in a regional context. That will be the best guarantee for further development of the French-Swiss-German-Benelux regional electricity market.

EFET urges APX, Belpex and Powernext to seek close cooperation with EEX, despite setbacks hitherto. There is still a hope that the concepts involved in flow-based market coupling and in "open market coupling", as suggested by EEX at the Brussels, Vienna and Helsinki mini-forums, will be reconcilable. (See EFET ideas on market in transmission capacity rights set out below.)

### Future extension towards Nord Pool

EFET is aware that the Dutch regulator DTe has decided to require the additional cross-border capacity of the recently approved NorNed link, whose commissioning is foreseen in 2008, to be totally allocated through a market coupling mechanism.

A further integration between the Nordic region, the Netherlands, Belgium and France should be the target to reach at that juncture. In that case the possibility of longer-term sales of transmission capacity rights will have to be revisited.

EFET and EFET-Deutschland are already in a dialogue with NordPool about the desirability of not allocation 100% of available capacity on the Kontek and Baltic cables to a day-ahead implicit auction, especially if it unilaterally

organised on the Nordic side, without the participation of EEX or the German TSOs.

### 3. Maximizing available capacity

*Whatever cross border allocation methodology, for the relevant borders over any given timeframe, is put in place, maximizing the amount of capacity made available to the market remains a regulated obligation of TSOs under the EU second legislative package for the internal electricity market..*

The Cross Border Regulation<sup>4</sup> in Article 6(3) states clearly that: *“The maximum capacity of the interconnections and/or the transmission networks affecting cross-border flows shall be made available to market participants, complying with safety standards of secure network operation.”*

EFET has noted the intention of Elia to undertake interconnection reinforcements and increase (or at least control) cross-border capacities by other physical means, as mentioned in Annex 1 to this paper.

However, we are disappointed not yet to have seen in any presentation about the Belpex project concrete indications of when and how the “old” NTC calculation methods<sup>5</sup> will be abandoned and replaced by new, flow-based approaches to estimation of available capacity. In our judgement the rapid introduction of flow-based ATC calculation related to all Dutch and Belgian interconnection points, for purposes of both long term auctioning and day ahead coupling, would lead to a dramatic increase in the available capacity for the market at some times of day and some parts of the year. That would correspondingly create benefits for both wholesale suppliers and end consumers in Belgium and the Netherlands, of a type much more immediately tangible than the switch of allocation methodology alone.

The change of calculation practice and resulting adjustment to auction arrangements require not only IT tools, but in the first place a close and strong cooperation and between all involved TSOs. Such cooperation can be enforced by coordinated supervision by the three immediately affected regulators, acting in consultation also with the Bundesnetzagentur in Germany and the Bundesamt fuer Energie in Switzerland.

In our congestion management paper of November 2004 we elaborate how TSOs could commercially best achieve a maximisation of cross-border capacity offered initially to the market and ensure also the maximum actual allocation of that capacity for utilisation in real time. More specifically, we refer to the “top down” allocation approach explained later in this paper. The launch of the market-coupling project between France, Belgium and Netherlands to our mind constitutes a practical opportunity to debate, evaluate and (albeit gradually) implement these ideas.

<sup>4</sup> Regulation (EC) 1228/2003 of the European Parliament and Council of 26 June 2003.

<sup>5</sup> ETSO publishes currently only every 6 months a NTC update

EFET considers the maximising of capacity of the utmost interest for the market. However, TSOs should put in place calculation methods and allocation models that are transparent. The larger the region where market coupling is in place, the higher the risk will be to have completely non-transparent amounts of available capacity. Regulators should have a coordinated look at the calculation methodologies in place.

#### 4. Improvement of the use-it-or-lose-it principle

The current UIOLI principle actually allows TSOs to sell twice capacity, once in the year or month ahead auction and, when not nominated at 8:00 on the day ahead, a second time in the daily auction. EFET suggests here an important improvement: The owner of the capacity rights should inform the TSO before a certain deadline (e.g. D-1 at 8:30, or at the latest before the power exchanges launch their matching calculations) whether he will **use physically** the right to wheel power across the border, or whether he will make capacity available (“resell” it) for use in the market coupling process. In that case, the owner gets paid back the difference (spread) in the clearing price between both markets (if any); actually this amounts to a **financial settlement** of the right by the exchange. (In the diagram in Annex 2, this last situation is indicated with the ungainly acronym “UIPYOSITM”, meaning : use-it-physically-yourself-or-sell-it-to-the-market”)

#### 5. A secondary market in transmission capacity rights

(see timeline illustration in Annex 2)

##### Primary and secondary markets

Although the further ahead (yearly and monthly) Dutch explicit auctions already contain assignment and sell-back procedures, EFET believes that the launch of the Belpex project, could be the ideal moment for the formal introduction of more advanced primary and secondary markets in capacity rights.

The first purchase of any transmission capacity rights will be from TSOs (who are naturally “long”) by wholesale market participants (suppliers of power under one year plus structured contracts or large consumers, for example). That purchase will normally be in the context of an explicit auction of rights (as required by Regulation 1228/2003, at least in the case of international allocations.)

##### From the current informality of inherited rights of nomination towards a running register of capacity rights

We consider that in essence the buyer of a long-term capacity right (yearly or monthly) actually becomes the owner of 8760 (or 8720) hourly capacity

entitlements. In that respect he should enjoy the right till a certain deadline (e.g. D-2 or D-1 8:00) to decide whether he wants to keep this right and use it, or to sell it in whole or in part, or to take the risk of putting the capacity into the implicit day-ahead auction. So far TSOs vary widely in their willingness to recognise, and arrangements to allow, transfers of eventual rights to nominate power at a border. In any properly organised, more formal and internationally harmonized secondary market a holder would be surer of his entitlements over the remaining term of the auctioned capacity. He could notify a body holding a *registry of rights* (to use the transmission system), say the original auction office, of a title transfer, i.e. the change of ownership of the rights from the selling party. A TSO could always be a buyer or seller itself in such a market, as long as duly authorised and incentivised under its regulatory regime.

The operator of the register would keep track of who is at every moment (until the mentioned deadline) the actual owner. Broker screens could facilitate this secondary market. EFET itself is contemplating developing a standard contractual framework in order to support the title transfers. In such a scheme, TSOs do not have to take additional financial risks: The original buyer in the auction remains the party that has to pay for the capacity rights at the clearing price in the auction.

#### Firmness of capacity and compensation

The payments on the secondary market would normally represent an arrangement between a willing buyer and a willing seller at whatever price they have agreed. TSOs, as noted above, should be allowed (and indeed incentivised in appropriate circumstances by dint of their regulatory controls) to participate in emerging secondary capacity rights markets.

Whenever they turn out to have oversold capacity in advance, and they see that they may have to reduce the capacity available to market players for nominations nearer to real time, TSOs can buy back for the relevant period of time on the secondary market up to D-1. More shortly prior to power deliveries, they would have also the right to buy back capacity on the intra-day market, as an alternative to counter-trading and domestic re-dispatch. In any of these cases of buy-back, the appropriate price will be that represented by the forward spread between the potentially split geographic markets, subject to an obligation to mitigate actual loss on the part of any holder of rights *compulsorily* bought out.

#### Obliging the use of bought capacity?

We note that the regulators have asked about making utilisation of capacity obligatory at any stage of the market timetable. We are aware that large consumers of energy have suggested obligations might make the market function better and lower prices. Essentially EFET is of the opposite opinion, at least if the suggestion relates only to regulatory intervention to ensure use of capacity. Such intervention is not the most efficient approach to optimising

utilisation in normal circumstances. Indeed it would militate against the operation of the market.

Our concept of a capacity *right* is that it entails what it promises: A right to nominate in respect of pre-defined capacity over a pre-defined period to a TSO eventually at a deadline day ahead (or even intra-day), against a payment for its original allocation. Once that right has been purchased and then is established as a transferable instrument in a secondary market, it makes no sense to turn it into an obligation, according to, say, a change in flow patterns. An efficient secondary market facilitated by TSOs will take care of use, since the holder will have an incentive to realise a price for the right sold “second-hand”. Of course if any dominant market party abusively hoards such rights and consistently does not release them, then regulators can investigate potential anti-competitive or abusive behaviour in those abnormal circumstances.

We would not rule out the creation of nomination “obligations”, but the commercial nature of these would be tantamount to *put options* enforceable by TSOs. As such they might even attract an initial negative valuation if offered on transparent and non-discriminatory terms. At present we cannot imagine that primary and secondary markets in such instruments would readily develop; nor is it clear why logically TSOs and regulators would want to encourage them.

## **6. Transparency: A mitigating factor to address market dominance**

### Market concentration

During the Mini-Forums of late 2004 and early 2005, market power issues were discussed. Dominance in generation and supply in the three current geographical markets must not be neglected; however, the risk of abuse of dominance must not be used to create an artificial stumbling block to impede progress in national market integration. Properly implemented soft measures by TSOs to maximize availability of interconnection capacity to the market, together with the planned reinforcements on the French-Belgian border and market-based allocations (explicit auctions for long-term capacity, market coupling for short-term capacity) can be expected to reduce the overall market power of some of the incumbents (N.B. studies completed in 2003 by The Brattle Group.) In an integrated geographic wholesale market consisting of France, Belgium, the Netherlands and (at least western) Germany (supposing new arrangements succeed in creating one!), the market share of each incumbent will decrease substantially.

Nonetheless, in strict anti-trust terms, but also in terms of current disincentives to compete in each of the affected countries, not to mention the continuing impenetrability of Switzerland, there remain cross-border barriers. We advocate increasing urgently the transparency in national markets in parallel with reform of congestion management.

### Tackling transmission and generation information transparency now

For the three mainly concerned countries, EFET members already observe significant progress in the availability of information about the national loads and the use of interconnection capacity. Concerning generation information, the Netherlands has clearly taken the lead. We strongly suggest that the three regulators evolve in the very short term a harmonised generation transparency model (with approximation to Dutch publication criteria as a short term target). Keeping in mind the future partial Dutch integration with NordPool, a planned transition towards transparency levels in the Nordic markets is desirable over a three year time horizon.

Additional transparency as between TSOs will moreover improve their combined capability in forecasting generation schedules in the concerned countries. That in turn would allow a better prediction of flows and thus an increase of the available capacity on the borders, thus improving the 'flow based' calculation component in the decentralised market-coupling design. (See section on maximizing capacity above.)

We understand from the Mini-Forum conclusions that *"TSOs complain they only can predict the load flows when the generation schedules are available"*.

EFET is convinced that the cross-availability of generation data, combined with an open and transparent wind forecast model, also on the part of the German neighbours, would strongly comfort TSOs. As long as German border capacity availability is not artificially and, occasionally, opaquely reduced by national system "soft measure copper plating" as between control areas, flow predictions should improve. That will allow them readily and variably across time to maximise the available capacity for long term auctions and for the flow-based market coupling mechanism now proposed.

### Transparency in TSO - power exchange - member collaboration

Transparency is not only required in the availability of cross-border transmission, demand and generation data to the market and as between TSOs. EFET advocates that the matching algorithms used for the market coupling be easy understandable and transparent as well. The complex iterative process as envisaged in the triple APX-Belpex-Powernext market coupling model is rather frightening to the uninitiated, and we believe it could hamper extensions into Germany (and NordPool and Switzerland in due course). We urge the exchanges to evolve common systems, which could reduce iterations.

The often-heard argument that power exchanges cannot swap certain data due to "confidentiality reasons" has rarely been discussed with their members.

EFET is convinced that most confidentiality hurdles can be resolved with some additional contractual arrangements between exchanges, share-owning TSOs or third parties and some sensitive participating member-generators. Such arrangements could reduce costs, give scope for transaction fee reductions, and allow better performing matching algorithms. Decentralisation as an enterprise model does not require permanent data isolation!

## **7. Harmonisation of auction and nomination procedures, intra-day operations and balancing markets**

(Please refer also to timeline scheme in Annex 2)

### A variety of incompatible market features

EFET welcomes the different harmonisation and standardisation initiatives brought forward in the Mini-Forum. All successful explicit and implicit cross – border auctions require a high degree of harmonisation of practices to be put in place between participating countries. EFET is convinced that adequate harmonisation will attract new players in several markets. Some potential new entrants are specifically dissuaded from tackling different geographic markets. They face investment and operation costs related to language variations, idiosyncratic allocation rules, variable and even impenetrable auction procedures, as well as additional IT system and legal compliance requirements.

EFET launched a project group in late 2004, which has studied all these differences. It has reported to the Electricity Committee and Board and a resulting EFET paper is due for publication later in September 2005. We reiterate within the framework of overall harmonisation our request for close cooperation between TSOs, power exchanges and regulators, as already stressed in previous paragraphs.

### Intra-day trading and balancing mechanisms

We are pleased to note from our discussions so far that many stakeholders are interested in the development of intra-day cross-border trading and feel the need for more compatible balancing markets. RTE has achieved pole position in making arrangements for intra-day cross border trading. This TSO will soon increase the number of intra-day cross-border gates from seven to twelve. Although the French intra-day capacity allocations are not market-based at this stage, their existence at least demonstrates that it is feasible to develop intra-day, cross-border, functional trading activity on an objective and reasonably transparent basis. EFET urges Elia and TenneT to cooperate closely with RTE in order to install dovetailed solutions on their borders, with the aim to create a common use of flexibility sources.

An important feature of the “ELBAS” solution for intra-day nominations, as used on part of the NordPool system (excluding the Statnett control area), is that it allows an automatic netting of the effect of schedules in one direction or

another: Each additional intra-day flow in a certain direction, will immediately release the same capacity in the other direction. This feature might be studied by the linked power exchanges and TSOs in the Low Countries area.

Reciprocal participation on the balancing markets is a next step to study. The French balancing market already attracts players from Switzerland, Spain and Great Britain, with foreign participants having a market share of about 30 %. RTE calls upon balancing energy according to a merit order system. The result is that these foreign participants have a mitigating effect on the imbalance prices, reduce the volatility and thus help stabilising the day-ahead markets. The priority of pre-existing commercial transactions is nevertheless respected. Such developments on an extended regional basis would require challenging degrees of co-operations between the involved TSOs, but should not be forewarned just for that reason.

## 8. Use of auction revenues

(See also payment scheme in Annex 3)

Strict and transparent rules should be established on how the revenues from the explicit auctions and from the market coupling are used and allocated between TSOs. These rules should be in accordance with the Cross Border Regulation, Article 6 (6), which states:

*“Any revenues resulting from the allocation of interconnections shall be used for one or more of the following purposes:*

- *Guaranteeing the actual availability of the allocated capacity*
- *Network investments maintaining or increasing interconnection capacities*
- *As income to be taken into account by regulatory authorities when approving the methodology for calculating network tariffs, and/or in assessing whether tariffs should be modified.”*

The share of revenues for any of these respective purposes between the three TSOs involved in Belpex (RTE, Elia and TenneT) has to be discussed very carefully. We favour an initial concentration on guaranteeing availability of capacity (i.e. making capacity rights *firm*, presupposing our ideas about the need for accelerated true maximisation of capacity availability are accepted by regulators.

EFET draws attention again in this regard to the payment scheme elaborated in Annex 3 to this paper. Completely in line with our vision paper of November 2004, TSOs should be allowed (and indeed incentivised in appropriate circumstances by dint of their regulatory controls) to participate in emerging secondary capacity rights markets (as explained in section 5 above.)

## 9. Participation fees in power exchanges

EFET furthermore highlights the fact that a market coupling mechanism gives a preferential place and status to the power exchanges in terms of their potential income. Our general appreciation is that the normal brokerage fee (about 0.005 €/MWh) for OTC deals is some ten times lower than the average fee asked for equivalent volume deals cleared by power exchanges. Moreover, we see that the relative fees demanded by power exchanges lie in a wide range between 0.03 €/MWh (NordPool) and 0.14 €/MWh (APX) i.e. a difference of nearly 500%. Although the services offered by exchanges encompass more responsibility and work than those performed by OTC brokers, we believe that these fees are exaggerated in a more mature market environment, and even hamper the liquidity in some price areas. Market coupling should not create new monopoly rights; energy regulators can play an influential role in harmonizing and keeping under review power exchanges fees.

We feel it is exactly at the launch of the Belpex project that this subject should be debated inside Belgium and with the neighbouring countries. EFET is convinced that more harmonisation and scale effects of new IT developments will give opportunities to reduce fees.

## 10. Concluding remarks and follow-up

EFET believes the Belpex project is important for the future of the north-western Europe regional electricity market. It may prove a good pilot for future regional market integration and evolution towards a single European market.

Close cooperation between the three regulators (DTe, CREG and CRE), the three TSOs (TenneT, Elia and RTE) and the three involved power exchanges (APX, Belpex and Powernext) are of the utmost importance to make the market-coupling project successful. EFET is happy to offer to all the expertise of its members in order to support it. Traders are indeed strongly involved parties in the implementation process already.

The project will fundamentally change the access rules on the borders. But more is at stake:

- The adjustment to allocation mechanisms cannot alone prove successful in improving market access, liquidity and competition, without other measures. *We urge the three regulators to consider how and when a true maximization of capacity availability, without physical reinforcement, can be achieved and enforced.*
- Likewise, *measures to encourage and allow the development of objectively organised primary and secondary markets in transmission capacity rights across all borders must be prioritised.*
- *Transparency of information* remains crucial and can be better co-ordinated across the north-western portion of the UCTE area.

- Last but not least *practical harmonization* of auctioning, nomination, intra-day and related procedures should be tackled in a co-ordinated manner between Belgium, France and the Netherlands, and including adequate consultation with German and Swiss stakeholders.

EFET is active in working on many of these topics. The market and corresponding regulatory framework should not be finalised, nor rigidly set for a long period, without the most heavily involved system users (i.e. traders) having a strong say during the start-up phase. To the extent wholesale trading really accelerates in Belgium and the Netherlands as a result of more efficient and commercially tailored cross-border congestion management, we may succeed in launching a “Low Countries Task Force”. That in turn would enable us to offer further consultative support to the three regulators, as they keep arrangements under review, and to other stakeholders.

## Annex 1

### Analysis of the present physical and commercial realities at the Belgian border interconnections

#### French-Belgian border

The available capacity on the French-Belgian border will substantially increase later this year, when the border reinforcements are finished.

The experience of the Winter months (December 2004, January and February) clearly shows that the French and Belgian markets are converging when there is plenty (1000 MW or more) of monthly capacity available. One can observe from the Elia nomination website that the allocated monthly capacity was only used for about 80 % of the time, the remaining 20 % returning via the use-it-or-lose-it principle to the daily allocations. Moreover, market participants were nominating exports from Belgium towards France of on average 250 MW, which, after capacity netting on this border, further increased the daily capacity offered from France towards Belgium.

Although these three months are in the middle of the Winter, an analysis of the daily allocation during this period shows that only during 240 hours (11% of the time), the requested daily capacity from France to Belgium exceeded the available capacity. This percentage already decreased from an average of 32% in 2003 to an average of 26% in 2004. Moreover the export nomination from France towards Belgium for the first three months of this year attained the available NTC level in only 38 hours, or less than 2 % of time. Even between Nordic countries, higher congestion levels may be observed!

Quite identical day-ahead prices in France and Belgium confirmed these low congestion rates. Referring to Platts data, from the 60 day-ahead base-load quotes during these three months, only 36 of them show higher Belgian prices. The average price differential only was about 0,3 €/MWh.. During the same observation period, the Dutch day-ahead base load prices were in turn on average about 3 €/MWh higher than in Belgium.

[In the summer 2004, a price convergence for the day-ahead market between France, Belgium and The Netherlands already was a fact. The additional cross border capacity will further confirm this situation, and as a result Dutch and Belgian prices will further converge towards French levels in spring and fall, bringing the three markets at very small price differentials]?????

#### Dutch-Belgian border

Price differences between The Netherlands and Belgium have become more prevalent. The yearly auction from Belgium to Holland for 2005 revealed that market participants expected a price differential of 2.50 €/MWh (on base-load). The new bottleneck clearly has become the Belgian-Dutch border, with

a commercial capacity limited to 1200 MW. This restriction is in contradiction with the NTC values published on the ETSO website, where the Winter 2004/2005 indicates a capacity of 2400 MW, which is twice the currently offered capacity and only about a quarter of the physical capacity of the four 400 kV lines crossing this border.

It has become clear through different recent presentations<sup>6</sup> that the physical flows do not go from Belgium to the Netherlands, but in the reverse direction. The tight and invariable NTC definition does not take these real flows into account. EFET consequently is really disappointed to see that so far it has been mentioned nowhere that the offered capacity in the Belpex project will be 'flow based'<sup>7</sup>, taking the real flows into account. As noted in the main paper, EFET believes that the launch of Belpex should coincide with a maximised capacity allocation based on a flow-based calculation, in order to get rid of the restrictive bilateral NTC calculation. This could ensue from *more intensive cooperation and coordination with neighbouring TSOs* not directly involved in the market coupling project, as is also required in the Cross Border Regulation.

In the opinion of EFET, a rather small additional physical investment<sup>8</sup> could upgrade one of the interconnections, currently technically limited to 500 MVA, to its full 1400 MVA capacity.

The foreseen installation of phase shifters on the Belgian-Dutch borders in 2007 may allow better control of the flows; such control must proceed bearing in mind the ineluctable obligation of the TSOs to maximise the available capacity, therefore in harmony with soft measures such as re-despatch and counter-trading.

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<sup>6</sup> RWE Transportnetz presentation, mini forum Milan, « Systemführung Netze Brauweiler », available on the DG TREN website.

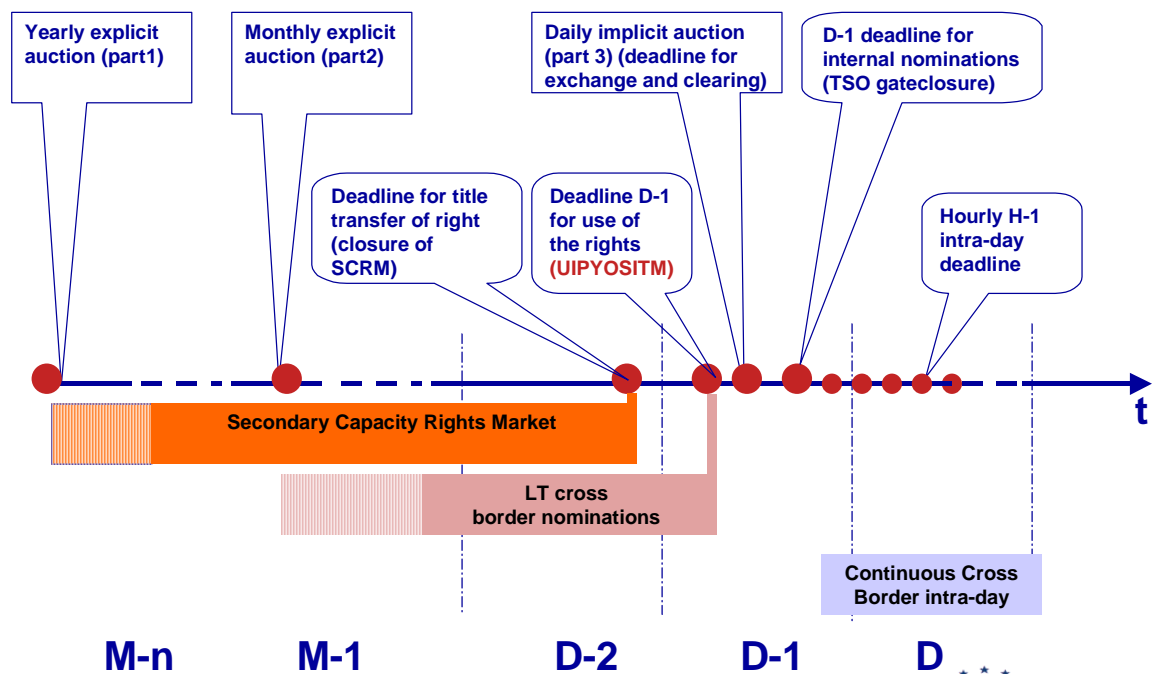
<sup>7</sup> See for instance the Belpex presentation, mini forum Brussels, "Belpex Spot market and Trilateral Market Coupling"; this presentation only states that "part of the transmission capacity (daily) will be used for market coupling (slide 19), nowhere in the presentation a statement about maximising the capacity is mentioned.

<sup>8</sup> a bus bar on the line Zandvliet-Geertruidenberg to by-pass the existing 380/150 kV transformers in Borssele, which was already suggested in previous Tennet investment studies

Annex 2

A practical model for market coupling

A practical model for market coupling



Annex 3

Payment scheme

# Payment scheme

