

- Communiqué de presse -

Les régulateurs de l'énergie belge, français et néerlandais publient une "feuille de route" sur l'intégration régionale des marchés électriques

MERCREDI 7 DECEMBER 2005 - BRUXELLES, PARIS, LA HAYE. Les régulateurs de l'énergie CREG, CRE et DTe ont convenu d'une "feuille de route" pour l'intégration des marchés de l'électricité belge, français et néerlandais.

La "feuille de route" définit différentes étapes à mettre en œuvre en vue de l'intégration régionale des trois marchés, telles que :

- l'élaboration de méthodes d'enchères explicites coordonnées et harmonisées aux frontières entre la Belgique, la France et les Pays-Bas ;
- l'amélioration de la transparence des marchés et des gestionnaires de réseau de transport (GRT) ;
- la mise en place d'échanges transfrontaliers infra journaliers et d'ajustement ;
- une meilleure coopération entre régulateurs et,
- un ensemble bien défini de questions permettant aux régulateurs d'examiner si le fonctionnement du concept de couplage des marchés organisés est sûr et efficace.

La mise en œuvre de ces étapes débutera au 1^{er} janvier 2006. L'intégration des marchés électriques peut améliorer la liquidité, la sécurité d'approvisionnement et la stabilité des prix sur les trois marchés. Elle permettra également d'augmenter la disponibilité des capacités d'échanges entre les trois pays et d'en améliorer l'utilisation, pour le bénéfice des consommateurs belges, français et néerlandais.

L'été dernier, les trois régulateurs avaient organisé une large consultation publique notamment sur l'allocation des capacités d'échanges, la transparence des marchés, le pouvoir de marché et la coopération entre régulateurs. Des acteurs du marché en provenance de 7 pays européens ont répondu à cette consultation. Leur contribution a permis d'aider les trois régulateurs à définir une approche commune en vue d'une intégration progressive des marchés électriques.

La « feuille de route », toutes les contributions publiques, ainsi qu'une synthèse de ces dernières, sont disponibles sur les sites Internet suivants: www.cre.fr, www.creg.be et www.dte.nl.

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Intégration régionale des marchés de l'électricité belge, français et néerlandais

*« Feuille de route » préparée par la CRE, la CREG et DTe
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TABLE DES MATIERES

TABLE DES MATIERES.....	2
1. INTRODUCTION.....	3
1.1. Contexte.....	3
1.2. L'objectif de la « feuille de route ».....	3
1.3. Statut du document.....	3
1.4. Publication des contributions.....	3
2. MECANISMES D'ENCHERES EXPLICITES.....	4
2.1. Echéances de temps et mécanisme de prix.....	4
2.2. Répartition des capacités disponibles en bande pendant toute l'année.....	4
2.3. Niveau de fermeté.....	4
2.4. Marchés secondaires de capacité.....	4
2.5. Mesures de réduction des pouvoirs de marché ex ante.....	5
2.6. Nomination des différents produits.....	5
2.7. Harmonisation.....	6
3. COUPLAGE DES MARCHES ORGANISES.....	7
3.1. Introduction.....	7
3.2. Questions adressées aux opérateurs.....	7
4. ECHANGES TRANSFRONTALIERS AUX HORIZONS DE TEMPS INFRA JOURNALIER ET D'AJUSTEMENT.....	8
4.1. Avantages des échanges transfrontaliers infra journaliers et d'ajustement.....	8
4.2. Mise en œuvre des échanges infra journaliers aux interconnexions.....	8
4.3. Mise en œuvre des échanges d'ajustement aux interconnexions.....	8
5. TRANSPARENCE DU MARCHÉ.....	9
5.1. Transparence du marché.....	9
5.2. Transparence dans le calcul des capacités.....	9
6. COOPERATION ENTRE REGULATEURS ET ATTENUATION DES POUVOIRS DE MARCHÉ.....	10
6.1. Coopération entre régulateurs.....	10
6.2. Mesures d'atténuation des pouvoirs de marché.....	11
6.3. Procédure de remplacement.....	11
7. MISE EN OEUVRE DES RECOMMANDATIONS.....	12

1. INTRODUCTION

1.1. Contexte

Le 5 Juillet 2005, la CRE, la CREG et DTe ont lancé une consultation publique commune sur l'intégration régionale des marchés de l'électricité belge, français et néerlandais. Les trois régulateurs invitaient alors les parties intéressées à donner leur avis sur cette question importante afin d'aider les régulateurs à définir une approche commune en vue d'une intégration progressive des trois marchés.

1.2. L'objectif de la « feuille de route »

L'objectif de l'intégration régionale est de maximiser la disponibilité et l'utilisation des capacités d'échanges aux frontières, au bénéfice des consommateurs belge, français et néerlandais.

L'approche commune de la CRE, la CREG et DTe vers l'intégration régionale est retranscrite dans ce document. La « feuille de route » détaille les différentes étapes de la mise en œuvre de l'intégration des trois marchés électriques. La section 7 synthétise les différentes actions qui devront être mises en œuvre d'ici Janvier 2006 et au-delà.

1.3. Statut du document

La CRE, la CREG et DTe sont totalement d'accord sur le contenu de cette « feuille de route ». Tout retard ou modification dans la mise en œuvre des recommandations ou exigences des régulateurs devra faire l'objet d'une justification argumentée, accompagnée d'un calendrier précis pour la mise en place ultérieure de cette recommandation. Cette "feuille de route" ne constitue pas en elle-même une décision formelle de la part de la CRE, la CREG et/ou DTe.

1.4. Publication des contributions

Les trois régulateurs publient, simultanément, sur leur site Internet,¹ l'ensemble des réponses publiques à la consultation, ainsi qu'une synthèse. Les lecteurs sont invités à se référer à ces sites pour de plus amples détails.

¹ Voir www.dte.nl, www.creg.be, et/ou www.cre.fr.

2. MECANISMES D'ENCHERES EXPLICITES

2.1. Echéances de temps et mécanisme de prix

La CRE, la CREG et DTe sont d'accord pour l'organisation d'enchères explicites, sous pli fermé, au prix marginal pour les échéances de temps annuelle, mensuelle et journalière. L'opportunité d'allouer des produits multi-annuel² et trimestriel sera examinée pour le 1^{er} septembre 2006.

La CRE, la CREG et DTe encouragent la plus grande flexibilité permise par l'allocation du produit annuel 2007 en deux sessions (approximativement 50% de la capacité annuelle serait allouée à chaque session). La première session aurait ainsi lieu à la fin du mois de Septembre 2006 et la seconde à la fin du mois de Novembre 2006. Les trois régulateurs demandent aux gestionnaires de réseaux de leur soumettre une proposition pour la mise en œuvre de cette enchère annuelle à plusieurs tours en Septembre 2006 ou de prendre les mesures appropriées pour une mise en œuvre dans les délais.

2.2. Répartition des capacités disponibles à long terme

Les gestionnaires de réseaux devront maximiser la capacité d'échanges susceptible d'être offerte au marché de manière permanente pendant toute l'année.³ Les gestionnaires de réseaux devront annoncer cette capacité au marché suffisamment tôt et de préférence le 1^{er} Septembre. Cette capacité sera répartie entre les différentes échéances de temps, avec une préférence pour l'allocation annuelle. Des valeurs minimales devront néanmoins être réservées pour les allocations mensuelle et journalière. Ces valeurs minimales pourront être déterminées par le biais des codes et règlements nationaux.

Le principe de réserver un minimum de cette bande de capacité disponible annuellement pourra être rediscuté ultérieurement, notamment lorsque des marchés secondaires de capacité efficaces seront mis en place (voir section 2.4).

2.3. Niveau de fermeté

La CRE, la CREG et DTe sont d'accord sur le principe que les programmes, une fois nommés, ne pourront pas être réduits, sauf cas de "Force Majeure"⁴.

En ce qui concerne les capacités allouées, les trois régulateurs conseillent aux gestionnaires de réseaux de les rendre aussi fermes que possibles.

Les trois régulateurs demandent aux gestionnaires de réseaux de leur soumettre, pour approbation, une proposition de définition commune, précise et détaillée, du concept de "Force Majeure".

Les trois régulateurs demandent également que les principes ci-dessus soient mis en œuvre pour le 1^{er} Août 2006.

2.4. Marchés secondaires de capacité

Afin de stimuler la disponibilité et l'utilisation des capacités d'échanges aux frontières, des marchés secondaires de capacité doivent être mis en œuvre par les gestionnaires de réseaux. Ces marchés doivent offrir le maximum de flexibilité aux acteurs de marché. Les règles de fonctionnement des marchés secondaires doivent être harmonisées. La CRE, la CREG et DTe demande en conséquence aux gestionnaires de réseaux de leur soumettre une proposition de

² I.e. allocation d'un produit valable pour une période de plus d'une année.

³ Il va de soi que la capacité qui ne peut pas être offerte sur une base permanente devra, elle-aussi, être maximisée.

⁴ Voir article 6.2 du règlement européen.

règles pour le 1^{er} avril 2006. Une fois approuvées par les régulateurs, ces règles harmonisées devront être mises en œuvre pour le 1^{er} Juillet 2006.

Les règles mentionnées ci-dessus s'appliquent aux échanges bilatéraux de capacité. La CRE, la CREG et DTe s'accordent également sur le fait que les marchés secondaires de capacité seront d'autant plus efficaces qu'il existera une plate-forme de trading centrale. La CRE, la CREG et DTe demande ainsi aux gestionnaires de réseaux, en consultation avec les acteurs de marché et les marchés organisés, de réfléchir aux possibilités de mise en œuvre d'une telle plate-forme et de présenter aux régulateurs le résultat de ces réflexions pour le 1^{er} janvier 2007.

2.5. Mesures de réduction des pouvoirs de marché ex ante

Sur l'interconnexion Belgique-France, la CRE et la CREG examinent l'opportunité d'introduire des mesures de réduction des pouvoirs de marché ex ante (par exemple via des limitations de volumes de capacité). En ce qui concerne l'interconnexion Belgique-Pays-Bas, une restriction de 400 MW, imposée par la loi,⁵ sera maintenue sur la capacité d'importation vers les Pays-Bas.

Dans tous les cas, un groupe de travail des régulateurs sera constitué dès le 1^{er} Janvier 2006 pour surveiller le fonctionnement des enchères explicites aux différentes interconnexions. Le travail ainsi mené permettra aux régulateurs de réagir rapidement et de proposer des mesures correctives si des comportements anti-concurrentiels ou des inefficacités sont détectés ou suspectés. Un rapport annuel sera publié pour rendre compte aux acteurs du marché du fonctionnement des méthodes d'enchères explicites.

2.6. Nomination des différents produits

Les détenteurs de capacité annuelle et/ou mensuelle devront nommer, de manière ferme, leurs produits suffisamment tôt avant l'allocation des capacités journalières. Une heure limite de nomination, commune entre les deux interconnexions, devra être adoptée pour ces produits (au plus tard à 8h00 du matin la veille pour le lendemain). Ces nominations fermes permettront ainsi aux gestionnaires de réseaux de faire le « netting » des capacités nommées et d'accroître éventuellement les capacités disponibles pour l'allocation journalière.

La CRE et la CREG ont convenu de mettre en œuvre la règle « use it or loose it » (UIOLI) sur l'interconnexion Belgique-France.⁶ Cette règle implique que si un détenteur de capacités décide de ne pas nommer l'énergie correspondant à ses droits et/ou décide de ne pas les revendre aux gestionnaires de réseaux pour que ces derniers puissent les réallouer aux enchères mensuelle ou journalière, il perdra alors ses droits sans aucune compensation financière possible. A cet égard, il est suggéré aux gestionnaires de réseaux d'offrir aux détenteurs de capacités la possibilité de réallouer leurs droits dans le cadre des enchères mensuelle et/ou journalière, comme cela est déjà le cas sur l'interconnexion Belgique-Pays-Bas. L'opportunité de transformer la règle UIOLI en une règle « use it or get paid for it » sera examinée ultérieurement en 2006 par les gestionnaires de réseaux et les régulateurs.

En ce qui concerne la nomination des capacités journalières, elle devra également être réalisée, de manière ferme, suffisamment tôt avant la première allocation infra journalière. Les trois régulateurs considèrent que la règle « use it or get paid for it » n'apporterait, dans ce cas précis, aucune valeur ajoutée tant que les mécanismes d'allocation de la capacité infra

⁵ DTe a récemment recommandé au législateur d'étudier la possibilité de lever cette restriction à l'importation pour les petits acteurs de marché.

⁶ Cette règle est déjà en vigueur sur l'interconnexion Belgique-Pays-Bas.

journalière ne sont pas des mécanismes de marché. En conséquence, une règle UIOLI stricte sera appliquée pour ces produits et une heure limite de nomination, commune aux deux interconnexions, devra être adoptée. La CRE, la CREG et DTe demandent aux gestionnaires de réseaux de mettre en œuvre ces dispositions dans les meilleurs délais.

2.7. Harmonisation

La CRE, la CREG et DTe demandent aux trois gestionnaires de réseaux de leur soumettre, pour le 1^{er} Août 2006, un projet de règles d'enchères complètement harmonisé entre les deux interconnexions (horaires d'enchères, échéances de temps, niveaux de fermeté, horaires de nomination, marchés secondaires, etc.). Une fois approuvées par les trois régulateurs, ces règles devront être opérationnelles sur les deux interconnexions à partir du 1^{er} Janvier 2007.

3. COUPLAGE DES MARCHES ORGANISES

3.1. Introduction

La CRE, la CREG et DTe encouragent fortement l'intégration des marchés de l'énergie et du transport lorsque l'on se rapproche du temps réel. Ils s'accordent également sur le fait que le principe d'un couplage des marchés organisés belge, français et néerlandais (Day Ahead Market Coupling or DAMC)⁷ est susceptible d'apporter des bénéfices en comparaison d'un mécanisme d'enchères explicites journalières.

3.2. Questions adressées aux opérateurs

Afin de pouvoir garantir un fonctionnement efficace et sécurisé du concept de couplage des marchés, les trois régulateurs demandent aux opérateurs du DAMC (i.e. les gestionnaires de réseaux et les opérateurs de marché) de considérer en détail les quatre points ci-dessous.

1. Le bon fonctionnement de l'algorithme de couplage des trois marchés. En effet, les trois régulateurs constatent, qu'à ce jour, ils n'ont ni d'indication claire, ni de description précise de la façon dont l'algorithme fonctionne.⁸ Par ailleurs, la CRE, la CREG et DTe exigent d'obtenir :
 - a. des informations détaillées sur la possibilité d'échanger des blocs d'énergie dans le cadre du DAMC;
 - b. des informations détaillées sur les différents cas où une « procédure de secours », alternative au DAMC, peut être nécessaire, ainsi qu'une description détaillée de la procédure de secours prévue ;
 - c. une analyse de sensibilité du fonctionnement de l'algorithme aux niveaux de capacité disponibles. Cette analyse s'avère d'autant plus nécessaire que la capacité habituellement disponible en journalier est très généralement très volatile.
2. Le potentiel de généralisation du concept de DAMC à d'autres marchés, compte tenu, plus particulièrement, du couplage de marchés prévu entre APX et Nordpool lorsque le câble NorNed sera opérationnel ;⁹
3. La démonstration d'absence de traitement discriminatoire entre les programmes nominés dans le cadre du DAMC et ceux nominés dans le cadre des enchères explicites. En effet, l'analyse du premier projet de DAMC laissait entendre que les gestionnaires de réseaux accepteraient de supporter la totalité du risque financier lié à une réduction potentielle des programmes nominés dans le cadre du DAMC et qu'à l'inverse, ces mêmes gestionnaires de réseaux ne soient pas prêts à offrir le même degré de garantie pour les programmes nominés dans le cadre des enchères explicites.
4. des informations concernant les coûts de mise en œuvre et de fonctionnement du concept de DAMC, ainsi que des informations sur la façon dont il sera financé. Cette demande vise à obtenir une analyse coût/bénéfice la plus détaillée possible des avantages du DAMC par rapport à un mécanisme d'enchères explicites journalières.

En plus des quatre points ci-dessus, les trois régulateurs considéreront les questions de surveillance des marchés et de pouvoirs de marché en fonction de leur mandat respectif.¹⁰

Les gestionnaires de réseaux et les marchés organisés sont invités à soumettre aux régulateurs un dossier complet dès que possible. Ce dossier devra impérativement fournir des réponses satisfaisantes aux quatre points évoqués plus haut. Dès réception du dossier final, les trois

⁷ I.e. le couplage des marchés belge, français et néerlandais.

⁸ Une description détaillée du fonctionnement de l'algorithme pourrait être incluse dans les règles néerlandaises d'accès au réseau.

⁹ Programmé pour la fin 2007, début 2008.

¹⁰ Voir Section 6.

régulateurs examineront et publieront leurs conclusions en trois mois minimum. Pendant cette période transitoire, le principe des enchères explicites sera également appliqué à l'échéance de temps journalière.

4. ECHANGES TRANSFRONTALIERS AUX HORIZONS DE TEMPS INFRA JOURNALIER ET D'AJUSTEMENT

4.1. Avantages des échanges transfrontaliers infra journaliers et d'ajustement

La mise en œuvre d'échanges transfrontaliers infra journaliers et d'ajustement est, dans une très large mesure, considérée comme une étape très importante, par les acteurs de marché ayant répondu à la consultation publique, de l'intégration des marchés. Plusieurs avantages ont été avancés par les acteurs de marché pour justifier cette mise en œuvre :

1. une plus grande flexibilité offerte aux acteurs de marché ;
2. une meilleure optimisation dans l'utilisation des capacités ;
3. un accroissement de la concurrence sur ces marchés proches du temps réel ;
4. une réduction des coûts de l'ajustement pour les gestionnaires de réseaux.

En conséquence, la CRE, la CREG et DTe soutiennent vivement l'introduction d'échanges infra journaliers et d'ajustement, et estiment que tout obstacle entravant leur mise en œuvre devrait être levés, en particulier ceux qui relèvent d'un manque de compatibilité entre les marchés.

La CRE, la CREG et DTe estiment, en outre, qu'il n'est pas nécessaire de réserver un volume prédéterminé de capacité qui serait dédié aux échanges infra journaliers et d'ajustement.

4.2. Mise en œuvre des échanges infra journaliers aux interconnexions

La CRE, la CREG et DTe conviennent que le cadre dédié aux échanges infra journaliers devra revêtir les caractéristiques suivantes :

- 1- Il devra permettre la révision des positions J-1 en cas d'aléa physique (perte de groupe ou variation imprévue de la consommation) ;
- 2- Aucune restriction ne devra a priori être imposée sur les nominations, en particulier sur le sens de circulation du flux ;
- 3- Les droits de capacité alloués en infra journalier devront obligatoirement donner lieu à la nomination d'une quantité équivalente d'énergie, et ne revêtiront donc pas le caractère d'options.

Les trois gestionnaires de réseaux sont tenus de soumettre avant fin juillet 2006 une proposition commune pour les échanges infra journaliers, tenant compte des caractéristiques exposées ci-dessus¹¹. Une fois approuvé par les régulateurs, ce mécanisme d'échanges infra journaliers devra entrer en vigueur le 1^{er} Janvier 2007 au plus tard.

4.3. Mise en œuvre des échanges d'ajustement aux interconnexions

En ce qui concerne les échanges d'ajustement, la CRE, la CREG et DTe ont une préférence marquée pour le modèle « GRT-GRT » (dans lequel les gestionnaires de réseaux ont, seuls, la responsabilité de gérer ce type d'échanges). En effet, ce modèle « GRT-GRT » paraît non seulement plus simple (et donc plus facile à mettre en œuvre), mais également plus sûr et plus efficace que les modèles fondés sur une participation directe des acteurs d'ajustement.

Pour le 1^{er} Janvier 2007, les trois gestionnaires de réseaux sont invités à remettre une proposition commune pour la mise en place d'échanges d'ajustement sur la base du modèle

¹¹ La proposition des GRTs doit également prendre en compte l'impact qu'elle pourrait avoir sur un éventuel marché de l'ajustement transfrontalier.

« TSO-TSO ». Une fois approuvé par les régulateurs, ce mécanisme d'échanges d'ajustement devra entrer en vigueur au 1^{er} Juillet 2007.

5. TRANSPARENCE DU MARCHÉ

5.1. Transparence du marché

La plupart des réponses à la consultation ayant plaidé en faveur d'une plus grande transparence du marché, la CRE, la CREG et DTe publieront une liste de référence détaillée des critères de transparence importants pour le 1^{er} Août 2006. Cette liste de référence devra être mise en œuvre par les acteurs du marché (y compris les gestionnaires de réseaux) avant le 1^{er} juillet 2007. Lorsque cela est possible, la liste précisera les critères de transparence susceptibles d'être mis en œuvre avant le 1^{er} Juillet 2007.

Les trois régulateurs s'efforceront de retenir les "meilleures pratiques" en matière de transparence des trois pays comme niveau minimum d'exigence, en tenant compte, notamment, des « meilleures pratiques » mentionnées par les contributeurs lors de la consultation publique. Ainsi, en général, l'exemple de Nord Pool était présenté par les acteurs ayant répondu à la consultation comme une bonne référence en matière de transparence de marché.

La liste de référence des critères de transparence doit au moins inclure les rubriques suivantes relatives à l'information du marché :

1. Prévision de consommation
2. Consommation réalisée
3. Disponibilité générale des moyens de production
4. Production réalisée
5. Nominations pour les capacités transfrontalières

En plus des rubriques précédentes, la liste de référence des critères de transparence relative aux activités des gestionnaires de réseau devra au moins inclure les points suivants :

1. Disponibilité du réseau
2. Flux transfrontaliers (réalisés)

La CRE, la CREG et DTe préfèrent, en principe, que les données mentionnées ci-dessus soient mises en ligne par les gestionnaires de réseaux sur leur site Internet. Il en va de même pour les méthodes de calcul de capacités élaborées avec les gestionnaires de réseau voisins. L'utilisation de formats et définitions harmonisés est également fortement conseillée.¹²

5.2. Transparence dans le calcul des capacités

A la fois l'article 5 du règlement n°1228/2003 et le projet de « congestion management guidelines » prévoient que le calcul des capacités d'interconnexion doit être publié, après approbation par les autorités de régulation.

Pour cela, la CRE, la CREG et DTe estiment qu'il est urgent que les trois gestionnaires de réseau commencent à échanger et partager leurs informations et leurs prévisions, en particulier sur les points suivants :

¹² Par exemple, les gestionnaires de réseau pourraient utiliser des feuilles de calcul compatibles avec Excel pour la publication des données.

1. Les meilleures estimations disponibles concernant le détail des scénarios de consommation et de production ;
2. La topologie du réseau et toute caractéristique pertinente au niveau le plus détaillé possible ;
3. Les transactions déjà programmées.

A partir de cet ensemble d'information et de prévision, réactualisées de façon optimale, les trois gestionnaires de réseaux fourniront, pour le 1^{er} Août 2006, une méthode commune, coordonnée, transparente et non discriminatoire, pour le calcul des capacités de « long terme » (échéances annuelles et mensuelles) et des capacités de « court terme » (échéances journalières, infra journalières et d'ajustement), dénommée ci-après « la méthode de calcul ».

La méthode de calcul doit prévoir des règles de partage des capacités disponibles sur les interconnexions couplées.¹³ Cette méthode devra définir, entre autres choses, les conditions de coopération entre les gestionnaires de réseau pour l'optimisation de la programmation des périodes de maintenance et les mesures de re-dispatching en cas d'incident. Une fois approuvée par les régulateurs, cette méthode devrait être publiée par les gestionnaires de réseaux et être opérationnelle pour le 1^{er} Janvier 2007.

6. COOPERATION ENTRE REGULATEURS ET ATTENUATION DES POUVOIRS DE MARCHÉ

6.1. Coopération entre régulateurs

Les trois régulateurs s'attendent à ce que l'intégration régionale des marchés belge, français et néerlandais ait un impact important sur la structure de marché dans les trois pays. Etant donné le degré important de concentration qui existe dans les trois marchés de gros de l'électricité, et particulièrement dans les marchés belge et français, les efforts réalisés pour l'intégration de ces marchés non seulement requiert une plus grande harmonisation et une extension du champ des activités de surveillance du marché, mais nécessite également d'assurer un suivi de l'exercice des pouvoirs de marché d'un point de vue plus régional.

Les trois régulateurs prennent acte du fait que la mise en œuvre d'une coopération conforme aux termes de l'article 23 de la directive 2003/54 nécessite qu'ils soient convenablement mandatés pour surveiller, superviser et réguler le marché au delà des frontières de leur pays respectif. Les trois régulateurs remarquent par exemple que, dans le cadre des lois nationales actuellement en vigueur, ils ne sont pas tous également mandatés pour partager des informations confidentielles sur l'activité des acteurs de marché avec les régulateurs d'autres pays. Dans le cas de la mise en place d'un « market coupling », les trois régulateurs conviennent que ce problème pourrait devenir encore plus sensible.

Comme il a été annoncé dans la section 2, les trois régulateurs créeront un groupe de travail commun dédié à la surveillance des principaux aspects des trois marchés de gros (par exemple le mécanisme d'enchère explicite, les bourses d'échanges, les mécanismes d'ajustement).

Dans un premier temps, les trois régulateurs se concentreront tout particulièrement sur le fonctionnement du mécanisme d'enchères explicites et, plus spécifiquement, sur les points suivants :

1. le processus d'allocation de capacité (comment se comportent les participants aux enchères de capacité ?) ;

¹³ I.e. lorsque la transaction sur une interconnexion influence de manière significative les flux et/ou les transactions possibles sur les autres interconnexions.

2. l'utilisation des capacités acquises (comment se comportent les détenteurs de capacité ?) ;
3. le calcul des capacités d'échanges aux interconnexions (comment se comportent les gestionnaires de réseaux ?).

Un rapport annuel sera publié pour donner aux acteurs du marché un retour d'expérience sur le fonctionnement des méthodes d'enchères explicites.

6.2. Mesures d'atténuation des pouvoirs de marché

En sus de ce qui a été présenté dans le paragraphe 6.1., l'intégration des marchés pourrait également nécessiter le recours à des mesures spécifiques pour l'atténuation des pouvoirs de marché. Les trois régulateurs sont préoccupés par le risque que les acteurs de marché dominants¹⁴ abusent de leur position sur le marché régional intégré. Ce risque de comportement abusif pourrait même contrebalancer les avantages potentiels du mécanisme DAMC, et pourrait avoir un impact négatif sur le bien-être social, sur la liquidité du marché de gros et la confiance des investisseurs dans le marché.¹⁵

Les trois régulateurs examineront plus en détail les questions soulevées ci-dessus.

6.3. Procédure de remplacement

Les trois régulateurs s'accordent sur le fait qu'une décision éventuelle consistant à approuver la mise en place du DAMC entre les marchés organisés belge, français et néerlandais ne pourra être considérée que comme temporaire. Le renouvellement de cette autorisation temporaire sera conditionnée au résultat d'un audit périodique des trois régulateurs en vue d'évaluer si, et dans quelle mesure, le DAMC apporte bien les bénéfices attendus.

L'éventualité d'une décision de non reconduction du DAMC (à cause d'un mauvais fonctionnement de l'algorithme ou en raison de problèmes liés à l'exercice de pouvoirs de marché) impose, par conséquent, que les gestionnaires de réseaux aient à leur disposition une méthode alternative rapide à mettre en œuvre (i.e. scénario de repli) et conforme au Règlement n°1228/2003, en d'autres termes un mécanisme d'enchères explicites journalières.

C'est pourquoi, les régulateurs demandent aux gestionnaires de réseaux, préalablement à toute prise de décision relative à l'approbation du mécanisme de DAMC, de développer et proposer une solution de remplacement pour approbation par les régulateurs.

¹⁴ Particulièrement les acteurs dominants ayant des positions dans plus d'un des trois marchés

¹⁵ Cela est particulièrement vrai pour le marché néerlandais, où le niveau actuel de concentration du marché s'avère être plus bas que dans le cas d'un marché Pays-Bas/Belgique pleinement intégré.

7. MISE EN OEUVRE DES RECOMMANDATIONS

Le tableau ci-dessous présente une synthèse des recommandations à appliquer par les gestionnaires de réseaux, les régulateurs et/ou les acteurs du marché, ainsi que les dates prévues pour leur mise en œuvre.

Date	Objet	Ordre
Décembre 2005	Publication par les GRT du niveau minimum de capacité à allouer aux échéances annuelle, mensuelles et journalières en 2006 sur les interconnexions France/Belgique et Belgique/Pays-Bas.	1
1^{er} Janvier 2006	Introduction d'enchères explicites à plis fermés aux interconnexions France/Belgique et Belgique/Pays-Bas, avec fixation du prix de référence au prix marginal des offres retenues, pour les échéances annuelles, mensuelles et journalières	2
	Mise en œuvre du groupe de travail inter-régulateurs pour la surveillance	3
1er Avril 2006	Remise de la proposition des GRT pour les échanges de capacité sur les marchés secondaires	4
1^{er} Juillet 2006	Mise en œuvre d'un marché secondaire de capacité, après approbation des régulateurs	5
1^{er} Août 2006	Remise d'une proposition des trois GRT pour l'harmonisation des règles d'enchères.	6
	Remise d'une proposition des trois GRT pour la mise en place d'un mécanisme d'échanges intrajournalier	7
	Remise d'une proposition des trois GRT pour une méthode commune de calcul de la capacité d'interconnexion.	8
	Publication par les régulateurs d'une liste détaillée de demandes en matière de transparence	9
1er Septembre 2006	Analyse par les régulateurs de l'opportunité de procéder à des enchères multi-annuelles et trimestrielles	10
	Introduction d'une enchère annuelle à plusieurs tours par les trois GRT	11
	Publication par les GRT du niveau minimum de capacité à allouer aux échéances annuelle, mensuelles et journalières en 2007 sur les interconnexions France/Belgique et Belgique/Pays-Bas.	12
1^{er} Octobre 2006	Remise d'une proposition des trois GRT pour une harmonisation totale des règles d'enchères	13
1er Janvier 2007	Présentation par les GRT de la possibilité de mettre en place une plate-forme de trading centralisée	14
	Introduction par les GRT de règles pleinement harmonisées pour la gestion de la congestion entre la France et la Belgique, et entre la Belgique et les Pays-Bas, incluant une définition commune de la force majeure et une méthode de calcul coordonnées des capacités d'échanges entre pays.	15
	Analyse par les GRT et les régulateurs de la règle « use it or get paid for it »	16
	Mise en œuvre d'échanges infra journaliers aux interconnexions	17
	Proposition des trois GRT pour la mise en œuvre d'échanges d'ajustement	18
1er Juillet 2007	Mise en œuvre d'échanges d'ajustement aux interconnexions	19
	Mise en application par les acteurs de marché des demandes des régulateurs en matière de transparence	20

L'intégration régionale des marchés de l'électricité de gros néerlandais, belge et français

*Synthèse commune des réponses données au document de consultation
préparée par la CRE, la CREG et DTe*

Table des matières de la synthèse commune

1	Commentaires généraux.....	3
2	Mécanismes d'enchères explicites de long et moyen terme	5
3	Evaluation du couplage des marchés en journalier (« day-ahead market coupling »)	11
4	Commerce transfrontalier infrajournalier.....	16
5	Commerce transfrontalier d'ajustement.....	23
6	Transparence des marchés	29
7	Pouvoir de marché et coopération entre régulateurs.....	32

1 Commentaires généraux

Tous les acteurs du marché accueillent favorablement cette initiative commune des régulateurs en faveur de l'intégration du marché énergétique de France, de Belgique et des Pays-Bas. Les acteurs du marché remercient les régulateurs de la possibilité qui leur est offerte d'exprimer leurs vues sur la poursuite de l'intégration des marchés de l'électricité de gros en France, en Belgique et aux Pays-Bas.

La mise en œuvre de mécanismes basés sur le marché visant à gérer la congestion transfrontalière est généralement considérée comme une étape importante vers l'intégration du marché et vers la promotion d'une allocation efficace de la capacité d'interconnexion. A cet égard, une conception appropriée des systèmes d'allocation de capacité est cruciale.

Or, une majorité des acteurs du marché s'accordent à dire que l'introduction de mécanismes améliorés basés sur le marché ne suffira pas si certaines conditions préalables importantes ne sont pas remplies, telles que :

- la quantité de capacité disponible sur le marché doit être sensiblement accrue ;
- des règles transparentes et vérifiables pour le calcul de valeurs de la capacité d'interconnexion disponible et un accès équitable aux informations pour tous les acteurs du marché ;
- la coordination (calendriers des enchères, modalités des produits mis aux enchères, etc.) entre les régulateurs nationaux et les gestionnaires de réseaux de transport ;
- une utilisation efficace et transparente des revenus des enchères conforme au Règlement n°1228/2003 de l'Union européenne. Des bénéfices non espérés (« windfall ») doivent être évités pour des activités régulées ;
- la réduction des positions dominantes des acteurs historiques ;
- la participation et la coopération des GRD allemands.

1.1 Statut du document

Les vues exprimées dans la présente synthèse commune sont basées sur les réponses des acteurs du marché au document de consultation sur l'intégration régionale des marchés de l'électricité de gros. Ledit document de consultation a été publié par la CRE, la CREG et DTe en juillet 2005.

Les contributions des acteurs du marché sont résumées dans le présent document¹ à des fins de facilité uniquement. La synthèse commune en elle-même ne constitue pas une décision légale de la part des participants à la consultation, ni de la part de la CRE, de la CREG et/ou DTe. De même, le résumé des réponses individuelles des acteurs du marché ne reflète pas forcément la position de la

¹ Pour des raisons de confidentialité, les auteurs de certains commentaires ont été repris sous un pseudonyme.

CRE, de la CREG et/ou DTe. Toutes les contributions publiques sont disponibles sur les sites² Internet respectifs des régulateurs.

² Voir www.creg.be , www.cre.fr et www.dte.nl .

2 Mécanismes d'enchères explicites de long et moyen terme

2.1 Questions ouvertes à la consultation

Merci de distinguer, le cas échéant, votre réponse selon la frontière concernée (France-Belgique ou Belgique-Pays-Bas) :

1. Quelle est votre préférence pour le choix des échéances de temps auxquelles les produits d'enchères explicites doivent être proposés (annuel, trimestriel, mensuel, hebdomadaire et journalier) ?

La tendance et l'accent général sont au long terme (une compagnie), allant du pluriannuel (FEBELIEC-GABE-UNIDEN³, APX, EDF, ENERGIENED TRADE & SUPPLY) à l'annuel (tous) en passant par le trimestriel (ENDEX, APX, ELECTRABEL, ENERGIENED GENERATION, une société intégrée, ENERGIENED TRADE & SUPPLY, CENTRICA, un fournisseur d'énergie, IBERDROLA) et le mensuel (tous). Environ la moitié des répondants ne mentionne pas les ventes aux enchères explicites *day-ahead* (FEBELIEC-GABE-UNIDEN, deux sociétés intégrées, EDF, un fournisseur d'énergie, IBERDROLA, RWE TRADING). Quelques-uns s'y opposent toutefois (ENECO, ENERGIENED GENERATION).

2. La répartition des capacités disponibles entre les différentes échéances de temps peut être fondée sur les principes suivants :
 - a. un maximum de capacité est alloué sur le terme le plus long et la capacité résiduelle est allouée à des échéances plus courtes.
 - b. un ratio prédéfini (%) est choisi pour répartir les capacités entre les différentes échéances de temps.
 - c. une capacité minimale est réservée pour des horizons de temps spécifiquesLequel des trois principes mentionnés à la question 2 (ou un mélange des trois) vous paraît le plus adapté ?

Un quart de tous les répondants sont favorables à la solution « a » (FEBELIEC-GABE-UNIDEN, EDF, EFET et une société intégrée) et à « c » (APX, ELECTRABEL, ENERGIENED TRADE & SUPPLY, IBERDROLA) et l'autre moitié privilégie « b » (ENDEX, deux sociétés intégrées, ELECTRABEL, ENECO, ENERGIENED GENERATION, CENTRICA, un fournisseur d'énergie, STATKRAFT, RWE TRADING).

Les propositions pour « b » sont les suivantes : accent sur le plus long terme (ENDEX), partage en parts égales (un fournisseur d'énergie, RWE TRADING), 40% annuelle / 30% trimestrielle / 30% *day-ahead* (une société intégrée), un maximum en *day-ahead* (une société intégrée). Même avec un ratio

³ Les entreprises suivantes ont voulu souligner auprès des régulateurs leur soutien entier à la réponse de FEBELIEC-GABE : Prayon S.A., Borealis Polymers S.A., Degussa Antwerpen S.A. et Solvay S.A.

prédéfini, la plupart des répondants souhaite que les capacités restantes soient allouées ensuite sur les périodes plus courtes.

La plupart des acteurs qui ont répondu « c » insiste pour qu'une capacité minimale soit réservée pour le *day-ahead* implicite/DAMC (APX, ELECTRABEL, ENERGIENED TRADE & SUPPLY). Plusieurs acteurs qui ont répondu « b » partagent cette opinion et proposent un pourcentage (20-33%) réservé pour le DAMC (ENECO, ENERGIENED GENERATION, CENTRICA) plutôt qu'une valeur absolue de capacité.

3. Quelle méthode d'enchère (prix marginal, « pay as bid », enchère ascendante, etc.) préconisez-vous pour allouer les capacités de long et moyen terme et pourquoi ?

Pratiquement tous les répondants sont favorables à un mécanisme de fixation au prix marginal. Quelques répondants ont demandé le mécanisme « pay-as-bid » (STATKRAFT, FEBELIEC-GABE-UNIDEN), pour le long terme ou pour toutes les périodes de temps.

4. Pensez-vous qu'il soit nécessaire de limiter les capacités⁴ (à l'importation et/ou à l'exportation) qu'un acteur est en droit d'acquérir⁵ et si oui, quelle limite devrait être imposée aux différentes échéances de temps ?

La moitié des répondants (IBERDROLA, RWE TRADING, ENERGIENED TRADE & SUPPLY, CENTRICA, une compagnie, EDF, ENECO, une société intégrée, APX) s'inquiètent du fait que cette limitation va créer des inefficacités et gêner le marché secondaire. Ils sont dès lors opposés à toute forme de limitation.

Par contre, selon une minorité de répondants, la limitation est uniquement nécessaire pour des acteurs possédant un pouvoir de marché (VOEG, une société intégrée, VEMW), tandis qu'un quatrième (ELECTRABEL) souhaite aller plus loin et appliquer un « cap » de capacité, globalisé sur toutes les périodes, pour tous les acteurs (par référence aux frontières néerlandaises). Les pourcentages et valeurs cités sont (notamment) : 400 MW par acteur (STATKRAFT, un fournisseur d'énergie), 5% de la capacité totale par groupe de sociétés affiliées (FEBELIEC-GABE-UNIDEN). Certains considèrent la possibilité d'exclure les acteurs dominants qui fournissent plus de 10% sur le marché de destination (FEBELIEC-GABE-UNIDEN).

5. Pensez-vous qu'il soit préférable d'allouer les capacités annuelles et/ou mensuelles en une seule fois ou en deux ou plusieurs sessions et, si oui, pourquoi ?

La majeure partie des participants est favorable à plusieurs sessions pour la capacité annuelle et à une session unique pour les capacités mensuelles (ELECTRABEL, EDF, ENECO, une société

⁴ Sur le marché électrique néerlandais, il existe aujourd'hui une capacité d'importation limitée à 400 MW par acteur de marché.

⁵ En gardant à l'esprit qu'un acteur de marché peut avoir plusieurs filiales.

intégrée, une compagnie, VOEG, IBERDROLA) si le volume de capacité est suffisamment important (APX, ENERGIENED TRADE & SUPPLY, une société intégrée, STATKRAFT).

6. Jugez-vous important, dans le but d'empêcher certains comportements stratégiques (rétention de capacité), de limiter *ex ante* les possibilités de nominer de l'énergie dans les deux directions ? Si oui, quelles propositions recommandez-vous ?

Pratiquement tous les répondants indiquent que cette limitation n'est pas nécessaire (STATKRAFT, IBERDROLA, RWE TRADING, une compagnie, VEMW) tant que le principe « Use-It-Or-Lose-It » et que le « netting » des nominations dans les deux directions seront d'application (ENERGIENED TRADE & SUPPLY, CENTRICA, VOEG, EFET, deux sociétés intégrées, EDF, ENECO, ENERGIENED GENERATION, APX). Selon la majorité des répondants, cela devrait libérer toute la capacité disponible pour les ventes aux enchères explicites « day-ahead » et pour le DAMC et résoudre dans une mesure suffisante la rétention stratégique de capacité (pour ce dernier point : CENTRICA, EDF, une société intégrée). Une partie des répondants est toutefois opposée aux nominations dans les deux directions (FEBELIEC-GABE-UNIDEN).

7. De manière alternative, considérez-vous qu'une surveillance de marché *ex post* puisse être suffisante pour empêcher ce type de comportement anti-concurrentiel ?

La plupart des réponses sont positives (STATKRAFT, IBERDROLA, RWE TRADING, une compagnie, ELECTRABEL, EDF, ENECO), parfois accompagnées de la condition suivante : l'existence d'un pouvoir de marché devrait être clairement déterminée par des normes bien établies (VOEG et une société intégrée). Certaines réponses affirment que cette surveillance *ex post* est insuffisante et préfèrent un système qui ne laisse pas de place à ce type de comportement anticoncurrentiel (deux sociétés intégrées, FEBELIEC-GABE-UNIDEN).

8. Jugez-vous important de créer un marché secondaire de capacités ? Si oui, quelle forme ces transferts de capacité devraient-ils prendre :
- des transferts libres réalisés dans le cadre d'un marché secondaire bilatéral avec une réconciliation finale par les GRT ?
 - des transferts organisés à travers une ré allocation centralisée réalisée par les GRT dans le cadre des enchères explicites suivantes ?

Pratiquement toutes les réponses sont favorables à un marché secondaire (VOEG, ENDEX,...).

D'aucuns affirment qu'il faudrait laisser le marché créer le marché secondaire (une compagnie et une société intégrée).

L'option « a » (STATKRAFT, RWE TRADING, CENTRICA, une compagnie, deux sociétés intégrées, ELECTRABEL, ENECO, ENERGIENED GENERATION) a été retenue trois fois plus souvent que l'option « b » (EFET, APX, ENERGIENED TRADE&SUPPLY). Cette dernière devrait, selon certains répondants (ENERGIENED TRADE&SUPPLY, APX), permettre que lorsque de la capacité acquise est restituée aux GRT, les revenus résultant de la vente aux enchères « day-ahead » de cette

capacité aillent au propriétaire initial de la capacité. Une minorité préfère un mélange des options : « b » ayant l'ascendant sur « a » (IBERDROLA, EDF).

9. Quel type d'engagement les GRT devraient-ils fournir par rapport aux capacités allouées et aux programmes nominés ?
- Ferme et définitif dans les deux cas (capacités allouées/programmes nominés), excepté en cas de « force majeure » ?⁶
 - Les réductions de capacité allouées et/ou de programmes nominés sont possibles mais dans un cadre bien défini à l'avance tant en matière de durée des réductions qu'en matière d'indemnisation, etc. ?⁷
 - Pas de fermeté?⁸
 - Un mélange des cas a, b et/ou c? Merci d'expliquer vos préférences.

Une vaste majorité des répondants considère la réponse « a » comme une exigence de base qui réduit les risques pour les détenteurs de capacité (STATKRAFT, IBERDROLA, RWE TRADING, un fournisseur d'énergie, une compagnie, trois sociétés intégrées, VOEG, ELECTRABEL, EDF, ENECO, ENERGIENED GENERATION). Les quelques réponses « b » mentionnent par exemple un remboursement au prix du marché (CENTRICA, EFET) ou préfèrent un mélange avec « a » (FEBELIEC-GABE-UNIDEN), de manière à avoir une capacité ferme garantie dans une situation normale, mais de la capacité interruptible en cas d'incident.

10. Dans les cas 9b et 9c, où une réduction des capacités allouées et/ou des programmes nominés est possible, quelle serait selon vous la règle de réduction optimale (principalement lorsque la réduction est annoncée après l'allocation de court terme) :
- Réduire en priorité les droits alloués à long terme ?
 - Réduire en priorité les droits alloués à court terme ?
 - Réduire de manière proportionnelle tous les produits sans distinguer les échéances de temps auxquelles ils ont été alloués ?

Puisque peu de réponses « b » et « c » ont été données à la question 9, la plupart des répondants donne une réponse théorique. La majorité des répondants opte pour la solution à court terme (b) (VOEG, trois sociétés intégrées, un fournisseur d'énergie, ELECTRABEL, ENERGIENED GENERATION, FEBELIEC-GABE-UNIDEN).

11. Etes-vous favorables à ce que des produits de long et moyen terme soient assortis d'une obligation de nommer pendant toute la durée du droit ?

⁶ Il est supposé qu'à ce niveau de fermeté, le risque financier supporté par les acteurs de marché, en cas de réduction physique de la capacité, est censé être réduit au minimum.

⁷ Il est supposé qu'à ce niveau de fermeté, le risque financier, en cas de réduction physique de la capacité, est partagé entre GRT et acteurs de marché.

⁸ Il est supposé qu'à ce niveau de fermeté, le risque financier, en cas de réduction physique de la capacité, est entièrement supporté par les acteurs de marché.

Le sentiment général (STATKRAFT, IBERDROLA, RWE TRADING, CENTRICA, VOEG, une compagnie, un fournisseur d'énergie, trois sociétés intégrées, ELECTRABEL, EDF, ENECO, ENERGIENED GENERATION) au sujet de l'usage obligatoire est le suivant : non économique, non efficace, non optimal, entraîne des distorsions du marché, etc. Le caractère optionnel des produits revêt une grande importance pour la plupart des répondants (un fournisseur d'énergie, VOEG, une société intégrée, ELECTRABEL, ENERGIENED GENERATION), même si certains affirment que l'usage obligatoire limiterait le *gaming* et permettrait une utilisation complète de la capacité (FEBELIEC-GABE-UNIDEN).

12. Dans quelle mesure pensez-vous qu'il soit important d'obliger les détenteurs de droits alloués à long et moyen terme de nommer fermement leurs droits suffisamment en avance de l'allocation journalière⁹, et pourquoi ?

Pour la plupart, c'est utile (un fournisseur d'énergie, une société intégrée, ENERGIENED GENERATION). Certains considèrent que c'est important : le délai pour les nominations devrait être d'un jour avant l'allocation quotidienne ou le plus tard possible (STATKRAFT, IBERDROLA, RWE TRADING, une compagnie, EFET, ELECTRABEL, ENECO, une société intégrée). Certains considèrent qu'une nomination trop précoce va introduire des inefficacités (CENTRICA). De même, le principe « Use-It-Or-Lose-It » (ou ses alternatives) est important pour fournir de la capacité additionnelle (à savoir toute la capacité non utilisée) à l'allocation quotidienne (une compagnie, trois sociétés intégrées, VOEG, EFET, ELECTRABEL, EDF, ENERGIENED GENERATION).

13. Dans l'hypothèse où une enchère explicite journalière serait mise en place, dans quelle mesure considérez-vous qu'une nomination ferme, auprès des GRT, et suffisamment avant les sessions infra journalières, des droits acquis au cours de cette enchère journalière, est susceptible de constituer un moyen réel d'empêcher des stratégies de rétention de capacité ?¹⁰

Pour beaucoup, cette question n'était pas claire. La tendance générale est qu'il faut procéder à la nomination day-ahead suivie du « netting ». La capacité alors disponible peut être utilisée pour l'infrajournalier. Cette séquence devrait être respectée, afin d'obtenir l'efficacité souhaitée (IBERDROLA, ELECTRABEL, deux sociétés intégrées, EDF, ENERGIENED GENERATION).

14. Quel degré d'harmonisation (dans les règles d'enchères, les horaires de fermeture des guichets, etc.) préconisez-vous pour l'organisation des enchères de long et moyen terme, ainsi que dans l'allocation journalière, sur les deux frontières ? Merci de spécifier les aspects nécessitant une harmonisation ?

⁹ De manière à appliquer le principe « use it or lose it ».

¹⁰ De manière alternative, sur le marché électrique néerlandais, les détenteurs de droits de capacité journaliers sont aujourd'hui tenus de programmer leurs importations dans le cadre de la bourse APX.

Les différents aspects peuvent être résumés comme suit : un bureau de vente aux enchères commun au niveau régional (ELECTRABEL, une compagnie et EDF), la synchronisation des horaires de fermeture des guichets (IBERDROLA, RWE TRADING, CENTRICA, ELECTRABEL, EDF, une société intégrée), des règles/procédures de ventes aux enchères (IBERDROLA, RWE TRADING, CENTRICA, EFET, une société intégrée), la durée (CENTRICA, EDF), la langue (EFET), les règles d'allocation (IBERDROLA, EFET, ENECO), les systèmes informatiques (RWE TRADING, EFET, EDF), les exigences légales (EFET, EDF), le crédit (IBERDROLA), etc. L'exemple des enchères organisées par TSO-Auction est cité à plusieurs reprises comme un bon exemple de la forme que devrait adopter le standard d'harmonisation (VOEG, une société intégrée, ENERGIENED GENERATION).

15. La détermination des capacités d'interconnexion pour les échéances annuelle et mensuelle n'est pas toujours coordonnée à travers les différentes frontières. Quelle importance accordez-vous à la mise en place d'une méthode de calcul plus coordonnée ?

Ce point revêt une importance critique pour tous. La coordination devrait être indépendante (deux sociétés intégrées, ENERGIENED GENERATION), aussi poussée que nécessaire pour maximiser la capacité d'interconnexion disponible (IBERDROLA), reposer sur un modèle mathématique du réseau (EDF, FEBELIEC-GABE-UNIDEN). Ces exigences impliquent un rôle central pour le GRT utilisant une méthode transparente (RWE TRADING, ELECTRABEL, une société intégrée, FEBELIEC-GABE-UNIDEN). L'intégration du réseau allemand est également considérée comme essentielle (FEBELIEC-GABE-UNIDEN).

L'avis des participants pourrait être résumé comme suit : un manque de coordination engendre un risque (au niveau de la capacité d'interconnexion disponible de manière ferme) et le risque entraîne des coûts (VOEG).

16. En ce qui concerne les questions ci-dessus (1 à 15), dans quelle mesure pensez-vous que vos réponses s'appliquent également aux autres frontières (les interconnexions France-Grande-Bretagne, France-Allemagne, Allemagne-Pays-Bas)?

La plupart des répondants estime que leurs réponses s'appliquent à toutes les frontières ou presque.

3 Evaluation du couplage des marchés en journalier (« day-ahead market coupling »)

3.1 Questions ouvertes à la consultation

17. Quelle méthode de gestion de la congestion préférez-vous voir mise en place pour gérer la congestion journalière aux interconnexions France-Belgique et Belgique-Pays-Bas :
- Un mécanisme de couplage des trois marchés organisés (DAMC), APX, BELPEX et POWERNEXT?
 - Un mécanisme d'enchères explicites journalières entre les trois GRT, TENNET, ELIA et RTE, ou
 - Un mélange des deux méthodes ci-dessus ? Merci de préciser.

Une majorité des acteurs du marché est favorable à un DAMC trilatéral (ELECTRABEL, FEBELIEC-GABE-UNIDEN, UNIVERSITE DE LOUVAIN – UNIVERSITE PARIS XI, ENECO, deux sociétés intégrées, CENTRICA, ENERGNED TRADE & WHOLESALE, ENERGNED GENERATION, EFET et APX), puisqu'il s'agit en théorie du mécanisme le plus efficace. Certains acteurs du marché (STATKRAFT, ENERGNED TRADE & WHOLESALE, une société intégrée et ENERGNED GENERATION) expriment l'inquiétude selon laquelle toutes les conditions préalables à une introduction saine du mécanisme DAMC ne sont pas encore remplies (par exemple en raison de la position dominante des opérateurs historiques, du manque d'indépendance des GRT, du manque de coopération entre les GRT pour le calcul de la capacité disponible, du manque de transparence sur le marché) et que les avantages spécifiques du DAMC doivent encore être établis. Pour VOEG et une société intégrée, le DAMC devrait être géré directement par les GRT et non pas par les bourses d'électricité.

C'est pourquoi il n'existe pas de consensus clair entre les acteurs du marché pour l'allocation de la capacité day-ahead en ce qui concerne la nécessité de mettre en place des enchères explicites day-ahead coordonnées, du moins en tant que première étape (STATKRAFT, IBERDROLA, un fournisseur d'énergie et ENDEX) ou sur la possibilité de mettre directement en œuvre le DAMC.

EDF considère que les deux méthodes de gestion de la congestion (DAMC et enchères explicites) conviennent aussi bien l'une que l'autre sur une base day-ahead.

Enfin, RWE TRADING considère que l'allocation de la capacité transfrontalière en day-ahead devrait être gérée par le biais d'un système hybride, à savoir une combinaison d'enchères implicites et explicites.

18. Pourriez-vous donner votre opinion sur les avantages et inconvénients des méthodes de gestion mentionnées à la question 17, particulièrement en termes de flexibilité, simplicité,

atténuation des pouvoirs de marché, gestion des risques, coûts de mise en oeuvre de chaque méthode, « netting » des capacités, liquidité, etc.?

Vous trouverez ci-dessous un résumé des différents arguments avancés par les acteurs du marché pour justifier ou non la mise en oeuvre du DAMC. En général, les avantages du mécanisme DAMC sont les inconvénients du mécanisme d'enchères explicites day-ahead, et vice versa.

En termes d'efficacité :

- + Allocation efficace d'une capacité peu abondante ;
- + Permet le « netting » automatique (ELECTRABEL) ;
- Accroît le risque d'investissements transfrontaliers pour les GRT qu'ils répercutent sur les utilisateurs du réseau sous la forme de tarifs du réseau plus élevés (STATKRAFT) ;
- Les GRT risquent d'être plus conservateurs qu'auparavant lorsqu'ils décident quelle capacité est affectée au DAMC puisque tout risque de réduction de la capacité après les clôtures du marché day-ahead incombe aux GRT ;
- ± Seuls les GRT peuvent atteindre un couplage de marchés efficace. Tous les autres dépendants de la création du couplage par les acteurs par le biais d'une programmation préalable.

En termes de liquidité :

- + Augmenterait la liquidité sur les trois marchés (une société intégrée) ;
- + Devrait diminuer la volatilité du prix de référence day-ahead (UNIVERSITE DE LOUVAIN - UNIVERSITE DE PARIS XI) ;
- Nécessite des marchés liquides et fonctionnant correctement des deux côtés de l'interconnexion afin d'agir efficacement (ce qui n'est pas le cas actuellement) (IBERDROLA).

En termes de simplicité et de flexibilité :

- + Plus facile à gérer pour les acteurs du marché : les allocations et les nominations se font en une seule opération ;
- Un fournisseur d'énergie, EDF et une compagnie font remarquer la complexité de l'algorithme de calcul (la gestion commune de blocs et d'heures uniques semble déjà complexe avec une bourse d'électricité unique) ;
- Au final, la flexibilité va diminuer pour les acteurs du marché, tout en se fiant davantage à une solution basée sur un algorithme (un fournisseur d'énergie) ;
- Frais de transaction éventuellement plus élevés qu'avec un échange OTC (commission de bourse d'électricité par rapport à commission de courtier). Il peut également créer un écart artificiel entre marchés (égal à la somme des commissions de bourse d'électricité) (STATKRAFT, EFET, EDF et une compagnie).

En termes d'atténuation des pouvoirs de marché :

- + Réduit la manipulation du marché (ELECTRABEL, une société intégrée) ;

- + Augmente la transparence du marché (une société intégrée) ;
- Des limitations telles qu'un « cap » de volume ne seraient plus possibles (ELECTRABEL) ;

En termes de coûts de mise en œuvre :

- Aucune expérience au niveau de la mise en œuvre de ce système (IBERDROLA) qui n'existe qu'en théorie (une compagnie) ;
- Difficulté d'extension à d'autres périodes de temps (EDF) ;
- Le couplage de marchés ne devrait pas créer de nouveaux droits de monopole. Une réglementation serait nécessaire (une compagnie et EFET).

En termes de gestion des risques :

- + Réduit le risque financier de ne plus acheter de précieux droits de capacité (CENTRICA) ;
- Un couplage de marchés sans droits financiers ne peut pas garantir une bonne couverture pour le marché (STATKRAFT, EDF et une compagnie).

19. Dans le cas d'une mise en œuvre du DAMC, quelle est selon vous la capacité d'interconnexion qui devrait être allouée à ce mécanisme :

- a. La capacité résiduelle, potentiellement très volatile, (i.e. la capacité restant disponible après les allocations explicites de long et moyen terme et la remise en jeu par les acteurs des capacités non utilisées, conformément à l'article 6.4 du règlement européen) ?
- b. Une capacité minimale fixe préalablement déterminée ? Dans ce cas, laquelle ?
- c. La capacité résiduelle plus une capacité minimale fixe préalablement déterminée ?
- d. Toute la capacité ?

STATKRAFT, trois sociétés intégrées, FEBELIEC-GABE-UNIDEN, EDF, VOEG, une compagnie et IBERDROLA préfèrent que seule la capacité résiduelle (plus la capacité à long terme non utilisée, la capacité additionnelle libérée après le « netting » du LT et de meilleures prévisions plus proche de l'heure de livraison et la capacité potentielle pouvant finalement être libérée par les GRT) soit allouée au DAMC (solution a). IBERDROLA précise que, dans le cas où un DAMC est mis en place, il devrait être complété par une vente aux enchères day-ahead.

RWE TRADING préfère qu'une capacité additionnelle préalablement déterminée (solution c) soit allouée, mais alors au système hybride (combinaison de ventes aux enchères implicites et explicites).

Pour ELECTRABEL, CENTRICA et ENECO, une capacité additionnelle préalablement déterminée devrait être allouée au DAMC (solution c) :

- 1/3 à 1/4 de la capacité totale pour ELECTRABEL,
- 1/3 de la capacité totale pour CENTRICA,
- 20% de la capacité totale pour ENECO.

ENDEX estime que la quantité de capacité transfrontalière day-ahead disponible devrait être limitée proportionnellement à la quantité de capacité transfrontalière disponible à long terme. Enfin, EFET considère que, suite à la première introduction de Belpex, une proportion fixe de la capacité journalière devrait être réservée pour le fonctionnement du mécanisme de ventes aux enchères implicites. Une fois établie, EFET prône cependant le passage à l'allocation de 100% de la capacité commerciale disponible anticipée des années ou des mois à l'avance.

20. Pensez-vous que le lancement d'une bourse d'échange belge pourrait être réalisé sans la mise en place simultanée du mécanisme de couplage DAMC?

Même s'ils reconnaissent que la liquidité serait très limitée, STATKRAFT, IBERDOLA, ENECO ENERGY, un fournisseur d'énergie, ENERGYNED GENERATION, une société intégrée, VOEG et RWE TRADING pensent que la bourse d'échange belge pourrait être lancée dans un premier temps sans la mise en place du DAMC.

ELECTRABEL, une compagnie et CENTRICA sont convaincus que la mise en place du DAMC facilitera le développement de BELPEX comme marché d'échange présentant une certaine liquidité.

Une société intégrée, FEBELIEC-GABE-UNIDEN et EDF pensent qu'il n'y a pas suffisamment d'acteurs possédant un portefeuille flexible en Belgique pour garantir la réussite de BELPEX sans offres transfrontalières et estiment, par conséquent, que le DAMC est nécessaire pour le projet BELPEX.

21. Quels aspects d'harmonisation entre les bourses existantes considérez-vous comme importants pour la mise en œuvre du mécanisme DAMC (définition et traitement des blocs, prix de règlement, horaires des « clearing », etc.) ? Pour chacun de ces points, pourriez-vous préciser vers quoi tend votre préférence ?¹¹

Pour tous les acteurs du marché, l'harmonisation des plates-formes de trading (produits standardisés, système de soumission d'offres, « clearing » des marchés) est une étape logique et importante à la mise en œuvre du DAMC.

Pour ELECTRABEL, une société intégrée et ENECO, il devrait idéalement y avoir une bourse unique ou du moins un système d'offre unique pour les trois marchés. ELECTRABEL précise que cela faciliterait les offres pour les acteurs, spécialement pour les nouveaux venus, et réduirait la durée de l'algorithme de « clearing » quotidien. Par ailleurs, une société intégrée estime que cela réduirait les coûts opérationnels et minimiserait les risques.

¹¹ En prenant en compte également que l'harmonisation avec la bourse Nordpool sera nécessaire du fait de la mise en œuvre du DAMC sur le câble NorNed.

Pour ENERGYNED GENERATION, le meilleur exemple est NordPool. Pour VOEG et une société intégrée, la restructuration du mécanisme d'équilibrage en un véritable marché d'équilibrage avec des signaux tarifaires basés sur la situation économique réelle du marché est un prérequis essentiel.

Pour FEBELIEC-GABE-UNIDEN, le coût sur la bourse d'échange est souvent incompatible avec une utilisation occasionnelle pour quelques MW. Si des capacités transfrontalières journalières sont allouées au couplage de marchés, FEBELIEC-GABE-UNIDEN demande un accès pour les « petits utilisateurs » avec un prix de souscription annuel très faible qui permettrait un nombre limité d'heures pour des transactions de quelques dizaines de MW (par exemple : 1000 heures, 100 MW).

RWE TRADING et une compagnie préconisent de fixer le « clearing » du DAMC avant l'EEX et propose de le fixer à 11 heures (GMT +1) (même heure de « clearing » que sur Powernext). RWE TRADING demande également que l'horaire pour les nominations auprès des gestionnaires de réseau (TENNET, ELIA et RTE) soit étendu et préfère au plus tôt 13 heures pour tous les pays. Enfin, RWE TRADING demande l'harmonisation des produits (blocs) et de leur définition. En ce qui concerne les produits, RWE TRADING préfère ceux qui ont été mis en œuvre avec fruit sur EEX.

Pour une compagnie, il est extrêmement important que le DAMC permette le trading de produits en heures creuses (de 1h à 8h et de 21h à 24h – compris), qui n'est pour l'heure que partiellement disponible sur POWERNEXT (de 1h à 8h et de 21h à 24h, les produits ne sont pas regroupés) et pas sur APX.

En ce qui concerne les blocs, ELECRABEL, ENERGYNED GENERATION et une société intégrée préfèrent des blocs flexibles (comme sur APX) à des blocs standardisés (sur POWERNEXT). De même, pour une société intégrée, l'introduction de blocs plus élaborés, tels que des offres conditionnelles, constituerait un outil utile pour les producteurs qui souhaitent laisser les bourses agir partiellement comme leurs *dispatchers* de production.

Pour EDF et une société intégrée, outre l'harmonisation des horaires et de la définition des produits, l'environnement contractuel, les systèmes informatiques (un site Internet unique pour gérer trois bourses day-ahead serait préférable) et les coûts de participation aux bourses devraient également être harmonisés entre les différentes bourses.

4 Commerce transfrontalier infrajournalier

4.1 Questions ouvertes à la consultation

22. Etes-vous favorables à la mise en place d'un commerce transfrontalier infra journalier et si oui, pourquoi :
- Pour réviser les programmes journaliers en cas de défaillance physique (arrêt d'une unité de production par exemple) ?
 - Pour réaliser de nouveaux arbitrages de prix ?
 - Pour ces deux raisons ?
 - Pour d'autres raisons ?

Tous les acteurs du marché soutiennent fortement la création d'un commerce transfrontalier infrajournalier dans les pays du Benelux, même si, pour CENTRICA, il s'agit d'une priorité secondaire. Pour STATKRAFT, l'allocation la plus efficace de la capacité d'interconnexion peut uniquement avoir lieu si le trading infrajournalier et d'équilibrage est possible dans le cadre du mécanisme d'allocation.

A l'exception de FEBELIEC-GABE-UNIDEN qui préfère la solution a), tous les acteurs du marché estiment que le commerce transfrontalier infrajournalier devrait être mis en place pour ces deux raisons (solution c)), à l'instar du commerce infrajournalier au sein d'une zone d'un GRT. ELECTRABEL estime que la défaillance physique n'est pas la seule raison justifiant le commerce infrajournalier puisque des phénomènes tels que des hausses de température, un temps nuageux soudain, des précipitations permettant une production hydroélectrique plus importante, des grèves (consommation ou production), des problèmes liés notamment à l'approvisionnement en gaz, etc. peuvent rendre le commerce infrajournalier nécessaire. STATKRAFT ajoute que le commerce infrajournalier devrait faire partie intégrante du marché électrique libéralisé puisqu'il offre les mêmes avantages que le commerce de gros en général. IBERDROLA estime que ce commerce transfrontalier infrajournalier est une condition préalable à la participation au marché d'équilibrage.

23. Pensez-vous que le commerce transfrontalier infra journalier devrait être limité à une des finalités mentionnées ci-dessus ? Si oui, laquelle et pourquoi ?

Pour tous les acteurs du marché, le commerce transfrontalier infrajournalier ne devrait pas être limité à une finalité en particulier. EDF estime qu'il est essentiel qu'un acteur puisse ajuster sa position physique et optimiser toute capacité de réserve disponible sur une base infrajournalière. ELECTRABEL, un fournisseur d'énergie et CENTRICA ajoutent qu'il est pratiquement impossible de dissocier les finalités et qu'en outre, en raison des prix élevés des déséquilibres, les acteurs seront toujours stimulés à soumettre un programme day-ahead équilibré, et adapteront uniquement leur position en infrajournalier si c'est réellement nécessaire (par ex. pour réduire les coûts des déséquilibres).

24. Dans le cas où vous êtes favorables au développement du commerce transfrontalier infra journalier, quels obstacles de marché et/ou obstacles réglementaires vous semble-t-il nécessaire d'éliminer avant que de tels échanges puissent être réalisés ? Merci de préciser.

Pour VOEG et une société intégrée, la restructuration des marchés d'équilibrage est la principale inquiétude, au même titre que les marchés spot gérés par les GRT (une société intégrée), les conditions UIOLI des contrats de transport (une société intégrée), la coordination entre les GRT (VOEG) et la possibilité de demander aux GRT d'agir pour les propriétaires de capacité d'interconnexion dans la capture d'arbitrages de prix intrajournaliers (VOEG).

Pour EFET, bien que les allocations françaises de capacité intrajournalière ne soient pas basées sur le marché à ce stade, le simple fait qu'elles existent démontre qu'il est possible de développer une activité de commerce intrajournalier transfrontalier qui fonctionne sur une base objective et raisonnablement transparente. C'est pourquoi EFET exhorte ELIA et TENNET à collaborer étroitement avec RTE afin de mettre en place des solutions compatibles à leurs frontières, dans le but de créer une utilisation commune de sources flexibles.

Pour ENECO, les réglementations devraient changer afin de permettre le commerce intrajournalier. Les GRT devraient pour ce faire accepter et faciliter les programmes intrajournaliers.

Pour STATKRAFT, il s'agit principalement d'une question de coopération entre les GRT.

En général (ELECTRABEL, EDF, IBERDROLA et une compagnie), l'harmonisation des horaires de fermeture des guichets intrajournaliers est très importante. IBERDROLA ajoute que les GRT devraient accepter des positions transfrontalières temporairement déséquilibrées (jusqu'au dernier guichet intrajournalier disponible). Pour RWE TRADING, un marché intrajournalier transfrontalier et liquide nécessiterait que l'on autorise les acteurs du marché à procéder à de nouvelles nominations dans la plage horaire intrajournalière.

Pour ELECTRABEL, puisque le commerce intrajournalier a lieu à proximité de l'heure de livraison, un système de traitement *straight-through* efficace devrait être mis en œuvre (principe d'allocation implicite). Idéalement, toutes les transactions intrajournalières pour les acteurs du marché devraient donc se faire dans le cadre d'un système commun unique, tandis que les GRT obtiendraient leurs informations de nomination directement de ce système plutôt que de les recevoir des participants. Cette solution réduirait les éventuels erreurs au niveau des nominations, les retards dans les mises à jour des capacités et améliorerait le « netting » des flux. Une compagnie plaide en faveur d'une réglementation transfrontalière intrajournalière cohérente dans les trois pays, qui pourrait s'inspirer des règles françaises ou allemandes actuelles.

Pour ELECTRABEL et EDF, les horaires des nominations et les systèmes informatiques devraient être compatibles dans tous les pays.

Pour EDF, des règles communes devraient s'appliquer aux trois pays :

- En France, les durées des préavis des échanges transfrontaliers devraient être harmonisées à une heure (NEB).
- Accès frontalier sur une base infrajournalière : cette option n'est actuellement pas disponible aux frontières belges ou néerlandaises.

Pour une société intégrée, les obstacles réglementaires suivants doivent être supprimés afin de mettre en œuvre le commerce transfrontalier infrajournalier. Pour une autre société intégrée, débiter le commerce transfrontalier infrajournalier par une vente aux enchères implicite qui retiendrait une capacité minimale de 50-100 MW pourrait constituer une bonne première étape.

Pour une autre société intégrée et ENERGYNED GENERATION, certaines commissions appliquées par les GRT devraient être abolies ou harmonisées. La limite de 400 MW appliquée par DTe aux Pays-Bas devrait être abolie. La capacité résiduelle devrait être rendue disponible au marché sans la moindre limite.

25. Jugez-vous utile de réserver un volume de capacité minimale pour les mécanismes d'allocation infra journaliers, ou pensez-vous que la capacité non allouée et/ou non utilisée après l'allocation journalière soit suffisante ?

Pour STATKRAFT, un volume de capacité devrait être réservé pour l'allocation transfrontalière infrajournalière. Une société intégrée, CENTRICA, ENERGYNED TRADE et ENECO sont du même avis même si elles s'accordent à dire que, d'une manière générale, la capacité réservée devrait être marginale.

Par ailleurs, deux sociétés intégrées, ENERGYNED GENERATION, ENDEX, IBERDROLA, ELECTRABEL, EDF, un fournisseur d'énergie, FEBELIEC-GABE-UNIDEN, VOEG, une compagnie et RWE TRADING estiment qu'une capacité réservée pour l'infrajournalier n'est pas nécessaire et que seule la capacité restante, résultant de la compensation des sessions précédentes, plus toute la capacité additionnelle détectée, devrait être allouée pour cette période de temps.

26. Jugez-vous utile de limiter *ex ante* les possibilités de nomination d'échanges transfrontaliers infra journaliers de manière à empêcher des comportements potentiellement inefficaces tels que :

- a. Un acteur de marché qui nominerait de l'énergie dans le sens opposé aux nominations journalières afin de faire de la rétention de capacité ou,
- b. Un acteur de marché qui déplacerait ses écarts dans le marché voisin afin de profiter des différences d'organisation entre les différents marchés d'ajustement,
- c. D'autres types de comportements anti-concurrentiels

Si oui, quelles propositions recommanderiez-vous ?

Tous les acteurs de marché jugent qu'il n'est pas utile de limiter *ex ante* les possibilités de nomination sur le marché intrajournalier. Une seule société intégrée estime qu'il convient de préférer l'évitement pur et simple des possibilités d'abus à la surveillance *ex post* du marché.

Pour IBERDROLA, un mécanisme de vente aux enchères conçu comme il se doit devrait rendre la rétention de capacité non attrayante en raison du prix à payer pour la capacité. Il en va de même pour le déplacement des écarts si les prix des déséquilibres sont fixés par un mécanisme de marché sur tous les marchés.

Pour RWE TRADING, une compagnie et ELECTRABEL, il ne devrait pas y avoir de limitations, puisque les comportements inefficaces seraient rares étant donné les faibles volumes échangés en intrajournalier.

EDF ajoute que les conditions d'activité peuvent avoir considérablement changé entre les horizons day-ahead et intrajournaliers de telle sorte qu'il peut être utile d'avoir la possibilité d'ajuster efficacement ses positions en temps réel.

Une compagnie estime qu'il est impossible de prévoir les prix des déséquilibres et que la plupart des acteurs du marché préféreront éviter toute tentative d'arbitrage entre différents marchés d'ajustement par le biais de déséquilibres.

Une société intégrée ajoute que le risque de déplacement d'écarts entre marchés ne devrait pas être considéré comme un comportement inefficace du marché, mais comme un exemple de marché efficace. En outre, une société intégrée ajoute que ce phénomène est limité à la capacité disponible et par le coût de la capacité de transport.

Pour ELECTRABEL et EDF, les conceptions de marché d'ajustement diffèrent légèrement d'un pays à l'autre, mais le commerce intrajournalier entraînera directement une harmonisation de ces régimes d'équilibrage et partant, des signaux tarifaires plus optimaux.

Pour RWE TRADING, toutes les méthodes d'ajustement des GRT visent à compenser les déséquilibres du réseau. S'il y a une chance d'arbitrage au niveau de la méthode d'équilibrage du réseau dans un pays, il est possible pour chaque acteur de ce marché de faire cet arbitrage. Utiliser un marché voisin n'aurait aucun sens (le prix du marché dans le pays voisin plus les frais de capacité sont proches du prix du marché).

27. De manière alternative, considérez-vous qu'une surveillance de marché *ex post* pourrait être suffisante pour empêcher ce type de comportement ?

Tous les acteurs du marché, à l'exception d'une société intégrée, estiment qu'une surveillance du marché *ex post* devrait suffire. EDF ajoute que des règles complexes en amont afin de faire face à des situations très rares pourraient freiner le développement de l'activité intrajournalière.

Une société intégrée estime qu'afin d'optimiser davantage la réglementation, des données sur le marché devraient être accessibles à tous les acteurs du marché et pas uniquement au régulateur. En outre, des nominations dans un sens pour le commerce transfrontalier infrajournalier dans la même heure devraient être introduites aux trois frontières.

28. Trouvez-vous pertinent que les capacités allouées dans le cadre infra journalier (donc proche du temps réel) correspondent à des obligations (plutôt que des options) à nommer/utiliser l'énergie correspondante, et si oui, pourquoi ?

STATKRAFT, une société intégrée, ELECTRABEL, ENECO, FEBELIEC-GABE-UNIDEN, ENERGYNED GENERATION et VOEG estiment que des obligations devraient être préférées, notamment afin d'éviter tout accaparement potentiel de capacité. ELECTRABEL et une société intégrée trouvent que les horaires infrajournaliers sont tellement serrés que l'usage optionnel n'est plus possible, ce qui signifie que les risques résultant de ces obligations sont limités dans le chef des acteurs de marché. ELECTRABEL ajoute que la capacité devrait être vue comme une obligation, combinée en une transaction avec le commerce d'électricité (principe d'allocation implicite). Pour une société intégrée, un système d'obligations devrait également être préféré pour des raisons de stabilité du système et d'utilisation efficace de la capacité infrajournalière. Pour IBERDROLA, le système d'obligations devrait uniquement être mis en œuvre si la capacité infrajournalière est allouée par le biais d'un mécanisme non basé sur le marché.

Par contre, EDF, une compagnie et RWE TRADING estiment que ces obligations seraient contre-productives et décourageraient les acteurs de marché à pénétrer sur le marché infrajournalier. CENTRICA pense que le système d'options avec application du principe « use it or lose it » pourrait être maintenu si des fermetures de guichet supplémentaires étaient proposées. Enfin, une société intégrée pense que ce n'est pas pertinent pour autant que des améliorations essentielles soient obtenues.

29. De quelle manière pensez-vous que le commerce transfrontalier infra journalier devrait être organisé :
- a. En permettant aux acteurs de marché de réaliser des échanges infra journaliers dans la limite des capacités acquises lors de l'enchère journalière (dans l'hypothèse où une enchère explicite est mise en place pour cette échéance de temps) ? Ou,
 - b. En mettant en place une méthode d'allocation spécifique de la capacité infra journalière dans laquelle les acteurs de marché auraient la possibilité d'obtenir de la capacité non encore allouée et/ou non encore utilisée lors des allocations précédentes ?
 - c. A travers une combinaison des deux méthodes proposées ci-dessus ?

Pour STATKRAFT, FEBELIEC-GABE-UNIDEN, ENERGYNED GENERATION, ENECO, EDF, une société intégrée, ELECTRABEL, EFET, une compagnie et RWE TRADING, le commerce transfrontalier infrajournalier devrait être organisé par le biais d'une méthode d'allocation spécifique de

la capacité (solution b). ELECTRABEL ajoute que la solution a) pourrait entraîner la rétention de capacité puisque les options de capacité non utilisée ne seraient pas réallouées aux acteurs de marché leur attribuant une valeur plus élevée. En outre, ELECTRABEL et EDF estiment qu'une capacité infrajournalière additionnelle peut être libérée avec des prévisions plus précises plus proches du temps réel, ce qui nécessiterait une allocation spécifique.

IBERDROLA, deux sociétés intégrées et VOEG préfèrent la solution c), c'est-à-dire une combinaison des solutions a) et b) afin de permettre aux acteurs du marché de modifier tous les types de contrats de capacité jusqu'à la dernière fermeture de guichet intrajournalier et afin d'avoir un maximum de flexibilité.

Enfin, pour un fournisseur d'énergie, la solution a) serait la plus transparente et éviterait les complexités liées à des méthodes d'allocation centralisées. A cet effet, le commerce secondaire de capacités journalières devrait également être autorisé afin qu'un acteur ne possédant pas de capacité journalière ait également accès à cette option.

30. Dans le cas où une méthode d'allocation spécifique de la capacité infra journalière serait mise en place, quelle méthode d'allocation pensez-vous être la plus appropriée pour organiser ce commerce infra journalier (compte tenu de la possibilité de concentrer ces échanges en un seul guichet ou de manière continue) :
- a. Une procédure de couplage des marchés étendue à l'horizon infra journalier ?¹²
 - b. Un mécanisme d'enchère explicite ?
 - c. Un mécanisme de prorata gratuit, dans lequel les acteurs de marché demandeurs obtiendraient de la capacité infra journalière proportionnellement à leur demande
 - d. Un mécanisme de prorata « marchand » avec un prix d'accès basé sur :
 - i. Le différentiel de prix journaliers (dans le cas où un mécanisme DAMC est mis en place en journalier) ou,
 - ii. Le prix de la capacité journalière (dans le cas où c'est un mécanisme d'enchère explicite qui est mis en place en journalier) ?
 - e. Un mécanisme « premier arrivé premier servi » gratuit ?
 - f. Une autre méthode ?

Pour VOEG et une société intégrée, si des détenteurs de capacité peuvent mandater les GRT pour optimiser l'usage, il n'y aura qu'un besoin limité en allocation transfrontalière infrajournalière spécifique. STATKRAFT et IBERDROLA soutiennent un mécanisme d'enchère explicite. ENDEX considère qu'il faut étudier plus en détail la méthode la plus efficace d'allocation de la capacité infrajournalière, mais soutiennent également un mécanisme d'enchère explicite comme point de départ. Une société intégrée souhaite ajouter qu'elle est en faveur d'un mécanisme basé sur le marché et plus précisément de la solution a).

Pour ENECO, les deux solutions, a et b, sont possibles, mais elle ajoute que la méthode « b »

¹² Cela nécessiterait de centraliser les échanges infra journaliers, ce qui n'est actuellement pas le cas.

nécessiterait de vendre aux enchères la capacité plusieurs heures avant l'heure du commerce.

RWE TRADING, ELECTRABEL, EDF, ENERGYNED TRADE, ENERGYNED GENERATION, EFET et IBERDROLA estiment que l'allocation implicite de la capacité transfrontalière infrajournalière de réserve par le biais d'une plate-forme continue, sur le modèle de la plate-forme Elbas, constituerait la méthode la plus efficace. ELECTRABEL et EDF ajoutent également que sur une base infrajournalière, il est trop complexe et trop coûteux d'organiser successivement des mécanismes implicites ou explicites (à savoir de la solution b) à d)) (toutes les heures, toutes les deux heures ?) avec un « clearing » non liquide.

RWE TRADING ajoute qu'une allocation gratuite, que ce soit sur une base « premier arrivé – premier servi » ou « pro-rata », ne serait pas basée sur le marché et pourrait aisément être abusée par des acteurs de marché en vue de bloquer les principales parts de la capacité (infrajournalière) (comme le démontre son expérience avec la frontière Allemagne-Pologne et Allemagne-République tchèque). ELECTRABEL ajoute que même si la méthode e) n'est pas considérée comme étant basée sur le marché dans sa configuration actuelle, elle pourrait se révéler utile dans un modèle continu avec usage obligatoire, la capacité étant implicitement intégrée dans l'offre d'énergie comme sur le marché Elbas.

EDF ajoute qu'il ne serait pas approprié de rendre ces mécanismes administratifs marchands avec le prix day-ahead comme référence de prix infrajournalier. FEBELIEC-GABE-UNIDEN est le seul participant à dire qu'une procédure « premier arrivé-premier servi » marchande avec un prix d'accès basé sur le différentiel de prix spot day-ahead est préférable.

Enfin, une compagnie soutient ardemment le mécanisme de pro-rata gratuit, utilisée depuis plusieurs années par RTE, et estime que cette méthode d'allocation est loyale, transparente et non discriminatoire.

5 Commerce transfrontalier d'ajustement

5.1 Questions ouvertes à la consultation

31. Etes-vous favorables à la mise en place d'un commerce transfrontalier d'ajustement et si oui, pourquoi ?

En général, tous les acteurs de marché soutiennent ardemment les échanges transfrontaliers d'ajustement. Néanmoins, pour CENTRICA, il s'agit d'une priorité secondaire et pour VOEG et une société intégrée, ce commerce ne devrait pas être nécessaire ou souhaitable parce que l'acteur ferait mieux de céder le contrôle du transport aux GRT. Ces derniers prendraient alors en charge cette fonction pour lui.

Les avantages possibles sont les suivants : concurrence accrue et baisse de prix sur le marché d'ajustement et stabilité accrue du système du réseau UCTE. Pour STATKRAFT, l'allocation la plus efficace de la capacité d'interconnexion peut uniquement avoir lieu si le commerce intrajournalier et le commerce d'ajustement sont possibles dans le cadre du mécanisme d'allocation.

EDF estime que les échanges transfrontaliers devraient être rendus accessibles aux GRT à deux conditions :

- Ils ne devraient pas se faire au détriment d'échanges transfrontaliers commerciaux, qui doivent toujours avoir un accès prioritaire à la frontière,
- Ils devraient être rendus accessibles aux participants en même temps (principe de réciprocité).

En ce qui concerne ce dernier point, une compagnie ajoute qu'actuellement, seul le mécanisme d'ajustement français permet les échanges transfrontaliers d'ajustement parmi les trois pays et plus précisément uniquement avec le Royaume-Uni, la Suisse, l'Espagne et l'Allemagne.

32. De quelle manière pensez-vous que le commerce transfrontalier d'ajustement devrait être organisé :
- a. En permettant aux acteurs de marché de réaliser des échanges d'ajustement dans la limite des capacités acquises lors de l'enchère journalière ou infra journalière (dans l'hypothèse où des mécanismes d'enchère explicite sont mis en place à ces échéances de temps) ? Ou,
 - b. En laissant les GRT gérer entre eux les échanges d'ajustement dans la limite des capacités encore disponibles ?
 - c. Selon une autre méthode ?

STATKRAFT et IBERDROLA estiment qu'il est important de permettre la participation directe d'acteurs de marché sur les marchés d'ajustement voisins.

IBERDROLA trouve que la capacité commerciale acquise précédemment ne devrait pas être utilisée pour les échanges d'ajustement et cite les accords d'ajustement à l'interconnexion France-Espagne comme une référence possible pour d'autres marchés. Pour un fournisseur d'énergie, les échanges d'ajustement doivent être initiés par les GRT et être réalisés avec les détenteurs de capacité journalière ou avec des GRT voisins. Dans les deux cas, les droits de détenteurs de capacité journalière doivent être honorés. RWE TRADING pense qu'une plate-forme de commerce continu, sur le modèle de la plate-forme Elbas, pourrait être utilisée pour organiser ce commerce transfrontalier d'ajustement.

Par contre, si l'on prend en considération les conditions opérationnelles (accès à la capacité, nomination) dans une période de temps très courte, ELECTRABEL, une compagnie, ENECO, deux sociétés intégrées, FEBELIEC-GABE-UNIDEN, ENERGYNED GENERATION et EDF estiment qu'il est plus pertinent que les GRT gèrent la capacité transfrontalière à des fins d'ajustement. En effet, ELECTRABEL pense qu'il faudrait une séparation claire entre les marchés d'échange infrajournaliers du côté des initiatives des participants et les marchés d'ajustement, qui constituent une initiative distincte des GRT. Le marché d'échange transfrontalier infrajournalier devrait être prioritaire pour la capacité sur le marché d'ajustement puisque les participants (ARP, RE ou PV) sont toujours les mieux placés pour gérer eux-mêmes leurs déséquilibres à proximité de l'heure de fourniture. Les GRT pourraient placer des offres de l'étranger dans l'ordre de mérite comme RTE le fait actuellement pour la Suisse, l'Espagne et le Royaume-Uni, et y faire appel lorsqu'elles sont attrayantes et lorsque suffisamment de capacité transfrontalière reste disponible après le marché d'échange infrajournalier. Le mécanisme d'ajustement devrait fournir des signaux économiques basés sur le marché à tous les participants sur le coût de l'ajustement du système et être neutre en termes de revenus pour les GRT.

ENECO ajoute qu'en France, il est d'ores et déjà possible pour les acteurs étrangers de placer des offres sur le marché d'ajustement. Elle apprécierait et recommande fortement que DTE étudie les possibilités d'intégration des marchés d'ajustement. Cette étude devrait être réalisée en étroite coopération avec les autres régulateurs et avec les GRT.

33. Que pensez-vous des différences de « design » entre les différents marchés/mécanismes d'ajustement existants, et existe-t-il selon vous un besoin d'harmoniser ces « designs » ?
Merci de préciser.

Pour VOEG et une société intégrée, tout écart par rapport à un point de « clearing » unique est sous-optimal. Une société intégrée ajoute que si les trois améliorations essentielles sont réalisées (la restructuration des marchés d'ajustement, des marchés spot gérés par les GRT, et des conditions UIOLI dans les contrats de transport), l'incidence des différences de « design » des marchés devient relativement insignifiante.

Pour un fournisseur d'énergie, les marchés d'ajustement doivent être plus harmonisés et être rendus moins punitifs. Le système actuel, qui consiste à différencier les prix des déséquilibres longs et courts, est anticoncurrentiel puisqu'il désavantage les petits acteurs profitant moins de leur portefeuille.

Pour ENECO, les « designs » des marchés d'ajustement devraient être simplifiés et plus harmonisés, c'est-à-dire une harmonisation accrue entre différentes zones des GRT en termes de mécanisme de fixation des prix, d'échéances de temps, de règles et de coûts. ENECO ajoute que DTe et TenneT (et d'autres régulateurs/GRT) devraient étudier les conditions exactes en vue d'intégrer plus en profondeur les marchés d'ajustement.

IBERDROLA est favorable à une harmonisation maximale. A cet égard, les données communiquées par le marché d'ajustement néerlandais et la participation transfrontalière au marché d'ajustement français pourraient être un bon modèle. Enfin, une compagnie recommande l'harmonisation des échéances de temps et des méthodes de fixation des prix d'ajustement (qui devraient être basées sur le marché).

Pour RWE TRADING, le mécanisme néerlandais qui consiste à forcer les producteurs à donner une « option gratuite » aux gestionnaires de réseaux (les capacités non utilisées doivent obligatoirement être incorporées au mécanisme de réserve) n'est pas une solution basée sur le marché. RWE TRADING soutient toute méthode d'ajustement qui permet d'obtenir un prix équitable pour ces options. Du côté des vendeurs, RWE TRADING soutient les méthodes où tous les acteurs de marché présentant un approvisionnement/une production résiduel(le) bénéficient d'effets de portefeuille globaux. En outre, il ne devrait pas y avoir d'écarts de prix pour l'achat ou la vente depuis le système d'ajustement. Cet écart génère des bénéfices non espérés (windfall) pour les gestionnaires de réseaux. Dans cette optique, les mécanismes d'ajustement belge, néerlandais et français ne sont pas des solutions basées sur le marché pour les utilisateurs du système d'ajustement. Au contraire, le mécanisme d'ajustement allemand pratiqué chez E.ON, ENBW, VET et RWE (sans écart et avec récupération totale des effets de portefeuilles) donne lieu à une méthode fiable basée sur le marché.

Pour ELECTRABEL, les mécanismes d'ajustement existants doivent être harmonisés entre les pays afin de parvenir à un marché d'ajustement régional liquide et transparent. Les mécanismes d'ajustement à l'échelle nationale seront toujours moins efficaces parce que leur échelle est plus réduite. ELECTRABEL, à l'instar d'ENERGYNED GENERATION, préfère un mécanisme d'ajustement basé sur des prix marginaux. ELECTRABEL estime que le système d'ajustement néerlandais reflète relativement bien ce principe. En outre, ELECTRABEL est d'avis que le système d'ajustement néerlandais est plus neutre en termes de revenus pour les GRT que le système français et que les différents « caps » de prix prévus sur les offres de régulation de la proposition de mécanisme d'ajustement d'ELIA pour 2006 perturberaient le fonctionnement du marché. De même, ELECTRABEL estime qu'un point devrait être mis en exergue à cet égard. Les systèmes d'ajustement sont souvent utilisés dans deux buts : gestion de l'ajustement de la zone de contrôle et gestion de l'ajustement du programme. Il convient d'établir une distinction claire entre ces deux buts et la manière dont ils sont traités dans les prix de déséquilibre. Le prix de déséquilibre RTE reflète d'ores et déjà en partie cette

différence. Lorsque le système et le participant sont en position courte, le participant paie le coût moyen pondéré de l'équilibrage positif jusqu'à ce que $P = C$ (Production = Consommation, c'est-à-dire jusqu'à ce que la zone RTE soit équilibrée).

Pour EDF, les prix de déséquilibre dans les trois pays affichent des différences de niveau de prix qui s'expliquent par les différents « designs » des mécanismes d'ajustement. Par exemple :

- ELIA possède deux références de prix de déséquilibre en fonction de l'ampleur du déséquilibre. Les prix reposent principalement sur les prix APX, POWERNEXT ou sur des prix fixes,
- TENNET utilise parfois le même prix pour les prix de déséquilibre longs et courts, qui est en général le prix marginal,
- RTE utilise les prix POWERNEXT ou le prix moyen pondéré des offres soumissionnées.

Pour EDF, le mécanisme d'ajustement français est un processus simple et transparent. Il tient également compte de la possibilité de traiter les ajustements transfrontaliers. Ce modèle pourrait être utilisé pour alimenter la réflexion sur le « design » d'un mécanisme d'ajustement européen.

Pour une société intégrée, le système d'ajustement belge semble reposer sur les prix APX néerlandais. Le système d'ajustement néerlandais est préféré au belge puisqu'il reflète mieux le marché. Il possède toutefois quelques défauts, notamment des aspects liés au règlement dans les deux directions et des produits relativement élevés pour les GRT provenant des enchères d'interconnexion. Par ailleurs, si l'on veut que le marché soit pleinement efficace, une harmonisation totale (règles d'enchères, heure de fermeture des guichets, etc.) est requise parce que l'harmonisation simplifie le système et réduit les risques opérationnels.

Enfin, FEBELIEC-GABE-UNIDEN affirme qu'il n'est pas nécessaire d'harmoniser les systèmes d'ajustement. En effet, l'ajustement est un service clé à l'ouverture du marché, il devrait être adapté aux spécificités de chaque pays. A cet égard, FEBELIEC-GABE-UNIDEN estime qu'une coopération entre GRT devrait suffire à élargir les possibilités de commerce.

34. Dans quelle mesure partagez-vous les craintes selon lesquelles les différences de « design » actuelles peuvent conduire à des stratégies d'arbitrage entre les marchés ? Le cas échéant, quelles mesures correctrices recommanderiez-vous ? Merci de préciser.

Pour FEBELIEC-GABE-UNIDEN, des mesures correctrices ne sont pas nécessaires si les ajustements sont menés par les GRT. Pour STATKRAFT, les acteurs responsables de programmes devraient toujours avoir une obligation de nommer un portefeuille équilibré. Toutefois, dans la mesure où l'électricité transfrontalière d'ajustement pourrait être meilleur marché à un moment donné que les sources locales, STATKRAFT estime qu'il est pertinent que les détenteurs de capacité d'interconnexion puissent émettre des offres dans les mécanismes d'ajustement.

Pour ELECTRABEL, trois sociétés intégrées, ENECO, ENERGYNED GENERATION, VOEG et EDF, l'arbitrage peut en effet avoir lieu mais ne devrait pas être considéré comme une menace mais plutôt comme un stimulant à l'harmonisation.

Pour RWE TRADING, en cas de différentiels de prix mineurs, les acteurs peuvent faire un peu d'arbitrage pour l'électricité d'ajustement. Cet arbitrage mineur va accroître la stabilité du système parce qu'il vise à stabiliser le système, notamment par la vente d'électricité en vue d'équilibrer le système lorsqu'il est sous-approvisionné et (dans un mécanisme d'ajustement basé sur le marché) les prix supérieurs au marché viennent soutenir la stabilité du système.

IBERDROLA estime que chaque offre sur les marchés d'ajustement devrait être soutenue par une position ferme (positions d'échange, actifs de production ou sites de consommation qualifiés) sur un des marchés interconnectés afin d'éviter les jeux entre les différents marchés d'ajustement.

35. Considérez-vous nécessaire d'éviter que de la capacité d'interconnexion soit réservée pour les besoins d'ajustement des GRT avant la fin de chacune des sessions infra journalières, au cours desquelles seuls les acteurs de marché sont censés pouvoir intervenir ?¹³

Tous les acteurs de marché estiment qu'il ne devrait pas y avoir de réservation à long et moyen terme pour l'électricité d'ajustement et de réserve. Des contrats commerciaux entre acteurs de marché devraient avoir la priorité sur les transactions d'ajustement. La capacité d'interconnexion disponible pour l'usage commercial ne devrait pas être ajustée en raison d'exigences d'ajustement. Seule la capacité restante devrait être utilisée pour les échanges transfrontaliers d'ajustement.

36. Pensez-vous qu'il soit opportun de réserver un volume de capacité d'interconnexion minimal pour le commerce d'ajustement ?

Tous les acteurs de marché considèrent qu'il n'est pas opportun de réserver un volume de capacité transfrontalière pour le mécanisme d'ajustement. Pour EDF, la réservation de capacité à des fins d'ajustement peut entraîner une capacité sous-utilisée si les GRT n'utilisent en fin de compte pas les ajustements transfrontaliers.

Les acteurs de marché considèrent que la capacité restante devrait être offerte en premier lieu aux acteurs du marché avant que le profil résiduel puisse être utilisé par les GRT si nécessaire. Pour une société intégrée et une compagnie, si les GRT souhaitent conserver la flexibilité de pouvoir réserver toute capacité à des fins d'ajustement, les GRT devraient payer le prix complet du marché afin d'éviter toute distorsion de celui-ci.

¹³ Considérant que les échanges infra journaliers commerciaux devraient avoir la priorité sur les échanges d'ajustement.

ELECTRABEL ajoute qu'une telle réservation serait interprétée comme de la rétention de capacité au profit des GRT : en retenant de la capacité du marché day-ahead, une scission du marché va se produire plus fréquemment, ce qui crée des avantages pour les GRT alors qu'en cas de scission, les flux d'interconnexion sont évalués au spread de prix entre les deux marchés. ELECTRABEL estime que des exceptions ne sont possibles que dans des situations spécifiques (par ex. si le GRT a contracté de l'énergie de réserve à l'étranger comme service auxiliaire). ELECTRABEL ajoute que de toute manière des marges de sécurité sont déjà prises sur la capacité transfrontalière, ce qui signifie que la capacité qui a été allouée au marché est toujours inférieure à la capacité réellement disponible.

6 Transparence des marchés

6.1 Questions ouvertes à la consultation

37. Selon vous, quels types d'information dans chacun des trois pays ne sont pas actuellement disponibles aux acteurs du marché et devraient l'être ? Merci d'indiquer :
- a. La dénomination précise des données dont vous souhaiteriez pouvoir disposer.
 - b. Eventuellement, le délai après le temps réel (ou avant pour les prévisions d'information) après lequel il est nécessaire que les données soient disponibles.
 - c. Eventuellement, les échéances de publication que vous souhaiteriez.
 - d. Eventuellement, la période couverte par les données.
 - e. Votre préférence en matière de diffusion de cette information (au public ou aux seules parties intéressées ?).
 - f. Le degré de priorité de ces informations.

La plupart des répondants plaident en faveur d'un degré élevé de transparence du marché. Diverses raisons sont avancées pour soutenir ce point de vue, notamment :

- Garantir l'égalité entre les participants
- Réduire les asymétries qui se sont historiquement développées au niveau des informations
- Créer un standard élevé de crédibilité pour le développement des prix du marché
- Renforcer la concurrence entre les acteurs du marché
- Améliorer les connaissances sur le marché
- Stimuler la confiance dans les prix du marché
- Soutenir le développement de marchés de gros efficaces et liquides

En outre, de nombreux répondants (STATKRAFT, EDF, ENECO, ENERGIENED TRADE & WHOLESALE, CENTRICA, une compagnie et une société intégrée) considèrent qu'il est très important d'harmoniser les règles de transparence entre les marchés européens (intégrés). En ce qui concerne le degré plus élevé de transparence du marché, quelques répondants soulignent qu'il ne faut pas perdre de vue la sensibilité commerciale et la confidentialité.

ENERGIENED GENERATION avance l'option selon laquelle les exigences de transparence dépendent du marché. Sur des marchés concurrentiels, la quantité d'informations disponibles devrait être inférieure. Sur des marchés quasi monopolistiques, pratiquement toutes les informations devraient être disponibles pour tous les acteurs du marché. VOEG oppose à cette communication des informations une charge administrative élevée et est d'avis que la communication ne devrait être imposée que dans les cas où l'on suppose une position dominante.

Les répondants ont tous des besoins différents en transparence. Cependant les besoins d'informations spécifiques les plus souvent cités sont les suivants :

- Prévisions au niveau des charges (STATKRAFT, IBERDROLA, ELECTRABEL, EDF, une compagnie et ENERGIENED GENERATION)
- Données de consommation en temps réel (IBERDROLA, ELECTRABEL, EDF, ENERGIENED GENERATION et une compagnie)
- Disponibilité de production/horaires de maintenance (STATKRAFT, IBERDROLA, ELECTRABEL, une société intégrée et une compagnie)

Outre ces informations spécifiques, de nombreux répondants soulignent la nécessité d'une transparence accrue en ce qui concerne les GRT. A cet égard, les besoins d'informations spécifiques suivants sont notamment cités :

- Disponibilité du réseau des GRT
- Informations liées aux contrats transfrontaliers avec d'autres GRT
- Flux transfrontaliers (réels)
- Données de production transfrontalières (transparence entre GRT)

En ce qui concerne le couplage de marchés, EFET plaide pour que les algorithmes de matching utilisés pour le couplage de marchés soient facilement compréhensibles et transparents.

38. Selon vous, sur la base de votre expérience sur les marchés néerlandais, belge, français et/ou sur d'autres marchés, quels exemples de transparence de marché pourraient servir de base à une future harmonisation ?

Même si certains répondants estiment qu'il n'y a pas (encore) d'avant-projet, le marché NordPool est le plus fréquemment cité comme bonne base de travail (STATKRAFT, ENECO, un fournisseur d'énergie, une société intégrée et FEBELIEC-GABE-UNIDEN). Par ailleurs, le marché néerlandais est mis en avant comme bon exemple par plusieurs répondants (ENDEX, VOEG, une société intégrée et ENERGIENED TRADE & WHOLESALE). Les niveaux de transparence de RTE et ELIA sont pointés comme une bonne base en ce qui concerne les données liées au réseau.

39. Les informations sur le marché actuellement disponibles ne sont pas toujours d'un accès facile ; différents formats sont utilisés et les informations sont publiées par des entités différentes telles que les GRT, les bourses d'électricité, les régulateurs ou autres.
- a. Pensez-vous que l'accès aux informations de marché doit être amélioré ? Si oui, quel devrait être, en la matière, le rôle respectif des GRT, bourses d'échanges, régulateurs et autres entités ?
 - b. Est-ce que les formats de données ont besoin d'être harmonisés entre les trois pays ? Si oui, quel est le meilleur exemple de format pour diffuser toutes ces informations ?
 - c. Est-ce que les définitions et interprétations des informations ont besoin d'être harmonisées ? Sinon, pourquoi ? Si oui :
 - i. Sur quels sujets ?

ii. Quel est le meilleur exemple qui pourrait servir de base pour l'harmonisation?

Pratiquement tous les répondants plaident pour l'harmonisation des formats. STATKRAFT estime qu'il est plus important de publier les informations que d'harmoniser les formats. Les fichiers Excel téléchargeables ont clairement la préférence au niveau du format. De même, ESS (format d'horaire d'ETSO) est cité comme éventuel format d'échange de données (ELECTRABEL, IBERDROLA). Une société intégrée et EDF partagent l'opinion selon laquelle les GRT et les régulateurs devraient veiller à utiliser des définitions identiques et à « parler la même langue ».

7 Pouvoir de marché et coopération entre régulateurs

7.1 Questions ouvertes à la consultation

40. Dans quelle mesure partagez-vous l'analyse ci-dessus concernant la relation entre l'intégration régionale des marchés et les abus (potentiels) de pouvoirs de marché (paragraphe 7.1) ?

Une société intégrée, IBERDROLA, VOEG et FEBELIEC-GABE-UNIDEN partagent explicitement l'analyse. Par ailleurs, RWE TRADING s'attend à un risque de manipulation du marché en Belgique et en France. Deux sociétés intégrées, VEMW et EFET soutiennent la nécessité de prendre des mesures réduisant le pouvoir de marché. Une société intégrée suggère de séparer les GRT et les producteurs et de séparer les bourses et les producteurs. Une autre société intégrée fait remarquer que les mesures ne devraient pas être trop contraignantes en termes de communication et d'autres exigences de conformité.

ELECTRABEL suggère que les régulateurs se concentrent sur la surveillance du marché *ex post* et sur le respect du droit de la concurrence, ainsi que sur la stimulation de la concurrence par le biais d'exigences de transparence *ex ante*. Une compagnie estime que les régulateurs doivent se concentrer sur des monopoles régulés tels que les GRT et les bourses.

EDF et ENECO ne sont pas d'accord avec l'analyse. D'autres acteurs du marché (ENDEX, ENERGIENED TRADE, ENERGIENED GENERATION, un fournisseur d'énergie, APX, UNIVERSITE DE LOUVAIN-UNIVERSITE PARIS XI) n'ont pas fourni de réponse spécifique à cette question.

41. Dans quelle mesure partagez-vous l'analyse ci-dessus concernant la coopération entre régulateurs des trois pays (paragraphe 7.2) ?

Tous les autres acteurs de marché sont d'accord avec l'analyse. IBERDROLA réclame un avis préalable des acteurs de marché. EDF demande des garanties de confidentialité des données commerciales. Une société intégrée estime que les GRT devraient faire preuve d'une coordination plus étroite et que les régulateurs doivent veiller à ce que les bourses d'électricité facturent des tarifs raisonnables et encouragent la concurrence. Une compagnie affirme que la régulation doit mettre l'accent sur des mesures incitant les GRT à stimuler la concurrence (par le biais d'un calcul plus efficace de la capacité transfrontalière et par l'optimisation du transport) plutôt que sur le gain de revenus de la gestion de la congestion. Une autre société intégrée estime que le manque de coordination parmi les régulateurs peut créer des exigences conflictuelles et entraîner des coûts de mise en conformité excessifs.

Plusieurs acteurs de marché (ENERGIENED TRADE, VEMW, un fournisseur d'énergie, UNIVERSITE DE LOUVAIN - UNIVERSITE DE PARIS XI) n'ont pas fourni de réponse spécifique à cette question.

42. De quelle façon pensez-vous que l'intégration des trois marchés est susceptible d'influencer le pouvoir de marché des acteurs actuellement dominants ?

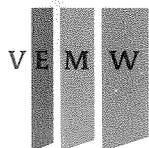
IBERDROLA, RWE TRADING, trois sociétés intégrées, une compagnie, VOEG et EFET prévoient que l'intégration régionale des marchés ne va pas effectivement diluer le pouvoir de marché de producteurs dominants, limitant ainsi le potentiel de la concurrence transfrontalière. Une société intégrée ajoute que la dominance est souvent le résultat d'un pouvoir de marché local au sein d'une zone électriquement distincte et que la fixation localisée de prix va rendre ce phénomène plus transparent pour les acteurs de marché. ENECO estime que l'intégration régionale des marchés ne limite pas forcément le pouvoir de marché de producteurs dominants, mais va rendre le marché des utilisateurs finals plus concurrentiel. ELECTRABEL et EDF s'attendent à ce que l'intégration régionale des marchés dilue le pouvoir de marché des producteurs dominants.

Plusieurs acteurs de marché (ENDEX, ENGERIENED TRADE, ENGERIENED GENERATION, VEMW, CENTRICA, un fournisseur d'énergie et UNIVERSITE DE LOUVAIN - UNIVERSITE DE PARIS XI) n'ont pas fourni de réponse spécifique à cette question.

43. Dans quelle mesure êtes-vous d'accord sur le fait que l'atténuation des pouvoirs de marché des acteurs dominants devrait constituer un préalable à l'intégration régionale des marchés et/ou à la réussite du couplage des marchés (DAMC) et si oui,
- a. Pourquoi êtes-vous d'accord ?
 - b. Quelle type de mesure proposeriez-vous pour contrer ces pouvoirs de marché et pourquoi ?

IBERDROLA affirme que le manque de concurrence sur les marchés de gros nationaux ne peut pas être compensé par des enchères de capacité. IBERDROLA, VOEG et une société intégrée s'accordent à dire que la structure du marché (et le manque de transparence) entrave la concurrence.

RWE TRADING, ELECTRABEL, EDF, CENTRICA, une compagnie et ENECO prévoient que la surveillance du marché *ex post* sera suffisante et qu'aucune atténuation du pouvoir de marché *ex ante* n'est nécessaire. VOEG, EFET et une société intégrée s'accordent sur le fait que l'intégration des marchés devrait se faire indépendamment de la prévention des abus de pouvoir de marché puisqu'il s'agit d'un souci permanent. FEBELIEC-GABE-UNIDEN estime que l'intégration régionale des marchés sera possible à condition que les interconnexions soient mises à la disposition des consommateurs et pas des négociants en électricité.



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Woerden : September 5th, 2005

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your ref. : P_300052/14.B715
ext nr. : 0348 48 43 55
e-mail : eb@vemw.nl
re : Response to consultation document market integration

Dear Mr. Spencer,

VEMW appreciates the opportunity to respond to issues concerning the integration of the North West European electricity market. This letter is our response to the consultation document "Regional market integration between the wholesale electricity markets of The Netherlands, Belgium and France – July 2005". The consultation document deals with the issues of market integration and market power.

In this response we will not get into the very specific and detailed questions in the consultation document, because our experience with practical issues concerning international trading in electricity and capacity markets is limited. Instead we do point out some critical issues on market integration and market power¹ which are of great importance to the Dutch non-domestic consumers of electricity.

Improving market integration and limiting market power are in the opinion of VEMW critical for realising a well functioning electricity market. Market integration creates a level playing field and improves efficiency. Limiting market power improves competition, which will increase choice, lower costs and stimulate investments and innovation. The consultation document suggests that measures on market integration may affect market power, either positively or negatively. In the opinion of VEMW regulators should make these effects explicit, in order to take concrete steps to (1) improve market integration and simultaneously (2) limit market power. Regulators should not choose between the two, but actively pursue both issues with a coherent policy. This point is illustrated below with some specific remarks on subjects mentioned in the consultation document.

Strategic capacity withholding

The issue of strategic capacity withholding, as a result of market power, is mentioned several times (#6, 7, 13, 26, 27). VEMW is of the opinion that if market power will have been limited,

¹ Although abuse of market power causes market failure, the exercise of market power is difficult to prove. In the opinion of VEMW the sheer presence of market power inhibits proper market functioning and therefore needs to be dealt with.

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additional rules concerning allocation of capacity are not necessary. This will also avoid possible problems with regard to enforcement of these rules. These extra rules may have unforeseen effects and could hamper a well functioning and free market, with or without structurally limiting market power.

Also the consultation document is not clear to what extent the problem of the simultaneous nomination of imports and exports actually exists.

Limit interconnection capacity to market parties

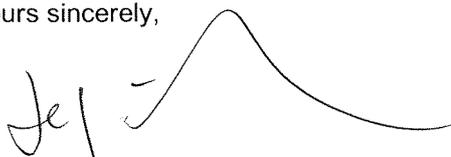
Limiting dominant producers to get access to imported electricity is mentioned in the document (#4). This option is used in Spain, for example, where dominant market parties cannot import electricity. The effects of this and alternative measures like VPP should be investigated by regulators in order to assess their potential for reducing market power without substantially hampering market integration.

Relevant market

In chapter 7 the issue of market power is explicitly mentioned. In relation to the analysis in this chapter, VEMW would like to point out that the measures considered in the consultation document to integrate the North West European market constitute a useful, but small step towards a fully integrated market. In the opinion of VEMW this step will not increase the "relevant market" as long as price differences and congestion continue to exist. Therefore the proposed steps towards market integration cannot be seen as substitutes for measures to reduce market power.

The measures mentioned in the consultation document are meant to improve the use of existing interconnection capacity. In order to formulate and implement measures effectively, regulators should constantly and actively monitor the use of interconnector capacity. Specific points of attention are: possible withholding, calculation of available capacity by TSOs, netting of import and export, nominations and physical imports and exports

Yours sincerely,



Dr. H. Grünfeld
Managing Director

Regional Electricity Market Integration France-Belgium-Netherlands

This paper responds to the public consultation on regional integration of the electricity market by the French, Belgian and Dutch regulator, respectively CRE, CREG and DTE:
<http://www.creg.be/pdf/Presse/2005/compress05072005uk.pdf>

The authors congratulate the regulators with this important initiative that can become a reference for other regional developments. The paper starts by introducing European regulation, market architecture and strategy. Second, the importance of developing a regional market, spanning France, Belgium and The Netherlands is discussed. Finally, the authors give their viewpoint on the necessary conditions to allow market integration in all submarkets of the regional electricity market. It is outside the scope of this paper to study available price information and discuss the degree of market integration that already exists.

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1. Introduction

1.1 Regulation

The liberalization in the European Union (EU) is a top down process driven by the Directives of the European Parliament and of the Council.

The liberalization process, put into force in 1996 by Directive 96/92/EC, led to the unbundling of activities in the electricity industry. In 2003, Directive 2003/54/EC was put into force, building on Directive 96/92/EC. The 3 major implementation aspects of the Directives are market opening, third party access and the independent system operator.

- All non-households customers are eligible from 1 July 2004 and all consumers will be eligible from 1 July 2007.
- Regulated third party access (rTPA) is imposed and it is required to appoint a regulator, who has to approve the tariffs, monitor congestion management and act as a dispute settlement authority.
- Transmission and distribution companies respectively have to apply legal unbundling from 1 July 2004 and 2007.

In other words, the Directives lay down the general conditions that should be in place to assure the creation of a single internal electricity market (IEM) in Europe, but refrain from designing a concrete market. Furthermore, the Directives do not provide any explicit provisions on the regulation of cross-border electricity trade. This has initially resulted in different kinds of bilateral cross-border access arrangements. Therefore, Regulation 1228/2003 issued together with the Directive 2003/54/EC in 2003, establishes a compensation mechanism for cross-border flows of electricity, the setting of harmonized principles on cross-border transmission charges and the allocation of available capacities on interconnections between national transmission systems.

1.2 Market Architecture

The entire IEM is first of all divided in submarkets according to the control zones of the different transmission system operators (TSO's), which in the case of France, Belgium and The Netherlands coincide with national borders (with a minor exception of part of Luxemburg, that is integrated in the Elia control zone). In general, the zonal Member State markets can be further divided in a wholesale, a balancing and a retail market. In what follows the wholesale and balancing markets are discussed.

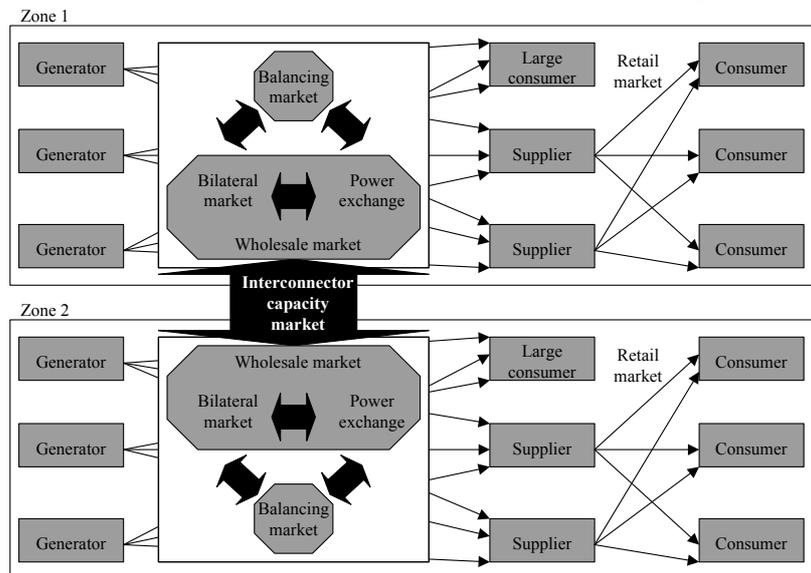


Figure 1: IEM market architecture

Most (up to over 95%) wholesale trade volume in the IEM is traded bilaterally in forward and over-the-counter (OTC) type of markets. Suppliers buy in advance using long-term and forward contracts to cover their consumption portfolio. As real consumption is not completely predictable and electric energy cannot be stored as such, there is also a need for additional daily and even hourly contracts in spot markets.

Transaction costs of fine tuning a portfolio via OTC type of spot markets are high because of the search costs of finding an adequate counter party, the bargaining costs and the problem of non-anonymity as the confidentiality of each company's position is valuable close to real time. Therefore, a mixture of private and public initiatives of generators, suppliers and transmission system operators has led to the creation of Power Exchanges in most Member States. Power Exchanges are trading platforms operating day-ahead (one day before delivery) and facilitating anonymous trade in hourly and multi-hourly contracts called block orders. Even though Power Exchanges only attract a relative small fraction of total trade, their public hourly price index serves as a reference for the contracts negotiated in forward markets.

Wholesale trade stops at gate closure, when Access Responsible Parties (ARPs)¹ have to submit their unit commitment program to the TSO, called nominations. In some Member States, gate closure is day-ahead so that no intra-day trade is possible. In other Member States intra-day trade in so-called adjustment markets is possible. For instance, the UK Power Exchange (UKPX) offers a continuous trading platform, where blocks of energy can be exchanged between participants up to 2 hours before delivery.

After gate closure, the TSO balances demand and generation in its control zone at real time and consequently settles the costs with the unbalanced ARPs. For this purpose, the TSO procures regulating and reserve power, being dispatchable generation and interruptible demand. TSOs in Europe procure balancing power in centralized markets ranging from mandatory to purely commercial market types and from day-ahead offering to long term tendering. Payments for these balancing services are generally based on availability and utilization, as the TSO procures options or rights to call upon regulating and reserve power with a certain strike price.

Note that intra-zonal transmission constraints are only taken into account by the TSO at real time. Initially, wholesale markets can operate as if there are no intra-zonal transmission constraints. This is possible because Member States have decided to initially allow an unlimited use of the national grid for wholesale trade, and to alleviate intra-zonal congestion in real time. However, inter-zonal transmission constraints are dealt with differently as national grids in Europe are well developed, but interconnections between these grids are relatively weak so that cross-border transfers often have to be limited. On all borders, a method has been implemented to allocate cross-border transfer capacities, taking into account inter-zonal (cross-border) transmission constraints. Traders that have been allocated such capacities can trade in foreign wholesale markets. However, at this moment cross-border intra-day trade is impossible and TSOs cannot procure balancing services across borders.

1.2 Strategy

The strategy paper in which DGTREN communicated the medium term vision for the internal electricity market states that regional markets may be a necessary interim stage². Certain countries have already

¹ Also called program responsible parties, aggregators or balancing managers.

²http://europa.eu.int/comm/energy/electricity/florence/doc/florence_10/strategy_paper/strategy_paper_march_2004.pdf

adopted common harmonized rules that, in some cases, go beyond those envisaged by the new regulatory package (see section 1.1). Naturally, this regionalization may only occur to the extent that integration of markets is more rapid than that required, in any case, at European Union level. Harmonization of the regulatory approaches is expected on all issues, such as the degree of market opening, determination of transmission tariffs, the rules for bilateral trading as well as congestion management, methodologies involving standardized day-ahead and intra-day markets. To some degree regulations governing balancing and ancillary services might also be harmonized, according to DGTREN.

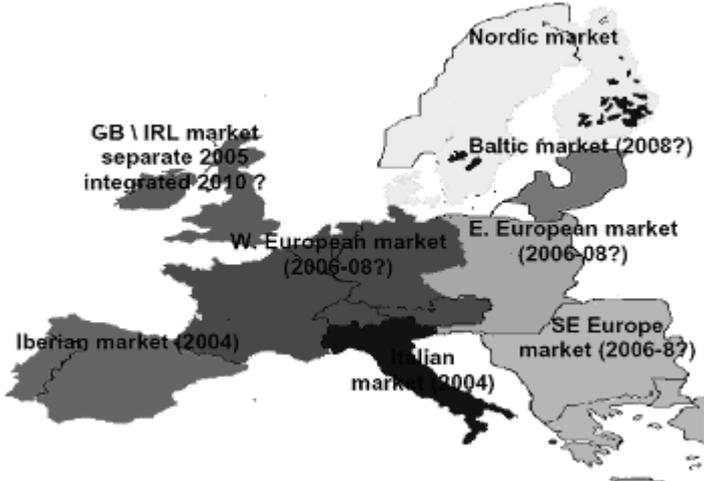


Figure 2: Potential Regional Electricity Markets within the EU (DGTREN 2004)

In line with the above strategy, the Florence mini-fora were set up at the 11th Florence forum meeting. The European Energy Regulators (ERREG) and the European Commission have organized these Florence mini-forum meetings between December 2004 and February 2005, addressing congestion management in the European electricity transmission network on a regional basis. The mini-fora aimed to provide a plan and detailed timetable for the introduction of at least day-ahead coordinated market based mechanisms, such as auctions. Note that the French, Belgian and Dutch regional initiative is smaller than the regions spanned by the mini-fora (Figure 3). Therefore, this initiative has the potential to develop faster, going beyond the harmonization efforts that may result from future mini-fora.

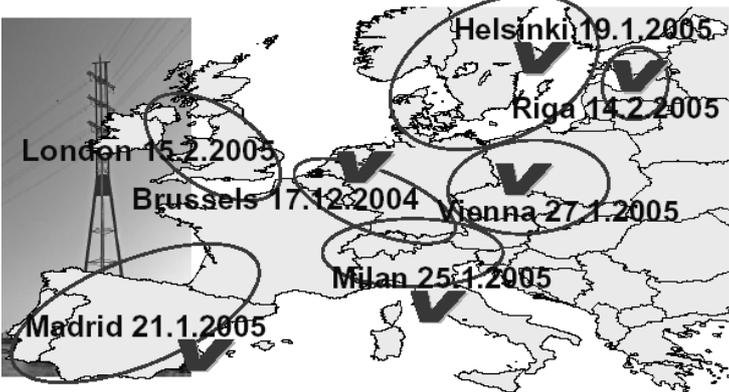


Figure 3: DGTREN mini-fora 2004-2005

2. Importance of a Regional Market F-B-NL

Belgium and the Netherlands are relatively well interconnected. Historically, the French-Belgian border was less elaborated (Figure 4), but planned and already partly executed investments will increase interconnection substantially in 2006 and 2009 (Figure 5).

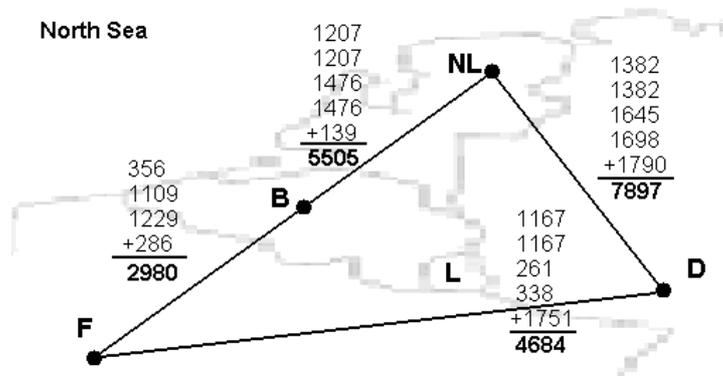


Figure 4: Thermal Capacities MVA Benelux region (UCTE)

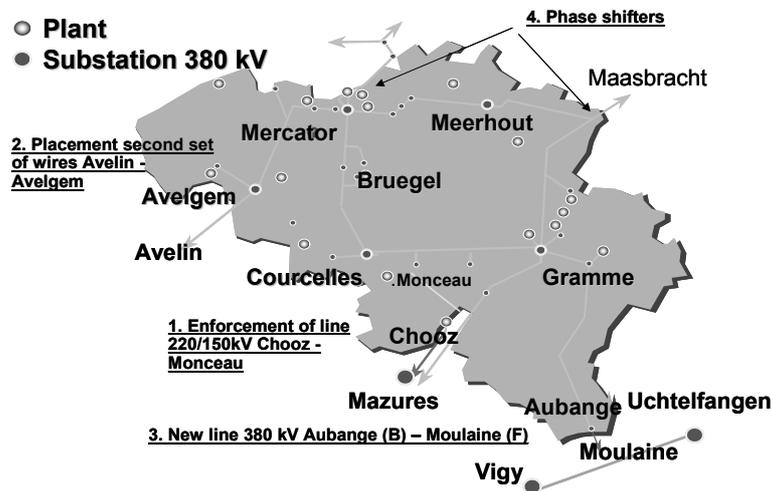


Figure 5: Grid development plan Elia

It should be underlined that transmission grids are not islands. They are actually more and more interacting to create an internal market, even going beyond the geographical area of the classical synchronized zones, by using dc links. This implies that policies from other countries and especially neighboring countries introduce competition for scarce transmission network capacity, and are often conflicting due to a lack of coordination. Increased wind power in the region makes flow in the transmission system more volatile and uncertain, which calls for a stronger coordination in the region. All aspects of future wind expansions in France, Belgium and The Netherlands, including all corresponding costs and other effects on market development should be discussed on a regional basis (Appendix).

The development of a regional market spanning France, Belgium and The Netherlands is in line with European policies and is necessary to make better use of existing and future infrastructure. Note that this is also in the interest of utilities, as it will increase the relevant market, which decreases the likelihood of intervention by competition authorities and simplifies their operation, for instance for

finding balancing power. Naturally all the above is also in the advantage of consumers, as a regional market will be able to operate more cost efficiently and introduce more competition, increasing the competitiveness of the electricity industry in the region.

Figure 6 shows that prices on the Dutch and French Power Exchanges APX and Powernext are already correlated (correlation of 0.45 in 2002 and 0.7 in 2004). In 2002 the average price difference (APX-Powernext) was 9 €/MWh (APX 30 and Powernext 21) and stayed in a range of -5 and +15 for 77% of the hours. In 2003 the average price difference was 17 €/MWh (APX 46 and Powernext 29). In 2004, the average price difference was only 2 €/MWh (APX 30 and Powernext 28) and stayed in a range of -5 and +15 for 93% of the hours.

Not considering 2003 because it was an exceptional year³, the hourly Power Exchange prices in the region converged from 2002 to 2004. Markets are often considered to be fully integrated if the relative prices are constant, i.e. when both prices seem to be determined by a common stochastic trend. However, as discussed in section 1.2, the electricity market consist of several submarkets with many other prices, such as forward, futures, interconnector capacity and balancing prices. Note also that not all submarkets are transparent or yield publicly available prices. It is outside the scoop of this contribution to study available price information to discuss the degree of market integration that already exists. This paper discusses the necessary conditions to allow market integration on all submarkets of the regional electricity market.

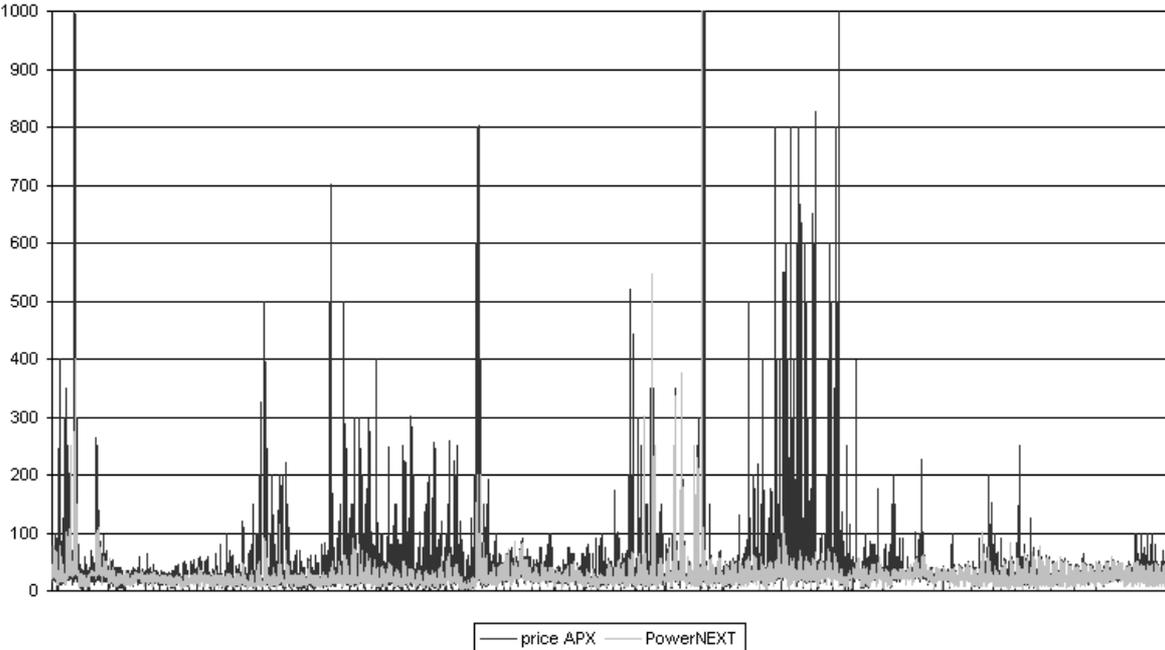


Figure 6: Price (€/MWh) on APX and Powernext 27/11/01 – 31/10/04

³ Extreme heat in the summer caused extreme peak load to coincide with major power cuts due to cool water restrictions

3. Development Regional Market F-B-NL

The EU national diversity is a predictable result of compromises between the Member States. Diversities should diminish during the maturing phase of the reforms. Note however that complete uniformity in market design is not a necessary condition for the creation of a single European market. A regionalization of the actions of regulators will reinvigorate the construction of the internal market, but it is also necessary that TSO's, Power Exchanges and mostly market forces find their interest in building regional internal markets. In what follows measures that can be taken in cooperation with respectively Power Exchanges and TSO's are discussed.

3.1 *Power Exchanges*

According to the Directive 2003/54/EC and statements of ERGEG and the Council of European Energy Regulators (CEER), auctions, both explicit and implicit (thus including Market Coupling), are the only legally accepted methods to allocate cross-border transfer capacity. The TSO auction office already organizes explicit auctions on the Dutch-Belgian border and on the Dutch-German border on a daily, monthly and yearly time horizon. The total available transfer capacity at the French-Belgian border on the other hand, is allocated on a daily and monthly horizon according to "first come, first serve" principle and a priority list, being illegal since 1st July 2004.

The launching of the Belgian Power Exchange (Belpex), expected in 2005-2006, marks the first milestone in the development of a regional market. It is the first time that 3 European Power Exchanges will be linked with a day-ahead market coupling mechanism. The market coupling of Belpex, APX and Powernext from the start of Belpex, has been considered necessary to reach a suitable threshold of liquidity on Belpex. The coupling allows the joint handling of supply and purchase bids on the exchanges, independently of the exchange where they have been introduced. By coupling the day-ahead auctions, liquidity increases one day before delivery and the volatility of the day-ahead reference price is decreased, being important for the well functioning of the market as a whole.

The coupling implies that part of the cross-border transfer capacities on the Belgian-French and the Belgian-Dutch border are implicitly auctioned by the Power Exchanges. In other words, the currently as such illegal allocation mechanism on the Belgian-French border is about to be replaced by a legally correct one. Only daily transfer capacity could be allocated by the Power Exchanges. To avoid the worse efficiency consequences of an arbitrary fractioning of the total available transfer capacity between Power Exchanges and interconnector capacity markets, a secondary market⁴ for transfer capacity could be created with an incentive of the type "use it or sell it". TSOs could also buy-back transfer capacity in this secondary market, so that they could be less prudent in calculating the total available transfer capacities. Moreover, transfer capacity not used and not sold in the secondary market, could be extra capacity for day-ahead market coupling, in which case the transfer capacity owners receive part of the congestion revenue from the implicit allocation. In this scheme, the reallocation of transfer capacity yields information to regulators and TSOs that could be used to improve the initial fractioning. Note that a secondary market is not necessarily the best solution or the only good solution⁵ to an arbitrary fractioning of transfer capacity on the different time horizons, but perhaps the most sensible solution at this stage in European developments.

Market coupling implies that TSO's have to change their overall allocation mechanisms, but coordination, at this stage, should also come from Power Exchanges themselves. Once the coupling is in place, a logical and important step for participants is to harmonize trading platforms, i.e.

⁴ The idea of a secondary market for transfer capacity comes from discussions within the European Federation of Energy Traders (EFET).

⁵ One alternative is to allocate all transfer capacity implicitly and to have financial instruments (e.g. the Nordic contracts for differences or the North American financial transmission rights) for market parties that want to hedge their exposure to geographic electric energy price differences before the day-ahead stage.

harmonizing standardized products, bid submission system, etc. The national regulators should stimulate and support this process.

3.2 TSO (virtual RTO)

European regulation requires the creation of a TSO. France, Belgium and the Netherlands each have one TSO controlling the national control zone, respectively RTE, Elia and TenneT. In what follows, measures that can be taken to improve the transmission and TSO's governance are discussed.

Operations

The TSO is subject to the national grid codes for its operation. The three control zones are part of the same synchronous area, being the Union for the Coordination of Transmission of Electricity (UCTE)⁶. 1 July 2005 the UCTE inter-TSO Multilateral Agreement entered into force, which is a legal instrument making the technical standards of the Operation Handbook binding among the TSOs that are a member of UCTE. The agreement is an important step in developing the security of the synchronously interconnected system of the UCTE, setting out the rights and obligations of each TSO.

Primary frequency control is an important part of the Operations Handbook. Each TSO must contribute to the correction of a disturbance in accordance with its respective contribution coefficient (such an arrangement existed also before the Handbook). These contribution coefficients are the generation capacity of a control area divided by total UCTE generation capacity and are calculated on a regular basis. Primary frequency control alone must be such that a sudden loss of 3000 MW generating capacity must be offset, without the need for load shedding in response to a frequency deviation. In other words, this arrangement includes an obligation for every TSO, which it can fulfill by procuring primary frequency control from generators in its control area. If UCTE rules would allow it, it could be interesting for RTE, Elia and TenneT to be able to procure the obligations imposed on them where it is cheapest within the regional market. In both France and the Netherlands, frequency control services are mandatory and all large generators are obliged to provide them, while in Belgium it is a commercial service. Currently no payment is made in the Netherlands to these generators.

Furthermore RTE, Elia and TenneT should harmonize operations beyond what is imposed by the Operations Handbook. First, the Handbook allows three methodologies for the calculation of cross-border transfer capacity. This still allows TSO's to calculate cross-border transfer capacities independently and consequently apply a 'veto rule' so that the minimum of both is taken. The TSO's should agree on a common transparent procedure to manage the internal interconnections of the regional market. Second, a lot of operational issues are not dealt with in the Handbook. For instance, the same situation observed on the same interconnection can be considered unsafe by one TSO, while it is considered safe by the TSO on the other side of the border. The latter is possible if the tolerated relative short-term overload in (N-1) situations is different between TSO's, which is the case for RTE, Elia and TenneT (Figure 7).

Third, the Operations Handbook does not deal with the use of phase shifters. Traditional power flow control is realized by means of redispatching of generator outputs. In future, phase shifters will be introduced, that can control the power flow within a time period of minutes. Elia is currently installing such devices and TenneT has already installed them and plans more units. There is much to be gained by a coordinated use of the phase shifters on the Belgian-Dutch border and the Dutch-German border⁷. An ad hoc working group in UCTE is starting up to investigate which general guidelines for coordination between TSO's on the use of phase shifters are necessary. However, a regional coordination should and can be in place more rapid than at UCTE level.

⁶ Nordel, GBTSO, ATSOI and IPS/UPS are other synchronous area in the European Union.

⁷ A project to study this in the Benelux is being carried out (TUDelft, KULeuven).

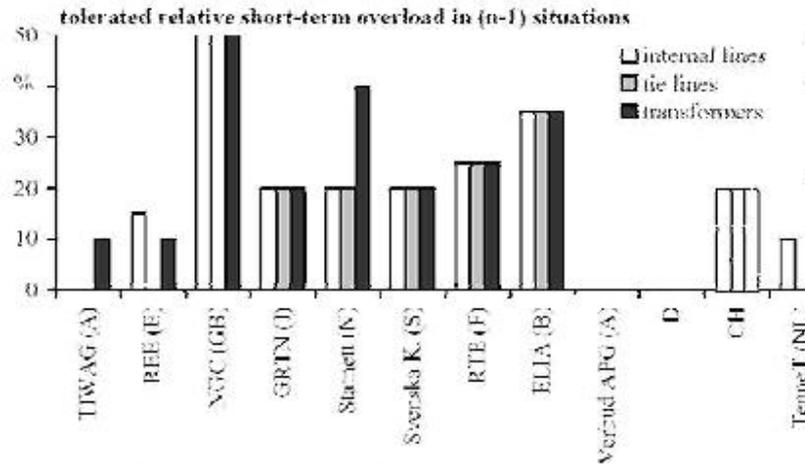


Figure 7: Tolerated relative short-term overload in (N-1) situations (IAEW)

Market facilitation

Gate closure in the Netherlands is 1 hour ahead, in France 3 hours ahead, and in Belgium day-ahead. It is important to have a harmonized timetable in a regional market. If an interconnector connects two systems that use different gate closure times, the earlier gate closure needs to be used for cross-border exchanges, which is day-ahead in the case of Belgium, France and the Netherlands. Therefore, there are no intra-day cross-border transactions in the region so that a lot of opportunities are left on the table. Gate closure of the regional market should allow for intra-day trade. Note also that there is always a risk that national intra-day would be illiquid so that it becomes interesting to organize these markets across borders from the start (as with Belpex).

After gate closure, the TSO balances the system and manages congestion. Balancing can be subdivided into the following activities (ETSO):

- Frequency Control (automatically delivery)
- Reserves and Energy Balancing (manually instructed delivery)
- Other services (e.g. Voltage control (Reactive power), redispatch (resolving congestion))

The possibility of a regional approach to the UCTE frequency control arrangement has already been discussed. For reserves and energy balancing (sometimes called secondary control), the TSO procures regulating and reserve power. Generally it is a commercial service, with the exception of France where secondary control is a mandatory requirement for generators exceeding a certain size, paid on a cost reflective basis. At this moment, only the Netherlands has a real balancing market. A regional balancing market providing a real time price signal should replace the balancing mechanisms, which are not always as transparent. There is a lot of potential in a regional balancing market as the regional generation park is more diverse and more flexible⁸. A regional balancing market in which the three TSO's procure harmonized balancing services can reduce balancing charges for unbalanced market parties. Especially new entrants are highly exposed to balancing charges.

Furthermore, a harmonization of nomination procedure, unbalance settlement, standardized system services, etc. can reduce transaction costs of competing abroad for market parties. Other services such as reactive power support for voltage control are typically local, so that there are fewer opportunities in exchanging these services regionally.

⁸ Note that every plant is able to delivery energy but not every plant is able to control its output or to regulate it with a fast response time.

Tariffs

The TSO is subject to the regulator to approve the transmission tariffs. France, Belgium and the Netherlands are also members of the voluntary association of European Transmission System Operators (ETSO). To stimulate cross-border exchanges, specific transaction charges associated with exchanging electric energy across most of the internal borders of the EU have been removed. Instead, an inter-TSO compensation mechanism is in place since 2002 among ETSO members to compensate TSO's for transits.

However, the national tariff systems themselves can differ widely between control areas. Issues such as the level of repartitioning in G / L, dealing with losses, etc. should be harmonized within the regional market. A situation in which a large proportion of connection costs are socialized (= integrated into the overall grid access price), in combination with a postage stamp with L=100% (and G=0%) should be abandoned. It is as if the behavior of the generators had no impact on the availability or costs of the TSO. This is important, as the transmission tariff is a major factor in the overall price of electric energy delivered.

Investments

The European transmission grid is the backbone of the Internal Electricity Market that besides serving the market has to ensure security of supply and to allow connecting renewables. Transmission grid investments are clearly needed, especially to increase the scarcely available cross-border transfer capacities. Therefore, the regulatory framework in which these investments need to take place is very important.

Since 1996, bottlenecks of common interest are listed via the Trans-European Energy Networks program (TEN-E) of the European Commission. Investment projects alleviating these bottlenecks have the first call on TEN-E funding. In the framework of the TEN-E program, an annual budget of about 20 Million € is spent mainly for supporting feasibility studies. The program generally co-finances feasibility studies – up to 50 % of their budget. In a limited number of cases (3 since 1998) it also co-finances investment projects – up to 10 % of their budget. The TEN-E financing has a relatively minor effect on the overall budget of grid investment projects, but can have a very high political value to support the investment under study.

Congestion revenues can cumulate substantially over several years so that they could be used to finance grid investment projects. However, regulation 1228/2003, Article 6 states that congestion revenue, can be used for one or more of the following purposes:

- (a) guaranteeing the actual availability of the allocated capacity;
- (b) network investments maintaining or increasing interconnection capacities;
- (c) as an 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.

Given the weak interconnectivity at the moment in Europe, it is in the benefit of market parties to use the revenue to invest in the grid (b). The problem is that grid investment projects have to be approved by regulators who could prefer a national, short-term tariff reduction. It is also true that there are no guidelines at this moment for regulators on how to approve a project.

Furthermore, national regulators have no incentives to take into account the common European interest or regional interest of a project, even if they have received TEN-E funding on that basis. Still, coordination is necessary because transmission grids are no islands and for instance an investment on the Belgian-Dutch border can easily be in the benefit of French grid users, etc. Perhaps coordination can start with a joint handling of the congestion revenue that will result from the market coupling initiative.

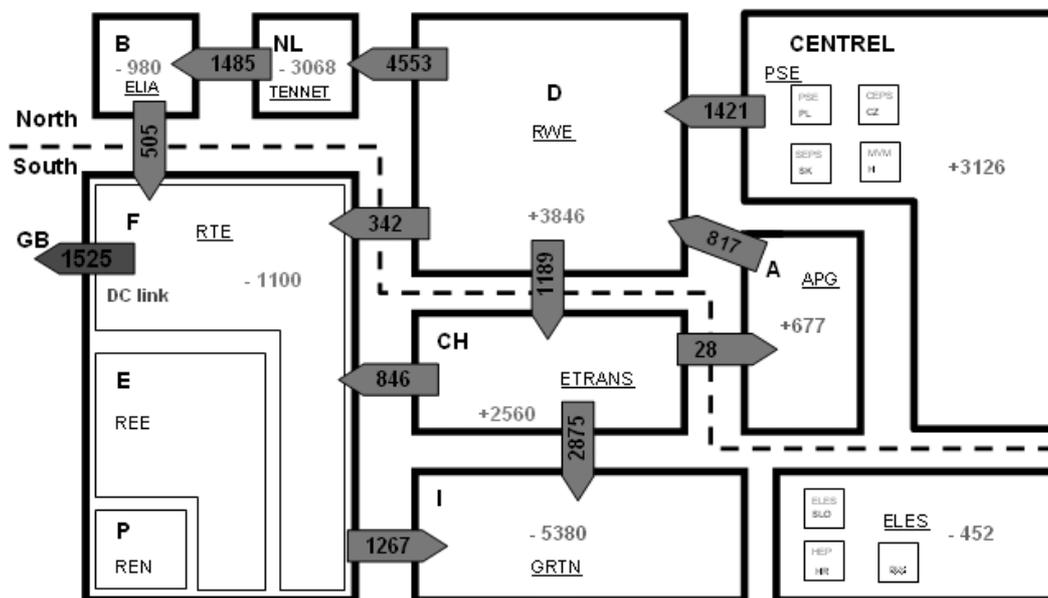
4. Appendix wind power

Wind power constitutes a significant problem for the French, Belgian and Dutch grid. The massive installation of wind energy systems in The Netherlands and Germany (more than 16 GW generating capacity installed already, foreseen to be doubled although the situation may change in Germany) is responsible for difficulties in the grid operation. Two extreme situations may be experienced in practice:

- High wind speeds in Germany leading to high power outputs from wind farms,
- Very low wind **and very high** speeds leading no power output from wind farms as the wind turbines stop due to the under-speed **and upper-speed** protection.

In case of high wind speeds and consequently high power production in North Germany, the power has to find its way to the Southern Germany where the demand centers are located. As the German grid itself is unable to carry these power flows, a significant part passes via The Netherlands, Belgium and France, back to Germany. These flows add to the usual Germany-The Netherlands exports, and stress the already often fully loaded eastern Dutch border. The often congested southern Belgian border is in its turn relieved as the flows caused by German winds generally flow in the opposite direction than the scheduled France-Belgium exports. However, in case of no or very little wind in Germany the wind turbines come to a stop (or very high winds when wind turbines halt to protect themselves) and there is no relieving effect on the southern border of Belgium. As the region where the majority of wind farms are installed covers a rather limited surface area, the increase or drop of generated power happens virtually instantaneously.

The possible installation of an off-shore wind farm for instance on the Thornton bank (up to 2000 MW) or in The Netherlands will cause a need for backup reserve power in case of wind fluctuations. One of the most significant sources of the reserve power is the Franco-Belgian border, meaning that a part of the increased capacity of the reinforced Avelin-Avelgem cross-border line would need to be withheld, limiting to a major extent import and trade possibilities needed for market opening.



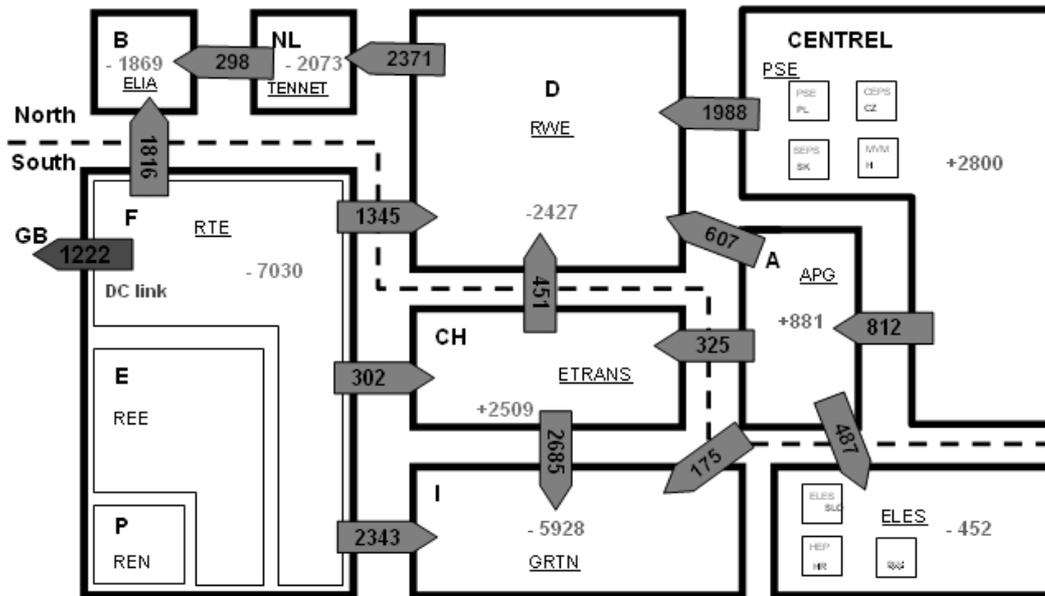


Figure 8: Changing patterns of European cross-border power flows MW as a result of wind power (Tennet)

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Consultation on regional market integration between the wholesale electricity markets of The Netherlands, Belgium and France

Thank you for the opportunity to express our views on possible future integration of the wholesale electricity markets in France, Belgium and The Netherlands.

This letter sets out Statkraft's views and concerns. We have attached to this letter specific answers to some of the questions in the consultation document. In this letter we first address the issues which we believe are necessary pre-requisites for successful regional market integration - communication between TSOs, ring-fencing of income from sales of capacity, market dominance, transparency of information – before discussing the design of capacity allocation mechanisms.

We kindly ask you to treat sections of this letter **highlighted in yellow** as confidential, and not to publish them.

1. Statkraft welcomes efforts to allocate cross-border capacity through improved market mechanisms, and believes changes should be introduced gradually

Statkraft is in favour of market mechanisms to promote efficient allocation of interconnector capacity. The aim should be to achieve a more efficient allocation of resources by reducing barriers to trade and, at the same time, make as much transmission capacity as possible available to the market. Statkraft believes the most efficient allocation of interconnector capacity can only take place if intraday and balancing trading are possible under the allocation mechanism.

Statkraft, from its experience in the Nordic power markets, is also aware of the shortcomings of different mechanisms and of the pitfalls in implementing them. Statkraft believes that changes should be introduced gradually.

Introducing improved market mechanisms will have little effect if the amount of capacity available to the market is not increased. Our support for market mechanisms rests on the assumption that existing capacity can be more fully and efficiently allocated than is the case under the current arrangements.

2. *Market coupling (as used by Nord Pool) allocates interconnector capacity efficiently but does not allow TSOs to lay off appropriately the risks inherent in new investments*

The key advantage of the market coupling mechanism used in Nord Pool is the efficient allocation of scarce capacity at congested points in the grid. However, there is also a disadvantage to the system: when investing in new infrastructure, the TSOs must take on large amounts of risk, which they pass on to grid users in the form of higher grid fees. A better solution would be to allow part of the new capacity to be sold long-term to those market participants who are most willing to take on the risk.

The Nord Pool system emerged after liberalisation of the electricity sector in Norway in 1991 (the other Nordic countries joined subsequently, after their markets were liberalised). But a well-functioning pool system had already existed in Norway for many years before liberalisation. The current system is the result of decades of gradual improvement, rather than the one-time imposition of a new market structure.

3. *The TSOs need to find improved ways of calculating cross-border capacity, if a maximum amount of interconnector capacity is to be allocated*

To reap maximum benefits from market integration, it is important that the amount of cross-border capacity available to the market is maximised. This is also in keeping with article 6(3) of the Cross Border Regulation¹. Currently, much cross-border capacity goes unallocated, because the TSOs adopt an overly cautious approach in their calculations.

In offering capacity, TSOs should take into account their latest forecasts of real flows (as opposed to contractual flows). Rather than hold back from the market a large margin of spare capacity in case of short-term 'loop flows', TSOs should sell more capacity forward and introduce mechanisms for buying capacity back in case of need (for example, by allowing holders of capacity with nominated flows to take part in the balancing mechanisms on either side of the border).

4. *The market needs to receive better investment signals; income to TSOs from sales of cross-border transmission capacity should be identified and used only for the purpose of relieving grid congestion*

The TSOs are in a unique position to prioritise investments to relieve grid congestion. It is important that the TSOs publish the exact locations of bottlenecks in the grid and also the reasons for each bottleneck. Further, the TSOs should publish a priority list for investments in the grid to remove these bottlenecks. Very often, the grids are not constrained at the border between countries but rather somewhere within a national territory. These technical details are currently proprietary knowledge of the TSOs and must be made available to the market so as to provide the best possible investment signals.

Given the close relationships between the TSOs and the incumbent generating companies², there is a real danger of underinvestment unless any revenues to the TSOs from selling capacity are earmarked for the purpose of guaranteeing cross-border capacity and for investments to relieve grid congestion³.

¹ Regulation (EC) No 1228/2003 of the European Parliament and of the Council of 26 June 2003 on conditions for access to the network for cross-border exchanges in electricity

² EdF owns 100% of RTE and Electrabel owns 27,45% of Elia (source: company websites).

³ Article 6(6) of the Cross Border Regulation also admits a third use for TSO revenues "as an 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". However, we urge the DTe, CREG and CRE to ensure that TSO revenue can ONLY be used for projects that specifically relieve grid congestion.

[CONFIDENTIAL]

5. Increased transparency is a key factor

If the three markets are to be integrated through a market coupling mechanism, Statkraft believes the same transparency rules must apply to all three. Statkraft advocates the kind of transparency of information that is currently seen at the Nord Pool exchange. In Nord Pool's rulebook participants are subject to information disclosure obligations⁴. The purposes of the disclosure rules are to ensure equality among participants and a high standard of credibility for the development of prices in the markets. Participants are obliged to disclose immediately to Nord Pool defined information - for example: any plans or changes of plans for maintenance or limitations concerning more than 200 MW in the next 6-week period.

This issue will in any case need to be addressed once the NorNed cable is built, before market coupling can be introduced between The Netherlands and Norway.

6. Optimal allocation of cross-border capacity probably requires a blend of market mechanisms; and certainly requires closer cooperation between TSOs

Statkraft supports the notion that forward capacity should be made available to the market in time frames consistent with the traded products in the markets (i.e. years, seasons, quarters, months, weeks, days), through explicit auctions. The auctioned products can be either physical or financial. The capacity so allocated must be tradeable in the secondary market. In order to reduce the scope for capacity 'hoarding', a maximum capacity should be allowed to any single market participant on any border.

Day-ahead capacity can in theory best be allocated by implicit auction (market coupling). In this case a mechanism is needed whereby market participants are forced to return any unused capacity purchased in the explicit auctions, to the TSOs⁵. The market coupling must take place using a simple and transparent (i.e. published) mechanism. In order for the market operator to correctly assess the supply and demand curves in the different price areas, the market must be structured so that information on volumes and prices traded is available in real-time. Although this is the case in the Nord Pool areas, it has never been the case in the Continental markets, where the bulk of the volume is traded bilaterally and details of trades are not disclosed; achieving this level of information transfer will be a challenge for the market operator and the regulators. If the market operator bases the market coupling mechanism on a small fraction of the market, the allocation of cross-border capacity may not be as efficient as it should be. Further, operating a market coupling mechanism will require far closer coordination between the TSOs than is the case at present between Tennet, Elia and RTE.

Intraday capacity should be made available and we propose that a certain minimum capacity is set aside by the TSOs specifically for intraday purposes. TO this should be added any capacity unused after the day-ahead allocation. Further, as real-time approaches, the TSOs may well be able to reduce the capacity margin they keep from the market in case of unforeseen events, and release additional capacity.

Statkraft believes cross-border capacity should be usable for balancing. Rather than set aside a specific amount of capacity for this purpose, we propose that any user of cross-border capacity should be able to participate in the balancing mechanisms on either side of the interconnector. This should improve the bid ladders in the balancing mechanisms and promote

⁴ See <http://www.nordpool.com/nordpool/spot/index.html>, "Standard Terms for Trading and Clearing in Nord Pool Spot AS' Physical Markets", chapter 9 and enclosure 6

⁵ Note that in the Nord Pool / Kontek system as currently proposed holders of long-term capacity will be able to ask the TSOs to dispatch the capacity each day on their behalf, thus guaranteeing optimal dispatch.

a more efficient balancing market. Naturally, implementing such a system requires the TSOs to coordinate balancing mechanisms so that linked bids and offers can be made in the systems at each end of the interconnector.

Cross-border intraday and balancing trade requires far closer cooperation between the TSOs than is the case at present between Tennet, Elia and RTE.

7. *Introducing market-coupling means trade volumes will migrate from OTC to exchanges*

If market coupling is introduced, the power exchanges will have a stronger role and a unique position in the market. The regulators should ensure that the fees charged by exchanges are reasonable and encourage trade and efficiency. Information about structure of the charges and existing fees at Nord Pool can be found at <http://www.nordpool.com/nordpool/spot/index.html>.

8. *Summary and recommendations:*

- We reiterate our support for the allocation of cross-border capacity through improved market mechanisms.
- Such mechanisms will only bring real improvements if the amount of cross-border capacity available to the market is maximised; this requires TSOs to adopt a new approach and to communicate more closely than is the case today.

[CONFIDENTIAL]

- Whatever the allocation mechanism for cross-border capacity, limits must be placed on the maximum capacity rights of any single market participant, and capacity must be tradeable in the secondary market; capacity should also be usable for intraday and balancing trade.
- Ultimately, the optimal allocation mechanism will most likely be a blend of explicit auctions (for forward capacity) and market coupling (for day-ahead capacity). Market coupling should only be introduced once the necessary communications between TSOs and the necessary market transparency have been achieved.

We recommend that the regional market integration be approached gradually in small steps in the following order:

1. Limit the capacity that may be held by any single market participant on any border
2. Improve communications between the TSOs, and reporting of market information
3. Introduce explicit auctions at borders where a market mechanism does not exist
4. Co-ordinate intraday and balancing markets and allow holders of cross-border capacity to participate in such markets
5. Address issues of market power and of giving the correct investment signals; ensure revenue to the TSOs from sales of capacity is earmarked for investments to reduce grid congestion
6. If at this stage it seems that there are still benefits to be gained from introducing market coupling, then start with only a small amount of capacity earmarked for day-ahead market-coupling, and evaluate the system before increasing the amount of capacity allocated in this way

We would of course be happy to meet at your convenience to present our views and discuss the issues with you.

Yours faithfully,

Stef Peters

Managing Director

Statkraft Markets B.V.

Enclosure: Statkraft answers to specific questions in the consultation document

Statkraft answers to specific questions in the consultation document

1. What is your preference for the selection of the time frames for the explicit auction mechanism (annual, quarterly, monthly, weekly and day-ahead)?

Optimally all of the time frames will be auctioned at various times. Annual capacity should be auctioned one month before delivery starts; monthly capacity 1-2 weeks before delivery; weekly capacity one the Wednesday or Thursday of the previous week.

2. The allocation of the available capacities on different time frames can be based on the following principles:

- a. A maximum of capacity is allocated on a longer term basis, and the remaining capacities are allocated on shorter time frames.
- b. A predefined ratio (%) is chosen for the different time frames.
- c. A minimum of capacity is foreseen for specific time frames.

Which of the principles mentioned above (or a mix of them) do you recommend for the allocation of the available capacity on different time frames?

Type b. In the end, all the capacity that has not been allocated or is not being used should be made available to the market in the daily auction (except for capacities set aside for intraday allocation, see below)..

3. What type of price-setting mechanism (marginal price, pay-as-bid, ascending, etc.) do you recommend for long and medium term products (e.g. yearly, monthly) and why?

Pay-as-bid for long-term capacity and marginal price for medium/short term.

4. Is it necessary to limit the interconnector capacity (volume cap for import and/or export capacity) that can be given to a market party and if necessary, which value should be imposed for the different time frames?

Yes. This could be a similar rule as the Dutch borders where the maximum value per party is 400 MW (out of roughly 1300-2000 MW available). This cap should be an aggregate of all the time frames.

5. To what extent do you recommend the allocation of yearly and /or monthly capacities in a single round or in two or more different sessions per year and why?

This depends on the allocation regime (see question 2). If the allocation regime results in large amounts of capacity of a given time frame being auctioned, it would be preferable to auction it over more than one session.

6. Do you consider it to be important, in order to prevent strategic capacity withholding, to limit *ex ante* the possibilities for a market party to nominate energy in both directions? If so, which propositions would you recommend?

No.

7. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive behaviour?

Yes.

8. Do you consider it to be important to create a secondary market for transfer of cross-border transmission capacity rights? If so, what form of transfer of capacity rights should be allowed:

- a. A free transfer of capacity rights through a bilateral secondary market with final reconciliation by the TSO?
- b. An organized transfer of capacity rights through a centralized re-allocation under the TSO's responsibility in the subsequent explicit auctions time frames?

A secondary market is important. A bilateral market is preferable, as this allows market participants some price discovery before deciding whether to use or re-sell their capacity.

9. What type of commitment should the TSO's provide with respect to the allocated

capacities/nominated programs?

- a. Firm and definitive in both cases, except in case of "force majeure"?
- b. Reductions of capacity and /or nominated programs are possible under a very strict regulation with respect to the duration of the reduction, the compensation mechanism for any reduction, etc.?
- c. No firmness at all?
- d. A mixture of cases a, b and/or c? Please explain your commitment preferences.

a). Capacity should always be as much as technically possible and as firm as possible. In coping with unforeseen bottlenecks/problems in the grid, redispatch should always be the primary measure taken by the TSOs.

10. In the case of questions 9b and 9c, where a reduction of the available interconnection capacity/nominated programs is possible, what would be your preferred reduction rule (mainly when the reduction is known after the short term allocation):

- a. To reduce firstly the long term assignments?
- b. To reduce firstly the short term assignments?
- c. To reduce proportionally both long and short term assignments?
- c).*

11. Do you recommend an obligatory use (a constant strip for the whole duration of the product) of long and medium term products?

No! This would not result in efficient allocation of capacity.

12. To what extent do you consider it of importance to oblige the market parties to firmly nominate their long and medium term capacity rights sufficiently in advance before day-ahead allocation, and why?

It is highly important to ensure that unused capacity can be made available to the market in the day ahead auctions. However, the deadline for nominations should be as late as possible, consistent with the timing of the day-ahead allocation.

13. Under the condition that day-ahead explicit auction is implemented, to what extent do you consider the firm nomination of these day-ahead capacity rights to the TSO sufficiently before the intraday sessions as an effective way to counter strategic capacity withholding, and why?

Very important especially given the limited amount of capacity available.

14. What level of harmonisation (auction rules, gate closure time, etc.) do you recommend for the organisation of explicit capacity auction for long, medium and short term time frames on the two borders? Please specify what aspects require harmonisation.

15. The determination of cross-border capacities foreseen for yearly and monthly allocation is not always coordinated across borders. Which importance do you give to the implementation of a more coordinated capacity calculation method?

This is very important. It is a key way to ensure that as much capacity as possible is made available to the market.

16. Regarding the above questions (1 to 15), to what extent do your answers apply to the other borders (the French-UK, French-German and Dutch-German interconnections) as well?

The above answers are general answers and apply to other borders as well.

17. Which market-based congestion management method do you prefer to manage the dayahead cross-border congestion on the French-Belgian and Belgian-Dutch borders;

- a. A trilateral DAMC mechanism between the three power exchanges, APX, BELPEX and POWERNEXT?
- b. A day-ahead explicit auctions between the three TSO's, TENNET, ELIA and RTE, or
- c. A mixture of the above? Please specify.

Although a trilateral DAMC mechanism theoretically results in the most efficient allocation of capacity, Statkraft prefers (b) – explicit auctions, until various preconditions are in place (see covering letter).

18. Could you give your opinion on the pros and cons of the congestion methods mentioned in question 17, particularly in terms of flexibility, simplicity, market power mitigation, risk management, implementation costs, netting of capacities, liquidity, etc.?

(b) is clearly easier to implement than (a) or (c). See our covering letter..

19. In the case of an implementation of the DAMC, give your opinion about the cross-border capacity that should be allocated to the DAMC process:

a. The potentially volatile remaining capacity (after the allocation of long and medium term explicit auctions and the release of capacity by the market parties, pursuant the article 6.4 of the regulation)?

b. A predetermined fixed minimum capacity? If so, which one?

c. The potentially volatile remaining capacity plus a predetermined fixed minimum capacity?

d. All the capacity?

(a), and note that we prefer for a fixed minimum capacity to be set aside for intraday trading.

20. Do you think that the launching of the Belgian Power Exchange could be realised without simultaneous implementation of the DAMC?

Yes. In fact the exchange should be launched first without the implementation of DAMC, and DAMC should only be introduced once all the preconditions are satisfied (see our covering letter).

21. What harmonization issues between the existing Power Exchanges do you see as important for implementing the DAMC (block bids' definition and treatment, price settlement, time frames, etc.)? For each of these issues, could you precise what is your preference?

22. Do you wish the establishment of a cross-border intraday trade and, if so, why:

a. To revise its day-ahead position in case of physical disturbance (outage of a generation unit for example)?

b. To make some new, or not already done, price arbitrage?

c. For all purposes?

d. For other purposes?

(c). Intraday cross-border trade should be possible whether or not a DAMC mechanism is in place. Optimally, cross-border intraday trade should be possible for all purposes (as with intraday trading within a TSO zone). Intraday trading should be an integral part of a liberalized power market because it delivers the same benefits as wholesale trading in general.

23. Do you think cross-border intraday trade should be limited to one of the above particular purposes? And, if so, why?

No.

24. In case you agree with the establishment of cross-border intraday trade, what market and/or regulatory obstacles need to be removed before such a trade can be implemented? Please specify.

This is mainly a matter of cooperation between the TSOs.

25. Do you consider it suitable to reserve an amount of the cross-border capacity to the intraday allocation mechanism, or should capacity only be made available for intraday trade that has not been previously allocated and/or used at the day ahead allocation?

An amount of capacity should be reserved for intraday cross-border allocation.

26. Do you consider it useful to limit ex ante the possibilities of nomination in the intraday market

in order to prevent potential ineffective market outcomes such as:

- a. a market party who would nominate energy in both senses in order to withhold capacity, or
- b. a market party who would shift its imbalances into the neighbouring market in order to benefit from differences in the balancing market designs, or
- c. other anti-competitive or free-riding behaviours?

If so, which propositions would you recommend?

No.

27. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive or free-riding behaviour?

Yes.

28. Do you consider it relevant that the capacity rights allocated in the intraday framework (so near the real time) correspond to obligations (rather than options) to use/nominate the equivalent energy and, if so, why?

Yes, to avoid potential hoarding of capacity.

29. How do you think this cross-border intraday trade should be implemented:

- a. By allowing market parties to realise cross-border intraday trade in the limit of the capacity rights obtained in the day-ahead explicit auction mechanism (in the case where an explicit auction is implemented in day-ahead)?
- b. By allowing market parties to obtain specific intraday capacity rights through a specific cross-border capacity allocation method (in order to allocate the non-used or the notalready-sold capacity)?
- c. By a combination of the two above proposed methods?

(b), see question 25.

30. In the case where a specific intraday cross-border capacity allocation is implemented, which allocation method do you consider the most appropriate for organizing this intraday trade (taking into consideration the possibility of concentrating trade in single shot or continuous trade):

- a. A market coupling procedure extended to the intraday time frame?
- b. An explicit auction procedure?
- c. A free pro-rata, where demanding market parties would receive an intraday capacity proportionally to their demand?
- d. A "merchant" pro-rata with an access price based on:
 - i. the day-ahead price differential (in the case where a DAMC is implemented in day-ahead), or
 - ii. the day-ahead capacity price (in the case where an explicit auction is implemented in day-ahead)?
- e. A free first-come/first-served procedure?
- f. Another method?

(b).

31. Do you wish the establishment of cross-border balancing trade and, if so, why?

Yes, this should lead to the most efficient allocation fo cross-border capacity.

32. How do you think this cross-border balancing trade should be implemented and why:

- a. By allowing market parties to realize cross-border balancing trade in the limit of the capacity rights obtained in the day-ahead or intraday explicit auction mechanism (in the case where an explicit auction is implemented at these time frames)?
- b. By letting the TSO to manage the cross-border balancing trade in the limit of the available capacity (integration of balancing markets)?
- c. By another method?

a). Holders of capacity should be able to place linked bids/offers in the balancing mechanisms at each end of the interconnector, and to renominate their portfolios in real time to the extent that this relieves grid congestion.

33. What do you think about the differences in market designs between the three existing balancing mechanisms and a possible need for harmonisation? Please specify.

34. To what extent do you agree that market design differences may result in arbitrage between them? If so, do you propose countermeasures? Please specify.

Program responsible parties should always have an obligation to nominate a balanced portfolio. However, to the extent that cross-border balancing power might be cheaper at any given time than local sources, it makes sense for holders of interconnector capacity to be able to bid into balancing mechanisms. See question 32.

35. Do you consider it necessary to avoid any reservation of cross-border interconnection capacity for the balancing needs of TSO's before the end of every intraday trading session, during which market parties are the only ones to intervene?

Yes.

36. Do you consider it suitable to reserve an amount of the cross-border capacity to the balancing mechanism?

No.

37. What types of information in each of the three countries are currently not available and should be made available to the market? Please indicate:

- a. A precise denomination of the data you want to be released to the market.
- b. If relevant, the delay after real time (or before, for forecasted information) at which the data should be delivered.
- c. If relevant, the desired time frames of the data.
- d. If relevant, the period covered by the data.
- e. Your preference concerning the disclosure of this information (to the public or only to the market parties concerned?).
- f. The level of priority of this information.

We would highlight the example of the Scandinavian market with its high degree of transparency. Both demand side data (load and price) and also supply side data (plant availabilities, maintenance schedules, price) are publicly available close to real time. In addition, forecast data is available, together with the history of forecast data for market parties to assess the quality of the forecasts. As a general principle, we believe all information available to the TSOs and power exchanges should immediately be made public, unless there are robust reasons of commercial confidentiality for not doing so.

38. In your view, based on your practical experience in the Dutch, Belgian, French and/or other markets, which examples of market transparency should be taken as a basis for harmonisation efforts?

See question 37.

39. The market information that is currently available is not always easily accessible, different formats are used and the information is published by different entities like TSO's, PX's, regulators and others.

- a. Do you think that access to market information must be improved? If yes, what should be the role of TSO's, PX's, regulators and other entities?
- b. Should formats be harmonised between the three countries? If yes, what is currently the best example for formatting the different types of information?
- c. Should definitions and interpretations be harmonised? If not, why? Or, if yes:
 - i. On what topics?

ii. What is currently the best example which should be used as a basis to harmonise the different definitions and interpretations?

It is more important to make information public than to harmonise formats. The bulk of the work of publishing will rest with TSOs and PXs. See also question 37.

40. To what extent do you agree with the above analysis concerning regional market integration and (potential) abuse of market power (paragraph 7.1)?

[CONFIDENTIAL]

41. To what extent do you agree with the above analysis concerning the cooperation between regulators in the three countries (paragraph 7.2)?

[CONFIDENTIAL]

42. To what extent do you expect the integration of the Dutch, Belgian and French electricity markets to influence the market power of market parties that are already dominant in their incumbent markets?

[CONFIDENTIAL]

43. To what extent do you agree that market power mitigation on dominant market parties should be implemented before regional market integration and/or market coupling can be successfully implemented and, if so,

a. Why do you agree?

b. What type of measure do you propose against what market party or market parties and why?

[CONFIDENTIAL]

Regional market integration between the wholesale electricity markets of the Netherlands, Belgium and France

– RWE Trading's position to the questions of above mentioned consultation paper –
Dr. Thomas Niedrig, Heribert Kresse, Michael Beienburg, Dr. Karl-Peter Horstmann

1. We recommend the allocation of cross border capacity for years, months and days using explicit auctions. The allocation of cross border capacity for day-ahead should be handled via a hybrid system, i.e. a combination of implicit and explicit auction. For intraday and balancing power purposes intraday capacity auctions should be handled as an implicit auction following the ELBAS methodology.

Reason(s): *Yearly, monthly and daily products are the most liquid traded products and spread trading requires firm transmission rights to be structured alike. Intraday Trading across national borders reduces generation costs and heavily improves system stability in EU countries.*

2. Capacities for each period should be based on a known and predefined ratio, i.e. one-third for each, the year, month and daily auction. Unused and or residual capacity out needs to be available for intraday.

Reason(s): *If majority of cross border capacity is dedicated to mirror most liquid products we estimate the best effect of a common EU-market for electricity. International Intraday Trading across the national borders reduces total volume of needed reserve generation capacity in the EU and/or makes the Transmission System more reliable.*

3. We do support the marginal price method for capacity allocation in all reasonable timescales. For intraday capacity allocation a permanent trading platform comparable to the ELBAS-System in the Nordic market (implicit auction) appears to be more appropriate.

Reason(s): *If marginal price will be relevant as clearing price most participants will bid their real costs. From an economical point of view this methodology generates the maximum of "general welfare".*

4. In general and for all time scales we think that limiting the total sum of capacity bids for each market participant is not reasonable. Moreover this market rule would hamper a secondary traded market for transmission rights which RWE Trading strongly supports.

Reason(s): *Local or EU cartel offices are responsible if – in worst case – a market participant misuses the capacity auction to abuse a dominant position or is setting up a dominant position for price manipulation.*

5. A one round auction is preferred.

Reason(s): *Pls. see point no. 3. Moreover considering that multi stage auctions maximizes the value of the (auctioned) good, it is not a reasonable goal of capacity auction to maximize the revenues of regional grid monopolies (TSO).*

6. There is per se no reason to prevent long term nominations. Applying the “use it or loose it” principle is helpful to avoid misuse of capacity allocated via explicit auctions. However one would expect that price differentials between markets change and thus long term nominations are not effective from a market point of view.
Reason(s): *Pls. also see point no. 4.*
7. We think that an *ex post* market monitoring is helpful to design new or modify existing market rules which ensures a competitive market behaviour of all market participants.
Reason(s): *If a distorted market is in need for an adequate remedy a constantly monitored electricity market gives objective data to change the market rules and conditions on a short term basis. Case-driven appeals at the cartel offices are only long term solution in most countries.*
8. Transmission capacities and the embedded rights should be freely tradable between all market participants. In the first stage an OTC basis is reasonable to bring liquidity into the markets.
Reason(s): *Capacity rights are comparable with an ordinary “swaption” a well known trading product. Trading of this (transmission) swaptions improves market efficiency. OTC trading of these transmission rights is far more realistic than an exchange based trading.*
9. Transmission right need to be firm with the exception of *force majeure*.
Reason(s): *Transmission infrastructure is in the responsibility of European TSO’s. They have the maximum degree of information about the grid and are best suited to assess the risk of outage. To offer firm transmission TSO’s should be obliged to take any reasonable efforts to assure transmission firmness i.e. countertrading arrangements and reserve contracts with generators*
10. RWE Trading does not envisage any need for different priority of curtailment when transmission rights are defined properly (firm) by TSO’s. When transmission rights are defined differently (9b/c) reduction should be *pro quota*.
Reason(s): *The value of transmission (or the damage for not fulfilling a delivery obligation due to unforeseeable congestion) is the same no matter when the contract was made.*
11. Obligatory use might not reflect the optimal usage of a given transmission capability at any point of time. RWE Trading therefore supports a “use it or loose it principle” for mid and long term capacity rights.
Reason(s): *The “use it or loose it” protects the market appropriately against strategic blocking of capacity between connected (regional) markets.*
12. In order to apply the use it or loose it principle it is necessary that long term transmission rights are nominated before the day ahead auction takes place..

Reason(s): TSO's need to know/calculate the capacity available for day ahead auctions.

13. Referring to point 2. and point 9. we recommend that all capacity which is sold to the market is firm. Grid operators have to ensure that system stability calculations will be recalculated and offered on an hourly basis. For implicit allocation of Intraday capacity the TSO would need to be market maker on the trading platform.

Reason(s): Unfirm capacity – compared with firm capacity – gives a right to the grid operator to curtail the once given capacity. Hence this reduces an uncertain part of value of this capacity right and causes an economically non-efficient process.

14. General rules and systems should be the same across all interconnections. Gate closure should be sequential with transmission to the most liquid market (Germany) being the last capacities to be auctioned.

Reason(s): Uniform rules and systems reduce operational risk and effort. A well defined sequence of gate closures avoid to be trapped in markets with low liquidity and dominant players.

15. To bring maximum efficiency to the common EU electricity, the market capacity should be maximized for EU members first. TSO's in adjacent countries should facilitate this by undertaking all appropriate and necessary efforts to maximize the mentioned transfer capacity between these regional markets. In this context an independent office, e.g. organized under the responsibility of TSO's, for the allocation of European transfer capacities might be helpful to maximize these usable transfer capacities and to ensure fair conditions for an EU congestion management.

Reason(s): Managing a "multi-side congestion" is a complex task. In a meshed market system it can only be managed if all market players agree to the same rules and market conditions. Furthermore non EU-members which are connected to the UCTE-grid – e.g. Switzerland – are in the position to manipulate transmission capabilities of all neighbour border capacities without being affected from disadvantages.

16. With the limitations given in point 15 RWE Trading's answers apply to the borders in F, GB, NL and DK.

17. A mixture of both allocation procedure, explicit auction and DAMC, values the capacity most for all market participants. Explicit auctioned capacity has to be provided to the exchanges by the buyer for DAMC. The revenue for the buyer of the capacity is the difference between auction price and the price differential out of the DAMC.

18. see 17.

19. The remaining (not used) cross border capacity out of the long term auctions and a certain minimum of capacity should be allocated to the hybrid system (combination of implicit and explicit auction)..
20. The BELPEX could be launched without DAMC but liquidity would be very limited compared with DAMC.
21. The following harmonization issues have to be solved:
- time frame
the time schedule of Powernext and APX has to be harmonized. Today the APX spot market takes place at 10.30h and Powernext spot market at 11h. We prefer for both exchanges and so for BELPEX 11h. In addition also the time schedule for the nominations to the grid operators (TENNET, ELIA and RTE) have to be extend. We prefer 1 o'clock at least for all countries.
 - products and definition
all the products (blocks) and their definitions in the three exchanges have to be harmonized. As products we prefer product which have been successfully implemented at the European Energy Exchange:
 - base (0h-24h)
 - peak (8h-20h)
 - off-peak 1 (0h-8h)
 - night (0h-6h)
 - morning (6h-10h)
 - high-noon (10h-14-)
 - afternoon (14h-18h)
 - evening (18h – 24h)
 - rush hour (16h – 20h)
 - off-peak 2 (20h-24h)
22. Cross border intraday trading should be possible for all purposes for a functioning common EU market for electricity. To utilize cross border capacity to the maximum extent the capacity for intraday trading should be limited due to the aspects in point 2.
Reason(s): *Cross border intraday trading is done between international market players since decades. For that reason there is no reason to implement this feature, it's still in place for several reasons. E.g. for system stability and reasons of grid reserve which was transferred across the border of D-F, D-CZ etc.*
23. There should be no product limitation for cross border trades. If a priority list is needed to treat given intraday capacities reserve and balancing power trades should be prior.
Reason(s): *If reserve and balancing power can be transferred across the border then system stability should be improved.*
24. As far as we can see national regulations obliged traders to flat out their trading positions at day ahead. An intraday trade is only possible on basis of

re-nomination of a once given schedule (=nomination). For a liquid intraday and cross border intraday market it is necessary to set up new nominations within intraday time window.

25. Pls. see our position stated in point 2.
26. A limitation of ex ante capacity nomination for cross border intraday purposes is – from today's point of view and consideration of point 2. – not reasonable.
Reason(s): *Cross border capacity for intraday purposes are very limited due to point 2. Therefore we can't see a real chance to utilize remaining intraday capacity to abuse a dominant position or to destroy competitors market positions. All TSO's balancing methodologies are dedicated to compensate grid imbalances. If there is a chance to arbitrage the grid balancing methodology in one country it is possible for every market participant in this market to do this arbitrage. Using a neighbour market would make no sense (market price in neighbour country plus capacity charges are close to market price) at all.*
27. For the time being RWE Trading can't see any noticeable risk of market abuse by blocking cross border intraday capacities. If there is or will be a need to avoid anti-competitive or free-riding behaviour, an ex ante monitoring of the electricity market movements and signals might be useful. Basis for that should be objective, transparent and non-discriminatory criteria.
28. On intraday basis there should be no "use it or lose it principle".
Reason(s): *As stated in point 2. and following points it is reasonable (e.g. improving system stability) to certain degree of utilizing cross border capacity for reserve and balancing power purposes. Due to the nature of an option (the counterparty has the right but not the obligation to nominate) the use "it or lose it principle" destroys market potential for reserve and balancing power.*
29. For intraday capacity allocation RWE Trading prefer implementing a permanent trading platform comparable to the ELBAS-System in the Nordic market, which is working like an implicit auction.
Reason(s): *"First come first serve" is no market based allocation methodology. Especially if "first come first serve" mechanism is implemented without any cost allocation to the buyer of capacity the mechanism can be misused by market players to block main shares of (intraday) capacity.*
30. RWE Trading supports implicit auctions in line with the ELBAS methodology for intraday capacity allocation only. Pls. see point 29 as well.
Reason(s): *The described "pro rata" and "first come first serve" mechanisms are no market based allocation methodologies. Our experience with the German-Polish and German Czech border has shown that e.g. "pro rata" mechanism did make it very easy to misuse the allocation method.*
31. RWE Trading is strongly supporting cross border balancing trades.
Reason(s): *Transferring reserve and balancing power across the border increases system stability of UCTE grid. Similar to the process for standard*

products prices for balancing power products (e.g. tertiary reserve) will be harmonized in the EU.

32. The methodology for transferring balancing power should be similar to the intraday use of cross border capacity described in point 3. If day ahead capacity is needed it should be used prior for spot market use.
Reason(s): *Due to technical reasons the full amount of national reserve and balancing power can't be transferred across Europe. But for giving the right price signals for reserve and balancing power and for improving the reliability of the network stability it is reasonable to transfer a share of reserve and balancing power products to neighbour grids. Due to the fact that the spot market is more or less liquid but the (optional) day ahead deals of reserve and balancing power products is illiquid it makes no sense to block cross border capacity on an day ahead basis*
33. Under consideration of the commercial treatment of generation capacities reserve and balancing power are conventional options with short term exercise. Because of that these options are very valuable in the electricity market. **Buyers** of these kind of options are mostly grid operators, sellers are mostly generators or traders. Under this light e.g. the Dutch mechanism to force generators to give a "free option" to the grid operators (unused capacities are forced to be in reserve mechanism) is not a market based solution. RWE Trading supports any kind of balancing methodology which pays out the fair price of these options. On the **sellers** side RWE Trading supports any methodologies where all market participant with residual supply/generation will benefit from overall portfolio effects. Moreover there should be no price spreads for buy or sell from the balancing system because of generating windfall profits to the grid operators. Under this light the Belgian, Dutch and French balancing mechanism is no market based solution for users of the balancing system. The German balancing mechanism at E.ON, EnBW, VET and RWE – without any spread and with full payback of portfolio effects – leads into a market based reliable methodology.
34. If the balancing mechanism doesn't apply to the market rules (price competition etc.) the market will try to find arbitrage between the balancing and conventional power market. Most of the rules to hamper arbitrage of the system failed. Best protection to ensure a safety reserve and balancing power portfolio is a balancing mechanism which follows the market rules. In other words: Implementing a balancing mechanism where prices following mainly market prices in the different time windows. If there are some minor price differentials market players may do some arbitrage for balancing power. These minor arbitrage will increase system stability because these arbitrage is directed to stabilize the system. E.g. selling power to balancing system when system is undersupplied and (in a market based balancing mechanism) prices are above market is supporting system stability. Buying power from balancing system when system is oversupplied and prices are below market is supporting system stability as well.

35. Beside TRM capacities which blocks a certain amount of capacity for network security reasons there should be no long and mid term reservation for reserve and balancing power. For short term and especially for intraday basis a prior treatment for reserve and balancing power makes sense.
Reason(s): *Pls. see argumentation in point 32.*
36. Pls. see RWE Trading position in point 35.
37. Demand data and information about generation aggregated by fuel type should be made available ex post as well as export and import flows ex post and as far as reasonable. Data with hourly granularity should be available ex post with as little delay as possible (i.e. the following day). Information needed to assess intra day opportunities need to be available in real time (ie. spare capacity of an interconnection) and forecasted by TSO.
Reason(s): *Information needed to resemble supply/demand fundamentals are important to improve understanding of market and thus building trust into market prices. Ex post publication would assure that positions of all market participants are equally protected and that various suppliers of forecasting tools could build competitive services upon those information.*
38. There is no market in Europe providing a blue print for market transparency. RTE ´s publications on (historic) load and cross border flows however could be rated as an example of how to provide this information, with the necessary adoptions.
Reason(s): *RWE Trading is convinced that information about market participants active in the competitive area (generation, trading and retail) need appropriate protection. Research companies and information provider are able to develop market intelligence services as in any other industry provided that sufficient data is published ex post.*
39. Gathering information should become easier by TSO ´s and exchanges agreeing to standard publication standards.
Reason(s): *There is no need for a centralized approach to publish market information but using the same formats helps market participants to reduce operational costs i.e. by automatic download of relevant information from a webpage.*
40. Especially in Belgium and France, where main parts of generation and supply are in the hand of a single company we can agree to the conclusion that there is a risk of market manipulation of these dominant market players. Moreover this fact might bear the risk to dominate the B-, F- and NL cross border capacities and relevant prices for buying these capacity shares. RWE Trading has a strong interest in having fair, liquid and well working regional markets which are – commercially and electrically –connected to the maximum extent. Basis for this is that all neighbour markets should have the same interest (e.g. Switzerland and some Nordpool countries follow more or less their own commercial interests). RWE Trading therefore supports that the a.m. European

regulatory issues are examined and resolved in an appropriate manner by the competent authorities.

41. Following RWE Trading's position on market power in point 40 it makes sense that there is an effective coordination between the national regulatory bodies in place.
42. As long as
 - overall EDF is the dominant player (generation- & capacity-wise),
 - Electrabel etc. are the dominant players in local markets, and
 - capacities between the different countries are heavily congestedRWE can see only a limited potential for increasing market integration in the nearer future.
43. Developing properly working regional markets can be a very effective way to mitigate and even destroy dominant positions. It is however difficult to determine what a dominant position is and size alone i.e. measured in MW generation capacity is a misleading figure as usually big market players also ensure that markets are working properly (e.g. as a market maker at power exchanges) and provide liquidity to the markets. Without having any evidence that a mayor player is abusing his position we do not believe that regulators should take an ex ante measures.



**REGIONAL MARKET INTEGRATION
BETWEEN THE WHOLESALE ELECTRICITY
MARKETS OF THE NETHERLANDS ,
BELGIUM AND FRANCE**

**IBERDROLA's response to the DTe, CREG and CRE
consultation**

**IBERDROLA
September 2005**

REGIONAL MARKET INTEGRATION BETWEEN THE WHOLESALE ELECTRICITY MARKETS OF THE NETHERLANDS, BELGIUM AND FRANCE

Introduction

First of all, IBERDROLA wants to thank You for the invitation to express its opinions and views. As a market participant with daily operations in the three concerned markets, we very much welcome the efforts of the Regulators to address regional market integration in a joint manner.

Secondly we are happy to find, that regulatory authorities consider market mechanisms as a preferable means of congestion resolution which affect a large number of european electricity interconnectors.

In order to avoid an inefficient use of cross-border-capacities, the proper design of capacity allocation systems is crucial. In this respect we think that explicit auctions are the best means of congestion management, as they allow the market to decide on the optimal use of interconnectors. Auctions are also a way to deal with concentrated market power, as liquidity would be “exported” from more active markets towards the less developed ones.

From our experience, some important aspects for the correct functioning of capacity auctions are:

- Transparent and verifiable rules for the calculation of ATC values and equal access to information for all market participants.
- Coordination (auction schedules, terms of auctioned products etc.) between national regulators and transmission system operators.

- Firm and tradeable capacity rights.
- Incentives to maximize commercial capacity.
- Transparent and efficient use of auction revenues in line with the European Union Regulation No 1228/2003. Windfall profits for regulated businesses should be avoided.

Finally it is important to note that even optimal implementation of Regional Market Integration and cross border trading can not eliminate deficiencies inherent to the underlying power markets.

Below please find IBERDROLA's answers, that follow the enumeration of the consultation document.

2. Long term and medium term explicit auctions mechanisms

1- Quelle est votre préférence pour le choix des échéances de temps auxquelles les produits d'enchères explicites doivent être proposés (annuel, trimestriel, mensuel, hebdomadaire et journalier) ?

IBERDROLA prefers annual , quarterly , monthly and day-ahead auctions. We consider these time frames should correspond to the most liquid products negotiated in OTC markets. Similar auction products should be implemented on all concerned borders.

2- La répartition des capacités disponibles entre les différentes échéances de temps peut être fondée sur les principes suivants :

a. un maximum de capacité est alloué sur le terme le plus long et la capacité résiduelle est allouée à des échéances plus courtes.

b. un ratio prédéfini (%) est choisi pour répartir les capacités entre les différentes échéances de temps.

c. une capacité minimale est réservée pour des horizons de temps spécifiques.

Lequel des trois principes mentionnés à la question 2 (ou un mélange des trois) vous paraît le plus adapté ?

IBERDROLA prefers an allocation based on minimum capacities for each contract type. Minimum quantities should reflect the TSOs best estimations of available transfer capacity.

3- Quelle méthode d'enchère (prix marginal, « pay as bid », enchère ascendante, etc.) préconisez-vous pour allouer les capacités de long et moyen terme et pourquoi ?

IBERDROLA considers that a marginal price mechanism is able to deliver a solid price signal. In contrast to a (closed) pay-as-bid systems it difficults anticompetitive behaviour of auction participants.

4- Pensez-vous qu'il soit nécessaire de limiter les capacités⁴ (à l'importation et/ou à l'exportation) qu'un acteur est en droit d'acquérir⁵ et si oui, quelle limite devrait être imposée aux différentes échéances de temps?

In IBERDROLA's opinion it is not necessary to limit the interconnector capacity for individual market parties. Within the established legal framework, market forces should decide on the allocation of capacities. Furthermore we consider that such rules would not meet current EU Regulation on undiscriminated access to electricity grids.

5- Pensez-vous qu'il soit préférable d'allouer les capacités annuelles et/ou mensuelles en une seule fois ou en deux ou plusieurs sessions et, si oui, pourquoi ?

We think it could be a better choice to do the allocation of yearly capacity in two different sessions for example each six months and of monthly capacity in one single round. Different allocation sessions better reflect contracting in power markets.

6- Jugez-vous important, dans le but d'empêcher certains comportements stratégiques (rétention de capacité), de limiter *ex ante* les possibilités de nominer de l'énergie dans les deux directions ? Si oui, quelles propositions recommandez-vous ?

IBERDROLA thinks that in a properly designed market, ex-post revision of cross border flows is sufficient. Interventions in market decisions should be reduced.

7- De manière alternative, considérez-vous qu'une surveillance de marché *ex post* peut être suffisante pour empêcher ce type de comportement anti-concurrentiel ?

see 6

8- Jugez-vous important de créer un marché secondaire de capacités ? Si oui, quelle forme ces transferts de capacité devraient-ils prendre :

a. des transferts libres réalisés dans le cadre d'un marché secondaire bilatéral avec une réconciliation finale par les GRT ?

b. des transferts organisés à travers une ré allocation centralisée réalisée par les GRT dans le cadre des enchères explicites suivantes ?

IBERDROLA recommends a mixture between option a) and b) (allow both) We judge it very important to create a secondary market for capacity contracts.

9- Quel type d'engagement les GRT devraient-ils fournir par rapport aux capacités allouées et aux programmes nominés ?

a. Ferme et définitif dans les deux cas (capacités allouées/programmes nominés), excepté en cas de « force majeure » ?

b. Les réductions de capacité allouées et/ou de programmes nominés sont possibles mais dans un cadre bien défini à l'avance tant en matière de durée des réductions qu'en matière d'indemnisation, etc. ?

c. Pas de fermeté?

d. Un mélange des cas a, b et/ou c? Merci d'expliquer vos préférences.

a) IBERDROLA considers that firm capacities are a basic requirement for pricing and credibility and in order for the market participants to be operational in the adjoining markets. Firmness should be guaranteed by TSO's.

10- Dans les cas 9b et 9c, où une réduction des capacités allouées et/ou des programmes nominés est possible, quelle serait selon vous la règle de réduction optimale (principalement lorsque la réduction est annoncée après l'allocation de court terme) :

a. Réduire en priorité les droits alloués à long terme ?

b. Réduire en priorité les droits alloués à court terme ?

c. Réduire de manière proportionnelle tous les produits sans distinguer les échéances de temps auxquelles ils ont été alloués ?

As mentioned in the previous question TSOs should guarantee the firmness of the capacity

11-Etes-vous favorables à ce que des produits de long et moyen terme soient assortis d'une obligation de nommer pendant toute la durée du droit ?

No, cross border flows should be scheduled according to economic sense. An obligatory use of long and medium term products could lead to market distortion.

12- Dans quelle mesure pensez-vous qu'il soit important d'obliger les détenteurs de droits alloués à long et moyen terme de nommer fermement leurs droits suffisamment en avance de l'allocation journalière 9, et pourquoi ?

IBERDROLA thinks the best option is firm nomination of all Cross-Border-Capacities after exchange settlements. This enables market participants to economically optimise cross-border schedules. Possible spare capacities may then be allocated in intraday mechanisms.

13- Dans l'hypothèse où une enchère explicite journalière serait mise en place, dans quelle mesure considérez-vous qu'une nomination ferme, auprès des GRT, et suffisamment avant les sessions infra journalières, des droits acquis au cours de cette enchère journalière, est susceptible de constituer un moyen réel d'empêcher des stratégies de rétention de capacité ?

IBERDROLA considers that all acquired capacity rights should be nominated on the day before delivery with the possibility to change nominations on intraday basis. Acquired capacity that market parties do not wish to use can be auctioned in following sessions and obtained revenues should be reimbursed to the market participant. This system makes capacity withholding unattractive.

14- Quel degré d'harmonisation (dans les règles d'enchères, les horaires de fermeture des guichets, etc.) préconisez-vous pour l'organisation des enchères de long et moyen terme, ainsi que dans

l'allocation journalière, sur les deux frontières? Merci de spécifier les aspects nécessitant une harmonisation ?

IBERDROLA sees need for harmonisation in the following aspects (ordered by priority):

Auction procedures, Contract definitions, Gate closures for Nominations, Data formats and documentation and credit requirements.

15 – La détermination des capacités d'interconnexion pour les échéances annuelle et mensuelle n'est pas toujours coordonnée à travers les différentes frontières. Quelle importance accordez-vous à la mise en place d'une méthode de calcul plus coordonnée ?

As much coordination as needed to maximise Available Transfer Capacity in interconnected systems (taking into account flow dependences of neighbouring grids).

16- En ce qui concerne les questions ci-dessus (1 à 15), dans quelle mesure pensez-vous que vos réponses s'appliquent également aux autres frontières (les interconnexions France- Grande-Bretagne, France-Allemagne, Allemagne-Pays-Bas)?

Above answers are meant to apply to all borders. Nevertheless individual structures of each market should be taken into account. Markets with major market concentration need stricter rules.

3. Assessment of the Day Ahead Market Coupling

17- Quelle méthode de gestion de la congestion préférez-vous voir mise en place pour gérer la congestion journalière aux interconnexions France-Belgique et Belgique-Pays-Bas :

a. Un mécanisme de couplage des trois marchés organisés (DAMC), APX, BELPEX et POWERNEXT?

b. Un mécanisme d'enchères explicites journalières entre les trois GRT, TENNET, ELIA et RTE, ou

c. Un mélange des deux méthodes ci-dessus ? Merci de préciser.

As we mentioned before IBERDROLA is in favour of explicit auctions.

18- Pourriez-vous donner votre opinion sur les avantages et inconvénients des méthodes de gestion mentionnées à la question 17, particulièrement en termes de flexibilité, simplicité, atténuation des pouvoirs de marché, gestion des risques, coûts de mise en oeuvre de chaque méthode, « netting » des capacités, liquidité, etc.?

Pros and Cons:

- Even though a DAMC system seems to be easier to operate for market participants, it favours trading via exchanges over OTC markets (causing typically higher transaction costs).
- Explicit auctions may have a direct effect on supply competition to end consumers, due to the yearly term of the retail contracts.
- DAMC requires liquid and well functioning markets on both sides of the interconnection to work properly .
- DAMC has so far not been implemented and there is no experience with this system, while capacity auctions are successfully conducted on many European borders.

19- Dans le cas d'une mise en oeuvre du DAMC, quelle est selon vous la capacité d'interconnexion qui devrait être allouée à ce mécanisme :

a. La capacité résiduelle, potentiellement très volatile, (i.e. la capacité restant disponible après les allocations explicites de long et moyen terme

et la remise en jeu par les acteurs des capacités non-utilisées, conformément à l'article 6.4 du règlement européen) ?

b. Une capacité minimale fixe préalablement déterminée ? Dans ce cas, laquelle ?

c. La capacité résiduelle plus une capacité minimale fixe préalablement déterminée ?

d. Toute la capacité ?

We think main capacity allocation should not be done by DAMC. However spare capacity after day-ahead auctions could be allocated by DAMC.

20- Pensez-vous que le lancement d'une bourse d'échange belge pourrait être réalisé sans la mise en place simultanée du mécanisme de couplage DAMC?

As we stated before, any market mechanism would improve liquidity in the Belpex. But the market must provide sufficient liquidity and number of participants before implementation of DAMC.

21- Quels aspects d'harmonisation entre les bourses existantes considérez-vous comme importants pour la mise en oeuvre du mécanisme DAMC (définition et traitement des blocs, prix de règlement, horaires des « clearing », etc.) ? Pour chacun de ces points, pourriez-vous préciser vers quoi tend votre préférence ?

The degree of harmonisation should enable the DAMC algorithm to run properly.

4- Cross-border Intraday Trade

22- Etes-vous favorables à la mise en place d'un commerce transfrontalier infra journalier et si oui, pourquoi :

- a. **Pour réviser les programmes journaliers en cas de défaillance physique (arrêt d'une unité de production par exemple) ?**
- b. **Pour réaliser de nouveaux arbitrages de prix ?**
- c. **Pour ces deux raisons ?**
- d. **Pour d'autres raisons ?**

IBERDROLA thinks intraday schedules are important for commercial adjustments (b) and outages of generation assets (a). Additionally, it is a prerequisite for participation in balancing market.

23- Pensez-vous que le commerce transfrontalier infra journalier devrait être limité à une des finalités mentionnées ci-dessus ? Si oui, laquelle et pourquoi ?

Acquired capacity should be used for the purpose the market participant wishes to use it for (with surveillance of anti competitive strategies).

24- Dans le cas où vous êtes favorables au développement du commerce transfrontalier infra journalier, quels obstacles de marché et/ou obstacles réglementaires vous semble-t-il nécessaire d'éliminer avant que de tels échanges puissent être réalisés ? Merci de préciser.

Harmonisation of timetable for intraday gate closures.

TSOs must accept temporarily imbalanced cross border positions (until last available intraday gate)

25- Jugez-vous utile de réserver un volume de capacité minimale pour les mécanismes d'allocation infra journaliers, ou pensez-vous que la capacité non allouée et/ou non utilisée après l'allocation journalière soit suffisante ?

IBERDROLA thinks that TSOs should only make available Intraday Capacities resulting from:

- Netting of cross border nominations.
- Previously allocated capacities that have not been nominated.
- Previously offered capacities that have not been allocated.

An intraday capacity reserve is not necessary.

26- Jugez-vous utile de limiter ex ante les possibilités de nomination d'échanges transfrontaliers infra journaliers de manière à empêcher des comportements potentiellement inefficaces tels que :

a. Un acteur de marché qui nominerait de l'énergie dans le sens opposé aux nominations journalières afin de faire de la rétention de capacité ou,

b. Un acteur de marché qui déplacerait ses écarts dans le marché voisin afin de profiter des différences d'organisation entre les différents marchés d'ajustement,

c. D'autres types de comportements anti-concurrentiels

Si oui, quelles propositions recommanderiez-vous ?

In a properly designed auction mechanism capacity withholding is unattractive due to the price that has to be paid for capacity.

The same applies to imbalance shifting if prices for imbalances are set by a market mechanism in all markets.

27- De manière alternative, considérez-vous qu'une surveillance de marché ex post pourrait être suffisante pour empêcher ce type de comportement ?

Ex-post monitoring may provide sufficient regulatory support.

28- Trouvez-vous pertinent que les capacités allouées dans le cadre infra journalier (donc proche du temps réel) correspondent à des obligations (plutôt que des options) à nommer/utiliser l'énergie correspondante, et si oui, pourquoi?

If market participants have to pay for the Intraday Capacity, we see no need to restrict its usage to firm positions. If Capacity is allocated via non market based mechanisms firm positions should be held.

29- De quelle manière pensez-vous que le commerce transfrontalier infra journalier devrait être organisé :

a. En permettant aux acteurs de marché de réaliser des échanges infra journaliers dans la limite des capacités acquises lors de l'enchère journalière (dans l'hypothèse où une enchère explicite est mise en place pour cette échéance de temps) ? Ou,

b. En mettant en place une méthode d'allocation spécifique de la capacité infra journalière dans laquelle les acteurs de marché auraient la possibilité d'obtenir de la capacité non encore allouée et/ou non encore utilisée lors des allocations précédentes ?

c. A travers une combinaison des deux méthodes proposées ci-dessus ?

IBERDROLA would choose option c, to allow market participants to modify all types of capacity contracts until last intraday gate closure in order to have a maximum of flexibility.

30- Dans le cas où une méthode d'allocation spécifique de la capacité infra journalière serait mise en place, quelle méthode d'allocation pensez-vous être la plus appropriée pour organiser ce commerce infra journalier (compte tenu de la possibilité de concentrer ces échanges en un seul guichet ou de manière continue) :

a. Une procédure de couplage des marchés étendue à l'horizon infra journalier ?

b. Un mécanisme d'enchère explicite ?

c. Un mécanisme de pro-rata gratuit, dans lequel les acteurs de marché demandeurs obtiendraient de la capacité infra journalière proportionnellement à leur demande

d. Un mécanisme de pro-rata « marchand » avec un prix d'accès basé sur :

i. Le différentiel de prix journaliers (dans le cas où un mécanisme DAMC est mis en place en journalier) ou,

ii. Le prix de la capacité journalière (dans le cas où c'est un mécanisme

d'enchère explicite qui est mis en place en journalier) ?

e. Un mécanisme « premier arrivé-premier servi » gratuit ?

f. Une autre méthode ?

IBERDROLA would favour option b), explicit auction procedure or , alternatively, system of continuous trading coordinated by the TSOs.

5. Cross-border balancing trade

31- Etes-vous favorables à la mise en place d'un commerce transfrontalier d'ajustement et si oui, pourquoi ?

IBERDROLA is strongly in favour of cross-border balancing trades. Possible benefits are: more competition and lower prices in the balancing market and increased security of supply. Moreover new trading opportunities are created.

32- De quelle manière pensez-vous que le commerce transfrontalier d'ajustement devrait être organisé :

a. En permettant aux acteurs de marché de réaliser des échanges d'ajustement dans la limite des capacités acquises lors de l'enchère

journalière ou infra journalière (dans l'hypothèse où des mécanismes d'enchère explicite sont mis en place à ces échéances de temps) ? Ou,

b. En laissant les GRT gérer entre eux les échanges d'ajustement dans la limite des capacités encore disponibles ?

c. Selon une autre méthode ?

IBERDROLA thinks that the TSOs should decide if there is sufficient cross border capacity to execute the bids of market participants (previously acquired commercial capacity should not be used for balancing trades). We think it is important to allow direct participation of market participants. The balancing arrangements on the France-Spain interconnector may serve as a reference for other markets.

33- Que pensez-vous des différences de « design » entre les différents marchés/mécanismes d'ajustement existants, et existe-t-il selon vous un besoin d'harmoniser ces « designs » ?

Merci de préciser.

IBERDROLA is in favour of a maximum of harmonisation. In this respect, disclosure of data by the dutch balancing market and cross border participation in the french balancing market may serve as a role model.

34- Dans quelle mesure partagez-vous les craintes selon lesquelles les différences de « design » actuelles peuvent conduire à des stratégies d'arbitrage entre les marchés ? Le cas échéant, quelles mesures correctrices recommanderiez-vous ? Merci de préciser.

Each bid into balancing markets should be backed by a firm position (trading positions, generation assets or qualified consumption sites) in any of the interconnected markets in order to avoid gambling between different balancing markets.

35- Considérez-vous nécessaire d'éviter que de la capacité d'interconnexion soit réservée pour les besoins d'ajustement des GRT avant la fin de chacune des sessions infra journalières, au cours desquelles seuls les acteurs de marché sont censés pouvoir intervenir?

We think that commercial contracts between market participants should have priority over balancing transactions. ATC for commercial use should not be adjusted due to balancing requirements. Only spare capacity should be used for cross-border balancing trades.

36- Pensez-vous qu'il soit opportun de réserver un volume de capacité d'interconnexion minimal pour le commerce d'ajustement ?

see 35.

6. Market transparency

37- Selon vous, quels types d'information dans chacun des trois pays ne sont pas actuellement disponibles aux acteurs du marché et devraient l'être ? Merci d'indiquer :

a. La dénomination précise des données dont vous souhaiteriez pouvoir disposer.

b. Eventuellement, le délai après le temps réel (ou avant pour les prévisions d'information) après lequel il est nécessaire que les données soient disponibles.

c. Eventuellement, les échéances de publication que vous souhaiteriez.

d. Eventuellement, la période couverte par les données.

e. Votre préférence en matière de diffusion de cette information (au public ou aux seules parties intéressées ?).

f. Le degré de priorité de ces informations.

Proposals for publication ordered by priority (we are aware that some of the information is already being published in some markets):

- 1- Maintenance schedule for generation assets.
- 2- Forecast of total system demand for the next 24 hours, (PTU 1h)
- 3- Real time power production and consumption
- 4- International exchanges
- 5- Regulation state of the system and price for imbalance
- 6 - Three best bids into the balancing markets published within 24 hours after settlement .

Our experience from the Spanish market shows that disclosure of this data increases transparency and confidence in the market. We think that it does not violate confidentiality of business information. The possibility to observe the behaviour of other market participants increases competition among these. As in the Spanish electricity market most of the above information is freely available, we suggest to adopt similar disclosure obligations for other European markets.

38- Selon vous, sur la base de votre expérience sur les marchés néerlandais, belge, français et/ou sur d'autres marchés, quels exemples de transparence de marché pourraient servir de base à une future harmonisation ?

In general and as mentioned in question 37, we think that publication of information by the Spanish market operator (OMEL) and the Spanish System operator (REE) may serve as a role model for disclosure obligations in other markets. As to the concerned markets of this consultation we want to point out:

- Information published by the Dutch Balancing Market
- Intraday cross border capacity evolution published by RTE in its website.

39- Les informations sur le marché actuellement disponibles ne sont pas toujours d'un accès facile ;différents formats sont utilisés et les informations sont publiées par des entités différentes telles que les GRT, les bourses d'électricité, les régulateurs ou autres.

a. Pensez-vous que l'accès aux informations de marché doit être amélioré ? Si oui, quel devrait être, en la matière, le rôle respectif des GRT, bourses d'échanges, régulateurs et autres entités ?

b. Est-ce que les formats de données ont besoin d'être harmonisés entre les trois pays ?Si oui, quel est le meilleur exemple de format pour diffuser toutes ces informations ?

c. Est-ce que les définitions et interprétations des informations ont besoin d'être harmonisées ? Sinon, pourquoi ? Si oui :

i. Sur quels sujets ?

ii. Quel est le meilleur exemple qui pourrait servir de base pour l'harmonisation?

a) Exchanges could publish data related to commercial trading (settlement prices , traded quantities, offer and demand curves). TSOs should be responsible for system operational data like interconnector capacities, system demand, maintenance schedules, outages and balancing mechanisms.

b) Format should be harmonised as far as possible. IBERDROLA prefers duplicated formats : Publication in html on web sites plus email messages either in ESS Format (ETSO Recommendation) or EDIFACT (if possible a unique subset).

c) In general harmonisation helps to make comparison between different markets.(e.g.Dutch and French peak load definition).

7 Market power and cooperation between regulators

40- Dans quelle mesure partagez-vous l'analyse ci-dessus concernant la relation entre l'intégration régionale des marchés et les abus (potentiels) de pouvoirs de marché (paragraphe 7.1) ?

IBERDROLA thinks that if regional integration is based on harmonised rules and sufficient cooperation between Regulators and TSOs, it clearly helps to improve competition in all concerned markets.

41- Dans quelle mesure partagez-vous l'analyse ci-dessus concernant la coopération entre régulateurs des trois pays (paragraphe 7.2) ?

IBERDROLA welcomes the exchange of information between Regulators and TSOs. Data exchange regarding a specific market participant should be justified by circumstances that suggest it to be necessary. In any case the market participant should be given notice of such event.

42- De quelle façon pensez-vous que l'intégration des trois marchés est susceptible d'influencer le pouvoir de marché des acteurs actuellement dominants ?

IBERDROLA thinks that the effects on market power depend on the overall size of the 3 regional markets and the current competitive situation in each of them. We consider that mayor effects might be observed in relativley smaller markets with distributed market shares (Netherlands) rather than in the bigger or concentrated markets (France, Belgium).

43- Dans quelle mesure êtes-vous d'accord sur le fait que l'atténuation des pouvoirs de marché des acteurs dominants devrait constituer un préalable à l'intégration régionale des marchés et/ou à la réussite du couplage des marchés (DAMC) et si oui,

a. Pourquoi êtes-vous d'accord ?

b. Quelle type de mesure proposeriez-vous pour contrer ces pouvoirs de marché et pourquoi ?

IBERDROLA thinks that Capacity Auctions offer equal opportunities for all market participants and can contribute to mitigation of regional market power. However they can not compensate for a lack of national wholesale markets and monopolistic market structures. We think that there are minimum requirements, as to national energy regulations and market structures, for market mechanisms to take effect.

GABE A.S.B.L.

GROUPEMENT DES AUTOPRODUCTEURS
BELGES D'ELECTRICITE.

GABE V.Z.W.

GROEPERING VAN AUTOPRODUCENTEN
VAN ELEKTRICITEIT IN BELGIE.

Brussels, September, the 5th, 2005.

C.R.E.G.

Rue de l'Industrie, 26-38.
1040 BRUXELLES.

Object:

**REGIONAL MARKET INTEGRATION BETWEEN THE WHOLESALE
ELECTRICITY MARKETS OF THE NETHERLANDS, BELGIUM AND FRANCE**

GABE ANSWER

TO THE CONSULTATION BY DTE, CREG AND CRE

1 INTRODUCTION

1.1 BACKGROUND

The Liberalisation of the electricity sector was to insure a European electricity market that would be competitive and that would increase security of supply and European competitiveness.

The European transmission network financed at Cost+ was to promote international competition in the single electricity market.

In many countries, like Belgium and France, the company that had a virtual monopoly in the electricity sector largely dominates the electricity production of the country, only about ten percent of the production capacity of which being shared among competitors.

De facto,

- Only those previous monopolists, with powerful, efficient and partially amortised electricity production parks are able to make bids to supply large energy consumers with electricity at competitive prices. Indeed, a new producer, with relative higher costs and a limited power, will prefer to sell its electricity to smaller clients.
- For the supply to electro intensive consumers, the only possible competition is the international competition between the large producers of nearby countries.

Logically, the liberalisation of the electricity sector had in mind the “European single market” with, at least for starts, one market for each large area, such as Western Europe without Italy or Spain.

However, the current implementation of the liberalisation uses the borders to impede this « European single market » and to keep a lot of national markets, « Village Markets » as it were, each of them in the hands of its historical producer, which is free to impose its own electricity price. How ?

- The European Commission is in favour of an allocation of cross-border capacity between two countries according to market-based mechanisms, while it is obvious that the markets do not work !
- Some actors want to impose explicit auctioning and market coupling mechanisms, that imply the payment of a “border-crossing toll” which is close to the difference between the electricity prices of the two national markets. It is a real « customs duty » which adapts itself to the market price differentials, which destroys the advantage of importing and which is inconsistent with the creation of Europe.
- The traders want a « Market of the Grid » and even secondary markets for the trading of cross-border capacities, whereas one knows from the beginning that the Liberalisation with third party access to the network requires free access to that network, which has to be regulated and financed at « Cost + » !
- « Daily nominations » allow each cross-border capacity owner to decide on daily basis not to transfer the allocated power across the border. This way, during the monthly or annual cross-border capacity allocation, they prevent from considering “netting” (compensation) between import and export and limit each of them to the physical capacity that can be allocated.
- The capacities to be allocated monthly are ridiculously low. They are limited by the reservation of capacity for historical contracts and for the excessive loop-flows generated by the bordering network operators.

The management of cross-border capacity France-Belgium is a major stake for the survival of large industrial consumers in the three countries.

1.2 ABOUT THE SURVEY :

GABE questions the ground of a consultation that limits the annual and monthly allocation methods to explicit auctioning. This method has been requested by the electricity sector but has been strongly rejected from the beginning by the consumers.

GABE is against the following ideas:

- «... usage of the inter-connectors must be the result of efficient trade »
- « Improvement and harmonization of the existing allocation mechanisms on the continental European network through the implementation of a coordinated explicit auction mechanism”

GABE asks the Regulators

- how one can deal with integration of the French, Belgian and Dutch markets without considering Germany and its borders. Indeed, the electricity exchanges between Germany and the considered markets are not negligible and must be integrated – together with the characteristics of the German grid - in the equations of any « coordinated » allocation method.
- why some cross border capacities like France-Belgium vary with the seasons while other ones do not seem to be influenced by them ?

Lastly, GABE is surprised to read : « It is hoped that a consensus will emerge from this consultation and will help the three regulators to decide on the best way to answer these questions.”

In all markets traders try to raise the prices and customers try to lower them !

After all, the Member States and the Regulatory Authorities will have to take the responsibility to choose between

- satisfying the electricity sector
- the competitiveness of the electro-intensive industries of their countries.

2 GABE'S POSITION

In the framework of the liberalisation, **the network is regulated according to a « cost+ »**.

One should therefore reject all « networks of the grid » and, accordingly, **explicit auctions, the allocation of the whole cross-border capacity to « Market-Coupling » with all kinds of financial covers, “Coordinated Auctions”, “Coordinated Market-Coupling”, ...**

2.1 FINAL SOLUTION :

In order to tend to a « European single market », GABE requests to rapidly

- **regroup in one « price zone » , without any electricity borders anymore, Belgium, the Netherlands, France and Germany.** Those are neighbouring countries with production parks the costs of which are similar enough (though to a lesser extent for the Netherlands) to allow mutual competition between their producers (N.B. : the import and export fluxes of a country cancel each other out, therefore only the differential will induce its interconnections).
- **appoint a « super zone TSO »**
 - which will manage the interconnections and the parts of the network which are significant for international exchanges,
 - which will have to optimise the **resolution of congestions through investments and/or re-dispatching.**
 - which will coordinate the actions of national TSOs.
- **Spread the decongestion costs, which are limited, among the countries and integrate them in their transportation tariffs,** either evenly, or according to the “inter-TSO compensation mechanism”.

2.2 TEMPORARY MANAGEMENT OF THE BELGIAN–FRENCH BORDER :

2.2.1 Increase of the France-Belgium cross-border capacity :

Significant and rapid de-bottlenecking of interconnections, as planned by Elia.

Maximisation of the cross border capacities to be allocated, by :

- imposing a **cooperation between network operators with respect for the interests of the countries ;**
- **setting an official limit to the powers of the loop-flows a network operator can generate across neighbouring countries, in the form of a percentage of their cross border capacities ;**
- introducing **de-phasing-transformers in all B-NL interconnections, in order to limit loop-flows** generated by France and Germany.

2.2.2 Transparency and Information :

Should be controlled by the regulator(s) and published in all transparency :

- the cross-border capacities – physical net (NTC), reserved, to be allocated – and their methods and calculation hypotheses, their parameters and their results;
- all pertinent information about those values, in real time ;
- the real usage rates for each capacity type, afterwards.

2.2.3 Spread of the F-B Capacity :

- One should above all prevent the cross-border capacity which is financed by consumers from being monopolised by the international trading operations for the only benefit of the traders.

- Required spread :

A priori, the Stock Exchange should receive a share of cross-border capacity according to its share in the supply to the consumers, but it needs more, for its liquidity.

Monthly and annual capacities have to be strongly increased. At the moment, they are far too low to face the demand, while daily capacities are too high for their usage.

Therefore, France-Belgium cross-border capacity has to be spread this way :

- Annual and monthly capacities according to bilateral contracts for supply to the consumers ;
- Daily and infra-day capacities at BelPEX ;
- The strong decrease of annual/monthly capacity due to a few hours of works on the interconnections has to be dealt with by production coordinated re-dispatching ; the TSOs have to compensate the lack of physical capacity compared with the annual/monthly capacity, during an hour H, by an increase of production in Belgium and a decrease of production in France. The financial differential between the payment for the production in Belgium and the payment for the lack of production in France represents a re-dispatching cost. The TSO have to define optimal capacities, considering the re-dispatching costs. The cost of cross-border capacity allocation integrates this re-dispatching cost and the administrative costs of the TSOs, brought down to the annual/monthly MW.
- **In priority, the maximum capacity has to be allocated annually** (after the first stage of increase of the interconnections, it should be minimum 1500 MW ; a lower value should be justified in details to the Regulatory Authorities).
- Afterwards, **each month, the maximum of the remaining capacity has to be allocated as monthly capacity.**
- On daily basis, the balance of the daily capacity is allocated at the Stock Exchange.
- Those **optimised capacities and their costs have to be controlled by the Regulatory Authorities.**

2.2.4 Annual and monthly F-B capacity allocations:

Principles of annual-monthly F-B capacity allocations :

Those capacities have to be allocated **in the form of physical capacities**

- **at the strict cost, per MWh, of the optimised re-dispatching and the administrative costs** of the network operators, in order to promote competition through import
- in the shape of « **obligatory use** » blocks, **without D-1 nominations**; to insure the full use of this capacity and to allow « netting »
- with a limit to **one player per group of bound companies**, in order to avoid « gaming »
- **every player which, with its bound companies, supplies more than 10% of the destination market being excluded**
- **each bid being limited to 12,5 MW** if possible, or to 25 MW in the worst case, with a minimum of 1 MW
- each actor being allowed to make several bids
- **multi-slices allocation, with each slice considering one single bid per player**
- payment of the successful bids:
 - recommendation: **pay as bid differentials** (offered price – average price of the successful bids + costs of the network operator, with a threshold on 0 EUR).
 - otherwise, **at least : pay as bid.**

Notice that the « bid differential » system fulfils the "market based" criterion while allocating capacity at decongestion cost.

See example in the annex.

2.2.5 Option : Consumer Protection:

Optionally, those methods can be adapted to insure that the consumers will take advantage of the price differential of the imported electricity and to prevent the use of annual and monthly capacities for sheer trading purposes through the Stock Exchange, which already benefits from daily capacity.

Recommendation:

- **To limit the total of the** annual and monthly **capacities** requested by each actor to his average power purchases of the last 12 months.
- **Deliver systematically the imported electricity either within the balancing perimeter of the consumer or at the off-take points of the supplied consumers** (excepted the resale of the block by the concerned consumer when his site consumes less).

N.B. :

Coordinated Allocation Method :

Our principles of cross-border capacity allocation based on costs can be integrated in “coordinated methods” that optimise allocations by numerical simulation of the corresponding physical fluxes.

3 ANSWERS TO THE QUESTIONS OF THE CONSULTATION

3.1 LONG TERM AND MEDIUM TERM EXPLICIT AUCTION MECHANISMS

Please specify for the French-Belgian border and/or the Belgian-Dutch border:

1. What is your preference for the selection of the time frames ~~for the explicit auction mechanism~~ (annual, quarterly, monthly, weekly and day-ahead)?

Annual, then **monthly** and then **day-ahead**.

Afterwards, add **multi-annual**.

2. Which of the principles mentioned in question 2 (or a mix of them) do you recommend for the allocation of the available capacity on different time frames?

Principle « a » : a maximum of capacity is allocated on a longer term basis, and the remaining capacities are allocated on shorter time frames.

3. What type of price-setting mechanism (marginal price, pay-as-bid, ascending, etc.) do you recommend for long and medium term products (e.g. yearly, monthly) and why?

Those capacities have to be allocated at the strict cost, per MWh, of the optimised re-dispatching to remedy the interconnection un-availabilities and the administrative costs of the network operators ; this in order to promote competition by import.

If the authority imposes auctions against the opinion of the consumers,

- one should, **at least, choose for a « pay as bid » to limit gaming and to force the actors to express realistic values**
- but GABE recommends to pay for each successful bid:
Price as bid LESS weighed average of the prices of the successful bids PLUS the administrative costs and decongestion costs to remedy the interconnection un-availabilities this, per MWh, with a threshold at 0 EUR.

4. Is it necessary to limit the inter-connector capacity (volume cap for import and/or export capacity) that can be given to a market party and if necessary, which value should be imposed for the different time frames?

Yes.

- **Limit to ONE actor per group of bound companies**
- **Exclude from importation every actor whose group of bound companies supplies more than 10% of the destination market.**
- **Limit every actor to 5% of the total allocated capacity between two countries, all timeframes considered.**
- **Allocate annual and monthly capacities by bids of about 10MW.**

5. To what extent do you recommend the allocation of yearly and /or monthly capacities in a single round or in two or more different sessions per year and why?

To allocate each type of capacity in a single round, in order to have sufficient power to allocate.

6. Do you consider it to be important, in order to prevent strategic capacity withholding, to limit *ex ante* the possibilities for a market party to nominate energy in both directions? If so, which propositions would you recommend?

Yes :

No nomination of energy in both directions

Penalties if that allocated capacity is insufficiently used

For a given allocation, each actor may receive cross-border capacity only one way.

If allocations are not « obligatory use », an actor may not receive capacity in the opposite way for a same period (e.g. : monthly in the opposite way of yearly).

GABE strongly recommends the allocation « obligatory use », without daily nominations.

In this case, an actor who has received capacity one way during a yearly allocation may receive a monthly capacity in the opposite way, because it is the only possibility for him to stop his transfer.

7. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive behaviour?

No.

8. Do you consider it to be important to create a secondary market for transfer of cross-border transmission capacity rights?

No. On the contrary, it would be detrimental! This network trade would encourage traders to book capacity even if they are not sure to use it, while consumers strongly need it to enjoy a minimum of competition.

If so, what form of transfer of capacity rights should be allowed:

Exceptionally (“force majeure”, bankruptcy, ...) and after agreement of the regulator, solution « a » : A free transfer of capacity rights through a bilateral secondary market with final reconciliation by the TSO.

9. What type of commitment should the TSO's provide with respect to the allocated capacities/nominated programs?

d. Distinct allocations of

- **firm capacity : secured**
- **interruptible capacity**, when an unpredicted incident occurs concerning the interconnections or the network of the zone very close to the border.

As indicated in the European regulation.

10. In the case of questions 9b and 9c, where a reduction of the available interconnection capacity/nominated programs is possible, what would be your preferred reduction rule (mainly when the reduction is known after the short term allocation):

b. To reduce firstly the short term assignments.

11. Do you recommend an obligatory use (a constant strip for the whole duration of the product) of long and medium term products?

GABE wants the allocation to be in « obligatory use »,

- **systematically transferring each day the power flow corresponding to the received capacity**
- **without daily nominations**, which have become obsolete

this

- **allows « netting », during the yearly and monthly allocations, between capacities which are allocated in the two opposite ways**
- guarantees the full use of the capacity
- restrains gaming
- makes the tasks of the TSOs and the actors a lot easier.

12. To what extent do you consider it of importance to oblige the market parties to firmly nominate their long and medium term capacity rights sufficiently in advance before day-ahead allocation, and why?

GABE wants allocation in « obligatory use » which is like a nomination upon allocation, so very much in advance, and allows to optimise allocations at shorter terms covering the same period.

13. Under the condition that day-ahead explicit auction is implemented, to what extent do you consider the firm nomination of these day-ahead capacity rights to the TSO sufficiently before the intraday sessions as an effective way to counter strategic capacity withholding, and why?

What is really at stake is the withholding of annual or monthly capacities which prevents international competition to supply the consumers and keeps them under the power of the dominant producers and the traders, which allows price increases.

GABE is opposed to auctions for the France-Belgium day-ahead capacity which must serve market-coupling.

14. What level of harmonisation (auction rules, gate closure time, etc.) do you recommend for the organisation of explicit capacity auction for long, medium and short term time frames on the two borders? Please specify what aspects require harmonisation.

GABE asks for a « one-shot » and « closed » allocation process:

Simultaneous submission of all closed bids, then counting and allocation.

Possibility to ask for « X MW between country A and country B , or nothing »

Example : 10 MW between France and the Netherlands ; thus, allocation of 10 MW at the two borders F-B and B-NL or no allocation (but NOT at only one of the two borders).

As trading will already benefit from the Stock Exchange and from its market-coupling as well as from the intra day capacities, **the benefit of annual and monthly capacities should above all go to the consumers. GABE asks that all yearly or monthly capacity demand be associated to EAN codes of off-take points where electricity will be supplied and that it may not exceed the average power taken at those off-take points.**

GABE is against daily France-Belgium capacity allocation that serves market-coupling.

15. The determination of cross-border capacities foreseen for yearly and monthly allocation is not always coordinated across borders. Which importance do you give to the implementation of a more coordinated capacity calculation method?

GABE considers that a coordinated method must be really « coordinated », and thus establish the link with the physical electricity fluxes, through a mathematical modelling of the network, of its parameters and constraints. This implies integration of Germany.

Without a real coordinated method including Germany, interest is nil!

Anyway, the Regulators have to check that the algorithm and the whole of the principles maximise the powers of the allocated cross-border capacities AND NOT the « incomes » of the TSOs !

16. Regarding the above questions (1 to 15), to what extent do your answers apply to the other borders (the French-UK, French-German and Dutch-German interconnections) as well?

Yes .

3.2 ASSESSMENT OF THE DAY-AHEAD MARKET COUPLING

17. Which market-based congestion management method do you prefer to manage the day-ahead cross-border congestion on the French-Belgian and Belgian-Dutch borders

BELPEX-POWERNEXT-APX coupling: solution « a »

18. Could you give your opinion on the pros and cons of the congestion methods mentioned in question 17, particularly in terms of flexibility, simplicity, market power mitigation, risk management, implementation costs, netting of capacities, liquidity, etc.?

To allocate daily capacity to market-coupling is

- the solution that ensures the full use of this capacity
- the easiest solution

19. In the case of an implementation of the DAMC, give your opinion about the cross-border capacity that should be allocated to the DAMC process:

solution « a » : remaining capacity.

Possibly « c » : the remaining capacity but with a minimum capacity of 10% of the cross-border capacity to be allocated in one year.

20. Do you think that the launching of the Belgian Power Exchange could be realised without simultaneous implementation of the DAMC?

No.

21. What harmonization issues between the existing Power Exchanges do you see as important for implementing the DAMC (block bids' definition and treatment, price settlement, time frames, etc.)? For each of these issues, could you precise what is your preference?

If daily cross-border capacities are allocated to market-coupling, the consumers need access to them in order to make occasional power transactions according to their consumption.

The cost at the Stock Exchange is often incompatible with an occasional use for a few MW.

What is most necessary is to impose to the Stock Exchanges the implementation of an access for « small users » with a very low yearly subscription price which would allow a limited number of hours for transactions of a few dozens of MW. (e.g. : 1000 hours, 100 MW)

3.3 CROSS-BORDER INTRADAY TRADE

22. Do you wish the establishment of a cross-border intraday trade and, if so, why:

a. To revise its day-ahead position in case of physical disturbance (outage of a generation unit)

23. Do you think cross-border intraday trade should be limited to one of the above particular purposes? And, if so, why?

Yes.

The cancellation of an importation by an intraday action in the opposite way does not require any cross-border capacity. On the contrary, it makes capacity available.

One must avoid reducing yearly and monthly capacity on behalf of intraday.

24. In case you agree with the establishment of cross-border intraday trade, what market and/or regulatory obstacles need to be removed before such a trade can be implemented? Please specify.

25. Do you consider it suitable to reserve an amount of the cross-border capacity to the intraday allocation mechanism, or should capacity only be made available for intraday trade that has not been previously allocated and/or used at the day ahead allocation?

The capacity that has not been allocated / has not been used after the daily allocation must suffice. One should avoid reducing yearly and monthly capacity on behalf of intraday.

26. Do you consider it useful to limit *ex ante* the possibilities of nomination in the intraday market in order to prevent potential ineffective market outcomes such as:

- a. a market party who would nominate energy in both senses in order to withhold capacity, or
- b. a market party who would shift its imbalances into the neighbouring market in order to benefit from differences in the balancing market designs, or
- c. other anti-competitive or free-riding behaviours?

If so, which propositions would you recommend?

27. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive or free-riding behaviour?

The transactions must compensate for a lack of balance with the actor, not create it.

28. Do you consider it relevant that the capacity rights allocated in the intraday framework (so near the real time) correspond to obligations (rather than options) to use/nominate the equivalent energy and, if so, why?

Yes ; they must satisfy an immediate need.

29. How do you think this cross-border intraday trade should be implemented:

b. By allowing market parties to obtain specific intraday capacity rights through a specific cross-border capacity allocation method (in order to allocate the non-used or the not-already-sold capacity)

30. In the case where a specific intraday cross-border capacity allocation is implemented, which allocation method do you consider the most appropriate for organizing this intraday trade (taking into consideration the possibility of concentrating trade in single shot or continuous trade):

« f » : a « first come, first served » mechanism but with payment of the differential between the prices of the clearing of the Stock Exchange at both sides of the border, for the considered hour. A negative differential must lead to the payment of the user.

3.4 CROSS-BORDER BALANCING TRADE

31. Do you wish the establishment of cross-border balancing trade and, if so, why?

NOT a « trade » but a larger « market » at the disposal of the TSOs.

This can be a way to make (international) coordinated production re-dispatching to deal with an interconnection failure.

32. How do you think this cross-border balancing trade should be implemented?

« b » : By letting the TSOs manage the cross-border balancing trade in the limit of the available capacity (integration of balancing markets)

33. What do you think about the differences in market designs between the three existing balancing mechanisms and a possible need for harmonisation? Please specify.

One needs not harmonise them.

Balancing is a key service for the opening of the market. It must be adapted to the specificities of each country.

An inter-TSO cooperation is enough to broaden the possibilities.

34. To what extent do you agree that market design differences may result in arbitrage between them? If so, do you propose countermeasures? Please specify.

No : not if the balancings are led by the TSOs.

35. Do you consider it necessary to avoid any reservation of cross-border interconnection capacity for the balancing needs of TSO's before the end of every intraday trading session, during which market parties are the only ones to intervene?

Yes. One must aim at international balancing transactions which reduce the burden of interconnections, not the opposite.

36. Do you consider it suitable to reserve an amount of the cross-border capacity to the balancing mechanism?

No. This would be detrimental.

3.5 MARKET TRANSPARENCY

37. What types of information in each of the three countries are currently not available and should be made available to the market? Please indicate:

- a. A precise denomination of the data you want to be released to the market.
 - b. If relevant, the delay after real time (or before, for forecasted information) at which the data should be delivered.
 - c. If relevant, the desired time frames of the data.
 - d. If relevant, the period covered by the data.
 - e. Your preference concerning the disclosure of this information (to the public or only to the market parties concerned?).
 - f. The level of priority of this information.
- **Monitoring and reporting of auctioning values on cross-border and use of this revenue**
 - **Monitoring and reporting on cross-border interconnection (share of cross-border investment vs national investment)**
 - **Monitoring and reporting on TSOs benefits (cross-border benefits, ROCE...)**
 - **Monitoring and reporting on ETSO fund and allocation**
 - **Monitoring and reporting on interconnection users (supplier share of each producer including trading affiliates). The Spanish decision to refuse access to interconnections to suppliers with more than 10% market share should be implemented on all borders.**
 - **Monitoring on cross-border capacity used. Energy transited/net transfer capacity (annual/monthly basis)**
 - **Etc...**

38. In your view, based on your practical experience in the Dutch, Belgian, French and/or other markets, which examples of market transparency should be taken as a basis for harmonisation efforts?

Northpool, UK

39. The market information that is currently available is not always easily accessible, different formats are used and the information is published by different entities like TSO's, PX's, regulators and others.

- a) Do you think that access to market information must be improved? If yes, what should be the role of TSO's, PX's, regulators and other entities?
- b) Should formats be harmonised between the three countries? If yes, what is currently the best example for formatting the different types of information?
- c) Should definitions and interpretations be harmonised? If not, why? Or, if yes:
 - i) On what topics?
 - ii) What is currently the best example which should be used as a basis to harmonise the different definitions and interpretations?

3.6 MARKET POWER AND COOPERATION BETWEEN REGULATORS

40. To what extent do you agree with the above analysis concerning regional market integration and (potential) abuse of market power (paragraph 7.1)?

GABE supports this analysis but adds that **the regulators must define with the TSOs the « base cases » that are used for determining the cross-border capacities while defending the interest of all concerned countries, and so,**

- **while avoiding that a TSO take the worst possible case** (e.g. : import from Great-Britain and massive production in the North of France) to avoid national re-dispatching costs
- **while setting an official limit to the power of loop-flows that a network operator can generate across the neighbouring countries, in the shape of a percentage of their cross-border capacities.**

41. To what extent do you agree with the above analysis concerning the cooperation between regulators in the three countries (paragraph 7.2)?

GABE supports this analysis.

42. To what extent do you expect the integration of the Dutch, Belgian and French electricity markets to influence the market power of market parties that are already dominant in their incumbent markets?

One can imagine that **by weakening the France-Belgium integration with regard to the Belgium-Netherlands integration, one would raise the prices in Belgium to the level of the prices in the Netherlands.**

There are therefore **risks for**

- **yearly or monthly import from France to Belgium to become uncompetitive for the consumer,**
 - by minimising yearly and monthly France-Belgium capacities
 - or by allocating them to companies that sell electricity in Belgium and/or in the Netherlands and that would make higher offers for those cross-border capacities
- **the decrease of the BelPEX clearing price due to import from France to disappear**
 - by minimising the daily capacities between France and Belgium allocated to market-coupling
 - through an adaptation of the offers in the power zone of the clearing (price increase or decrease of the volumes for sale)
 - through purchases at the BelPEX Stock Exchange for dominant actors.

43. To what extent do you agree that market power mitigation on dominant market parties should be implemented before regional market integration and/or market coupling can be successfully implemented?

No, if interconnections are put at the disposal of

- **the consumers so that they can enjoy international competition**
- **and NOT of the electricity merchants in whose interest it is to maintain high market prices.**

Example : Method « Auctions at Cost » (=pay as bid differentials) :

GABE remains opposed to the auctioning of France-Belgium cross-border capacities.

However, if auctions were to be imposed, they should at least comply to the following rules.

1.1. Principles :**1.2. Bids and additional Limits :**

- Each bid describes a requested power and a maximum price.
- Bids limited by threshold (1 MW) and by ceiling (10 or 25MW) or, better, **allocation per blocks of 5 MW**.

1.3. Allocation :

- Allocation step N°1:
 - Only the highest bid of each player is considered (power = $P1_i$, price = $O1_i$), within the abovementioned limits
 - Allocation of the available capacity to the offers classified in **descending** order of their prices
 - Real payment of the received capacity: at the price of its offer less the average price of the retained offers plus the real cost of this cross-border capacity, C_{Alloc} , as calculated at § 3.2.3. ;

$$\text{i.e., for each retained bid « i »} = P1_i \times \left(O1_i - \frac{\sum_j P1_j \times O1_j}{\sum_j P1_j} + C_{Alloc} \right) \text{ with threshold (floor) at 0 EUR.}$$

- Allocation step N° "N": if capacity remains after the previous step:
 - Only the highest bid of each player is considered, the bids which have already been retained during the previous steps being eliminated
 - Cfr the first step, with bids PN_j - ON_j instead of $P1_j$ - $O1_j$



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Subject response to consultation on regional market integration
between NL-B-F
Mark P_300052
Our reference 2005-46
Handled by ing. R.L. Otter
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Date September 5, 2005

Dear Mr. Spencer,

section
Trade and Sales

The members of the section Trade & Wholesale of EnergieNed would like to thank you for the opportunity to respond to the consultation document on regional market integration of the Dutch, Belgian and French electricity market. This response represents the common position of our members. Individual members may respond more in detail in a separate reaction. In this letter we will not answer your questions directly, but we will give our general view on the matter.

General

In general we very much welcome this joint initiative towards market integration of France, Belgium and the Netherlands. As also expressed in our recently released position paper¹ we see market coupling as one of the key issues to enhance market functioning. From a Netherlands point of view, however, the relation with the German and Scandinavian market has to be taken into account when developing this path. In the next sections we will express our views on the allocation of cross border capacity, the role of the TSOs and transparency.

Long term allocation

For long term allocation of cross border capacity the key issue is that the allocation should be in line with trade practices. Trading practices for longer term include mostly long term contracts and financial products. At this moment the time horizon is about 2 years. This means that explicit auctions are most suitable to allocate part of the capacity. The capacity should be sold at several occasions per year depending on the amount of available capacity. This could be monthly or quarterly with smaller amounts 2 year ahead and larger amounts 1 year ahead. Also important is that the auction quantities and moment are chosen such that there is a minimum effect on

¹ "Energy sector enhances market functioning", EnergieNed, August 2005



the wholesale price. Furthermore capacity caps for allocation of capacity should be avoided. Allocation on the German-French and German-Dutch border should follow the same mechanism as soon as possible.

Other important preconditions are:

- import capacity should remain tradable
- nominations should be public (on an aggregated level)
- if acquired capacity is given back to the TSO, the possible resulting day ahead revenues should be transferred to the initial market player. This will ensure that physical transmission rights can also be voluntarily utilized as financial transmission rights, so that the FTR instrument can be further developed.
- capacity not nominated or given back to the TSO should be treated with the "use it or lose it" principle.
- introduction of netting to improve efficiency

Short term allocation

For short term allocation our members favour an implicit allocation system for the day ahead market as long as it gives a better allocation than today.

Important preconditions for such a system are:

- a liquid market on both sides of the connection
- the connection flows should be closely monitored and available capacity, nominations and allocations should be made public
- close monitoring of abuse of positions
- introduction of netting to improve efficiency

Regarding intra day cross border trade our members propose to allocate a specific minimum amount of capacity for this market to bring the market up to speed. In our view 50 to 100 MW should be enough. This should be complemented with available capacity through netting, day-ahead capacity not needed in the implicit day-ahead auction (unconstrained case) and capacity that is no longer needed to keep reserved for security reasons. The sum of this capacity should be allocated implicitly. An example could be the Elbas market in Scandinavia.

Our members also favour cross border balancing mechanisms. Important is that available capacity is public in time. All available capacity should be available to market parties. If some the capacity is allocated to the TSO market abuse is possible.

Role of the TSO

Important for the success of market coupling is that the respective TSOs are purely independent and do not interfere with the market. This also means a clear unbundling from any company involved in generation or trade. Furthermore TSOs should be the main parties to establish harmonisation in system access.

Transparency

Important is now that the level of transparency is equal in the three countries. The information published by Tennet in combination with information published by the other TSO's could be a good starting point.



This should be complemented with the information mentioned in the above sections.

We hope that these comments help you in further developing the market integration from your side. As mentioned in our position paper the Dutch Trade and Wholesale companies also take initiatives towards market integration. We would very much like to be involved in your process and will keep you informed of any new developments. Please don't hesitate to ask further questions.

Yours sincerely,

A handwritten signature in black ink, reading 'E.W.O. van Vliet'. The signature is written in a cursive style and is positioned above a horizontal line that extends to the right.

mr. E.W.O. van Vliet
managing director section Trade & Wholesale

To DTe
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Our reference 2005-45
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Dear Sir/Madam,

The Dutch generation companies, united in the section Generation of EnergieNed, support regional market integration of wholesale electricity markets as a way to increase liquidity and improve the functioning of the electricity market. In this process reaching an equal level of transparency in the three countries is a must.

Below we will answer to the questions in the different chapters of the consultation document DTe, CREG and CRE prepared on this issue. The responses represent the common position of our members. Individual members may respond more in detail in a separate reaction.

2 Long term and medium term explicit auction mechanisms

1. Our preference for the selection of the time frames for the explicit auction mechanism is annual, quarterly and monthly. For the day ahead implicit auctions should be used.
2. For the allocation of the available capacities we prefer option b, since in our opinion this method is the most transparent. We recommend to allocate a significant minimum percentage of the available capacity as day-ahead capacity.
3. We recommend the "marginal price" mechanism, since in our opinion this is the fairest method.
5. In our opinion single rounds will suffice.
6. We do't expect this behaviour to occur in a healthy market. To guarantee a liquid interconnector capacity market, sufficient market players should be present. All remaining long and medium term capacity not contracted and not nominated should fall to the day ahead and intraday market, while introducing mechanisms like 'use it or lose it' and netting.

8. We prefer option a since eventually the TSO's will have to reconcile. TSO's will be able to monitor market player behaviour.
9. We prefer option a.
10. We prefer option b.
11. No. Buying interconnector capacity is an option.
12. This is useful since non-used capacity can be auctioned as day-ahead capacity.
13. It sounds reasonable. If two-way nomination is used, the netted capacity can be made available intraday.
14. We recommend auctions similar to the ones mentioned on www.tso-auction-org, since in our opinion these provide a solid, reliable and fair auction mechanism.
15. This is very important. Capacity determination (long, medium, short term) should be determined on a common and preferably independent basis.
16. They should apply to all interconnectors in order to gain market transparency.

3 Assessment of the day-ahead market coupling

17. We prefer option a. If you apply DAMC, all day-ahead capacity should be allocated by this mechanism. However, explicit auctions for long term capacity should be kept in place.
18. The main advantage of DAMC is the fact that interconnectors will always be used as expected. Flexibility will decrease when using DAMC. It is however debatable if flexibility is needed when using DAMC.
 Market power mitigation will occur when using DAMC. However, not all preconditions for a healthy introduction of DAMC are fulfilled yet. All non nominated capacity should be offered to the intraday market ('use it or lose it' principle).
 Risk management is also possible under DAMC. Especially when "Contracts for difference" are introduced (like on NordPool).
 Implementation costs of DAMC can be high, because of the introduction of new products and new ways of exchanging, which will both require modifications in IT-applications.
 Capacities are always used in an optimal manner under DAMC.
 Liquidity tends to be sufficient for DAMC.
20. Yes, although assessing the current Belgian market situation, illiquidity will dent the reliability of Belpex.
21. The best example of DAMC is NordPool. Current spot auctions in the Netherlands, Belgium and France do not differ a lot from spot auctioning at NordPool. We expect these harmonization issues to be surmountable. One of these harmonization issues are the block bids on the spot

market. We prefer flexible block bids (like on the APX) over the standardized block bids (on Powernext).

4 Cross-border intraday trade

22. Yes, (a) primarily. It is extremely important that there is a level playing field on both sides of the border
23. No. It can hardly be avoided that for example a speculating market party uses arbitrage to earn on a physical disturbance.
24. Certain fees enforced by TSO's should be abolished or harmonized. The 400 MW limit enforced by DTe in the Netherlands should be abolished. Leftover capacity should be made available to the market without any limits.
25. In principle not. Capacity already allocated (annual, monthly, day-ahead) ought to be exchangeable on an intraday basis. This is possible because nominations can be changed intraday as well.
27. Yes, complemented by ex ante market data control.
28. One of the reasons to obtain intraday rights and not nominate them is to bother other market players. Therefore the obligation to nominate the acquired capacity seems logical to us.
30. Option f: implicit allocation of spare intraday cross border capacity through a continuous trading platform (for instance like the Elbas platform). It's extremely important that rules for intraday trading and imbalance management are the same in all countries.

5 Cross-border balancing trade

31. Yes, it is useful in case of unpredictable events (outages, strikes, etc.) and to pool spare capacities across countries.
32. Option b. A distinction should be made between intraday and balancing.
33. Harmonization is an absolute precondition. Same rules, same chances. We prefer a balancing system on marginal prices, like the Dutch system.
34. Arbitrage will definitely occur in this situation. The occurrence of the situation is an incentive for harmonisation by creating one set of regulations for all countries.
35. No. Then TSO's will interfere in the market, which is unwanted. Therefore it should be avoided. Of course the TSO's need to allocate firm capacity in case of serious network problems (as is usual today). Yes, reservation of capacity by TSO's is not desirable and should ideally be avoided. If any reservation would be considered, it should be minimized and made public.
36. We don't think it is suitable. Reserving capacity for cross-border balancing would benefit the market and lower the balancing costs. This capacity however should not be reserved for the TSO's only, but should be available to all market participants. TSO's should be treated

as one of the parties bidding for capacity. PV's are the best-placed to manage their imbalances.

6 Market Transparency

37. The information made available should depend on the level of competition on the market. In competitive markets, less information should be made available. In near monopolistic markets, nearly all information concerning production capacity, outages etc. should be made available to all market parties.

We would like to point out some specific information needs that should be made available to all markets:

- Nationwide load forecast on a day-ahead basis.
- Real-time consumption data.
- Real-time load flow on each border.
- Forecast for total cross-border capacity estimated for the whole year.
- Reservoir levels (on a weekly basis).

38. TenneT: generation & load

RTE & Elia: grid data

It's important to reach an equal level of transparency in the three countries.

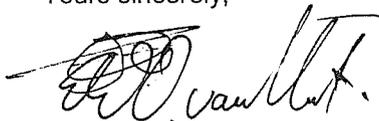
39. Formats should preferably be in Excel and/or automatically downloadable in backoffice systems.

7 Market power and cooperation between regulators

41. We agree.

If some of our answers need clarification, please don't hesitate to contact us.

Yours sincerely,



mr. E.W.O. van Vliet
Managing director section Generation

Regional market integration between the wholesale electricity markets of the Netherlands, Belgium and France

Reply of ENECO Energy to the consultation document prepared by DTe, CREG and CRE

2 September 2005

- The answers below to the specific consultation questions are additionally to the common position communicated by EnergieNed section Trade and Sale.
- In general ENECO Energy supports the introduction of market coupling. However we would like to emphasize the importance of the participation of Germany in the process of establishing a North-west European market. We understand the considerations of the regulators DTe, CREG and CRE to go forward with the current process without Germany, but we hope that they will continue their efforts of getting Germany involved.

ANSWERS ENECO ENERGY

1. What is your preference for the selection of the time frames for the explicit auction mechanism (annual, quarterly, monthly, weekly and day-ahead)?

- For the explicit auction we prefer a time frame of yearly and monthly auctions. Not day-ahead since this should be auctioned via market coupling.
- We would prefer 80% of the interconnector capacity being auctioned explicitly and 20% via market coupling (MC).

2. The allocation of the available capacities on different time frames can be based on the following principles:

- a. A maximum of capacity is allocated on a longer term basis, and the remaining capacities are allocated on shorter time frames.
- b. A predefined ratio (%) is chosen for the different time frames.
- c. A minimum of capacity is foreseen for specific time frames.

Which of the principles mentioned above (or a mix of them) do you recommend for the allocation of the available capacity on different time frames?

- We would recommend 'b'. See also answer to question number 1. In addition we prefer that yearly capacity is auctioned at different moments during the year. Preferably in 12 rounds. The monthly capacity should be auctioned once a month (1 round per month). Daily capacity should be auctioned via MC.

3. What type of price-setting mechanism (marginal price, pay-as-bid, ascending, etc.) do you recommend for long and medium term products (e.g. yearly, monthly) and why?

- Marginal Price, as currently used by the TSO Auction.

4. Is it necessary to limit the interconnector capacity⁴ (volume cap for import and/or export capacity) that can be given to a market party⁵ and if necessary, which value should be imposed for the different time frames?

- A limit to the interconnector capacity is not necessary, it only gives additional constraints to trading opportunities which can cause inefficiencies.

5. To what extent do you recommend the allocation of yearly and /or monthly capacities in a single round or in two or more different sessions per year and why?

- Yearly capacity auctioned in 4 to 12 rounds, monthly capacity auctioned once or twice a month (one and two months ahead).

6. Do you consider it to be important, in order to prevent strategic capacity withholding, to limit ex ante the possibilities for a market party to nominate energy in both directions? If so, which propositions would you recommend?

- No, not when market coupling is introduced on day-ahead capacity. In that case the calculations of capacity available for DAMC will “nett” the two counterflows. As a result the capacity will be made available on the day-ahead market and strategic capacity withholding is prevented.

7. Alternatively, do you consider that an ex post market monitoring could be sufficient to prevent this type of anti-competitive behaviour?

- We think that as long as MC is introduced on the daily market and the calculations of the available capacity for MC takes counterflows into account (i.e. netting), then anti-competitive behaviour as mentioned in question 6 is not possible. However we would like to emphasize the importance of ex-post market monitoring under all circumstances. We think that market monitoring is an important instrument to safeguard sufficient confidence in the market by market participants.

8. Do you consider it to be important to create a secondary market for transfer of cross-border transmission capacity rights? If so, what form of transfer of capacity rights should be allowed:

- a. A free transfer of capacity rights through a bilateral secondary market with final reconciliation by the TSO?
- b. An organized transfer of capacity rights through a centralized re-allocation under the TSO’s responsibility in the subsequent explicit auctions time frames?

- Yes we think that a good functioning secondary market of TCR is of importance. We would recommend a system as mentioned under ‘a’. Which means that a platform is in place which facilitates trade (ownership transfers) between different market participants. In the Dutch system, secondary trade is already functioning very well. The buyer should notify the auction office of the title transfer, however the original buyer of the capacity will however remain the responsible (that has to pay the capacity rights at the clearing price) party for the TSO. This is in line with the general point of view of EFET.

9. What type of commitment should the TSO’s provide with respect to the allocated capacities/nominated programs?

- a. Firm and definitive in both cases, except in case of “force majeure”?⁶
- b. Reductions of capacity and /or nominated programs are possible under a very strict regulation with respect to the duration of the reduction, the compensation mechanism for any reduction, etc.?⁷
- c. No firmness at all?⁸
- d. A mixture of cases a, b and/or c? Please explain your commitment preferences.

- Answer A. We think that non-firm capacities should be made available on the DAMC. This will make auctions of non-firm capacity in monthly or yearly auctions not valuable.

10. In the case of questions 9b and 9c, where a reduction of the available interconnection capacity/nominated programs is possible, what would be your preferred reduction rule (mainly when the reduction is known after the short term allocation):

- a. To reduce firstly the long term assignments?
- b. To reduce firstly the short term assignments?
- c. To reduce proportionally both long and short term assignments?

- Not relevant, see answer on question 9.

11. Do you recommend an obligatory use (a constant strip for the whole duration of the product) of long and medium term products?

- No, not by the original user of the capacity. We plead that a good functioning secondary market should be established in combination with a system of use-it-or-lose-it.

12. To what extent do you consider it of importance to oblige the market parties to firmly nominate their long and medium term capacity rights sufficiently in advance before day-ahead allocation, and why?

- This is of great importance since not nominated amounts can then be auctioned in the daily auction. We think that the time period between nomination and the day-ahead auction should be increased. The deadline for nominations could be shifted to one day before (t-1, in the afternoon) instead of 1 hour before the daily auction takes place.

13. Under the condition that day-ahead explicit auction is implemented, to what extent do you consider the firm nomination of these day-ahead capacity rights to the TSO sufficiently before the intraday sessions as an effective way to counter strategic capacity withholding, and why?

- We think that this is not effective, and that measures aren't necessary. This could be part of the discussion at EnergieNed. We do think that nomination is in all cases a prerequisite for calculating the available day-ahead capacity.

14. What level of harmonisation (auction rules, gate closure time, etc.) do you recommend for the organisation of explicit capacity auction for long, medium and short term time frames on the two borders? Please specify what aspects require harmonisation.

- The closure times of the yearly and monthly auction are not important. For short term the principle of MC takes care of a perfect harmonization of closure times and avoids the time lag between spot and capacity market. The nominations (also for longer term auctions) should be in line with the time frames of spot markets.

15. The determination of cross-border capacities foreseen for yearly and monthly allocation is not always coordinated across borders. Which importance do you give to the implementation of a more coordinated capacity calculation method?

- We give high importance to the implementation of a more coordinated capacity calculation method. This is also underlined by EFET.

16. Regarding the above questions (1 to 15), to what extent do your answers apply to the other borders (the French-UK, French-German and Dutch-German interconnections) as well?

- All answers apply also to the other border mentioned in this question.

17. Which market-based congestion management method do you prefer to manage the day-ahead cross-border congestion on the French-Belgian and Belgian-Dutch borders;
a. A trilateral DAMC mechanism between the three power exchanges, APX, BELPEX and POWERNEXT?

b. A day-ahead explicit auctions between the three TSO's, TENNET, ELIA and RTE, or
c. A mixture of the above? Please specify.

- We would prefer DAMC, since it is most efficient congestion method and will result in efficient market price setting.

18. Could you give your opinion on the pros and cons of the congestion methods mentioned in question 17, particularly in terms of flexibility, simplicity, market power mitigation, risk management, implementation costs, netting of capacities, liquidity, etc.?

- DAMC performs best on all above mentioned criteria, explicit auctions are better from a trade perspective, the last one sits in the middle.

19. In the case of an implementation of the DAMC, give your opinion about the cross-border capacity that should be allocated to the DAMC process:

- a. The potentially volatile remaining capacity (after the allocation of long and medium term explicit auctions and the release of capacity by the market parties, pursuant the article 6.4 of the regulation)?
- b. A predetermined fixed minimum capacity? If so, which one?
- c. The potentially volatile remaining capacity plus a predetermined fixed minimum capacity?
- d. All the capacity?

See also our answer to question 1 and 2.

We would prefer that circa 20% of the capacity is allocated to the DAMC. If the volatile remaining capacity would in general add up to 20%, answer 'a' would be sufficient. Otherwise we would opt for option 'c'.

20. Do you think that the launching of the Belgian Power Exchange could be realised without simultaneous implementation of the DAMC?

- Yes, but this will generate less liquidity in the Belgian spot market. So DAMC will in the end be important for a well developed BPE. We also think that implementation of a proper balancing market is of importance for a mature BPE.

21. What harmonization issues between the existing Power Exchanges do you see as important for implementing the DAMC (block bids' definition and treatment, price settlement, time frames, etc.)? For each of these issues, could you precise what is your preference?

- Clearing all markets at the same time, with the same products is of great importance. It should be integrated as if it was one spot exchange, or better: it should become one spot exchange.

22. Do you wish the establishment of a cross-border intraday trade and, if so, why:

- a. To revise its day-ahead position in case of physical disturbance (outage of a generation unit for example)?
- b. To make some new, or not already done, price arbitrage?
- c. For all purposes?
- d. For other purposes?

- Yes > C

23. Do you think cross-border intraday trade should be limited to one of the above particular purposes? And, if so, why?

- No

24. In case you agree with the establishment of cross-border intraday trade, what market and/or regulatory obstacles need to be removed before such a trade can be implemented? Please specify.

- Regulations should change to make intraday trade possible. The grid operators should then accept intra day scheduling programs and TSO's should facilitate.

25. Do you consider it suitable to reserve an amount of the cross-border capacity to the intraday allocation mechanism, or should capacity only be made available for intraday trade that has not been previously allocated and/or used at the day ahead allocation?

- We think that it is suitable to reserve a small amount of the cross-border capacity to the intraday allocation mechanism. This should be very marginal, since it also withholds capacity being used for trading opportunities.

26. Do you consider it useful to limit ex ante the possibilities of nomination in the intraday market in order to prevent potential ineffective market outcomes such as:

- a. a market party who would nominate energy in both senses in order to withhold capacity, or
- b. a market party who would shift its imbalances into the neighbouring market in order to benefit from differences in the balancing market designs, or
- c. other anti-competitive or free-riding behaviours?

If so, which propositions would you recommend?

- We do not think that these measures are necessary.. However we agree that withholding capacity on intra-day markets should be prevented. As regard 'b' we plead for sufficient harmonization such that these arbitrage opportunities resulting from different market designs are not possible.

27. Alternatively, do you consider that an ex post market monitoring could be sufficient to prevent this type of anti-competitive or free-riding behaviour?

- Yes. But we think that monitoring the flows on interconnector is of importance.

28. Do you consider it relevant that the capacity rights allocated in the intraday framework (so near the real time) correspond to obligations (rather than options) to use/nominate the equivalent energy and, if so, why?

- At first instance we would answer 'no' since we think that imposing obligations that are not really necessary only create additional inefficiencies. However suppose you need the capacity for balancing purposes (in case of unplanned outages, problems with interconnector for example). In such case it should be avoided that other market participants contract valuable, available intraday capacity without using it.

29. How do you think this cross-border intraday trade should be implemented:

- a. By allowing market parties to realise cross-border intraday trade in the limit of the capacity rights obtained in the day-ahead explicit auction mechanism (in the case where an explicit auction is implemented in day-ahead)?
- b. By allowing market parties to obtain specific intraday capacity rights through a specific cross-border capacity allocation method (in order to allocate the non-used or the notalready-sold capacity)?
- c. By a combination of the two above proposed methods?

- Both 'a' and 'b' are possible. But since we prefer DAMC for day-ahead interconnector capacity, answer 'a' would not be an option. We think that system 'b' will ensure an optimal use of the available interconnector capacity.

30. In the case where a specific intraday cross-border capacity allocation is implemented, which allocation method do you consider the most appropriate for organizing this intraday trade (taking into consideration the possibility of concentrating trade in single shot or continuous trade):

- a. A market coupling procedure extended to the intraday time frame?¹⁴
- b. An explicit auction procedure?
- c. A free pro-rata, where demanding market parties would receive an intraday capacity proportionally to their demand?
- d. A "merchant" pro-rata with an access price based on:
 - i. the day-ahead price differential (in the case where a DAMC is implemented in day-ahead), or
 - ii. the day-ahead capacity price (in the case where an explicit auction is implemented in day-ahead)?
- e. A free first-come/first-served procedure?
- f. Another method?

- a and b are both possible. When using method 'b', it should be several hours ahead auction in relation to the hour of trade.

31. Do you wish the establishment of cross-border balancing trade and, if so, why?

- Yes, this increases the possibilities for trading imbalance power, which is a pre-condition for efficient intraday trading.

32. How do you think this cross-border balancing trade should be implemented and why:

- By allowing market parties to realize cross-border balancing trade in the limit of the capacity rights obtained in the day-ahead or intraday explicit auction mechanism (in the case where an explicit auction is implemented at these time frames)?
- By letting the TSO to manage the cross-border balancing trade in the limit of the available capacity (integration of balancing markets)?
- By another method?

- We prefer one integrated balancing market, we think answer 'b' would be the best method for trading balancing power since market parties will already be able to trade on the intraday market. In France it is already possible for foreign players to bid in to the balancing market. We would appreciate and highly recommend DTe to study the possibilities of integrating balancing markets. This study should be executed in close co-operation with the other regulators and with the TSOs

33. What do you think about the differences in market designs between the three existing balancing mechanisms and a possible need for harmonisation? Please specify.

- The market designs of the balancing markets should be simplified and more harmonized. This means more harmonization between different TSO-areas on price setting mechanism, time frames and same rules should apply, same costs.

34. To what extent do you agree that market design differences may result in arbitrage between them? If so, do you propose countermeasures? Please specify.

- Yes, we agree. A possible countermeasure is to harmonize market designs.

35. Do you consider it necessary to avoid any reservation of cross-border interconnection capacity for the balancing needs of TSO's before the end of every intraday trading session, during which market parties are the only ones to intervene?1

- Yes

36. Do you consider it suitable to reserve an amount of the cross-border capacity to the balancing mechanism?

Reservations of capacity will reduce the capacity that is available for trading possibilities. Therefore we think that specific reservations should be avoided when possible. DTe and TenneT (and other regulators/TSO) should study the exact conditions for integrating the balancing markets in more depth.

37. What types of information in each of the three countries are currently not available and should be made available to the market? Please indicate:

- A precise denomination of the data you want to be released to the market.
- If relevant, the delay after real time (or before, for forecasted information) at which the data should be delivered.
- If relevant, the desired time frames of the data.
- If relevant, the period covered by the data.
- Your preference concerning the disclosure of this information (to the public or only to the market parties concerned?).
- The level of priority of this information.

- We plead for harmonization with the level of transparency on the Nordpool. Most important is that the level of transparency becomes equal between the different countries involved.

38. In your view, based on your practical experience in the Dutch, Belgian, French and/or other markets, which examples of market transparency should be taken as a basis for harmonisation efforts?

- See Nordpool, think for instance of production transparency.

39. The market information that is currently available is not always easily accessible, different formats are used and the information is published by different entities like TSO's, PX's, regulators and others.

- Do you think that access to market information must be improved? If yes, what should be the role of TSO's, PX's, regulators and other entities?
- Should formats be harmonised between the three countries? If yes, what is currently the best example for formatting the different types of information?
- Should definitions and interpretations be harmonised? If not, why? Or, if yes:
 - On what topics?
 - What is currently the best example which should be used as a basis to harmonise the different definitions and interpretations?

- Regulators should force TSO's and Exchanges to publish data
- Yes, see Nordpool
- Yes, see Nordpool

Also the systems and applications of the TSO Auction, APX and Endex can be used as an example.

40. To what extent do you agree with the above analysis concerning regional market integration and (potential) abuse of market power (paragraph 7.1)?

- Not, cannot be prevented. However we do agree that regional market integration can increase the efficient use of interconnector capacity which could result into more available capacity and thus increase competition.
- But this does not decrease the incentives to abuse market power: this can be tackled by increasing monitoring activities and regional powers/cooperation for regulators ,

41. To what extent do you agree with the above analysis concerning the cooperation between regulators in the three countries (paragraph 7.2)?

- We do agree that more cooperation and coordination between regulators is of great importance for effective monitoring.

42. To what extent do you expect the integration of the Dutch, Belgian and French electricity markets to influence the market power of market parties that are already dominant in their incumbent markets?

- It will reduce market power of dominant players on the end-use market. For instance, the possibilities for sourcing and avoiding imbalances in 'foreign' markets will improve. We are not sure whether it will reduce market power of dominant power producers.

43. To what extent do you agree that market power mitigation on dominant market parties should be implemented before regional market integration and/or market coupling can be successfully implemented and, if so,

- Why do you agree?
- What type of measure do you propose against what market party or market parties and why?

- We don't agree. Partly because MC will not be introduced on the whole interconnector capacity at once and we believe that market monitoring of activities and realized interconnector flows together with sufficient transparency in the market, are important mitigation instrument.



PER POST EN PER E-MAIL

DTe

Postbus 16326

2500 BH DEN HAAG

Date 5 September 2005
Reference L05-489/DVU/JAA
Subject P_300052

Dear Sir, Madam,

Endex appreciates the opportunity to take part in the consultation process with regard to regional market integration. Endex is happy to contribute to the discussion on market integration to enhance liquidity.

Due to the specific role and position of Endex as a regulated futures exchange, Endex will reply in a more general sense to the issues raised instead of answering all the specific (technical) questions in detail.

Introduction

As a regulated futures exchange Endex is a supporter of creating homogeneity within energy markets as well as between the Netherlands market and the relevant neighbouring markets in order to increase liquidity. Efficient cross border trading is a key component of portfolio management and proprietary trading.

Allocation mechanisms

There is no doubt that a well-organised explicit auction is the most straightforward and fair method of allocating cross-border capacity. Via explicit auctions market participants can hedge their positions for cross-border trades and are at the same time free to use the trading distribution channel of their choice. Given the relevance of forward trading for risk management, the term of the allocated capacity should be well divided over the trading curve i.e. following a predefined ratio for the different time frames with an emphasis on longer term (months, quarters, years). Easy transfer of cross-border capacity rights in the secondary market is also an essential part of the use and allocation of cross-border capacity.

An implicit auction looks like an efficient method for day-ahead capacity allocation but the specific benefits still have to be established.

Further investigation is also needed with regard to the most efficient way of allocating intra-day capacity; an explicit auction methodology is probably the right starting point.



Market coupling

Delegating a part of the day-ahead congestion management to particular power exchanges is certainly something that should be investigated. Coupling with the German market should remain high on the priority list.

By nature the role of spot trading in risk management is limited. Spot trading is mainly used for the technical fine-tuning of trading portfolios and only with regard to individual trading hours. The amount of available short-term cross-border capacity (day-ahead) should therefore also be limited relative to the amount of cross-border capacity available for the longer term (months, quarters, years).

Endex is not in favour of allocating substantial amounts of cross-border capacity to market coupling mechanisms and to the spot market. The NorNed cable serves as an undesirable example in this respect whereby all capacity is planned to be assigned to market coupling and the spot market. Following the historic development pattern of energy markets, there has been an emphasis on spot trading, but since forward and futures markets have developed into the major instruments for portfolio management and risk management, (forced) stimulation of spot markets serves no purpose and should therefore be abolished.

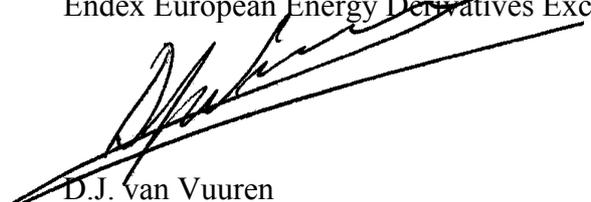
Market transparency

New and existing European directives with their origin in the financial markets will soon play a dominant role in determining the (minimum) level of transparency required in the energy markets. Looking at the historical development pattern of financial markets there is no doubt that regulated exchanges can and will play a role in providing transparency with regard to energy trading and/or capacity trading. In order to achieve a level playing field, focus must be on providing (anonymous) trade information with regard to all market segments: intra-day, day-ahead, forwards/futures and with regard to transactions performed both on exchanges and in the OTC market.

The developing Dutch model with regard to transparency might well serve as a model that can be applied to an integrated market.

I trust that this response has been helpful to you and I am available to meet with you at your request to discuss any questions or remarks you might have.

Yours faithfully,
Endex European Energy Derivatives Exchange N.V.



D.J. van Vuuren
Managing Director – COO

1. INTRODUCTION

No questions asked.

2. LONG TERM AND MEDIUM TERM EXPLICIT AUCTION MECHANISMS

1. *What is your preference for the selection of the time frames for the explicit auction mechanism (annual, quarterly, monthly, weekly and day-ahead)?*

Answer

The time frames should correspond as much as possible with the time frames of the wholesale commodity products, i.e. yearly, quarterly and monthly.

Day ahead should be auctioned via an implicit mechanism.

2. *The allocation of the available capacities on different time frames can be based on the following principles:*

- *a. A maximum of capacity is allocated on a longer term basis, and the remaining capacities are allocated on shorter time frames*
- *b. A predefined ratio (%) is chosen for the different time frames*
- *c. A minimum of capacity is foreseen for specific time frames.*

Which of the principles mentioned above (or a mix of them) do you recommend for the allocation of the available capacity on different time frames?

Answer

Principles B and C are preferred:

- a predefined ratio (principle B) for stability and transparency reasons (e.g. ¼ Y, ¼ Q, ¼ M, ¼ D or 1/3 Y, 1/3 M and 1/3D)
- a minimal capacity should be kept for the implicit day-ahead (principle C) to guarantee a sufficient number of hours in which prices in the 3 markets (FR, BE, NL) are the same after market coupling.

3. *What type of price-setting mechanism (marginal price, pay-as-bid, ascending, etc.) do you recommend for long and medium term products (e.g. yearly, monthly) and why?*

Answer

Marginal clearing (pay-as-cleared): leads to one market price for capacity. This clearing mechanism has become the norm for capacity auctions throughout Europe (D, DK, NL, PL, CZ, SK, HU, AT, ...), which is a positive step towards harmonization.

4. *Is it necessary to limit the interconnector capacity^(*) (volume cap for import and/or export capacity) that can be given to a market party^(**) and if necessary, which value should be imposed for the different time frames?*

() Please note that the Dutch wholesale electricity market currently has an import cap of 400 MW per market party.*

*(**) Bearing in mind the possible affiliation of particular market parties to another market party.*

Answer

To guarantee a liquid interconnection capacity market, sufficient market players should be present. Therefore a capacity limit can be set up at auction time and at nomination time of explicit allocated capacity rights in order to avoid that one or a small number of players occupy the whole interconnection capacity, creating an illiquid market. The limit can be expressed as a % of the interconnection capacity.

Remark : it is not possible to respect such a “volume cap” for capacity allocated through market coupling.

- 5. To what extent do you recommend the allocation of yearly and/or monthly capacities in a single round or in two or more different sessions per year and why?**

Answer

In our opinion, two sessions a year, one in October and the second in November as example both for delivery the next year, are indicated because this is compliant with the standard (yearly) base load products.

For (Q and) M products, we believe that an auction on a more frequent basis (quarterly basis, monthly basis) is indicated, but we do not see the need to have more than 1 round.

- 6. Do you consider it to be important, in order to prevent strategic capacity withholding, to limit ex ante the possibilities for a market party to nominate energy in both directions? If so, which propositions would you recommend?**

Answer

No. Even in efficient markets, generation and consumption forecasts can vary throughout the day. After nomination of the long term capacity, generation outages, temperature rises or sudden cloudiness heavily impact these initial forecasts. Flows can thus be nominated in another direction in day-ahead or intraday to cope with these changes. Especially with electricity being a non-storable product, sufficient flexibility should still allow optimization. Moreover, if capacity is nominated in both directions, netting should be applied to free up capacity for further allocation.

- 7. Alternatively, do you consider that an ex post market monitoring could be sufficient to prevent this type of anti-competitive behaviour?**

Answer

Yes, even if somebody nominates in both directions, he doesn't occupy capacity after netting, thus it doesn't hamper the market. The nominated flows can very easily be retrieved according to the nominations towards TSOs for such an ex post monitoring.

Moreover, we would like to remark that a market player has no interest at all to nominate in both directions at the same time, but can have interests if these nominations occur at different points in time (described above).

8. **Do you consider it to be important to create a secondary market for transfer or cross-border transmission capacity rights? If so, what form of transfer capacity rights should be allowed:**
- **a. A free transfer of capacity rights through a bilateral secondary market with final reconciliation by the TSO?**
 - **b. An organized transfer of capacity rights through a centralized re-allocation under the TSO's responsibility in the subsequent explicit auctions time frames?**

Answer

Principle A is preferred.

Participants should have the possibility to exchange capacity rights on a bilateral 'Secondary Capacity Rights Market', with time period and price being freely negotiable between parties (e.g. yearly → monthly). Broker screens and standard contractual framework can facilitate this. Parties would need to notify the auction office of the title transfers (transfer of title = change of ownership of the rights in the TSO register). This title transfer would need to occur before the deadline for LT nominations.

9. **What type of commitment should the TSO's provide with respect to the allocated capacities/nominated programs?**
- **a. Firm and definite in both cases, except in case of "force majeure" (*)?**
(* *It is supposed that with this level of firmness, the financial risk to market parties will be reduced to its minimum level in the event of a physical reduction of the interconnection capacity.*)
 - **b. Reductions of capacity and/or nominated programs are possible under a very strict regulation with respect to the duration of the reduction, the compensation mechanism for any reduction, etc (*)?**
(* *It is supposed that with this level of firmness, the financial risk will be shared between the TSO and market parties in the event of a physical reduction of the interconnection capacity.*)
 - **c. No firmness at all (*)?**
(* *It is supposed that with this level of firmness, market parties accept all the financial risks in the event of a physical reduction of the interconnection capacity.*)
 - **d. A mixture of cases a,b and/or c? Please explain your commitment preferences.**

Answer

Principle A (firm capacity) is preferred for the allocation of interconnection capacity. TSOs should exploit all means (re-dispatching, capacity buy-back (on above-described secondary capacity rights market), ...) before reduction of capacity rights participants have or the nominations they did on these capacity rights.

TSO may not have the right for imposing minimum capacity threshold prices (i.e. a reserve price) because a too high threshold could actually have as a result that there isn't any long-term capacity sold, reducing thus the "risks" of the TSO and allocating all capacity on the daily allocation.

10. **In the case of questions 9b and 9c, where a reduction of the available interconnection capacity/nominated programs is possible, what would be your preferred reduction rule (mainly when the reduction is known after the short term allocation):**
- **a. To reduce firstly the long term assignments?**
 - **b. To reduce firstly the short term assignments?**
 - **c. To reduce proportionally both long and short term assignments?**

Answer

Principle B is preferred, however, this might lead to insurmountable problems in the case of daily allocation through market coupling, allocated capacity via market coupling should then be exempted from curtailments.

11. Do you recommend an obligatory use (a constant strip for the whole duration of the product) of long and medium term products?

Answer

No, Electrabel supports an optionally right to use combined with an automatic resell to the market (via TSO- auction) if not nominated at the nomination deadline should be applied.

An obligatory use can reduce the value and leads to a not optimal use of the capacity, and even to price spikes (principle = let the market laws work : commercial flows should go from low price areas to high price areas, and no obligation to keep the opposite direction seems appropriate).

12. To what extent do you consider it of importance to oblige the market parties to firmly nominate their long and medium term capacity rights sufficiently in advance before day-ahead allocation^(*), and why?

() To allow the application of the so-called "use it or lose it" principle.*

Answer

Use-it-or-lose-it (or Use-It-Physically-Yourself-or-Sell-It-To-Market) should be applied just before day-ahead allocation (or market-coupling), in order to allow for TSOs to re-allocate non-used capacity and to apply netting. The deadline for nomination of long-term capacity in several European countries (D, DK, PL, CZ, SK, HU, ..) has been set at D-1: 8h30, which would be the deadline throughout Europe for harmonization reasons.

13. Under the condition that day-ahead explicit auction is implemented, to what extent do you consider the firm nomination of these day-ahead capacity rights to the TSO sufficiently before the intraday sessions as an effective way to counter strategic capacity withholding, and why?^(*)

() Alternatively, on the Dutch wholesale electricity market, day-ahead capacity rights holders are obliged to trade cross-border capacity through the APX for import capacity into the Netherlands.*

Answer

If the day ahead allocation happens via explicit auctions, a obligatory nomination deadline is necessary, the not nominated capacity is lost and goes back to the TSOs for the potential subsequent market coupling allocation, and if still not allocated for free towards intraday allocation mechanism.

However, on a day-ahead basis, implicit auctions (market coupling) are in our opinion much more efficient (less administration, ...) than explicit auctions for efficient optimization and for avoiding potential strategic retention of capacity, through the implicit allocation process that market coupling provides, energy and capacity are allocated at the same time, and thus the question is not longer relevant.

14. What level of harmonization (auction rules, gate closure time, etc.) do you recommend for the organisation of explicit capacity auction for long, medium and short term time frames on the two borders? Please specify what aspects require harmonisation.

Answer

In our opinion, harmonization should be considered as one common auction office on a regional level (F + B + NL), or even better on a West-European level (F + B + NL + D + AT). This auction office would become the central point of contact for:

- market participants participating to auctions (bidding, allocation, payments)
- TSOs for coordinating the cross-border capacity calculations with advanced computer modeling taking into account all generation, consumption and grid data (predicting loop flows),
- TSOs for sharing auction revenues and using them according to European Regulation.

In the expectation of a common auction office, we argue for an harmonization towards a common format of the data exchange and the timeline for the French-Belgian and the Belgian-Dutch borders. The biddings for the auctions on the German-French border can be taken as an example. The biddings follow the pay-as-cleared mechanism and can be sent by mail on an attached excel template. Authentication is done through the email address. We believe this is a simple and fast solution for all explicit auction biddings.

Concerning gate closure times, the following gate closures should be carefully synchronized and harmonized:

- Interconnection capacity auctions gate closure
The timeline for yearly and monthly auctions could ideally follow the timeline of the 'TSO Auction BV' auctions on the Dutch borders, where biddings must be sent before 12h and results are published around 14h30.
- Resell interconnection capacity right gate closure as close as (technically) possible to the long term nomination deadline
- Interconnection capacity nomination gate closure as close as (technically) possible to the day ahead auction gate closure
- Day ahead auction gate closure (or power exchange bidding gate closure in case of market coupling)
- TSO internal program nomination gate closure

15. The determination of cross-border capacities foreseen for yearly and monthly allocation is not always coordinated across borders. Which importance do you give to the implementation of a more coordinated capacity calculation method?

Answer

Coordination of cross-border capacity calculations is of utmost importance in the meshed West-European grid in order to maximize the capacity that can be allocated to the market. Currently this calculation is done bilaterally and mostly limited by taking the minimum of both neighboring countries ATC calculations. As stated in point 14, this calculation should on the contrary be done commonly by all involved (neighbouring) TSOs, as the capacity allocated on one border impacts what can be allocated on the other. Instead of just taking the minima, the maximization of capacity should be achieved.

16. Regarding the above questions (1 to 15), to what extent do your answers apply to the other borders (the French-UK, French-German and Dutch-German interconnections) as well?

Answer

For harmonization reasons, common rules and systems should be implemented. Therefore these answers are also valid for all the other borders.

3. ASSESSMENT OF THE DAY-AHEAD MARKET COUPLING

17. Which market-based congestion management method do you prefer to manage the day-ahead cross-border congestion on the French-Belgian and Belgian-Dutch borders:

- **a. A trilateral DAMC mechanism between the three power exchanges, APX, BELPEX and POWERNEXT?**
- **b. A day-ahead explicit auctions between the three TSO's , TENNET, ELIA and RTE, or**
- **c. A mixture of the above? Please specify.**

Answer

Method a is preferred, principally because of its simplicity and efficiency.

18. Could you give your opinion on the pros and cons of the congestion methods mentioned in question 17, particularly in terms of flexibility, simplicity, market power mitigation, risk management, implementation costs, netting of capacities, liquidity, etc?

Answer

The amount of required operations for DAMC is limited to buy/sell on the exchange leading subsequently to lower nomination error risk or TSOs matching difficulties, while the explicit auction requires several operations with different counterparts (capacity bidding, capacity results, buys/sells, transport and buy/sell nominations with different grids). Moreover DAMC is more efficient, as capacity is always used up to maximum in order to equilibrate price differences with automatic netting. With explicit auctions capacity can be withheld or be used in the direction contrary to the spread. Simultaneous netting of imports and exports is moreover not possible with explicit auctions, as this can only be done in a next allocation.

19. In the case of an implementation of the DAMC, give your opinion about the cross-border capacity that should be allocated to the DAMC process:

- **a. The potentially volatile remaining capacity (after the allocation of long and medium term explicit auctions and the release by the market parties, pursuant the article 6.4 of the regulation?**
- **b. A predetermined fixed minimum capacity? If so, which one?**
- **c. The potentially volatile remaining capacity plus a predetermined fixed minimum capacity?**
- **d. All the capacity?**

Answer

Method C is preferred.

1/3rd to 1/4th of the total capacity should be allocated by default to DAMC, plus the non-used long term capacity, additional capacity freed after netting of LT and better forecasts closer to delivery time and potential capacity that can ultimately be set free by the TSOs.

20. Do you think that the launching of the Belgian Power Exchange could be realised without simultaneous implementation of the DAMC?

Answer

The launching of the Belgian Power Exchange stand alone can be achieved, but we do not recommend it because we fear that in the specific Belgium market there will be not enough liquidity. We believe that a launching of Belpex that coincides with market-coupling has more chances to be successful because foreign players will automatically influence the demand and supply volumes and thus increase the liquidity.

21. What harmonization issues between the existing Power Exchanges do you see as important for implementing the DAMC (bloc bids' definition and treatment, price settlement, time frames, etc.)? For each of these issues, could you precise what is your preference? (*)

() Also taking into consideration that harmonisation with Nordpool is necessary with the implementation of DAMC over the NorNed cable.*

Answer

Ideally there would be one exchange or at least one exchange bidding system. The fact that Powernext and APX have different bidding systems not only complicates biddings for participants, especially for newcomers, but also delays the daily clearing algorithm. The main problem is this long clearing duration, which would be much faster in case of one central exchange.

Concerning bloc bids, we believe that variable blocs (APX model) are more adequate than standard blocs (Powernext model).

4. CROSS-BORDER INTRADAY TRADE

22. Do you wish the establishment of a cross-border intraday trade and, if so, why:

- **a. To revise its day-ahead position in case of physical disturbance (outage of a generation unit for example)?**
- **b. To make some new, or not already done, price arbitrage?**
- **c. For all purposes?**
- **d. For other purposes?**

Answer

Option C in a market coupling model is preferred, although the main reason for intraday trading is A. But physical disturbance is not the only reason, but also phenomena as temperature rises, sudden cloudiness, rainfalls which allow for more hydro energy, strikes (consumption or generation), problems with e.g. gas supply, etc. Because of all these, it is important to allow for revision of the planning closer to delivery time. If additional generation capacity in France can back up a plant outage in Belgium, this would avoid the start-up of e.g. a spare plant for a couple of hours.

23. Do you think cross-border intraday should be limited to one of the above particular purposes? And, if so, why?

Answer

No. It is almost impossible to dissociate the purposes.

Further more, because of the high imbalance prices, participants will always have the incentive to submit a balanced day-ahead program, and will only adapt their position in intraday if really necessary (e.g. to reduce imbalance costs)

24. In case you agree with the establishment of cross-border intraday trade, what market and/or regulatory obstacles need to be removed before such a trade can be implemented? Please specify.

Answer

As intraday trading occurs close to delivery time, an efficient straight-through processing system should be implemented. As for DAMC, capacity and energy should thus be combined into one transaction (implicit allocation principle). Following obstacles should thus be avoided or removed:

- Requiring separate operations for transporting power cross-border close to delivery time (capacity request, capacity authorization, purchase, sell, hub and cross border nominations in the separate grids)
- Need to respect the timing and the different notice times of the intra-day hub trading and intra-day cross-border trading gates, and this at both sides of the borders, requiring thus harmonization of gate closures
- Several different secured IT capacity allocation and nomination tools at the different grids, with the related cost and complexity
- Complex coordination and matching between grids, delays in capacity updates and in netting of flows, possible mismatches in nomination

All intraday transactions for market participants would thus occur on this single common system, while TSOs would get their nomination data directly from this system instead of receiving it from the participants.

25. Do you consider it suitable to reverse an amount of the cross-border capacity to the intraday allocation mechanism, or should capacity only be made available for intraday trade that has not been previously allocated and/or used at the day ahead allocation?

Answer

Participants should submit a balanced day-ahead program, taking into account all day-ahead optimization possibilities. To ensure a maximal liquidity for the day-ahead market coupling leading to THE reference price for power in the three concerned countries, all available capacity should be allocated to this day-ahead clearing. On intraday, only the remaining (if any) non-used capacity, additional capacity freed after netting and better capacity forecasts closer to delivery time and potential capacity that has been bought back by TSOs should be allocated.

- 26. Do you consider it useful to limit ex ante the possibilities of nomination in the intraday market in order to prevent potential ineffective market outcomes such as:**
- **a. A market party who would nominate energy in both senses in order to withhold capacity, or**
 - **b. A market party who would shift its imbalances into the neighbouring market in order to benefit from differences in the balancing market designs, or**
 - **c. Other anti-competitive or free-riding behaviours?**

Answer

If a party nominates in both directions, after netting, no capacity has been used, and it is thus still available for the future use.

There should be no limitations, as ineffective outcomes would be rare considering the low amounts traded on intraday. Balancing market designs slightly differ from country to country, but intraday trading will indirectly lead to harmonization of these balancing regimes and thus to better pricing signals.

- 27. Alternatively, do you consider that an ex post market monitoring could be sufficient to prevent this type of anti-competitive or free-riding behaviour?**

Answer

Yes, complemented by ex ante market data control.

- 28. Do you consider it relevant that the capacity rights allocated in the intraday framework (so near the real time) correspond to obligations (rather than options) to use/nominate the equivalent energy and, if so, why?**

Answer

Yes, intraday time schedules are so tight that optional use is not possible anymore. Capacity should be seen as an obligation, combined into one transaction with the power trade (implicit allocation principle).

- 29. How do you think this cross-border intraday trade should be implemented:**
- **a. By allowing market parties to realise cross-border intraday trade in the limit of the capacity rights obtained in the day-ahead explicit auction mechanism (in the case where an explicit auction is implemented in day-ahead)?**
 - **b. By allowing market parties to obtain specific intraday capacity rights through a specific cross-border capacity allocation method (in order to allocate the non-used or the not-already-sold capacity)?**
 - **c. By a combination of the two above proposed methods?**

Answer

Method B is preferred.

Method A could lead to retention of capacity, as non-used capacity options would not be reallocated to market participants placing a higher value on these. Moreover, additional intraday capacity can be freed with more precise forecasts closer to real time. For this additional capacity, a specific allocation would though be necessary. Therefore B is the best solution.

30. In the case where a specific intraday cross-border capacity allocation is implemented, which allocation method do you consider the most appropriate for organizing this intraday trade (taking into consideration the possibility of concentration trade in single shot or continuous trade):

- **a. A market coupling procedure extended to the intraday time frame ^(*)?**
(**) This would require a centralised intraday trade, which is currently non-existent.*
- **b. An explicit auction procedure?**
- **c. A free pro-rata, where demanding market parties would receive an intraday capacity proportionally to their demand?**
- **d. A “merchant” pro-rata with an access price based on:**
 1. **the day-ahead price differential (in the case where a DAMC is implemented in day-ahead), or**
 2. **the day-ahead capacity price (in the case where an explicit auction is implemented in day-ahead)?**
- **e. A free first-come/first-served procedure?**
- **f. Another method?**

Answer

Method F is preferred.

The proposed allocation methods A to E all have some pros but also lots of cons. In our opinion the most efficient method is the 'implicit allocation of spare intra-day cross border capacity through a continuous trading platform', similarly to the Elbas platform.

On an intraday basis, we believe it is too complex and too costly to run subsequent implicit or explicit auctions (every hour, every 2 hours?), with an illiquid clearing. Instead of method A or B, we thus advocate to go for a continuous allocation system where every participant is free to participate whenever he deems useful.

Methods C and D, i.e. the RTE model with pro rata allocation according to subsequent gates, is considered as too complex. You first need to do a capacity request at one side of the border, wait for the capacity authorization with pro rata curtailment of your request, then do the purchase or the sale in both countries and nominate this according to the internal trade gates, be sure you have obtained capacity at the other side of the border, etc. You need to respect the timing and the different notice times of the intra-day hub trading and intra-day cross-border trading gates, which differ from border to border. At the end this ends up with different gates and its bunch of deadlines, several secured capacity allocation and nomination tools at the different grids, with the related cost and complexity and complex coordination and matching between grids, delays in capacity updates and in netting of flows, and possible mismatches in nomination.

Method E is not considered as market-based in its current configuration. However the allocation is useful in a continuous model with obligatory use, with capacity implicitly integrated in the energy bid/offer like on the Elbas market. After all, buying carrots in a shop or bilateral OTC trading on broker screens are also based on a first-come first-served basis.

The Elbas market is a centralized trading platform where participants in Sweden, Finland and Denmark East can trade hourly contracts and blocks of hours from the day-ahead until one hour before the delivery time (real time). It is a 24h/24h continuous screen-based trading platform with automated control of transmission capacity and automatic netting of flows in order to maximize the capacity. As long as there's no congestion between countries, participants can freely trade their energy on one extended market, without knowing beforehand where the offer or bid they activate originates from. However, if there is a bottleneck for example from Denmark East to Sweden, the participants in Sweden and Finland will not be able to see nor

activate the bids originating from bidding area Denmark East. The TSOs control and can thus rapidly update the available cross-border capacity on this screen in function of real-time expected flows. When e.g. loop flows are detected (endangering security of supply) or when additional capacity can be allocated, this will directly impact the trading possibilities for participants.

The system has the advantages that only one transaction is needed for transporting power cross-border close to delivery time, that all liquidity is integrated on one platform centralizing all intra-day liquidity over several countries and that there is a perfect grid coordination with on-line automated netting of flows and flexible capacity updates in order to maximize capacity. With a straight-through processing from transaction to nominations, TSOs will have all relevant data concentrated into one system, significantly reducing the risk of mismatch or unbalance.

This intraday market can be implemented in the Netherlands, Belgium and France, further integrating other countries later on. However the model can be improved.

- Apply method D to make it 'merchant'. The potential capacity cost for the specific hour (spread on DAMC or explicit auction price) can be implicitly added to the power price of a bid or offer on the screen. A participant who would like to buy some power at price A, would in fact - when this power originates from another country - pay price B to the seller for the power component and price C to the TSO or auction office for the cross-border capacity component (if capacity cost > 0), with $B + C = A$.
- TSOs should ideally automatically consider the transactions on this intraday hub as binding for internal hub nominations and for cross-border transport nominations. This would avoid all actions described above. It nevertheless is important that traders remain in balance. ELIA e.g. requires ARP's (balance responsible parties) to be in balance day-ahead (at 13h) with injection program + buys + imports = off take program + sells + exports. In intraday this balance should also be respected, the cross-border intraday trade(s) should thus somehow be compensated by physical injection or off take. It thus is necessary that the timing allows for the notification of physical injection/off take program modifications.
-
- Elbas allows TSOs to buy their grid losses. TSOs could also be allowed to perform intraday counter trading in case of congestion or to already activate bids for the real time adjustment market in order to solve foreseen imbalance.

5. CROSS-BORDER BALANCING TRADE

31. Do you wish the establishment of cross-border balancing trade and, if so, why?

Answer

Yes. It allows for mutual assistance in case of unpredictable events (outages, strikes, etc.), and to pool spare capacities across countries more efficiently.

32. How do you think this cross-border balancing trade should be implemented and why:

- **a. By allowing market parties to realize cross-border balancing trade in the limit of the capacity rights obtained in the day-ahead or intraday explicit auction mechanism (in the case where an explicit auction is implemented at these time frames)?**
- **b. By letting the TSO to manage the cross-border balancing trade in the limit of the available capacity (integration of balancing markets)?**
- **c. By another method?**

Answer

Method B is preferred.

There should be a clear separation between intraday trading markets on the participants' initiatives (previous chapter), and the balancing markets, which are a distinct TSO initiative. The cross-border intraday trading market should have priority for the capacity on the balancing market, as participants (ARP's, RE's or PV's) are still the best-placed to manage their imbalances themselves close to delivery time. TSOs could put offers from abroad in the merit order as RTE currently does for Switzerland, Spain and UK, and call them when they are attractive and when sufficient cross-border capacity remains available after the intraday trading market. Balancing mechanism should provide economic, market-based signals to all participants on the cost of balancing the system and be revenue neutral for the TSO.

33. What do you think about the differences in market designs between the three existing balancing mechanisms and a possible need for harmonisation? Please specify.

Answer

The existing balancing mechanisms need to be harmonized between countries in order to come to a liquid and transparent regional balancing market. Balancing mechanisms based on national scopes will always be less efficient because of their smaller scale.

Electrabel prefers a balancing mechanism based on marginal prices. We believe that the Dutch balancing system is a fairly good reflection of this principle.

The Dutch balancing system is revenue neutral for the TSO, as the 'incentive' component is symmetrical designed for short positions and for long positions : participants that are short pay the same amount as participants that are long receive (or vice-versa). Downward regulation prices can become negative when the system is very long, which means participants who are short and thus help the system balancing get rewarded. The imbalance price paid corresponds to the marginal price (or the price of the last activated bid for upward or downward regulation). We believe this marginal pricing is the right incentive price for imbalances.

In the RTE balancing system when the system e.g. is short, participants with a short position pay much more (maximum of 1,15 * average upward regulation price and the Powernext price) than what participants with a long position receive (Powernext price). The so-called k-factor (currently at 1,15) and the fact that upward regulation bid prices are limited to 999 €/MWh while Powernext prices already have gone up to 3000 €/MWh distorts the mechanism and does not make it revenue neutral for RTE.

The ELIA balancing mechanism proposal for 2006 seems a flexible mix between both systems, but the mechanism however is not revenue neutral for the TSO. Moreover,

there would be several price caps to regulation bids, which would distort market-working.

One issue should thereby be highlighted. Balancing systems are often used for two purposes: control area balancing management and program balancing management. There is a clear distinction to be made between both purposes and the way they are treated in the imbalance prices. The RTE imbalance price already partially reflects this difference. When the system and the participant are short, the participant pays the weighted average cost of upward regulation until $P = C$ (Production = Consumption i.e. until the RTE zone is balanced)

34. To what extent do you agree that market design differences may result in arbitrage between them? If so, do you propose countermeasures? Please specify.

Answer

Arbitrage can indeed occur but should not be seen as a threat but rather as an incentive to go for harmonization

35. Do you consider it necessary to avoid any reservation of cross-border interconnection capacity for the balancing needs of TSO's before the end of every intraday trading session, during which market parties are the only ones to intervene(*)?

() Bearing in mind that cross-border commercial trade should have priority over cross-border balancing trade.*

Answer

Yes. The cross-border intraday trading market should always have priority on the balancing market, as participants (ARP's, RE's or PV's) are still the best-placed to manage their imbalances themselves close to delivery time.

36. Do you consider it suitable to reserve an amount of the cross-border capacity to the balancing mechanism?

Answer

Basically, Electrabel estimates that this is not suitable as this will be interpreted as withholding capacity for the benefit of the TSO : by withholding capacity from the day ahead market, market splitting will occur more frequently, which creates benefits for the TSOs whereas in case of splitting the interconnection flows are valued at the price spread between the two markets.

Only for specific situations (e.g. in case that the TSO contracted reserve energy abroad as ancillary service) exception can be made.

Anyway security margins are already taken on cross-border capacity, which means that the capacity that has been allocated to the market is still below the really available capacity.

6. MARKET TRANSPARENCY

37. What types of information in each of the three countries are currently non available and should be made available to the market? Please indicate:

- **a. A precise denomination of the data you want to be released to the market**
- **b. If relevant, the delay after real time (or before, for forecasted information) at which the data should be delivered**
- **c. If relevant, the desired time frames of the data.**
- **d. If relevant, the period covered by the data.**
- **e. Your preference concerning the disclosure of this information (to the public or only to the market parties concerned)?**
- **f. The level of priority of this information.**

Answer

See annexed table.

38. In your view, based on your practical experience in the Dutch, Belgian, French and/or other markets, which examples of market transparency should be taken as a basis for harmonisation efforts?

Answer

Tennet for Generation and Load, RTE and Elia for Grid related data

39. The market information that is currently available is not always easily accessible, different formats are used and the information is published by different entities like TSO's, PX's, regulators and others.

- **a. Do you think that access to market information must be improved? If yes, what should be the role of TSO's, PX's, regulators and other entities?**
- **b. Should formats be harmonised between the three countries? If yes, what is currently the best example for formatting the different types of information?**
- **c. Should definitions and interpretations be harmonised? If not, why? Or, if yes:**
 - 1. On what topics?**
 - 2. What is currently the best example which should be used as a basis to harmonise the different definitions and interpretations?**

Answer a

Yes. All actors should agree on a common format for standard data exchange, like e.g. ESS for nominations enabling the harmonized submission of ESS schedules to all TSOs in Europe. EFETnet, a software for standardized data exchange compatible with the ETSO standards is already used for deal confirmations between traders. EFETnet can in a next stage also be used for physical nominations and confirmations exchange with TSOs. Such initiatives should be encouraged. TSOs, exchanges and market participants together should take the lead, and be encouraged by regulators to do so.

Answer b

Yes. For data exchange, the easiest way is an excel format which is compatible with all actors' systems.

Answer c

Yes. We should agree on common definitions and standards, and this on all aspects. CRE, CREG and DTe could take the lead in the harmonization of these, which could become a model for Europe.

7. MARKET POWER AND COOPERATION BETWEEN REGULATORS

40. To what extent do you agree with the above analysis concerning regional market integration and (potential) abuse of market power ?

Answer

Electrabel believes that regional markets must be considered as the relevant markets.

Regional market integration is indeed the most indicated and most practical way to come to the creation of a transparent and liquid wholesale market due to an increase of the overall market size and a decrease of the market concentration of generators.

For the same reasons it can contribute to the mitigation of market power abuse.

For what matters market power abuse, is the extent of competition between generators with bids near the market clearing price on day ahead/intraday markets because of the non storable characteristics of electricity. In this regard it should be stated that market power abuse can be exercised as well by small players as by dominant players.

Therefore regulators should focus on the requirements of a well functioning wholesale market, as there are the creation of a level playing field for all market players, transparency, liquidity, ...

In the first place all appropriate tools facilitating those requirements should be put in place such as an ex ante transparent information platform and an ex post monitoring platform.

Any other regulatory intervention on individual market players should be limited to cases where competition laws have been offended or when real abuse of market power can be proved¹.

41. To what extent do you agree with the above analysis concerning the cooperation between regulators in the three countries ?

Answer

Electrabel observes that in the regulatory and legal framework until now emphasis was put on the creation and the development of national liberalised environments. For the moment, there is a lack of framework to support the development of regional liberalised environments : an ongoing failure of regulators and governments to push for electricity markets to expand beyond national boundaries constrains opportunities for liberalisation benefits.

¹ A similar striking example is the set up of a fluent traffic infrastructure. First of all the adequate design (traffic lights, traffic rules, ...) and monitoring tools (police control, camera supervision, ..) should be put in place. Subsequently, actions should be undertaken against offenders.

Starting up a system by punishing potential offenders on beforehand creates distortions in the system.

Moving towards a single European energy market remains a major challenge for all stakeholders: If Electrabel supports the development of regional markets, it stresses that the ultimate goal is (and should remain) the establishment of a single (or Pan) European market.

In this regard, Electrabel estimates that in the absence of a supra national regulator, the development of regional markets can be realised through a tight collaboration between the different national regulators and TSOs.

42. To what extent do you expect the integration of the Dutch, Belgian and French electricity markets to influence the market power of market parties that are already dominant in their incumbent markets ?

Answer

Conform to the answer to question nr 40, the Dutch/Belgian/French regional market will indeed contribute to mitigate the abuse of market power.

Again, it should be stated in this regard that market power abuse can be exercised as well by small players, as by dominant players, as by the TSOs.

The best way to mitigate abuse of market power is to put in place the appropriate market environment such as an ex ante transparent information platform and an ex post monitoring platform.

43. To what extent do you agree that market power mitigation on dominant market parties should be implemented before regional market integration and/or market coupling can be successfully implemented and, if so,

- **a. Why do you agree ?**
- **b. What type of measure do you propose against what market party or market parties and why ?**

Answer

Conform to the answers to questions 40 and 42, mitigation of market power abuse can only be done in an efficient way after that the adequate market environment has been put in place.

Any preliminary intervention will be complex, time consuming, juridical contestable and will slow down the process.

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 ¹ 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 Management² (a vision paper) and Transparency³ (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

¹ Draft 10-02-2005 (version 4) published on website www.europa.eu.int, under Florence Forum.

² 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.

³ 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 Regulation⁴ 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 methods⁵ 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.

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

⁵ 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 coordinated 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 presentations⁶ 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'⁷, 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 investment⁸ 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.

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

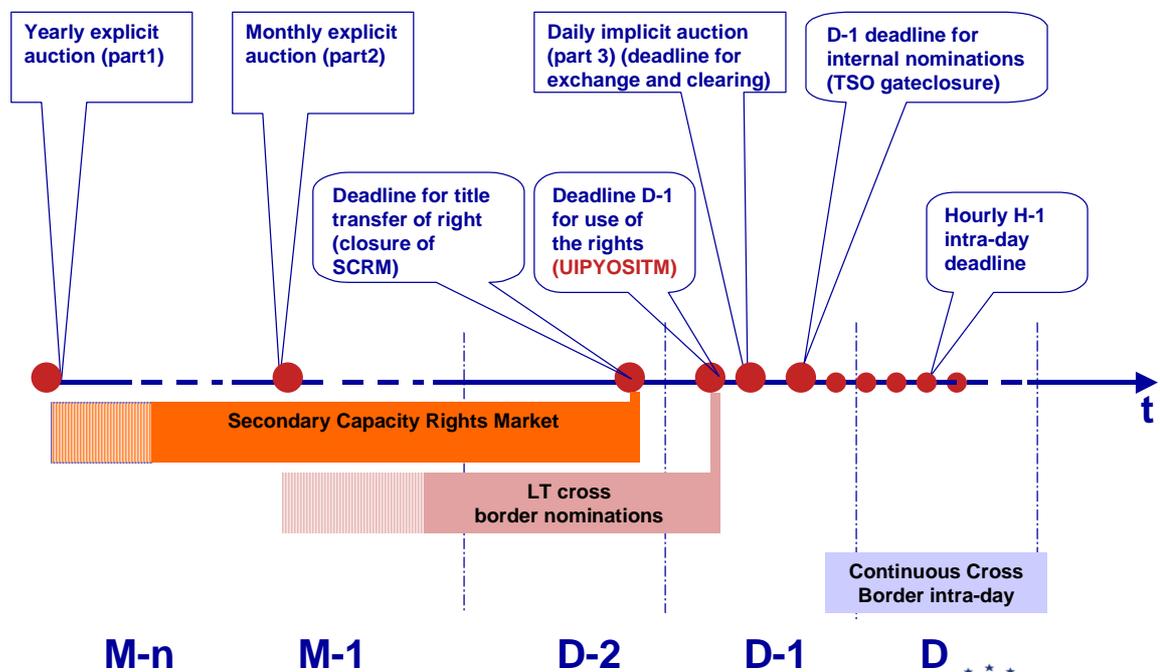
⁷ See for instance the Belpex presentation, mini forum Brussels, "Belpex Spot market and Trilateral Market Coupling"; this presentation only states that "part of the transmission capacity (daily) will be used for market coupling (slide 19), nowhere in the presentation a statement about maximising the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

⁸ 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

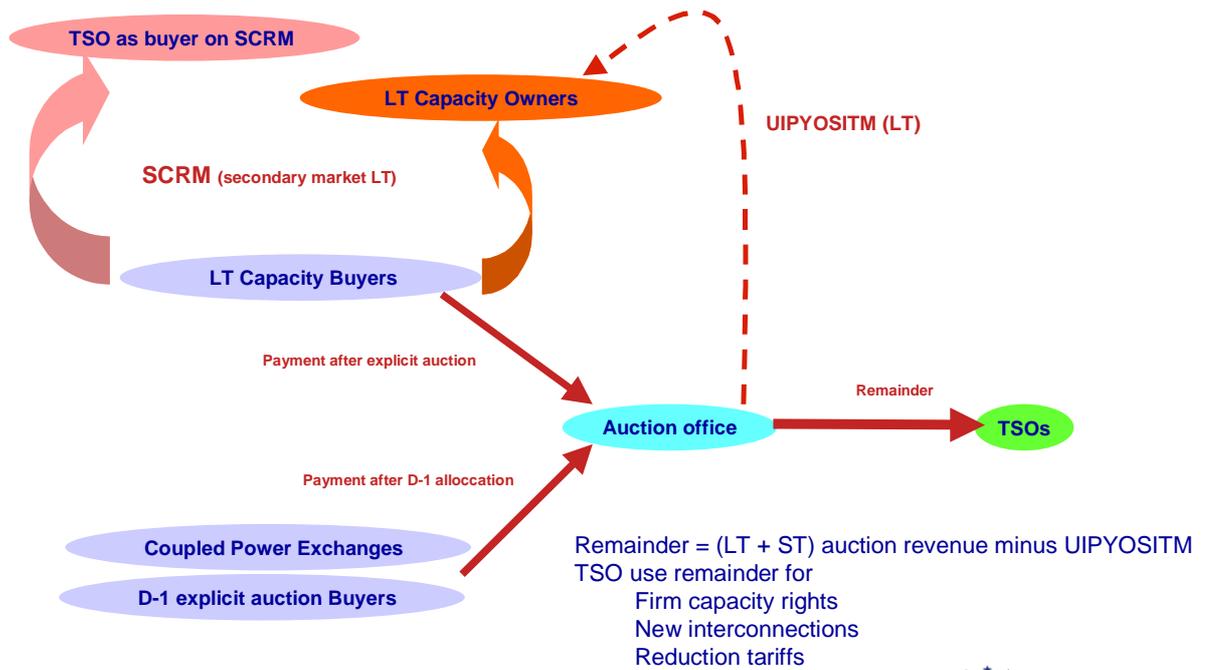
A practical model for market coupling



Annex 3

Payment scheme

Payment scheme



Monday, the 5th of September 2005

EDF position paper on

**“Regional market integration between the wholesale electricity
markets of the Netherlands, Belgium and France”**

A consultation by DTe, CREG and CRE

Long term and mid term explicit auction mechanisms

1. What is your preference for the selection of the time frames for the explicit auction mechanism (annual, quarterly, monthly, weekly and day-ahead)?

The allocation of physical transmission rights should be compatible with market characteristics. On OTC markets (which represent a significant volume of traded energy), players trade a variety of standard products (such as base, peak) of different maturity (calendar year, month, day-ahead). The compatibility of physical transmission rights with market products can only benefit to the establishment of liquid and robust markets.

Therefore EDF recommends the allocation of annual, monthly and daily physical transmission rights through explicit auctions. In the mid term multiannual transmission contracts is also a solution to be considered. Risk management in hedging long term positions could develop interest in this product. It will also contribute in the secondary market by increasing liquidity in long or medium term products (calendar year, quarter).

2. The allocation of the available capacities on different time frames can be based on the following principles:

- a. A maximum of capacity is allocated on a longer term basis, and the remaining capacities are allocated on shorter time frames.
- b. A predefined ratio (%) is chosen for the different time frames.
- c. A minimum of capacity is foreseen for specific time frames.

Which of the principles mentioned above (or a mix of them) do you recommend for the allocation of the available capacity on different time frames?

Option a

There shouldn't be any specific repartition between time frames.

A maximum of capacity allocated on a long term basis combined with a secondary market will contribute to add liquidity on the curve.

Estimate methodology should be simple, transparent and auditable. Unless security requirements are not met, TSO shouldn't hold back any capacity for dealing with internal congestion or because proceeds from allocation are not adequate.

For each time period considered, all capacity that can be made available shall be offered to the market (Article 6.3 in EC Regulation on cross border exchanges). For shorter timeframes, grid operators have a better knowledge of the operating system conditions and can make additional capacity available.

It means the available volume for the day-ahead allocation shouldn't be only the sum of unused annual and monthly rights. It should be completed by extra capacity made useable as system uncertainty is significantly reduced in term of transmission risk for TSO.

3. What type of price-setting mechanism (marginal price, pay-as-bid, ascending, etc.) do you recommend for long and medium term products (e.g. yearly, monthly) and why?

As stated in the EU Directive, the border allocations should be done through a non discriminatory market-based mechanism. Among possible solutions :

- The "pay as bid" doesn't look efficient as it leads players to pay the same product at different prices. It makes difficult in assessing the true market value.

- On the other hand, the marginal price (or “pay as clear”) gives the right signal as the result of all bids submitted by players, thus leading to a balance price. It provides to the market the appropriate economic signal for cross border trading. It is also simple, and widely used in Europe.

EDF favors the mechanism setting capacity prices through a marginal price at all time frame (year, month, day).

4. Is it necessary to limit the interconnector capacity (volume cap for import and/or export capacity) that can be given to a market party and if necessary, which value should be imposed for the different time frames?

No. We consider the market doesn't need any specific regulation ex-ante. Unless clear evidence of market abuse, no cap volume should be set (Guidelines 2.5.11).
If needed, further rules can be added to prevent from any possible misbehavior.

5. To what extent do you recommend the allocation of yearly and /or monthly capacities in a single round or in two or more different sessions per year and why?

It is difficult to assess what will be the impact on market when allocating capacity. It depends on the available volume and also if more than one border allocation take place at the same time..

- As an interim solution, we would consider splitting the annual allocation in several rounds if the allocated capacity reaches a cap. The IFA feedback shows a level of 250 MW doesn't have any adverse impact on prices. This value could be use as a reference for the coming annual auctions, and could be revised upwards later.
- For monthly auctions, we do not think such limit should prevail from the start as liquidity is significant.

6. Do you consider it to be important, in order to prevent strategic capacity withholding, to limit *ex ante* the possibilities for a market party to nominate energy in both directions? If so, which propositions would you recommend?

We do not think there is a need for an ex-ante regulation.

Once the nominations are firms, they shall be netted by the TSO, thus preventing a competitor to withhold capacity. For this reason, we do not think it is necessary to put such a preventive procedure in place. The flexibility given to the market will always ensure the optimal optimization through cross border arbitrage.

From an economical point of view, it doesn't make sense to flow on the same hours in both directions. The only reasons of doing so can only be explained by complex and restricted rules:

- minimum usage rate (first come-first arrived allocation) : to keep its ranking in the priority list, a participant at the French-Belgian border can be forced to export in order to guarantee a minimum usage of 65% for monthly transactions, whatever the market conditions are.
- National law: at the Belgian-Dutch border, markets participants are obliged to post their daily capacity on APX, whatever the Belgian-Dutch spread is.

7. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive behavior?

Yes.

TSO and Regulators powers are efficient. It can be enhanced by coordinated rules and close cooperation between relevant authorities.

Additional amendments can modify the framework of rules if proved necessary.

8. Do you consider it to be important to create a secondary market for transfer of cross-border transmission capacity rights? If so, what form of transfer of capacity rights should be allowed:

a. A free transfer of capacity rights through a bilateral secondary market with final reconciliation by the TSO?

b. An organized transfer of capacity rights through a centralized re-allocation under the TSO responsibility in the subsequent explicit auctions time frames?

A secondary market is of utmost importance in order to encourage the cross border activity, and contributes to increase OTC liquidity.

We recommend the **option a**, being a simple mechanism as it doesn't lead to complexity or extra-cost.

Capacities should be freely tradable on a bilateral basis (key role of liquidity played by brokers)

In order to keep a clear track of ownership, sellers and buyers would notify on a specific register their right transfer in an appropriate deadline.

The **option b** could be envisaged as another interesting possibility on top of the option a, increasing volume offered by TSO at primary allocations.

For instance, a buyer of a annual 2006 baseload contract could decide in March 2006 to sell back the corresponding capacity for April 2006. He could decide to use the April 2006 auction organized by TSO to reallocate his right, and gets the corresponding value deriving from the auction result.

This option can be considered sustainable as long as no excessive management cost reduces the interest of doing so (in comparison with a brokerage fee on OTC transactions).

9. What type of commitment should the TSO provide with respect to the allocated capacities/nominated programs?

a. Firm and definitive in both cases, except in case of "Force Majeure" ?

b. Reductions of capacity and /or nominated programs are possible under a very strict regulation with respect to the duration of the reduction, the compensation mechanism for any reduction, etc.?

c. No firmness at all?

d. A mixture of cases a, b and/or c? Please explain your commitment preferences.

Option a

Curtailling rights is not a proper way of congestion management (EC Regulation on cross border exchanges Art. 6.2). If such situation happens (case b), curtailed capacities must be compensated to holders with a market-based mechanism (based on the spread between the 2 markets prices).

The power flows nominated across the borders are commercial, and not physical transactions. TSO shall provide the same guarantee to these transactions as for power nominations within the countries (NEB). In other words, Force Majeure events shall only cover nomination system breakdown, and any failure of interconnection shall not impact ex-post the cross border nominations.

Close cooperation between GRT through data exchange, coordinated redispatching and possibly purchase by TSO on the secondary market should ensure a secure allocation of interconnections and avoid such curtailment.

10. In the case of questions 9b and 9c, where a reduction of the available interconnection capacity/nominated programs is possible, what would be your preferred reduction rule (mainly when the reduction is known after the short term allocation):

- To reduce firstly the long term assignments?
- To reduce firstly the short term assignments?
- To reduce proportionally both long and short term assignments?

Setting a priority list between annual auctioned rights and monthly or daily auction rights is arbitrary as they all have the same firmness. A, b and c options are not satisfactory. Prorata can be useless in some situations (case of a reduction of 2 MW to be made by TSO on 3 players holding capacity of 2 MW each...).

Only a market-based compensation scheme would be the only efficient method: annual, monthly or daily capacity holders are all exposed to the same price risk, which is the day-ahead market spread or Balancing Mechanisms prices. A compensation using these price references would leave the market indifferent to any curtailment consequences. For operational reasons, it would be appropriate to compensate short term assignments.

From a financial point of view, this solution shouldn't be detrimental to TSO as the number of events is likely to be extremely low (outside the usual forecast scope analyzed by TSO).

TSO cash rents from borders congestion by capturing the markets spread in explicit auctions or through PX with market-coupling mechanism. As stated in the Directive (Article 6.6), income from transmission sales shall be dedicated in guaranteeing the availability of allocated capacities. TSO have various ways of doing so :

- ex-ante (TSO buy back on the secondary market)
- in real-time (coordinated redispatching between TSO)
- ex-post (market-based compensation to curtailed participants)

11. Do you recommend an obligatory use (a constant strip for the whole duration of the product) of long and medium term products?

It is important to stress the difference between an economical use of interconnection (based on objective price signal) and a sole physical use of interconnection (which can lead to uneconomical flows)

All the interest of capacity ownership lies in its optionality. A buyer of an annual right is the holder of 8760 (=365days x 24hours) hourly options. Up to the day-ahead nomination deadline, he can decide to use his right or sell it back to the market.

(market price differences can lead to economical arbitrage on a few hours only. Making it obligatory for long and medium term products would lead to uneconomical use of the capacity.

12. To what extent do you consider it of importance to oblige the market parties to firmly nominate their long and medium term capacity rights sufficiently in advance before day-ahead allocation, and why?

In order to maximize the ATC for cross-border activity, it is important to ensure that no forward auctioned capacity remains unused at this stage.

Prior to the day-ahead market, a secondary market gives the opportunity to release available capacity and give border access to those who value the capacity at most.

Instead of a "use-it-or lose-it", we recommend a "use-it-or-sell-it-back-to-the-market" to be consistent with the existence of a secondary market. At any time a capacity holder can have the right to use it or sell it to somebody else. He will get the market price the counterpart values the most.

To be consistent and non-discriminatory with this principle, on a day-ahead basis before the day-ahead allocation, the market player can also decide not exercise his transmission right and sell it back to the day-ahead allocation. It means the day-ahead allocation will still be able to use this right in the day-ahead allocation process (explicit / DAMC), but the TSO or power exchanges will pay back to the owner the market value of the right deriving from the spread of clearing prices of the two exchanges or auctions.

It has 3 main interests:

- the interconnection capacity is still optimized to its maximum,
- the PTR owner keeps its right value.
- TSO only sells the capacity once.

This is already applicable at some border (e.g. monthly right at the German-French border auction can be sold on a day-head basis through the daily auction).

13. Under the condition that day-ahead explicit auction is implemented, to what extent do you consider the firm nomination of these day-ahead capacity rights to the TSO sufficiently before the intraday sessions as an effective way to counter strategic capacity withholding, and why?

We consider there is no risk of withholding any capacity prior to the intraday capacity allocation. Once day-ahead capacity has been nominated, netting by TSO simply release any spare capacity for intraday activity. Participants will then have the option to use it up to the next gate closure.

14. What level of harmonization (auction rules, gate closure time, etc.) do you recommend for the organization of explicit capacity auction for long, medium and short-term time frames on the two borders? Please specify what aspects require harmonization.

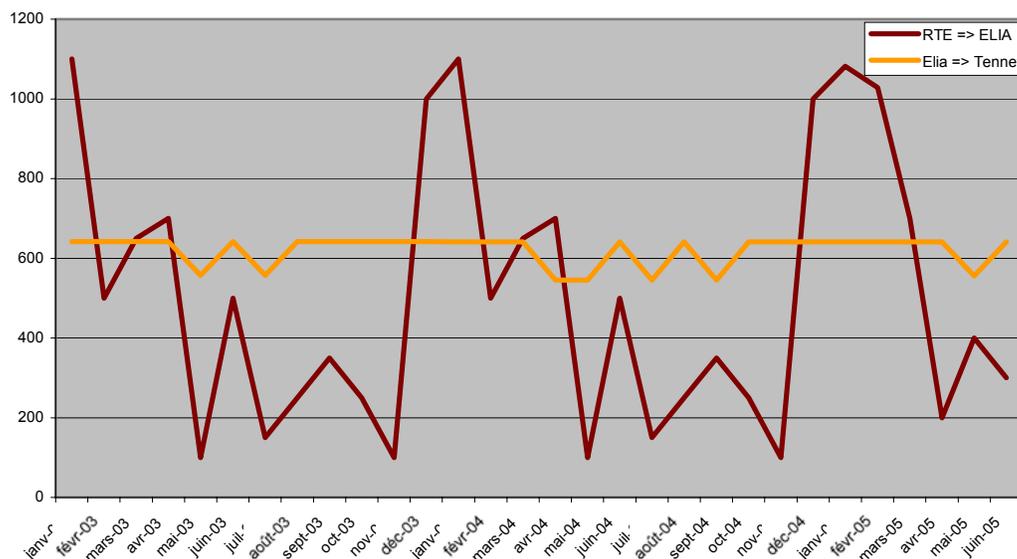
As long as we discuss about coordinated allocation between TSO, a few simple but obvious principles should be set in order to ease any mechanism:

- For one border, auctions should take place at the same time for the 2 directions for a specific product (annual, monthly, daily or intradaily)
- Available volume should be the same on both side of the border
- Allocation process should be managed by one entity only (being a TSO or an agent)
- IT systems should be compatible, especially when several TSO are involved with meshed borders. Having different systems lead to huge IT costs (investment, maintenance) and increases operational risks. These costs could prevent some players from participating in markets.
- National laws should be harmonized as well (for instance, the Dutch law states that the daily capacity from Belgium to Holland must be sold on APX exclusively, which is restrictive).
- Coordination between TSO should be effective in both directions (case of the French Belgian border where only exports from France to Belgium are coordinated between RTE and ELIA, and not the other way).

15. The determination of cross-border capacities foreseen for yearly and monthly allocation is not always coordinated across borders. Which importance do you give to the implementation of a more coordinated capacity calculation method?

A coordinated capacity calculation method is of the utmost importance. Now coordination is too often reduced in taking the lowest capacity of both TSO estimations, and the estimations are not transparent. The graph hereafter shows that different borders can be treated differently within the same hub (seasonal profile on the French-Belgium side, and a more constant shape on the Belgium-Dutch side).

Allocated capacity on a monthly basis in Belgium



(data sources : Auction Office + Elia)

A significant improvement will come with a coordinated flow-based method. For instance, sharing and performing common methods on the available transmission capacity through a continuous and integrated data exchanges on generation hypothesis, load forecast, grid transmission topology would contribute to significant firm volumes allocated by TSO.

These significant but required improvements would bring more transparency in the process allocation.

16. Regarding the above questions (1 to 15), to what extent do your answers apply to the other borders (the French-UK, French-German and Dutch-German interconnections) as well?

- French German and German-Dutch borders: they should be part of the regional market project. For instance, high level of wind generation in Germany last winter were at the origin of congestion at the German-Dutch and German-French borders. Not involving the German TSO in a closer cooperation would be detrimental on a balanced and harmonized regional market.

Our answers are also relevant for every other French borders (Spain, Italy, Switzerland).

3 Assessment of the day-ahead market coupling

17. Which market-based congestion management method do you prefer to manage the day-ahead cross-border congestion on the French-Belgian and Belgian-Dutch borders;

- a. A trilateral DAMC mechanism between the three power exchanges, APX, BELPEX and POWERNEXT?
- b. A day-ahead explicit auctions between the three TSO, TENNET, ELIA and RTE, or
- c. A mixture of the above? Please specify.

Possible solution of day-ahead allocation are :

- coordinated day-ahead explicit auction by the 3 TSO :
Prior to this allocation, a “use-it-or-sell-it-back to-the-market” mechanism takes place in order to release any spare annual/monthly capacity and maximize the available capacity.
- DAMC organized as follows :
On a day-ahead basis, market participants transacts on markets according to their monthly/annual rights. Before a certain deadline (for instance 30 min before the DAMC starts its matching calculation), players inform TSO whether they use physically their right or make it available to the market-coupling (and get the positive clearing prices spread).

The result is maximizing economically the use of the capacity.

18. Could you give your opinion on the pros and cons of the congestion methods mentioned in question 17, particularly in terms of flexibility, simplicity, market power mitigation, risk management, implementation costs, netting of capacities, liquidity, etc.?

Explicit auction:

Pros

- this mechanism is extremely simple, and is already used on a majority of borders where market-based methods are used (Auction Office, Central Europe, IFA, etc...). A significant feedback is available on it.
- It is also flexible as it can apply to any type of product (base, peak, single hour) for any time period (annual, quarter, month, week, day, intraday). It is perfectly compatible with tradable products on markets. It is a significant driver in liquidity on OTC markets as it provides alternative bids/offers to interconnected markets.
- Risk management : an explicit auction is an adequate product to hedge portfolio position.
- Implementation cost : no specific algorithm has to be developed.

Cons

- Allocation and nomination are 2 separate tasks
- Explicit auctions cannot ensure a proper optimization on every hour (case of base or peak products)
- No netting can be performed

Market-coupling:

Pros

- Market coupling guarantees a very precise optimization of the interconnection (hour by hour)
- A centralized mechanism is more appropriate to guarantee a good utilization of the capacity
- Netting can be performed
- Allocation and nomination are done in one single operation

Cons

- Flexibility: it looks such mechanism only can be applied for a day-ahead allocation, as it is linked to the day-ahead clearing process of power exchanges. Therefore, another system is required to manage term capacity allocation

- Simplicity: the common management of blocks and single hours seems to be complex within one power exchange. The result with 3 power exchanges probably needs some benchmarking before envisaging a go-live.
- Risk management : a market-coupling without financial right cannot ensure a proper hedge for the market. Selling (or buying) on a power exchange can be done through 2 main strategies : selling (buying) up to a certain price limit (consequence is a physical risk) or at any price (consequence is a financial risk)
- As Power Exchanges become the sole counterpart of day-ahead allocation, transacting costs more (PW fee versus broker fee). It can also lead in maintaining an artificial spread between markets (equal to the sum of PX fees).

19. In the case of an implementation of the DAMC, give your opinion about the cross-border capacity that should be allocated to the DAMC process:

- The potentially volatile remaining capacity (after the allocation of long and medium term explicit auctions and the release of capacity by the market parties, pursuant the article 6.4 of the regulation)?
- A predetermined fixed minimum capacity? If so, which one?
- The potentially volatile remaining capacity plus a predetermined fixed minimum capacity?
- All the capacity?

As explained in question 2, we favor the principle of allocating the available capacity for each considered period. Option a is the most favorable.
 Short-term capacity cannot not be equal to the release of annual and monthly rights only. Additional capacity detected by TSO (case studies of grid analysis) will also be contribute to maximize the available capacity for the day-ahead allocation.

20. Do you think that the launching of the Belgian Power Exchange could be realized without simultaneous implementation of the DAMC?

No.
 There aren't a sufficient number of players with a flexible portfolio in Belgium to ensure the success of Belpex without cross-border offers.

21. What harmonization issues between the existing Power Exchanges do you see as important for implementing the DAMC (block bids' definition and treatment, price settlement, time frames, etc.)? For each of these issues, could you precise what is your preference?

Harmonization on Power exchanges :

- Contractual environment:
- Deadlines : each European Power Exchanges has its own timetable:

Name	APX	Belpex	Powernext	EEX	IPEX	OMEL
Submission deadline (J-1)	10.30	?	11.00	12.00	09.00	10.00
Matching deadline	after 10.30	?	around 11.15	around 12.15	10.30	11.00

Compatible timing is required. In order to benefit of the maximum of flexibility, the preference is for a late deadline compatible with TSO nominations.

- Products
For instance, APX and OMEL only proposes single hour bids when Powernext offers additional products (base, peak,...). Definition of block products requires also some harmonization in order to be compatible with markets standards. It would be a factor of liquidity. For instance, the French peak is 08h-20h, but the Dutch peak is 07h-23h.
- IT systems should be compatible, especially when several TSO are involved with meshed borders. Having different systems lead to significant IT costs (investment, maintenance) and increases operational risks.
- Cost
APX invoices 0.14 Eur/MWh, Powernext is 0.8 Eur/MWh. Centralized PX activity should lead to scale saving and give opportunity to harmonize and optimize these costs, especially as PX will become a dominant counterpart on the day-ahead market.

Management of curtailment

As TSO could envisage the possibility of curtailing transmission rights (questions 9&10), a similar rule applicable to capacity holders (PX and third parties) on a non-discriminatory principle. It raises the main problem of who should bear the transmission risk. This issue has to be put in regard of the market income captured by Power Exchanges through a market-coupling mechanism.

4 Cross-border intraday trade

22. Do you wish the establishment of a cross-border intraday trade and, if so, why:
a. to revise its day-ahead position in case of physical disturbance (outage of a generation unit for example)?
b. to make some new, or not already done, price arbitrage?
c. for all purposes?
d. for other purposes?

Yes.

Despite the best forecast, real-time events (change in temperature, outages, generation events) are potential sources of imbalances.

It is important that any participant has the flexibility to adjust as needed its physical perimeter on the hub where actual delivery takes place:

- using its own portfolio (generation and possibly demand side management)
- transacting with neighboring hubs where better economical conditions are available.

Cases a and b are essential reasons for cross-border intraday.

23. Do you think cross-border intraday trade should be limited to one of the above particular purposes? And, if so, why?

No. There doesn't seem to be any reason for limiting cross-border intraday for any specific purpose.

It is essential that a player can adjust its physical position, and optimize any spare capacity available on a intraday basis.

24. In case you agree with the establishment of cross-border intraday trade, what market and/or regulatory obstacles need to be removed before such a trade can be implemented? Please specify.

In order to guarantee a fair access to any third part within the regional market, common rules should be applicable to all 3 countries.

- In France, notice periods of cross border trades could be harmonized to one hour (as for NEB).
- Border access on an intraday basis: this option is not available at the Belgian or Dutch borders currently.
- Schedules nominations and IT systems should be compatible to all countries: separate systems just increase maintenance cost and operational risk for participants.

25. Do you consider it suitable to reserve an amount of the cross-border capacity to the intraday allocation mechanism, or should capacity only be made available for intraday trade that has not been previously allocated and/or used at the day ahead allocation?

No

As for the day-ahead allocation, all available capacity that has not been previously allocated or used should be proposed to participants. Extra capacity detected from intraday forecast should also proposed by TSO as it would maximize the available capacity.

We do not think reserving capacity would be a proper way. As long as there is a demand (price) for cross border activity, the capacity should be made available at every intraday gate. Participants will bid for it and use it. If any, spare capacity will be then offered to the next gate allocation.

As for the day-ahead allocation, only spare capacity (netted from previous rounds, plus any detected extra capacity) shall be offered if available.

26. Do you consider it useful to limit *ex ante* the possibilities of nomination in the intraday market in order to prevent potential ineffective market outcomes such as:

- a. A market party who would nominate energy in both senses in order to withhold capacity, or
- b. A market party who would shift its imbalances into the neighboring market in order to benefit from differences in the balancing market designs, or
- c. Other anti-competitive or free-riding behaviors?

If so, which propositions would you recommend?

Operations conditions may have dramatically changed between day-ahead and intraday horizons. Forced unit outages, weather conditions can change economical operating conditions in real-time (ex: following the loss of generation, a generator can reduce its export flows). From an economical point of view, it makes sense to have the possibility to adjust efficiently its real-time positions.

There may be possibility that a participant looks for optimizing its imbalance positions. It stresses the need for harmonizing the design of balancing mechanism. It shouldn't be a reason for not authorizing cross-border trades from the beginning.

27. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive or free-riding behavior?

Yes. Complex rules at the beginning to deal with very rare situations could hamper the development of the intraday activity. It probably makes more sense to enhance ex-post rules in case of identified misconduct.

28. Do you consider it relevant that the capacity rights allocated in the intraday framework (so near the real time) correspond to obligations (rather than options) to use/nominate the equivalent energy and, if so, why?

When transacting on energy markets, flexibility is always preferred to obligatory mechanisms. One of the interests of the intraday activity is to reduce physical imbalances occurring with a short notice before delivery. It requires the maximum of flexibility. Any obligatory use would have a reverse impact as it increases risk.

29. How do you think this cross-border intraday trade should be implemented?

- a. By allowing market parties to realize cross-border intraday trade in the limit of the capacity rights obtained in the day-ahead explicit auction mechanism (in the case where an explicit auction is implemented in day-ahead)?
- b. By allowing market parties to obtain specific intraday capacity rights through a specific cross-border capacity allocation method (in order to allocate the non-used or the not already- sold capacity)?
- c. By a combination of the two above proposed methods?

Option b

As for the day-ahead allocation, TSO must ensure the remaining capacity is offered and used by market parties. A use-it-or-lose-it mechanism would make available any unused capacity from previous allocation plus any extra capacity detected on intraday basis.

30. In the case where a specific intraday cross-border capacity allocation is implemented, which allocation method do you consider the most appropriate for organizing this intraday trade (taking into consideration the possibility of concentrating trade in single shot or continuous trade):

- a. A market coupling procedure extended to the intraday time frame?¹⁴
- b. An explicit auction procedure?
- c. A free pro-rata, where demanding market parties would receive an intraday capacity proportionally to their demand?
- d. A “merchant” pro-rata with an access price based on:
 - i. the day-ahead price differential (in the case where a DAMC is implemented in day-ahead), or
 - ii. the day-ahead capacity price (in the case where an explicit auction is implemented in day-ahead)?
- e. A free first-come/first-served procedure?
- f. Another method?

¹⁴ This would require a centralized intraday trade, which is currently non-existent.

Considering the different options,

A : market-coupling on a intraday basis is unlikely to be efficient. Intraday activity is dedicated to very short-term transaction. The process of submitting orders, waiting for the clearing price, and nominating to TSO in a limited period doesn't look adapted to the intraday constraints (e.g. RTE manages 12 intraday gates).

B : explicit auction is a simple and experienced mechanism which can be implemented easily. It requires a strong cooperation between the involved TSO. But the timing can be tightened for intraday purposes:

- Organizing a quick auction round (e.g. 10 minutes)
- Allowing counterparts to trade once they have been allocated capacities
- Nominating to TSO the resulting flows

Executing these actions within a short period doesn't give a lot of flexibility for a significant activity.

C: the free pro-rata is the current method used by RTE. If no significant progress is made on the coordination side between TSO, it would be the only solution to allow intraday activity.

D: A merchant pro-rata based on day-ahead prices is not appropriate :

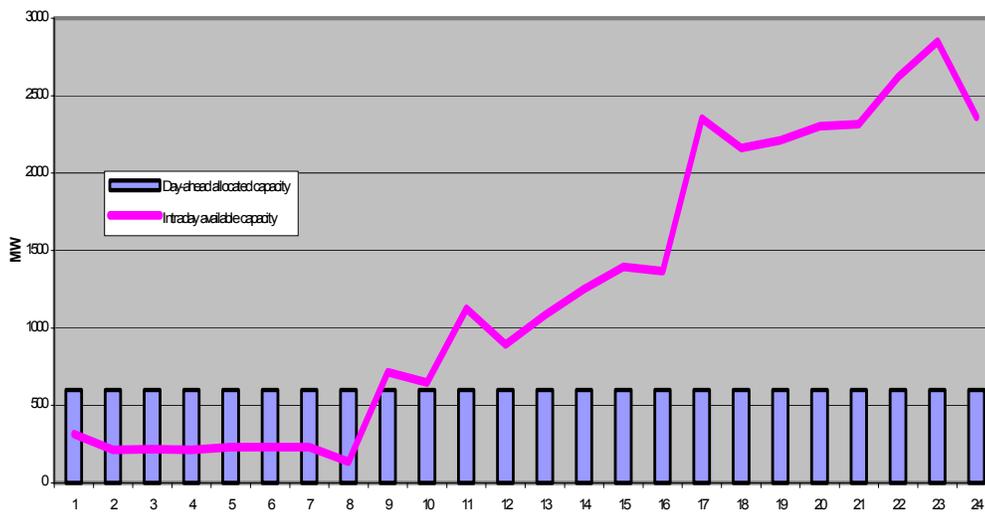
- Volume issue

Intraday capacity is very different from the level made available for participants through the day-ahead allocation:

- o Once nominated to TSO, netting of day-ahead imports and exports nominations can release spare capacity with a different profile.
- o Cross-border balancing can also contribute to increase available capacity (e.g. RTE dealing at the Swiss and Spanish borders).
- o Extra capacity can also be revealed on a short term basis (grid analysis)

The following graph illustrates this point.

Export capacity from France to Germany for the 9th of July 2005



(data source : RTE)

- Price issue

Economical conditions of the system are also different in real-time from the day-ahead forecast. Day-ahead market prices (OTC and PX) derive from a certain assessment of variable parameters (load forecast, weather temperature, generation, etc...).

As a result, different conditions from the day-ahead ones give different arbitrage opportunities. Market participants may have interest in real-time in getting access to interconnections for balancing or cost-efficiency purposes..

We do not think day-ahead price as the intraday price reference would be an appropriate reference.

F: An ELBAS-type system (NordPool) looks to be the most efficient way of dealing with intraday activity.

The main advantages are:

- Cooperation between TSO, in order to update continuously available capacity (based on netting of last nominations plus monitoring of real-time physical flows).
- A unique IT platform shared by TSO (for balancing purposes) and market participants (for commercial purpose) guarantees a simple use accessible to a maximum of participants.
- As a consequence, it becomes possible to trade continuously 24/7.
- This implicit mechanism summarizes in one operation a commercial transaction plus the associated grid nomination to the 2 adjacent grids.

5 Cross-border balancing trade

31. Do you wish the establishment of cross-border balancing trade and, if so, why?

Cross-border balancing trades should be made available to TSO within the 2 conditions:

- it should not be detrimental to commercial cross-border trades, which must always keep priority access at the border
- It should be made available to participants simultaneously (reciprocity principle).

We consider the contribution of cross-border balancing trade in reducing imbalance price level between countries.

32. How do you think this cross-border balancing trade should be implemented and why:

- a. By allowing market parties to realize cross-border balancing trade in the limit of the capacity rights obtained in the day-ahead or intraday explicit auction mechanism (in the case where an explicit auction is implemented at these time frames)?
- b. By letting the TSO to manage the cross-border balancing trade in the limit of the available capacity (integration of balancing markets)?
- c. By another method?

Option b

Considering the operational conditions (accessing capacity right, nomination) within a very short time frame, it makes more sense TSO manage the cross-border capacity for balancing purposes.

33. What do you think about the differences in market designs between the three existing balancing mechanisms and a possible need for harmonization? Please specify.

Imbalance prices on the 3 countries show differences in price levels explained by different BM designs. For instance,

- o Elia has 2 imbalance prices references depending on the depth of the imbalance. Prices are mainly based on APX, Powernext prices or fixed prices.
- o Tennet uses sometimes the same price for long and short imbalance prices, which is usually the marginal price.
- o RTE uses either Powernext prices or the weighted average price of lifted bids/offers.

The French BM is a simple and transparent process. It also takes into account the possibility of dealing with cross-border adjustments.

This model could be used to feed thinking about the design of a European balancing mechanism.

34. To what extent do you agree that market design differences may result in arbitrage between them? If so, do you propose countermeasures? Please specify.

In theory, the neighboring of specific market designs could enable arbitrage opportunities for imbalances. Such situations emphasize need for rapprochement and cooperation between relevant parties in order to reduce any market design differences, instead of envisaging complex rules to limit cross border activity.

35. Do you consider it necessary to avoid any reservation of cross-border interconnection capacity for the balancing needs of TSO before the end of every intraday trading session, during which market parties are the only ones to intervene?

Yes.

As explained in question 31, commercial activity shall keep the access priority.

36. Do you consider it suitable to reserve an amount of the cross-border capacity to the balancing mechanism?

No.

Reserving capacity for balancing purposes can lead to underuse capacity if TSO eventually do not use cross border adjustments.

We consider that spare capacity should be offered for the market first, and then the remaining profile can be used by TSO if needed.

For instance, in case of stressed situations on a system, participants shouldn't be prevented from importing into this country on a commercial basis.

From a physical point of view, it would give the same result as if the TSO had called BM import adjustment.

6 Market transparency

EDF welcomes any open initiative contributing in developing transparency at a level playing field. However issues related to market transparency need to be addressed at the appropriate markets level.

Dealing with this topic can only be done when taking into account all major continental markets (mainly France, Benelux, Switzerland and Germany). If not, asymmetrical rules will only produce lopsidedness in competition among participants at the European level.

Nevertheless load and transmission data aggregated at a national level can be a positive contribution to transparency as a first step. These data should be made available simultaneously on all 3 countries by TSO and PX.

37. What types of information in each of the three countries are currently not available and should be made available to the market? Please indicate:

- a. A precise denomination of the data you want to be released to the market.
- b. If relevant, the delay after real time (or before, for forecasted information) at which the data should be delivered.
- c. If relevant, the desired time frames of the data.
- d. If relevant, the period covered by the data.
- e. Your preference concerning the disclosure of this information (to the public or only to the market parties concerned?).
- f. The level of priority of this information.

The start of a regional market could be the opportunity to create a single internet portal of information supplied by all 3 TSO and Power Exchanges. Instead of surfing on 6 separate websites, this centralized access would make easier the access to key information data (load, network,...).

For instance, information related to the French-Belgian export allocation have to be collected on both Elia and RTE websites.

ETSO started a similar initiative (www.etsa-net.org/MarketInfo/marketdata/), but it shows that some information are unavailable depending on countries.

Considering what would be pertinent system information, we propose the following framework

Load information

Type	Time frame	Detail	Archive
Forecast	Annual	Max / min	Yes
	Monthly		Yes
	Daily		Yes
Real-time	Daily	15 min values	Yes
Ex-post	Daily	15 min values	Yes
Selfgeneration	Daily	15 min values	Yes

Transmission

Type	Time frame	Detail	Archive
NTC Forecast	Annual		Yes
	Monthly		Yes
	Weekly		Yes
	Daily		Yes
	Intradaily		Yes

Day-ahead export nominations	Daily	Hourly	Yes
Day-ahead import nominations	Daily	Hourly	Yes
Intraday export nominations	Daily	Hourly	Yes
Intraday import nominations	Daily	Hourly	Yes
BM exports	Daily	Hourly	Yes
BM imports	Daily	Hourly	Yes
Real-time physical flows	Daily	Hourly	Yes

Maintenance period

Name of HV unit	Period (from/to)	NTC	Yes
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Base Case

Exchange flows	Daily	Peak / Off Peak	Yes
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Balancing Mechanism

Type	Time Frame	Detail	Archive
Available margins	Monthly	Peak and off-peak	Yes
	Weekly	Peak and off-peak	Yes
	Daily	Hourly	Yes
Actual adjustments (MW)			
Gross (real-time)	Daily	15 min	Yes
Corrected (ex-post)	Daily	15 min	Yes
Imbalance Prices (Eur/MWh)			
Upwards Prices	Daily	15 min	Yes
Downwards Prices	Daily	15 min	Yes
Reasons for adjustment			
Balancing Power	Daily	15 min	Yes
Ancillary Services	Daily	15 min	Yes
Margins	Daily	15 min	Yes
Internal grid congestion	Daily	15 min	Yes
Border grid congestion	Daily	15 min	Yes

Any information related to cross-border agreement between TSO (Cost, volume, conditions)

38. In your view, based on your practical experience in the Dutch, Belgian, French and/or other markets, which examples of market transparency should be taken as a basis for harmonization efforts?

We have no specific examples to point up.

39. The market information that is currently available is not always easily accessible, different formats are used and the information is published by different entities like TSO, PX, regulators and others.

- Do you think that access to market information must be improved? If yes, what should be the role of TSO, PX, regulators and other entities?
- Should formats be harmonized between the three countries? If yes, what is currently the best example for formatting the different types of information?
- Should definitions and interpretations be harmonized? If not, why? Or, if yes:
 - On what topics?

ii. What is currently the best example which should be used as a basis to harmonize the different definitions and interpretations?

a - Working together, regulators should ensure the same information is available on an equal basis on each individual hub. Some missing information on one side should be made available in the future by TSO and PX.

b- From a practical point of view, common data format should be shared between TSO about released information to the public. Excel type file for instance is an easy file format to store and to analyze.

c- TSO and regulators should speak the same language as specific definitions or rules from one country to the other always had complexity and create artificial obstacles to a unique market.

Load

For instance, all published information related to the load have to be clearly detailed :

- definition : does the load include HV losses, distribution grid losses, metered or fixed values, selfgeneration,...
- available values : forecast and real-time, gross and ex-post corrected values,...

RTE is a good example on this matter.

HV maintenance

- Elia provides the best detailed information (names, period).

NTC forecast

- RTE gives various NTC forecast (annual, monthly, weekly, J-2, J-1, actual, intraday)

Adjustment

- RTE details reasons and volumes of adjustments (system balancing, network congestion, ancillary services, margin).
- Tennet gives all available margins (15min, 30min, 8h) on a 15min basis.

7 Market power and cooperation between regulators

40. To what extent do you agree with the above analysis concerning regional market integration and (potential) abuse of market power (paragraph 7.1)?

EDF doesn't share the point that regulatory threat will be less effective.
EDF also expects from market rules the possibility of a fair competition at a level playing field (European market).

41. To what extent do you agree with the above analysis concerning the cooperation between regulators in the three countries (paragraph 7.2)?

Concerning proscription of abuses of dominant position, EDF considers that EC rules under articles 81 to 86 already give an appropriate framework to treat cases where the relevant market is a regional market.
We are also thoughtful about information diffusion. In case regulators envisage exchanging confidential commercial data, a guarantee about their utilization shall be given to participants.

42. To what extent do you expect the integration of the Dutch, Belgian and French electricity markets to influence the market power of market parties that are already dominant in their incumbent markets?

EDF wishes that setting up of a regional market will remove groundless suspicion placed on historical generators.
An integrated regional market will make competition more intense as historical operators will face tougher competition.

43. To what extent do you agree that market power mitigation on dominant market parties should be implemented before regional market integration and/or market coupling can be successfully implemented and, if so,
a. Why do you agree?
b. What type of measure do you propose against what market party or market parties and why?

We do not think any specific regulation should be set ex-ante.. In the future, even closer cooperation will allow them an overall regional market supervision limiting any attempt of market domination.

Regional market integration between the wholesale electricity markets of the Netherlands, Belgium and France

A consultation document prepared by DTe, CREG and CRE, July 2005

Response by [CONFIDENTIAL]

Long term and medium term explicit auction mechanisms

1. What is your preference for the selection of the time frames for the explicit auction mechanism (annual, quarterly, monthly, weekly and day-ahead)?

Current Annual, monthly and day-ahead time-frames are adequate, but quarterly might be a useful addition.

2. 0- different time frames can be based on the following principles:

a. A maximum of capacity is allocated on a longer term basis, and the remaining capacities are allocated on shorter time frames.

b. A predefined ratio (%) is chosen for the different time frames.

c. A minimum of capacity is foreseen for specific time frames.

Which of the principles mentioned above (or a mix of them) do you recommend for the allocation of the available capacity on different time frames?

Our preference would be for the capacity to be fairly evenly divided between the different time-frames, without the need for reserving minimum volumes. This would most closely be represented by alternative b.

3. What type of price-setting mechanism (marginal price, pay-as-bid, ascending, etc.) do you recommend for long and medium term products (e.g. yearly, monthly) and why?

The current marginal price mechanism is preferable. Pay-as-bid is unnecessarily complicated without bringing note-worthy advantages.

4. Is it necessary to limit the interconnector capacity (volume cap for import and/or export capacity) that can be given to a market party and if necessary, which value should be imposed for the different time frames?

Given the lack of competition and the still significant dominant positions of some market players, the cap of 400MW per market player still seems appropriate. This should apply for the sum of capacities in all time-scales.

5. To what extent do you recommend the allocation of yearly and /or monthly capacities in a single round or in two or more different sessions per year and why?

6. Do you consider it to be important, in order to prevent strategic capacity withholding, to limit *ex ante* the possibilities for a market party to nominate energy in both directions? If so, which propositions would you recommend?

7. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive behaviour?

8. Do you consider it to be important to create a secondary market for transfer of cross-border transmission capacity rights? If so, what form of transfer of capacity rights should be allowed:

a. A free transfer of capacity rights through a bilateral secondary market with final reconciliation by the TSO?

b. An organized transfer of capacity rights through a centralized re-allocation under the TSO's responsibility in the subsequent explicit auctions time frames?

9. What type of commitment should the TSO's provide with respect to the allocated capacities/nominated programs?

a. Firm and definitive in both cases, except in case of "force majeure"?

b. Reductions of capacity and /or nominated programs are possible under a very strict regulation with respect to the duration of the reduction, the compensation mechanism for any reduction, etc.?

c. No firmness at all?

d. A mixture of cases a, b and/or c? Please explain your commitment preferences.

Alternative a) would be most appropriate in order to reduce the non-controllable risks on owners of capacities. In principle the TSOs should carry the corresponding risks, as they would be the only parties with some control on available cross-border capacity.

10. In the case of questions 9b and 9c, where a reduction of the available interconnection capacity/nominated programs is possible, what would be your preferred reduction rule (mainly when the reduction is known after the short term allocation):

- a. To reduce firstly the long term assignments?
- b. To reduce firstly the short term assignments?
- c. To reduce proportionally both long and short term assignments?

If this must be, then a reduction of short term assignments would be most appropriate. This should of course be accompanied by re-imburement of the capacity costs.

11. Do you recommend an obligatory use (a constant strip for the whole duration of the product) of long and medium term products?

No, this would reduce the optionality of the longer-term products too much and more-over would be inefficient, as there would be no mechanism to adjust cross-border flows between the start of the month and the daily auctions. .

12. To what extent do you consider it of importance to oblige the market parties to firmly nominate their long and medium term capacity rights sufficiently in advance before day-ahead allocation, and why?

This is a useful measure, as it limits anti-competitive behaviour. If this were not the case, then 7-day trading would be required to make full use of the optionality of the longer-term products. Smaller players without a 7-day trading function would be disadvantaged.

13. Under the condition that day-ahead explicit auction is implemented, to what extent do you consider the firm nomination of these day-ahead capacity rights to the TSO sufficiently before the intraday sessions as an effective way to counter strategic capacity withholding, and why?

See above. We consider it a useful measure.

14. What level of harmonisation (auction rules, gate closure time, etc.) do you recommend for the organisation of explicit capacity auction for long, medium and short term time frames on the two borders? Please specify what aspects require harmonisation.

15. The determination of cross-border capacities foreseen for yearly and monthly allocation is not always coordinated across borders. Which importance do you give to the implementation of a more coordinated capacity calculation method?

16. Regarding the above questions (1 to 15), to what extent do your answers apply to the other borders (the French-UK, French-German and Dutch-German interconnections) as well?

Answers also apply to the Dutch-German border. On this border, we would also like to note our preference for a single auction to be established instead of the separate auctions for RWE and EON.

Assessment of the day-ahead market coupling

17. Which market-based congestion management method do you prefer to manage the day-ahead cross-border congestion on the French-Belgian and Belgian-Dutch borders;

- a. A trilateral DAMC mechanism between the three power exchanges, APX, BELPEX and POWERNEXT?
- b. A day-ahead explicit auctions between the three TSO's, TENNET, ELIA and RTE, or
- c. A mixture of the above? Please specify.

Alternative b, as this allows the participants to adjust flows in response to new information, and gives participants a degree of optionality and/or risk mitigation. Moreover, it will allow more participants to bid in price-dependently and thus achieve a more stable PX price.

18. Could you give your opinion on the pros and cons of the congestion methods mentioned in question 17, particularly in terms of flexibility, simplicity, market power mitigation, risk management, implementation costs, netting of capacities, liquidity, etc.?

A explicit DAMC mechanism would take flexibility away from market participants, while relying more on an algorithmic solution. Whereas this may be theoretically optimal, this results in all information coming at once (at the publication of results), without the possibility to act on that information. A staggered information flow arising from staggered auctions and power exchange runs would allow traders to adjust their actions in response to the information, and therefore is likely to result in a more optimal use of resources.

19. In the case of an implementation of the DAMC, give your opinion about the cross-border capacity that should be allocated to the DAMC process:
- The potentially volatile remaining capacity (after the allocation of long and medium term explicit auctions and the release of capacity by the market parties, pursuant the article 6.4 of the regulation)?
 - A predetermined fixed minimum capacity? If so, which one?
 - The potentially volatile remaining capacity plus a predetermined fixed minimum capacity?
 - All the capacity?
20. Do you think that the launching of the Belgian Power Exchange could be realised without simultaneous implementation of the DAMC?
- Yes, but from a liquidity point of view and number of potential participants it would be more or less hard to create a well functioning exchange.**
21. What harmonization issues between the existing Power Exchanges do you see as important for implementing the DAMC (block bids' definition and treatment, price settlement, time frames, etc.)? For each of these issues, could you precise what is your preference?

Cross-border intraday trade

22. Do you wish the establishment of a cross-border intraday trade and, if so, why:
- To revise its day-ahead position in case of physical disturbance (outage of a generation unit for example)?
 - To make some new, or not already done, price arbitrage?
 - For all purposes?
 - For other purposes?
- For all purposes.**
23. Do you think cross-border intraday trade should be limited to one of the above particular purposes? And, if so, why?
- No, as this would be too difficult to monitor.**
24. In case you agree with the establishment of cross-border intraday trade, what market and/or regulatory obstacles need to be removed before such a trade can be implemented? Please specify.
25. Do you consider it suitable to reserve an amount of the cross-border capacity to the intraday allocation mechanism, or should capacity only be made available for intraday trade that has not been previously allocated and/or used at the day ahead allocation?
- Capacity should not be held back as this would lead to an inefficient use of capacity. Only not-already used capacity should be used for this purpose.**
26. Do you consider it useful to limit *ex ante* the possibilities of nomination in the intraday market in order to prevent potential ineffective market outcomes such as:
- a market party who would nominate energy in both senses in order to withhold capacity, or
 - a market party who would shift its imbalances into the neighbouring market in order to benefit from differences in the balancing market designs, or
 - other anti-competitive or free-riding behaviours?
- If so, which propositions would you recommend?
- Allowing parties to use their daily capacities would circumvent this problem.**
27. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive or free-riding behaviour?
- Allowing parties to use their daily capacities would circumvent this problem.**
28. Do you consider it relevant that the capacity rights allocated in the intraday framework (so near the real time) correspond to obligations (rather than options) to use/nominate the equivalent energy and, if so, why?
- No, this would be hard to define. Allowing parties to use their daily capacities would circumvent this problem.**
29. How do you think this cross-border intraday trade should be implemented:
- By allowing market parties to realise cross-border intraday trade in the limit of the capacity rights obtained in the day-ahead explicit auction mechanism (in the case where an explicit auction is implemented in day-ahead)?
 - By allowing market parties to obtain specific intraday capacity rights through a specific cross-border capacity allocation method (in order to allocate the non-used or the not-already-sold capacity)?

c. By a combination of the two above proposed methods?

Alternative a) would be most transparent and avoids the complexities of centralised allocation methods. For this purpose the secondary trading of daily capacity rights should also be allowed, so that a party without daily capacity also has access to this option.

30. In the case where a specific intraday cross-border capacity allocation is implemented, which allocation method do you consider the most appropriate for organizing this intraday trade (taking into consideration the possibility of concentrating trade in single shot or continuous trade):

a. A market coupling procedure extended to the intraday time frame?

b. An explicit auction procedure?

c. A free pro-rata, where demanding market parties would receive an intraday capacity proportionally to their demand?

d. A "merchant" pro-rata with an access price based on:

i. the day-ahead price differential (in the case where a DAMC is implemented in day-ahead), or

ii. the day-ahead capacity price (in the case where an explicit auction is implemented in day-ahead)?

e. A free first-come/first-served procedure?

f. Another method?

Cross-border balancing trade

31. Do you wish the establishment of cross-border balancing trade and, if so, why?

Yes, as this would be enable a more optimal dispatch, which should on balance lead to more moderate imbalance prices.

32. How do you think this cross-border balancing trade should be implemented and why:

a. By allowing market parties to realize cross-border balancing trade in the limit of the capacity rights obtained in the day-ahead or intraday explicit auction mechanism (in the case where an explicit auction is implemented at these time frames)?

b. By letting the TSO to manage the cross-border balancing trade in the limit of the available capacity (integration of balancing markets)?

c. By another method?

Balancing trades must be initiated by the TSOs and be carried out either with the holders of daily capacity or with neighbouring TSOs. In either case, the rights of daily capacity holders must be honoured.

33. What do you think about the differences in market designs between the three existing balancing mechanisms and a possible need for harmonisation? Please specify.

Balancing markets must be more harmonised and be made less penal. The current system of separate long and short prices is anti-competitive as it disadvantages smaller players with less portfolio benefit.

34. To what extent do you agree that market design differences may result in arbitrage between them? If so, do you propose countermeasures? Please specify.

35. Do you consider it necessary to avoid any reservation of cross-border interconnection capacity for the balancing needs of TSO's before the end of every intraday trading session, during which market parties are the only ones to intervene?

36. Do you consider it suitable to reserve an amount of the cross-border capacity to the balancing mechanism?

No, as this is potentially inefficient

Market transparency

37. What types of information in each of the three countries are currently not available and should be made available to the market? Please indicate:

a. A precise denomination of the data you want to be released to the market.

b. If relevant, the delay after real time (or before, for forecasted information) at which the data should be delivered.

c. If relevant, the desired time frames of the data.

d. If relevant, the period covered by the data.

e. Your preference concerning the disclosure of this information (to the public or only to the market parties concerned?).

f. The level of priority of this information.

Actual metered generation data (by station), planned generation outage data (by station, up to 12 months out). Data should be released as soon as possible. Information should be made available in the public domain.

38. In your view, based on your practical experience in the Dutch, Belgian, French and/or other markets, which examples of market transparency should be taken as a basis for harmonisation efforts?

The markets of England, Wales and Scotland as well as the Scandinavian markets could serve as a model for better market transparency.

39. The market information that is currently available is not always easily accessible, different formats are used and the information is published by different entities like TSO's, PX's, regulators and others.

a. Do you think that access to market information must be improved? If yes, what should be the role of TSO's, PX's, regulators and other entities?

b. Should formats be harmonised between the three countries? If yes, what is currently the best example for formatting the different types of information?

c. Should definitions and interpretations be harmonised? If not, why? Or, if yes:

i. On what topics?

ii. What is currently the best example which should be used as a basis to harmonise the different definitions and interpretations?

Market power and cooperation between regulators

40. To what extent do you agree with the above analysis concerning regional market integration and (potential) abuse of market power (paragraph 7.1)?

41. To what extent do you agree with the above analysis concerning the cooperation between regulators in the three countries (paragraph 7.2)?

42. To what extent do you expect the integration of the Dutch, Belgian and French electricity markets to influence the market power of market parties that are already dominant in their incumbent markets?

43. To what extent do you agree that market power mitigation on dominant market parties should be implemented before regional market integration and/or market coupling can be successfully implemented and, if so,

a. Why do you agree?

b. What type of measure do you propose against what market party or market parties and why?

PRIVATE AND CONFIDENTIAL

September 2005

[CONFIDENTIAL]

Response to a consultation document (“Consultation Document”) prepared by DTe, CREG and CRE on regional market integration between the wholesale electricity markets of the Netherlands, Belgium and France

Dear Sirs,

This is the response of [CONFIDENTIAL] to the Consultation Document.

This response is strictly confidential and contains business secrets or other confidential information. If the DTe wishes to divulge or publish this response, or any part of it, please contact [CONFIDENTIAL] before doing so.

[CONFIDENTIAL] conduct gas and electricity related activities in the European Union. [CONFIDENTIAL] acts as [CONFIDENTIAL] agent in the European Union and the responses below have been prepared by [CONFIDENTIAL] on its own behalf and on behalf of [CONFIDENTIAL].

[CONFIDENTIAL] would like to thank you for the opportunity offered to give our views on market coupling.

[CONFIDENTIAL] has experience in many electric markets and one of the major issues in all of them is the interface with neighbouring markets.

The attributes of European power markets (with the possible exception of NordPool) which [CONFIDENTIAL] believes are of greatest concern with respect to market coupling are:

- 1. structural deficiencies in balancing markets;**
- 2. separation of the system operator and spot market operator (the “separation fallacy”);**
- 3. failure to use and enforce “use it or lose it” terms in transmission contracts;**
- 4. lack of locational congestion signals in pricing; and**
- 5. no “net scheduling” to relieve constraints and reverse suboptimal flows.**

[CONFIDENTIAL] believes that most of the concerns and issues raised in the questionnaire are automatically resolved when the first three points above are addressed. Hence, we will refer to these as the “*three essential improvements.*” The final two are less critical, but still highly recommended in order to ensure that consumers are properly protected and benefit from market coupling. These will be referred to as the “*two optional improvements.*” While optional, these are highly recommended to achieve smooth market operation.

Balancing Markets

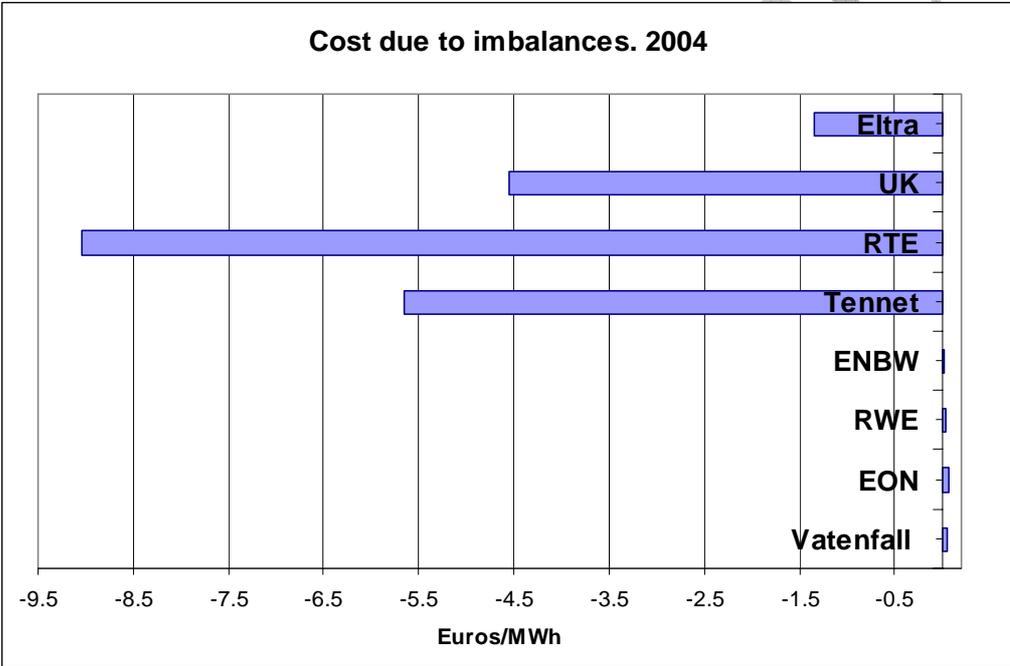
In electricity markets, the true spot market is the Balancing Market. Because consumption and plant reliability are impossible to predict with complete certainty, the Balancing Market is where the final direction of flow across an interface should be decided. All prescheduled

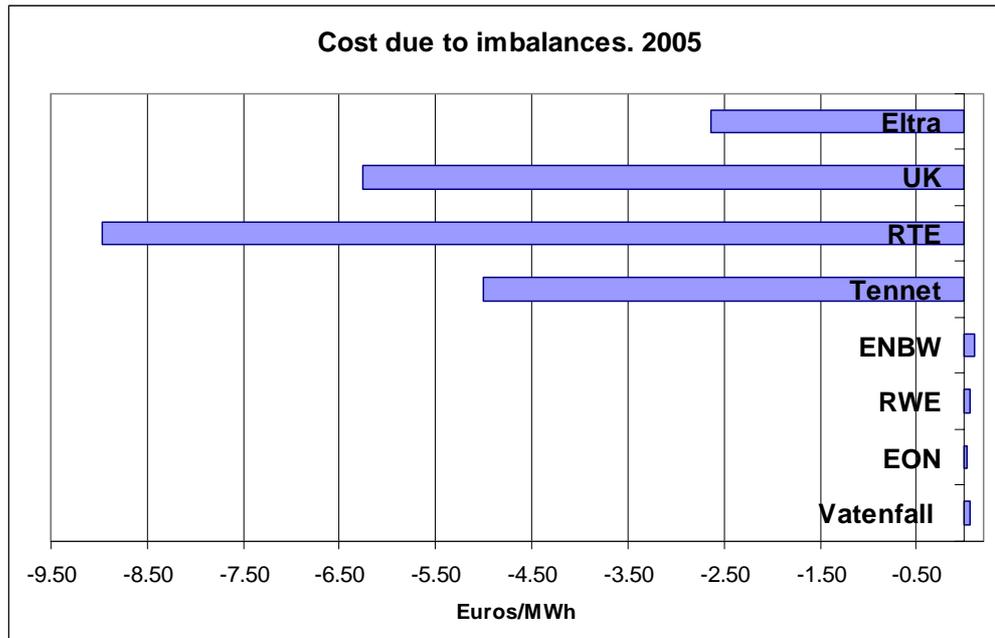
[CONFIDENTIAL]

flows, day ahead or before, are more a means of providing financial certainty to participants than a means of deciding how flows should ultimately occur on the grid.

Participation in the Balancing Markets is often difficult and risky for those wholesale market participants not vertically integrated due to the wide difference between in and out prices which greatly exceeds the bid offer spread of the forward markets. Also market rules may limit access to the Balancing Market, such as those that prevent intra-day rescheduling in some markets. The current mechanism in France uses several prices: the buying price (AWPh) and the selling price (AWPb), when parties are short or long in the same trend as the system; and Powernext prices, when parties are long or short and the system is not balanced in the reverse trend, and thus parties are helping the system. A similar system exists in Belgium. The Netherlands has only Type II periods ('regelstatus 2') in which this exists but the price differences in these periods are so extreme as to have a similar aggregate result.

In the figure below we have compared, for the years 2004 and 2005, the cost of balancing the consumption of a market participant that has randomly distributed deviations through different grids in Europe:





(The values represent the cost of a 1 MW constant load that has on average a 10% deviation factor and that deviates randomly with no correlation with the system price, for the years 2004 and 2005)

The existence of more than one single price, not only heavily penalises deviations but it also encourages vertical integration since these large bid offer spreads can be avoided by vertically integrating consumption and generation. Professor David Newbery in his paper “*Electricity Liberalisation in Britain: the quest for a satisfactory wholesale market design*”, Energy Journal, Special Issue on European Electricity Liberalisation, ed D Newbery, 43-70, refers to the balancing rules in the UK as one of the reasons why companies pursued vertical integration which, in turn, reduced liquidity in the market and created barriers to entry, significantly reducing competition in the market. Having two separate prices disincentivises generators to offer their capacity to the Balancing Market, since a loss of output could mean that the generator would be selling at lower prices than it would buy the deviation at, thereby making the service too risky. Overall, these rules encourage vertical integration and benefit existing generation companies when offering supply services to end use consumers.

The Balancing Market should be accessible to all wholesale participants without discrimination in the form of extreme price differentials between sinking and sourcing in any period or programme time unit.

Use It or Lose It

Any transmission contract should be subject to a “Use It or Lose It” (UIOLI) restriction. This is the simplest method, when combined with direct TSO action, to prevent strategic withholding. Strategic withholding¹ artificially impacts prices and reduces system economics. UIOLI ultimately should be effected by TSO’s acting directly on cross border balancing market prices and passing benefits back to either transmission owners, as in Denmark, or if separation of physical and financial rights are chosen, pass benefits back to buyers of Transmission Congestion Contracts at regular auctions.

¹ Strategic withholding is the act of buying and not scheduling with the intent of preventing other participants from utilising transmission.

Separation Fallacy

An electricity system changes in real time and associated price changes cannot be communicated and reacted to fast enough by third party participants to achieve efficient market dispatch. Only the TSO has sufficient information to do so and we find the current enforced separation of the TSO and the spot market to be highly suboptimal. For our purposes, allowing the TSO to react to optimise the system in real time and communicate associated prices after the fact (ex-post) is quite acceptable. Furthermore, to achieve complete coupling between system operation and system economics, the TSO should be the operator of the spot market. This will require that TSOs take over part of the responsibility for proper market functioning instead of acting as an isolated technical system operator.

Ultimately, the correct solution is to allow the TSO to operate, and thus act directly in, the Day Ahead and Balancing Markets, to match crossed bids and offers at the system marginal price; provided that the benefits are returned to market participants. This can be done through “sub-contracting” as has just been offered by NordPool for flows across the Germany-Denmark interface or through regular auctions of the congestion revenues collected by the TSO. The current enforced separation between the market and TSO operation also is reminiscent of a defining characteristic of the now defunct Californian model which was implicated in the causes of market failure. The far more successful eastern US markets, where such separation does not exist, were more closely modelled on NordPool which predated all these markets.

Locational Pricing

The inescapable physical fact is that even within a small electric grid, significant differences in the opportunity cost of electricity can arise between points on the grid. Failure to recognize these differentials leads to inefficient and, therefore, more expensive outcomes such as: (i) increased operational or investment cost; (ii) socializing costs instead of allocation of cost to cause; and (iii) reduced reliability. [CONFIDENTIAL] believes that explicitly distinct prices should be published and billed at the market interfaces with adjacent markets. Better yet would be administration of such locational prices at each node on an electric grid.

The current situation where loop flows caused solely by adjacent countries can seriously impact electric costs within the Netherlands, Belgium and France and these impacts should be recognised at the interfaces through prices that reward offsetting schedules. The alternative of enforced pro-rata schedule cuts is very disruptive to the market and does not allocate cost to cause. Equally, the conservative allocation of transmission capacity because of the possibility of cuts is suboptimal. [CONFIDENTIAL] therefore strongly supports the implementation of separate prices by interface location (locational prices) in the spot markets at all interfaces with adjacent markets. This would allow the flows to occur as far as the participant sees since the preschedule payout would be the same but the cost of redispatch to compensate for the loop flow would be recovered through the locational price differentials. The overwhelming evidence of highly liquid markets in the US Northeast and Norway conclusively refutes the claim by some that the use of locational prices contribute to illiquidity.

Net Scheduling

Participants should be given first rights to any benefits they create when they schedule power between two points. At a minimum this frees up the ability to flow in the opposite direction “netting the flows” even if there was no available capacity before such schedule. Better yet would be if the schedule counters a loop flow and the scheduler was given the increased capability at all interfaces so affected.

1. What is your preference for the selection of the time frames for the explicit auction mechanism (annual, quarterly, monthly, weekly and day-ahead)?

[CONFIDENTIAL] believes that as much capacity as can reasonably be forecast as available should be offered for as long a term as possible. In a world in which the grid is being efficiently dispatched by a TSO that also operates an effective spot market, the purpose of the auctions is to provide future price certainty. The further into the future, subject to limitations of market needs and certainty of delivery, the more valuable the service.

The forecast constraint is important. Selling capacity that is ultimately not delivered creates risks for participants. This risk undermines the long term certainty they were seeking in the auction in the first place. All explicit capacity sales should be subject to a UIOLI requirement.

As time passes and we approach delivery, certainty increases and thus more capacity should become available and be offered in the shorter term auctions.

2. The allocation of the available capacities on different time frames can be based on the following principles:

- a. A maximum of capacity is allocated on a longer term basis, and the remaining capacities are allocated on shorter time frames.
- b. A predefined ratio (%) is chosen for the different time frames.
- c. A minimum of capacity is foreseen for specific time frames.

Which of the principles mentioned above (or a mix of them) do you recommend for the allocation of the available capacity on different time frames?

As discussed above, we support option a., provided that the certainty of delivery is kept very high. In an ideal market design, these levels should be guaranteed by the TSOs which would be liable to participants by financially guaranteeing the availability. The costs of the financial guarantee would be recovered from the locational price differences which would result in congestion revenues to the TSO. This again emphasises the necessary role of TSOs as market operators in managing capacities between different locations.

3. What type of price-setting mechanism (marginal price, pay-as-bid, ascending, etc.) do you recommend for long and medium term products (e.g. yearly, monthly) and why?

The marginal clearing price should be the rule in all auctions. It removes the advantage given to those having better market knowledge in a pay-as-bid system. Those with better knowledge will be able to bid closer to the true value or average clearing price and with more certainty as to what they will be awarded under pay-as-bid.

4. Is it necessary to limit the interconnector capacity (volume cap for import and/or export capacity) that can be given to a market party and if necessary, which value should be imposed for the different time frames?

Only those participants deemed to have market power as defined by a clear set of standards administered by regulators should have such limitations. [CONFIDENTIAL] does not have

concrete suggestions on how to establish the cap levels, but a clear set of standards that is consistently enforced by regulators is essential if unnecessary risk premiums are not to be paid by market participants.

In addition, it is indispensable to organise yearly and quarterly auctions on all the French interconnections. These auctions will create further convergence between France, Germany and Belgium on the long-term contracts.

Finally, long-term capacity contracts held by historic players on the interconnections should be re-allocated fairly through explicit auctions on the curve and through an implied mechanism on the day-ahead.

5. To what extent do you recommend the allocation of yearly and /or monthly capacities in a single round or in two or more different sessions per year and why?

To the extent that the available volume seems to be very high relative to daily traded OTC forward volume, the allocation should possibly be split. Otherwise, the administration costs should be minimised and liquidity enhanced by limiting the number of auctions.

6. Do you consider it to be important, in order to prevent strategic capacity withholding, to limit *ex ante* the possibilities for a market party to nominate energy in both directions? If so, which propositions would you recommend?

No – We think a [UIOLI](#) restriction in conjunction with an ability for the TSOs to equalise price differences as far as possible in real time is sufficient protection against strategic withholding. In fact, we support the need for “[net scheduling](#)” by a single party who may want to reverse flows after the initial schedule or even to create and utilise the associated newly available capacity between an adjacent market pair.

7. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive behaviour?

Yes – please see our response to question 4 regarding the need for explicit and well-understood standards to determine the existence of market power.

8. Do you consider it to be important to create a secondary market for transfer of cross-border transmission capacity rights? If so, what form of transfer of capacity rights should be allowed:

- a. A free transfer of capacity rights through a bilateral secondary market with final reconciliation by the TSO?
- b. An organized transfer of capacity rights through a centralized re-allocation under the TSO’s responsibility in the subsequent explicit auctions time frames?

If the TSOs offer a financial performance guarantee, a sponsored secondary market is not necessary and should be left to the market to provide. A secondary market will arise in the OTC market from those willing to sell power on one side and buy in the other in lieu of actually moving the power.

9. What type of commitment should the TSO's provide with respect to the allocated capacities/nominated programs?

- a. Firm and definitive in both cases, except in case of "force majeure"?**
- b. Reductions of capacity and /or nominated programs are possible under a very strict regulation with respect to the duration of the reduction, the compensation mechanism for any reduction, etc.?**
- c. No firmness at all?**
- d. A mixture of cases a, b and/or c? Please explain your commitment preferences.**

We support a. Please see our responses to questions 1 & 2 for the explanation.

10. In the case of questions 9b and 9c, where a reduction of the available interconnection capacity/nominated programs is possible, what would be your preferred reduction rule (mainly when the reduction is known after the short term allocation):

- a. To reduce firstly the long term assignments?**
- b. To reduce firstly the short term assignments?**
- c. To reduce proportionally both long and short term assignments?**

We prefer option b. but for no particular reasons other than (i) there should be a clear and consistent rule and (ii) the highest value of forward contracting occurs in markets of longer duration than the shortest terms offered. Financially firm scheduling rights would be preferable to any curtailment.

11. Do you recommend an obligatory use (a constant strip for the whole duration of the product) of long and medium term products?

No.

12. To what extent do you consider it of importance to oblige the market parties to firmly nominate their long and medium term capacity rights sufficiently in advance before day-ahead allocation, and why?

It is not necessary if the TSOs can use unused capacity in real time. (See UOILI and the Separation Fallacy in [Three Essential Improvements](#))

13. Under the condition that day-ahead explicit auction is implemented, to what extent do you consider the firm nomination of these day-ahead capacity rights to the TSO sufficiently before the intraday sessions as an effective way to counter strategic capacity withholding, and why?

This question is not clear. If it references the need for UIOLI in transmission contracts, we support this. (See [Three Essential Improvements](#))

14. What level of harmonisation (auction rules, gate closure time, etc.) do you recommend for the organisation of explicit capacity auction for long, medium and short term time frames on the two borders? Please specify what aspects require harmonisation.

This is relatively unimportant if UIOLI and TSO Optimisation exist (See [Three Essential Improvements](#))

15. The determination of cross-border capacities foreseen for yearly and monthly allocation is not always coordinated across borders. Which importance do you give to the implementation of a more coordinated capacity calculation method?

Coordination is essential in order to remove unnecessary risk of participation in auctions of capacity. If one purchases capacity on one side of an interface with no certainty of what will be awarded on the other side, the auction will return proceeds that are lower than could otherwise be expected due to a risk premium demanded by the market.

16. Regarding the above questions (1 to 15), to what extent do your answers apply to the other borders (the French-UK, French-German and Dutch-German interconnections) as well?

100%.

17. Which market-based congestion management method do you prefer to manage the day ahead cross-border congestion on the French-Belgian and Belgian-Dutch borders;

a. A trilateral DAMC mechanism between the three power exchanges, APX, BELPEX and POWERNEXT?

b. A day-ahead explicit auctions between the three TSO's, TENNET, ELIA and RTE, or

c. A mixture of the above? Please specify.

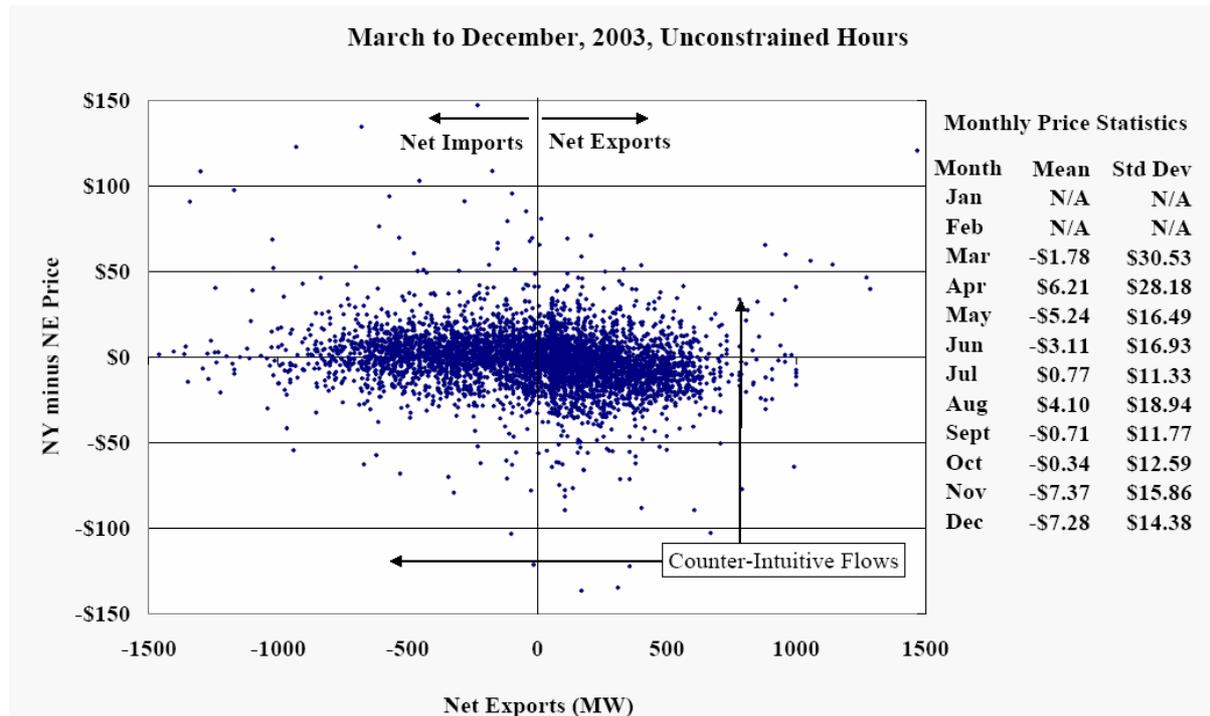
We prefer b. Day ahead explicit auctions should be offered but subject to the ability of the TSOs to directly cause coupling. As we stressed earlier, it is TSOs that have the ability to optimally operate the short-term markets and not the exchanges. However, buyers should have the right to turn the capacity over to the TSOs to be optimised according to prices in the balancing markets on either side of the border and the proceeds returned to the owner of the transmission rights. See again the [Essential Market Improvements](#) for more detail.

18. Could you give your opinion on the pros and cons of the congestion methods mentioned in question 17, particularly in terms of flexibility, simplicity, market power mitigation, risk management, implementation costs, netting of capacities, liquidity, etc.?

The goal is efficient market coupling. Only the TSOs can achieve this. All others rely on participants creating coupling through prescheduling. It is a trivial matter to show that this will not result in the tightest possible coupling. Here is an example from North America in a location where the markets are very liquid and there are many participants.² Below is a scattergraph of individual hours of flow between the New York and New England power

² Quoted from the Independent Market Advisor to the Board of the System Operator (NYISO) 2004 report which is available at http://www.potomaceconomics.com/nyiso/2004%20SOM%20Report_Final_Full%20Text.pdf

pools. Inside the pool, flows are optimised under the control of the Independent System Operator (ISO) or TSO in Europe but between the pools, market participants act to arbitrage the differences.



Two quadrants show flows in the wrong direction relative to the balancing market price signals. And the other two quadrants, since unconstrained, should have had increased flows until a constraint occurred or the price difference disappeared.

A quote from the report summarises the problem succinctly (*italics added by [CONFIDENTIAL] for emphasis*):

“These figures show the real-time markets continue to not be arbitrated efficiently by participants. The dispersion in prices during unconstrained hours is shown to be considerable. In a significant number of hours for each interface, power is scheduled from the high-priced market to the lower-priced market. These results are similar to results presented in prior years.

Several factors prevent real-time prices from being fully arbitrated between New York and adjacent regions. First, market participants do not operate with perfect foresight of future market conditions at the time that transaction bids must be submitted. *Without explicit coordination between the markets by the ISOs, complete arbitrage will not be possible.* Second, differences in scheduling procedures and timing in the markets serve as barriers to full arbitrage. Third, there are substantial transmission fees and other transaction costs associated with scheduling imports and exports that diminish the returns from arbitrage. Participants would not be expected to schedule additional power between regions unless they expect a price difference greater than these costs. Last, risks associated with curtailment and congestion will reduce participants’ incentives to engage in external transactions at small price differences.”

19. In the case of an implementation of the DAMC, give your opinion about the cross-border capacity that should be allocated to the DAMC process:

- a. The potentially volatile remaining capacity (after the allocation of long and medium term explicit auctions and the release of capacity by the market parties, pursuant the article 6.4 of the regulation)?**
- b. A predetermined fixed minimum capacity? If so, which one?**
- c. The potentially volatile remaining capacity plus a predetermined fixed minimum capacity?**
- d. All the capacity?**

a. – we suggest all capacity should be auctioned for as long term as is practical subject to grid uncertainty and customer preferences.

20. Do you think that the launching of the Belgian Power Exchange could be realised without simultaneous implementation of the DAMC?

Since Belpex should not be the operator of a spot market the two could be independent events.

21. What harmonization issues between the existing Power Exchanges do you see as important for implementing the DAMC (block bids' definition and treatment, price settlement, time frames, etc.)? For each of these issues, could you precise what is your preference?

The restructuring of the balancing mechanism into a true balancing market with price signals based on actual market economics is an essential prerequisite. This question implies a coordinating role of power exchanges which [CONFIDENTIAL] sees as relatively unnecessary if the spot markets are properly operated by the TSOs.

22. Do you wish the establishment of a cross-border intraday trade and, if so, why:

- a. To revise its day-ahead position in case of physical disturbance (outage of a generation unit for example)?**
- b. To make some new, or not already done, price arbitrage?**
- c. For all purposes?**
- d. For other purposes?**

a. and b. are the same thing in the presence of a true balancing market. The price changes that result from new information such as a plant outage will encourage redistribution of flows. The TSOs acting for the owners (or transmission owners themselves if they prefer) can act to capture the new price information. [CONFIDENTIAL] sees no other reason for intraday rescheduling.

23. Do you think cross-border intraday trade should be limited to one of the above particular purposes? And, if so, why?

We cannot conceive of anything other than a. or b. being reasons for such rescheduling unless the balancing markets are not structured well.

24. In case you agree with the establishment of cross-border intraday trade, what market and/or regulatory obstacles need to be removed before such a trade can be implemented? Please specify.

[CONFIDENTIAL] would simply reiterate [the Essential Market Improvements](#):

1. restructured balancing markets;
2. spot markets operated by the TSO; and
3. UIOLI conditions in transmission contracts.

Optional, but beneficial for consumers, would be the implementation of locational prices, even if only at the interfaces.

25. Do you consider it suitable to reserve an amount of the cross-border capacity to the intraday allocation mechanism, or should capacity only be made available for intraday trade that has not been previously allocated and/or used at the day ahead allocation?

UIOLI protocol makes this question unnecessary. All capacity should be available and fully used in real time, either by counter schedules or “UIOLI” protocol.

26. Do you consider it useful to limit *ex ante* the possibilities of nomination in the intraday market in order to prevent potential ineffective market outcomes such as:

- a. a market party who would nominate energy in both senses in order to withhold capacity, or
- b. a market party who would shift its imbalances into the neighbouring market in order to benefit from differences in the balancing market designs, or
- c. other anti-competitive or free-riding behaviours?

If so, which propositions would you recommend?

The same three conditions: UIOLI + TSO acting + true balancing markets makes this unnecessary.

27. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive or free-riding behaviour?

Yes.

28. Do you consider it relevant that the capacity rights allocated in the intraday framework (so near the real time) correspond to obligations (rather than options) to use/nominate the equivalent energy and, if so, why?

No. Provided the [Essential Conditions](#) are met, particularly the ability of the TSO to act in the RT market.

29. How do you think this cross-border intraday trade should be implemented:

- a. By allowing market parties to realise cross-border intraday trade in the limit of the capacity rights obtained in the day-ahead explicit auction mechanism (in the case where an explicit auction is implemented in day-ahead)?

[CONFIDENTIAL]

b. By allowing market parties to obtain specific intraday capacity rights through a specific cross-border capacity allocation method (in order to allocate the non-used or the not already- sold capacity)?

c. By a combination of the two above proposed methods?

By a combination of the above methods or by scheduling short into one Balancing Market and scheduling long into the other.

30. In the case where a specific intraday cross-border capacity allocation is implemented, which allocation method do you consider the most appropriate for organizing this intraday trade (taking into consideration the possibility of concentrating trade in single shot or continuous trade):

a. A market coupling procedure extended to the intraday time frame?¹⁴

b. An explicit auction procedure?

c. A free pro-rata, where demanding market parties would receive an intraday capacity proportionally to their demand?

d. A “merchant” pro-rata with an access price based on:

i the day-ahead price differential (in the case where a DAMC is implemented in day-ahead), or

ii the day-ahead capacity price (in the case where an explicit auction is implemented in day-ahead)?

e. A free first-come/first-served procedure?

f. Another method?

A continuous auction generally results in the most efficient pricing. However the transactions costs would likely be prohibitive due to small participation if our recommendations are followed ([Three Essential Recommendations](#).) There is very little benefit to a party acting intraday if the TSO will be efficiently dispatching the system and returning the benefits to transmission holders in real time. Nor is there any real benefit to society at large in having resources dedicated to trying to out-guess the TSO so close to real time operation.

31. Do you wish the establishment of cross-border balancing trade and, if so, why?

The definition of “cross-border balancing trade” is unclear. If the question is “Should there be an ability to use an adjacent market’s balancing market to balance in the local market?”, the answer is that this is not necessary. The local balancing market should be efficient and accessible and as such it would not be an optimal use of transmission.

If the question is “Should a participant be allowed to use transmission to move power between balancing markets for arbitrage purposes?”, the short answer is “Yes.” The long answer is that it should not be necessary or desirable because the participant would do better to hand control of transmission to the TSO’s and they would perform this function for him.

No. There is no need if you have an efficient and workable balancing market inside the border.

32. How do you think this cross-border balancing trade should be implemented and why:

a. By allowing market parties to realize cross-border balancing trade in the limit of the capacity rights obtained in the day-ahead or intraday explicit auction mechanism (in the case where an explicit auction is implemented at these time frames)?

b. By letting the TSO to manage the cross-border balancing trade in the limit of the available capacity (integration of balancing markets)?

c. By another method?

b. in light of our answer to question 31 but reiterating that the benefits of this arbitrage should flow directly to the holders of transmission and the TSOs should be seen as acting as the owners' agent in this function.

33. What do you think about the differences in market designs between the three existing balancing mechanisms and a possible need for harmonisation? Please specify.

Any deviations from a single clearing price are suboptimal. If the three requirements set forth in question 24 are met, the impact of differences between 15 minute PTUs and other settlement times or other differences becomes relatively unimportant and can be dealt with later through further modifications because most of the economic benefits sought through market coupling will have been realised.

34. To what extent do you agree that market design differences may result in arbitrage between them? If so, do you propose countermeasures? Please specify.

We agree that this may occur. But we propose that the first objective be to implement a working system of market coupling that incorporates our three essential features and the less essential feature of no. 24. The arbitrage will simply lead to further efficiency or highlight a need for further market refinement.

35. Do you consider it necessary to avoid any reservation of cross-border interconnection capacity for the balancing needs of TSO's before the end of every intraday trading session, during which market parties are the only ones to intervene?

No – the TSOs will have full effective use of all interface under our proposal. If the [Three Essential Improvements](#) are implemented, the TSO will have effective access to all the interface capacity. It must be noted that this may be costly to use unless the TSOs are able to implement interface prices that differ from the internal market price (See [Two Optional Improvements](#)).

36. Do you consider it suitable to reserve an amount of the cross-border capacity to the balancing mechanism?

We do not believe this to be necessary for the reasons set forth in 35.

37. What types of information in each of the three countries are currently not available and should be made available to the market? Please indicate:

- a. A precise denomination of the data you want to be released to the market.**
- b. If relevant, the delay after real time (or before, for forecasted information) at which the data should be delivered.**
- c. If relevant, the desired time frames of the data.**
- d. If relevant, the period covered by the data.**
- e. Your preference concerning the disclosure of this information (to the public or only to the market parties concerned?).**
- f. The level of priority of this information.**

Please see our answer to question 39. [CONFIDENTIAL] does not have a specific answer to this. Our general answer is that information that is available to those who have market power should be made available on a non-discriminatory basis.

38. In your view, based on your practical experience in the Dutch, Belgian, French and/or other markets, which examples of market transparency should be taken as a basis for harmonisation efforts?

The Dutch balancing market is so far the best except for Type II PTUs in which the in and out prices differ. But the NordPool or NE North American examples (PJM, NY Power Pool, New England Power Pool and Ontario) where the System Operator also operates the spot market are the best examples.

39. The market information that is currently available is not always easily accessible, different formats are used and the information is published by different entities like TSO's, PX's, regulators and others.

a. Do you think that access to market information must be improved? If yes, what should be the role of TSO's, PX's, regulators and other entities?

See general comments below.

b. Should formats be harmonised between the three countries? If yes, what is currently the best example for formatting the different types of information?

See general comments below.

c. Should definitions and interpretations be harmonised? If not, why? Or, if yes:

i On what topics?

ii What is currently the best example which should be used as a basis to harmonise the different definitions and interpretations?

In general, improved access to high quality information benefits a market. However, it is not a precondition to the implementation of better market coupling. The primary objective should be to ensure that no entity gets preferential access due to: (i) incumbency; (ii) vertical integration; or (iii) familiarity with the data publishing mechanism.

Publication of information

[CONFIDENTIAL] believes that the question of what information should ideally be made publicly available to market participants cannot readily be answered in isolation. Information disclosure is not as important in itself as it is in context with the position of the market participants who possess the information. Except in the limited circumstances described below, [CONFIDENTIAL] believes that market participants should be required to share publicly only a minimal level of information.

Market prices move as new information is released. The market participants, who receive information first, stand to gain relative to those who receive it at a later stage. For this reason, regulators must act to ensure there is no persistent discrimination in the availability of information for certain participants. If a market favours a select few, it will not attract wide participation, leading to illiquidity and irrational prices.

[CONFIDENTIAL] believes that a persistent bias in information flow can drain the benefits of a market. A market consists of fundamental buyers and sellers who are hedging the risks of their core business positions, and intermediaries who dedicate capital to the market to provide liquidity. Each participant can occupy more than one of these roles at any time, but this can be a cause for concern to other participants and thus to regulators. For example, the owner of electricity generation capacity who also acts as a market-maker can buy more than is necessary to hedge in advance of a planned outage and capture a trading profit on that speculative increment. More disturbing is the possibility that the entity with both roles will deliberately schedule outages to cause market movements. In both cases though, there is a persistent flow of revenue to these entities, which inherently comes from the investments made by other market participants. For some, this revenue drain may exceed the benefit of participation and may even result in reduced levels of market participation.

[CONFIDENTIAL] believes that the only cases when disclosure may be essential are those in which *both* the ability to impact prices *and* the ability and motivation to capture trading revenue from such impacts exists. It should also be noted that when purchasing long-term power under a hedging contract, [CONFIDENTIAL] and other true intermediaries very rarely assume direct control of the underlying plant output. Such control is not necessary for hedging purposes. TSO's and others with almost pure monopolies should act on market signals, but return the benefits to the market to remove incentives to impact prices. Vertically integrated entities or those with market power should be under particular scrutiny for similar motives and subject to compulsory "equalising" disclosure requirements when such motives exist.

Type of information to be disclosed

In general, entities with monopoly or market power should have disclosure obligations. Thus, all information related to TSO Operations such as congestion, flow patterns and curtailments should be made public in as near real time as possible because the TSO has a pure monopoly over certain market activities.

[CONFIDENTIAL] believes that bid and schedule information relating to parties that are capable of controlling generation capacity (i.e. those participants which can influence or cause congestion, uplift cost or schedule cuts through bids/scheduling behaviour) should be publicly available.

[CONFIDENTIAL] also notes that in many cases the market itself provides useful information. For example, Genscape monitors plant operation and provides this information in real time. Weather services aplenty exist and brokers offer their screens and summary data to subscribers. Thus, market power and not a lack of information *per se* is the issue.

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Reasons to withhold information

[CONFIDENTIAL] believes that there are compelling reasons for information to be withheld in certain circumstances. In electricity markets, for example, new infrastructure is “lumpy”. It is very costly to create new infrastructure and this has a large impact on the system and associated markets. A market characterised by high prices will attract new investment, but only if that investment can assure itself of a reasonable and reasonably certain return. But return on an investment in new infrastructure must occur over many years. The cost is too high to be justified in the short term. Hence the problem - once the investment is publicly committed, market prices will react by dropping in anticipation of the new supply. The lower prices no longer justify new supply. The problem is therefore not resolved unless the investor can sell into the forward market unobtrusively and without signalling its intent to build new infrastructure. Prices will eventually drop as the information becomes more widely known, but only after the investor has been assured of a return. One of the roles of market-makers and intermediaries, like [CONFIDENTIAL], is to place such large market orders unobtrusively.

Overall, [CONFIDENTIAL] recommends that regulators should not impose unnecessary and, sometimes, harmful disclosure requirements on the market. [CONFIDENTIAL] supports keeping confidential other types of proprietary information (as above) due to the fact that if such information is made available then there would be no point in hedging risk. For example, an entity desiring to finance a new plant/line can not do so if it would be forced to announce its entry first due to the fact that the market would react in order to remove the hedge benefit. Legitimate hedging and market-making activities should remain confidential.

[CONFIDENTIAL] further believes that there is a need for consistent open regulation which should not be overly burdensome in terms of reporting requirements.

40. To what extent do you agree with the above analysis concerning regional market integration and (potential) abuse of market power (paragraph 7.1)?

Because of the highly locational nature of wholesale electric markets, [CONFIDENTIAL] does not believe a larger market can remove all forms of market power. Even a small participant can exercise market power to the exact same extent in a large or a small market if they sit behind an important grid constraint. [CONFIDENTIAL] supports the application of clear and consistent regulation to mitigate market power. This regulation must also not be overly burdensome in terms of reporting and other compliance requirements.

41. To what extent do you agree with the above analysis concerning the cooperation between regulators in the three countries (paragraph 7.2)?

A lack of coordination between regulators normally leads to excessive compliance costs and sometimes even to an inability to comply because of conflicting requirements that are embarrassing at the very least and costly at worst. The costs to society of the risks premiums that society has to pay because of erratic and unpredictable regulation are difficult to exaggerate.

42. To what extent do you expect the integration of the Dutch, Belgian and French electricity markets to influence the market power of market parties that are already dominant in their incumbent markets?

Integration as we propose should lessen the ability of the incumbents to dominate to some extent but dominance is often a result of local market power within an electrically distinct

area. Only locational pricing within the markets will illuminate this for all to see what the system operators probably already know.

43. To what extent do you agree that market power mitigation on dominant market parties should be implemented before regional market integration and/or market coupling can be successfully implemented and, if so,

a. Why do you agree?

b. What type of measure do you propose against what market party or market parties and why?

a- No. The process of integrating should proceed independently of the monitoring and prevention of abuse of market power. Abuse of market power is an ongoing concern independent of the state of market integration.

CONFIDENTIAL

***[Confidential]* reaction on Regional market integration between the wholesale electricity markets of the Netherlands, Belgium and France**

A consultation document prepared by DTe, CREG and CRE

1 September 2005

Contents of the consultation document

1 Introduction.....	3
1.1 The back	
1.2 The objective of the consultation.....	4
1.3 Status of the document.....	4
2 Long term and medium term explicit auction mechanisms.....	5
2.1 Introduction. 5	
2.2 Questions for consultation.....	5
3 Assessment of the day-ahead market coupling	7
3.1 Introduction. 7	
3.2 Questions for consultation.....	7
4 Cross-border intraday trade	9
4.1 Introduction. 9	
4.2 Questions for consultation.....	9
5 Cross-border balancing trade	11
5.1 Introduction 11	
5.2 Questions for consultation.....	11
6 Market transparency	12
6.1 Introduction 12	
6.2 Market transparency in the three countries.....	12
6.3 Questions for consultation.....	12
7 Market power and cooperation between regulators.....	14
7.1 Introduction: market power in integrated electricity markets.....	14
7.2 Cooperation between regulators	14
7.3 Questions for consultation.....	15
8 Further proceedings.....	16
8.1 Responses to the consultation document	16
8.2 Confidentiality of contributions	16

Regional market integration between the wholesale electricity markets of the Netherlands, Belgium and France
 Consultation document prepared by DTe, CREG and CRE Page 3 of 16

1 Introduction

2 Long term and medium term explicit auction mechanisms

2.1 Introduction

2.2 Questions for consultation

Please specify for the French-Belgian border and/or the Belgian-Dutch border:

1. What is your preference for the selection of the time frames for the explicit auction mechanism

Answer:

Our preferences are with annual, quarterly auctions. In our view quarterly and monthly auctions are more or less interchangeable. For daily trade an implicit auction would be suggested. For intraday trade we suggest explicit auctions.

2. The allocation of the available capacities on different time frames can be based on the following principles:

- a. A maximum of capacity is allocated on a longer term basis, and the remaining capacities are allocated on shorter time frames.
- b. A predefined ratio (%) is chosen for the different time frames.
- c. A minimum of capacity is foreseen for specific time frames.

Which of the principles mentioned above (or a mix of them) do you recommend for the allocation of the available capacity on different time frames?

Answer:

[CONFIDENTIAL] is in favour of alternative B. Although how to divide the available capacity into different fractions is subject to further analyses, from experience [CONFIDENTIAL] proposes a 40% annual, 30% quarterly / monthly and 30 % day a head auction to be acceptable.

3. What type of price-setting mechanism (marginal price, pay-as-bid, ascending, etc.) do you recommend for long and medium term products (e.g. yearly, monthly) and why?

Answer:

In liberalised market the only efficient price-setting mechanism is the marginal price. Through this mechanism the price reflects the market situation best. Furthermore from a practical / operational point of view the marginal price mechanism is preferential.

4. Is it necessary to limit the interconnector capacity⁴ (volume cap for import and/or export capacity) that can be given to a market party and if necessary, which value should be imposed for the different time frames?

Answer:

In principle, limitation of capacity is not desired on the medium and long term capacity auctions. Imposed volume caps will distort the market. This is only valid if you assume that the market will be structured in such a way that transparency is secured, that the market will be efficient and that dominance by a market party will be avoided. To improve the market efficiency non-nominated volume should be released to a (preferably implicit) daily (day ahead) auction, this would further reduce the chance of abuse through a dominant position (use it or lose it principle). Only in case the market mechanism cannot prevent

inappropriate market behaviour, restrictions like capacity caps should be introduced.

5. To what extent do you recommend the allocation of yearly and /or monthly capacities in a single round or in two or more different sessions per year and why?

Answer:

The recommended allocation of yearly capacities would be an auction in 3 maybe 4 sessions. For monthly / quarterly capacity one or two rounds of auctioning would be sufficient.

An advantage of multiple sessions is that buyers of long-term capacity get a change to hedge their portfolios across borders as the portfolios develop. Monthly / quarterly capacities should be allocated in one or two rounds auctions because the shorter time frame does not justify more rounds.

6. Do you consider it to be important, in order to prevent strategic capacity withholding, to limit *ante* the possibilities for a market party to nominate energy in both directions? If so, which propositions would you recommend?

Answer:

The system should not allow parties to strategically withhold capacity. To avoid this, nominated capacity in both directions should be netted and the resulting free capacity should then be allocated to daily (day ahead) auctions. If you don't net then it should be possible to nominate in both directions. It can happen that you in the morning firmly nominate your annual capacity for that day and during the trading hours the situation changes, it should then be possible to use you intra day capacity in the other direction to adjust to the new market circumstances.

7. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive behaviour?

Answer:

The preferred situation is a system that does not give room for anti-competitive behaviour, like the system proposed in question 6 would help to achieve this. However any system requires continuous monitoring to assure its efficiency. The regulators, DTe / CREG/ CRE should therefore be mandated to execute this monitoring and to penalize inappropriate market behaviour. In addition monitoring by the TSO's can be effective. Full transparency to all market participants with regards to bidding curves and utilization of interconnection capacity would also contribute to market efficiency. Additionally, the publication of non nominated day ahead interconnection capacity would positively influence liquidity and transparency

8. Do you consider it to be important to create a secondary market for transfer of cross-border transmission capacity rights? If so, what form of transfer of capacity rights should be allowed:

- a. A free transfer of capacity rights through a bilateral secondary market with final reconciliation by the TSO?
- b. An organized transfer of capacity rights through a centralized re-allocation under the TSO's responsibility in the subsequent explicit auctions time frames?

Answer:

Option A. Creation of a secondary market for cross-border transmission capacity rights is important. Yearly and monthly capacity should be freely tradable on bilateral markets, because this would allow market participants to manage the risks in their portfolios more effectively and contribute to establishing an efficient allocation of capacity. The TSO's should provide a platform for the transfer of capacity rights.

9. What type of commitment should the TSO's provide with respect to the allocated capacities/nominated programs?

- a. Firm and definitive in both cases, except in case of "force majeure"?
- b. Reductions of capacity and /or nominated programs are possible under a very strict regulation with respect to the duration of the reduction, the compensation mechanism for any reduction, etc.?⁷
- c. No firmness at all?⁸
- d. A mixture of cases a, b and/or c? Please explain your commitment preferences.

Answer:

Option A: TSO's should provide firm and definitive commitment. This commitment is one of the market fundamentals. Without such commitment insecurity will be introduced to the market. The suggested alternatives will result in unnecessary bureaucracy. In addition 'force majeure' should be clearly defined. In case of a 'force majeure' yearly allocated capacity should have priority over monthly or quarterly capacity. Monthly and quarterly capacity should have priority over day ahead and intraday allocated capacity.

10. In the case of questions 9b and 9c, where a reduction of the available interconnection capacity/nominated programs is possible, what would be your preferred reduction rule (mainly when the reduction is known after the short term allocation):

- a. To reduce firstly the long term assignments?
- b. To reduce firstly the short term assignments?
- c. To reduce proportionally both long and short term assignments?

Answer:

When such a non preferred system would be chosen reduction of short term assignments first (option b) is preferred.

11. Do you recommend an obligatory use (a constant strip for the whole duration of the product) of long and medium term products?

Answer:

Obligatory use is not recommended, because this could result in undesired situations like flowing power from a market that is short to a market that is long. A preferred alternative mechanism is the use-it-or-lose-it principle, if longer term assigned capacity is not used this capacity is reallocated in daily (day ahead) auctions.

12. To what extent do you consider it of importance to oblige the market parties to firmly nominate their long and medium term capacity rights sufficiently in advance before day-ahead allocation, and why?

Answer:

Nomination of long and medium capacity rights before the day ahead allocation is crucial to avoid that parties will distort the market through withholding capacity. The introduction of the use-it-or-lose-it principle, as recommended in the answer to question 11, timely nomination of long and medium capacity is essential. Publication of the total nominated long and medium term capacity is required for the daily (day ahead) auction to be transparent and efficient.

13. Under the condition that day-ahead explicit auction is implemented, to what extent do you consider the firm nomination of these day-ahead capacity rights to the TSO sufficiently before the intraday sessions as an effective way to counter strategic capacity withholding, and why?¹⁰

Answer:

In principle [CONFIDENTIAL] favours an implicit day-ahead auction. But in case of an explicit auction, to counter strategic capacity withholding any unused capacity would have to be released to the explicit auction and be nominated firm. This nomination should take place after the various exchange clearings, i.e. 12:30 hours.

14. What level of harmonisation (auction rules, gate closure time, etc.) do you recommend for the organisation of explicit capacity auction for long, medium and short term time frames on the two borders? Please specify what aspects require harmonisation.

Answer:

For the market to function optimally efficient, full harmonisation (auction rules, gate closure time, etc) is desired, because harmonization simplifies the system and reduces operational risks. Auction rules, gate closure times, distribution of capacity over long, medium and short time frames and capacity calculation methods should be harmonized.

15. The determination of cross-border capacities foreseen for yearly and monthly allocation is not always coordinated across borders. Which importance do you give to the implementation of a more coordinated capacity calculation method?

Answers:

As indicated in the answer to question 14 harmonization of capacity calculations methods is desired. Not harmonizing these methods could result in the situation that a market participant withholds capacity. Not only should the capacity calculation method be harmonized, the method also has to be transparent, TSO's have a central role in both determining the method and ensuring sufficient transparency.

16. Regarding the above questions (1 to 15), to what extent do your answers apply to the other borders (the French-UK, French-German and Dutch-German interconnections) as well?

Answer:

The answers to the above questionnaire are in general applicable to all borders. There is no reason why a system applicable on one border would not be applicable to another.

3 Assessment of the day-ahead market coupling

3.2 Questions for consultation

17. Which market-based congestion management method do you prefer to manage the day-ahead cross-border congestion on the French-Belgian and Belgian-Dutch borders;

- a. A trilateral DAMC mechanism between the three power exchanges, APX, BELPEX and POWERNEXT?
- b. A day-ahead explicit auctions between the three TSO's, TENNET, ELIA and RTE, or
- c. A mixture of the above? Please specify.

Answer:

Option A: A trilateral DAMC mechanism would be the preferred method to manage the day-ahead cross border congestion. This method will by far provide the best transparency, is market based and it is non-discriminating.

18. Could you give your opinion on the pros and cons of the congestion methods mentioned in question 17, particularly in terms of flexibility, simplicity, market power mitigation, risk management, implementation costs, netting of capacities, liquidity, etc.?

¹¹ This measure has already been approved by DTe and NVE, the Norwegian regulatory authority. Regional market integration between the wholesale electricity markets of the Netherlands, Belgium and France Consultation document prepared by DTe, CREG and CRE

Answer:

Method A

This would be the most efficient means of allocation between borders. It reduces market manipulation and increases price transparency.

Flexibility:

No comment.

Simplicity:

Option A carries the most advantage. Implicit auctions make an entire array of operational steps, which are required by explicit auctions, obsolete (such as bidding, processing of bids and allocated capacities, border nominations, scheduling etc).

Market power mitigation:

Under explicit auctions, there is no danger of market power as long as non-nominated capacity is released to implicit auctions. Assuming the total capacity allocated to the daily auction, explicit or implicit, remain the same under either regime, there is no difference in the risk incurred on parties wishing to buy power in the destination grid.

Implementation costs:

Option a: none.

Netting of capacities:

One can still decide not to net. Netting is preferred.

Liquidity:

To our opinion, liquidity on the day-ahead exchange auctions (APX, Belpex, Powernext) would be higher with implicit auctions, because all capacity will be used to the maximum.

Market efficiency:

Option a ensures that power flows to the region where it is actually most needed. The more capacity is auctioned away explicitly, the higher the risk of counterproductive flows, the higher the volatility of the individual exchanges, and the lower the confidence in an efficient marketplace. This ultimately hurts liquidity and the efficient determination of price.

Method B:

Simplicity

This option also holds little possibility to market abuse. However all non nominated interconnection capacity should be made public.

Market power mitigation

Method b carries a risk of market power abuse. First, because of the withholding of interconnection capacity, second flowing power from the shortest to the longest market → not true. Third capacity could be offered to the exchange at a prohibited price.

Implementation costs

Method b will be quite costly, it requires IT systems, scheduling and operational investment for every market party, while option A will lead to moderate IT investments at the TSO's.

Netting of capacities

In method B holds the risk of certain market parties withholding capacity via importing and exporting. A risk lacking at option A. It's a moderate risk since one pays for that capacity. If a fixed amount of import capacity is offered, it doesn't matter how much is exported against it.

Liquidity

With explicit auctions there will always be the possibility of an inefficient allocation of capacity because of the possibility of capacity withholding. So therefore implicit day ahead auctions are viewed as most optimal.

Market efficiency

Although more competitive in that participants can pay for capacity as much as they see economically fit, this method is more susceptible to market manipulation as described in market power mitigation.

Method C:

[CONFIDENTIAL] sees no advantage in explicit auctions, thus a hybrid to us is always sub-optimal.

19. In the case of an implementation of the DAMC, give your opinion about the cross-border capacity that should be allocated to the DAMC process:

- a. The potentially volatile remaining capacity (after the allocation of long and medium term explicit auctions and the release of capacity by the market parties, pursuant the article 6.4 of the regulation)?
- b. A predetermined fixed minimum capacity? If so, which one?
- c. The potentially volatile remaining capacity plus a predetermined fixed minimum capacity?
- d. All the capacity?

Answer:

As stated in previous answers, option A would be the preferred option. All non-nominated long and medium term capacity should be allocated to the implicit intraday auction under the DAMC process. Option C can be viewed as the next best alternative. Option A best represents the use-it-or-loose-it principle. This principle should be sufficient to prevent market parties to abuse the capacity nomination system.

20. Do you think that the launching of the Belgian Power Exchange could be realised without simultaneous implementation of the DAMC?

Answer:

Not really, to make a market place function properly, one needs many parties to supply and demand for an efficient market. Because of the structure and volume of the Belgium market, DAMC is a necessity for the BELPEX.

21. What harmonization issues between the existing Power Exchanges do you see as important for implementing the DAMC (block bids' definition and treatment, price settlement, time frames, etc.)? For each of these issues, could you precise what is your preference?

Answer:

Ideally, all three exchanges should have the same bidding system, in order to reduce operational cost and to minimize risk. A single platform where bids on all exchanges can be submitted would greatly facilitate processes for companies involved in two or more markets. It is further imperative that all exchanges clear

simultaneously. Introducing more elaborate block bids, such as conditional bids/offers, would be a useful tool for producers who wish to let the exchanges partly act as their production dispatchers. In short: Coordination of timing, harmonization of auction regulations and establishment of a single website to manage three day ahead exchanges would be the most important issues for a successful implementation.

4 Cross-border intraday trade

4.1 Introduction

4.2 Questions for consultation

22. Do you wish the establishment of a cross-border intraday trade and, if so, why:

- a. To revise its day-ahead position in case of physical disturbance (outage of a generation unit for example)?
- b. To make some new, or not already done, price arbitrage?
- c. For all purposes?
- d. For other purposes?

Answer:

Establishment of a cross-border intraday trade is desirable for both mentioned motives. Besides these motives cross-border intraday trading is desirable to improve load manage in light of changes in positions caused by customer load shifts and production adjustments. Furthermore cross-border intraday trading provides more liquidity to intra-day imbalance markets.

23. Do you think cross-border intraday trade should be limited to one of the above particular purposes? And, if so, why?

Answers:

In a fully mature market, there should be no limit to cross-border intraday trading or any other trading and as mentioned in the reply to question 22 cross-border trading is desirable for a number of reasons.

24. In case you agree with the establishment of cross-border intraday trade, what market and/or regulatory obstacles need to be removed before such a trade can be implemented? Please specify.

Answers:

The following regulatory obstacles need to be removed to implement cross-border intraday trade:

- Currently on day-ahead trading, TSO's operate with very stringent time limits for adjusting cross-border flows. Relaxing these time limits is required to establish cross-border intra day cross trade
- The TSO's (RTE, Elia and TenneT) should harmonize their regulation with regard to interconnection capacity
- Introduction of netting between imported and exported capacity
- Ideally the volume caps per market participant should be lifted to optimise the cross-border (intraday) trade. In this case we refer to the Dutch situation of capping interconnection capacity for a single party to 400 MW.
- Starting the cross-border intraday trade with an implicit auction withholding a minimum capacity of 50 – 100 MW. In a later phase the system could be changed. The withheld capacity could be evaluated to market circumstances.

25. Do you consider it suitable to reserve an amount of the cross-border capacity to the intraday allocation mechanism, or should capacity only be made available for intraday trade that has not been previously allocated and/or used at the day ahead allocation?

Answer:

As intra day trading is mainly done do balance portfolio's (a.o. unplanned outages and customer load shifts), keeping a minimum amount of capacity in reserve would stimulate intraday trading. In addition to this minimum amount the upward revision of available capacity, after the explicit auctions (annual, quarterly and monthly), should be released for intraday trading, as well as the non-nominated volumes from participants that have not fully used their capacity.

26. Do you consider it useful to limit *ex ante* the possibilities of nomination in the intraday market in order to prevent potential ineffective market outcomes such as:

- a. a market party who would nominate energy in both senses in order to withhold capacity, or
 - b. a market party who would shift its imbalances into the neighbouring market in order to benefit from differences in the balancing market designs, or
 - c. other anti-competitive or free-riding behaviours?
- If so, which propositions would you recommend?

Answer:

As stated before, [CONFIDENTIAL] is in favour of a market based system. Limiting *ex ante* the possibility of nomination could potentially create ineffective market outcomes and is seen as part of a regulated system rather than a market based one. To avoid ineffective market outcomes netting between imported and exported capacity or a system of one directional purchasing of capacity is required. Such a mechanism would also guarantee maximum availability.

The given example (b) of shifting imbalances between market is not seen an ineffective market outcome, but as an example of an efficient market. Shifting imbalance between markets is of course limited to the available capacity and the cost of market price of capacity.

27. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive or free-riding behaviour?

Answers:

As also stated in the reply to question 7, regulators should be sufficiently mandated to monitor the market to avoid anti-competitive behaviour. *Ex post* market monitoring should always be a part of regulation. To further optimise regulation market data should be made available to all market participants, not just to the regulator. In addition one-side nominations for intraday cross-border trading within the same hour should be introduced on all three borders.

28. Do you consider it relevant that the capacity rights allocated in the intraday framework (so near the real time) correspond to obligations (rather than options) to use/nominate the equivalent energy and, if so, why?

Answer:

For reasons of system stability, efficient use of the intraday capacity and to limit the possibility for parties to manipulate intraday trade a system of obligations rather than options is preferred. Without such an obligation system anti-competitive behaviour by purchasing capacity without using it can take place. The risk for market participants from these obligations are limited because of the limited time frame, intraday positions can be managed more accurately than medium and long term positions.

29. How do you think this cross-border intraday trade should be implemented:

- a. By allowing market parties to realise cross-border intraday trade in the limit of the capacity rights obtained in the day-ahead explicit auction mechanism (in the case where an explicit auction is implemented in day-ahead)?
- b. By allowing market parties to obtain specific intraday capacity rights through a specific cross-border capacity allocation method (in order to allocate the non-used or the not already-sold capacity)?
- c. By a combination of the two above proposed methods?

Answers:

The favourable option is option 'b'. Under the conditions that the specific intraday capacity rights are auctioned implicitly with a minimum withhold for this part of the market of 50 –100 MW per country for the first few years in combination with first come first serve on a continuous basis.

30. In the case where a specific intraday cross-border capacity allocation is implemented, which allocation method do you consider the most appropriate for organizing this intraday trade (taking into consideration the possibility of concentrating trade in single shot or continuous trade):

- a. A market coupling procedure extended to the intraday time frame?
- b. An explicit auction procedure?
- c. A free pro-rata, where demanding market parties would receive an intraday capacity proportionally to their demand?
- d. A “merchant” pro-rata with an access price based on:
 - i. the day-ahead price differential (in the case where a DAMC is implemented in day-ahead), or
 - ii. the day-ahead capacity price (in the case where an explicit auction is implemented in day-ahead)?
- e. A free first-come/first-served procedure?
- f. Another method?

Answer

Under the condition that all non- nominated interconnection capacity will flow towards the intraday cross border capacity [CONFIDENTIAL] is in favour of option a. Also in the answer of this question [CONFIDENTIAL] wishes to express that it is in favour of a market based mechanism. Before considering which allocation method to implement, we strongly suggest first to focus on harmonization on the following areas:

- Similar bidding system in the coupled countries
- Simultaneous/ coordinated clearing of the exchanges
- More elaborate block bids such as condition bid /offers,

Harmonization of regulations and establishment of a single website to manage three day ahead exchanges would mean a great step forward in successfully implementing regional market integration. An example of presenting capacity information would be i.e. www.TSO-auction.org.

5 Cross-border balancing trade

5.2 Questions for consultation

31. Do you wish the establishment of cross-border balancing trade and, if so, why?

Answer:

Establishing cross border balancing trade is desired because it creates additional flexibility in portfolio optimisation. Cross border balancing trade will create more competition on the balancing market, improve

market efficiency and therefore result in a reduced balancing costs.

32. How do you think this cross-border balancing trade should be implemented and why:

- a. By allowing market parties to realize cross-border balancing trade in the limit of the capacity rights obtained in the day-ahead or intraday explicit auction mechanism (in the case where an explicit auction is implemented at these time frames)?
- b. By letting the TSO to manage the cross-border balancing trade in the limit of the available capacity (integration of balancing markets)?
- c. By another method?

Answer:

The favourable option is option 'b', this option is closest to a market based mechanism. Countries could balance each others markets, it would increase competition to the balancing market.

33. What do you think about the differences in market designs between the three existing balancing mechanisms and a possible need for harmonisation? Please specify.

Answer:

The Belgium balancing system seems to rely on the Dutch APX prices. The Dutch balancing system is preferred over the Belgium because it best reflects the market. However it also holds its flaws – especially issues like two sided settlement and relative high proceeds from interconnection auctions for the TSO. As also replied to question 14, for the market to function optimally efficient, full harmonisation (auction rules, gate closure time, etc) is desired, because harmonization simplifies the system and reduces operational risks.

34. To what extent do you agree that market design differences may result in arbitrage between them? If so, do you propose countermeasures? Please specify.

Answer:

Difference in market design can result in arbitrage. This underlines the need to full harmonization across different countries, as stated in the replies to question 14 en 33 and sufficiently mandating the regulators to monitor the market.

35. Do you consider it necessary to avoid any reservation of cross-border interconnection capacity for the balancing needs of TSO's before the end of every intraday trading session, during which market parties are the only ones to intervene?

Answer:

Reservation of capacity by TSO's is not desirable and should ideally be avoided. If reserving capacity for the TSO's would be in favour of system balancing, this could be considered but should be minimized and made public.

36. Do you consider it suitable to reserve an amount of the cross-border capacity to the balancing mechanism?

Answer:

Reserving capacity for cross-border balancing would benefit the market and lower the balancing costs. This capacity however should not be reserved for the TSO only, but be available to all market participants. TSO's should be treated as one of the parties bidding for capacity.

6 Market transparency

6.2 Market transparency in the three countries

6.3 Questions for consultation

37. What types of information in each of the three countries are currently not available and should be made available to the market? Please indicate:

- a. A precise denomination of the data you want to be released to the market.
- b. If relevant, the delay after real time (or before, for forecasted information) at which the data should be delivered.
- c. If relevant, the desired time frames of the data.
- d. If relevant, the period covered by the data.
- e. Your preference concerning the disclosure of this information (to the public or only to the market parties concerned?).
- f. The level of priority of this information.

Answer:

The type of information currently not available is information regarding production–outages, maintenance, water-cooling situation, time frames, imbalance prices and timely imbalance data in Belgium. For a fully transparent market information regarding short-term outages should be provided real time and longer-term maintenance schedules should be published at least 3 month ahead.

- a, b) Scheduled outages (3 months ahead)
Unplanned outages (real time)
Reservoir levels (weekly)
- c) Not applicable
- d) Not applicable
- e) Public (compulsory, analogue to stock markets and Nordpool)
- f) Availability of information is of the highest priority

Creating a level playing field in terms of information availability is necessity for the market to function to market efficiently. Currently the Netherlands has the most transparency and could therefore act as an example for Belgium and France.

38. In your view, based on your practical experience in the Dutch, Belgian, French and/or other markets, which examples of market transparency should be taken as a basis for harmonisation efforts?

Answer:

The best example of transparency is the Nordpool market. This market would be the best example for further harmonisation between the Netherlands, Belgium and France. Of these three countries the Netherlands has currently the most transparency and could therefore act as an example for further harmonisation for Belgium and France.

39. The market information that is currently available is not always easily accessible, different formats are used and the information is published by different entities like TSO's, PX's, regulators and others.

- a. Do you think that access to market information must be improved? If yes, what should be the role of TSO's, PX's, regulators and other entities?
- b. Should formats be harmonised between the three countries? If yes, what is currently the best example for formatting the different types of information?
- c. Should definitions and interpretations be harmonised? If not, why? Or, if yes:

- i. On what topics?
- ii. What is currently the best example which should be used as a basis to harmonise the different definitions and interpretations?

Answer:

- a) Access to information must be improved. The role of the TSO's and regulators should be to ensure that this information holds the same definition, is made available on a timely basis, is accurate and is monitored.
- b) Formats should be harmonised and coordinated through a mutual TSO website. The Dutch situation can be considered as an example.
- c) Harmonisation of definitions and interpretations is essential across all topics. The Dutch situation can be considered as an example.

7 Market power and cooperation between regulators

7.1 Introduction: market power in integrated electricity markets

Market power is an important characteristic of electricity markets. Anti-competitive behaviour, based on abuse (or even: potential abuse) of this market power, can cause inefficient market outcomes. Because of the fact that today's markets are still relatively small and easy to monitor, an incentive for dominant market participants exists to adopt a reserved attitude, the so-called "regulatory threat". Theoretically, regional market integration can mitigate the side effects of (potential) market power abuse since the overall market size will be increased and market concentration reduced. In practice, however, regional market integration might also lead to increased (potential of) market power abuse, predominantly for the following reasons:

National regulators such as DTe, CREG and CRE have only national jurisdiction and their enforcement capacities are therefore geographically limited (as are their capabilities for cross border cooperation).

The previous issue becomes even more acute:

- When there exist some differences in the respective legal enforcement capacities in terms of market monitoring of each national regulator, and
- When the legal enforcement capacities in terms of market monitoring, inside the same national jurisdiction, are shared between several different competent institutions.

Dominant market parties in the Dutch, Belgian and/or French electricity markets might feel less constrained by the subsequently reduced regulatory threat and exert their market power within the larger, regionally integrated market (possibility of cross-border abuse of market power).

The position of (dominant) market parties in the integrated Dutch, Belgian and/or French electricity markets, controlling a considerable amount of the overall generation capacity and active in more than one market, enabling it (albeit potentially) to influence market outcomes.

7.2 Cooperation between regulators

The three regulators agree that it is necessary to implement a framework for effective cross-border cooperation between the regulators. The three regulators agree that it can therefore be essential for regional market integration that:

Regulators have access to (confidential) information about their own country but also to such information about their neighbouring countries.

Sufficient regulatory threat necessitates cross-border information gathering, information exchange and regional market monitoring.

Regulatory authorities should be able to observe, prove and deal with actual abuse of market power even in a regional market.

International regulatory coordination asks for intensive cooperation and removal of the existing legal hurdles to exchange confidential information between regulatory authorities.

7.3 Questions for consultation

40. To what extent do you agree with the above analysis concerning regional market integration and (potential) abuse of market power (paragraph 7.1)?

Answer

[CONFIDENTIAL] agrees with most of the analysis of paragraph 7.1 Regional market integration for the most part is positive however in the case of the Benelux market and France, there are clearly two counter parties which could obtain greater opportunity to transfer their power to the Netherlands, based on their market share.

On the other side Regional Market Integration could help to reduce the markets dominance these players have in their own domestic markets. Regional Market Integration does not solve dominant market structures and does not redistribute (by auction, VPP, decommissioning or any other way) the dominant position of those two players hold on the production market.

41. To what extent do you agree with the above analysis concerning the cooperation between regulators in the three countries (paragraph 7.2)?

Answer:

To prevent a situation as described in paragraph 7.1 to happen, there has to be improved cooperation between regulators. However this should not result in more regulation but the main focus should lie in better monitoring and ex post audits.

42. To what extent do you expect the integration of the Dutch, Belgian and French electricity markets to influence the market power of market parties that are already dominant in their incumbent markets?

Answer:

Coordination of regulators and integration of markets will reduce the dominance to a certain degree, but there would have to be complete transparency and free flow between countries for the dominance to be effectively eroded. It will reduce market power slightly . They still own a majority of the production and therefore highly effecting the outcome.

43. To what extent do you agree that market power mitigation on dominant market parties should be implemented before regional market integration and/or market coupling can be successfully implemented and, if so,

a. Why do you agree?

b. What type of measure do you propose against what market party or market parties and why?

Regional market integration between the wholesale electricity markets of the Netherlands, Belgium and

France

Consultation document prepared by DTe, CREG and CRE Page 16 of 16

Answer:

Liberalisation of the Belgian and France market is still in its infancy stage, market structure not helping much. Before and after coupling, the market regulators have to ensure that the dominance of the two largest players is not used to benefit more from market coupling than other market parties. A way to do this would be involving Germany in the regional market integration. In short a fully harmonised set of auction rules should be implemented on the Belgium - French, Belgium - Dutch borders. In addition harmonisation of the auction rules on the French German border, similar as to the Dutch – German border should be implemented.

First and foremost, transparency needs to be improved in Belgium and France. As the amount of production capacity owned seems to be the core problem when creating competitive markets, we welcome the suggestion to exclude dominant incumbents in granting new environmental or other permits for additional capacity and disinvestments in assets of these incumbents should be stimulated. Mothballed facilities of the two incumbents could be offered for sale to new entrants.

8.2 Confidentiality of contributions

We would prefer our contribution to be treated as confidential and not to be made public.



taking care of the essentials

Regional market integration between the wholesale electricity markets of the Netherlands, Belgium and France

A consultation document prepared by DTe, CREG and CRE

A Centrica response

Author : Carys Rhianwen
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1 INTRODUCTION

Centrica is a leading supplier of energy and essential services in its chosen markets. In the Benelux region, Centrica is active in wholesale power trading in both France and the Netherlands. It also supplies customers in the newly deregulated energy markets of Belgium and the Netherlands. In the former this is through its Luminus joint venture and, in future, through the pending SPE transaction (in partnership with Gaz de France), and in the latter through Oxxio.

Centrica supports greater market integration as this will give better signals to potential market investors, improve trading/market efficiencies, and improve co-ordination between markets and aid future market development, especially in Belgium (BELPEX) but also across the region as a whole. Greater market integration will also help to harmonise market rules and increase market transparency. It will also improve security of supply through better network congestion management at borders, increasing interconnection capacity and hence increased resilience in each interconnected region. Improved coordination between regulators should enable knowledge sharing about lessons learned from each market as well as other related and more developed markets.

Among the various proposals out for consultation, we consider that the most important priorities are day-ahead market coupling (DAMC) and the longer-term explicit auction (especially at the France-Belgium border, where non-market mechanisms currently apply). Cross-border intraday and balancing trade mechanisms are potentially interesting enhancements, but if they would unduly complicate or delay the introduction of the basic market mechanisms then they should perhaps be deferred to a second stage.

2 LONG TERM AND MEDIUM TERM EXPLICIT AUCTION MECHANISMS

Explicit auctions are an important tool in emerging markets, in particular for long term capacities. This is key to help alleviate problems of arbitrary allocation mechanisms, especially first come first served mechanisms, which are currently in place on the Southern Belgium border. It is our preference that explicit auctions be available for annual, seasonal (half-yearly), quarterly and monthly timeframes. The ratio allocated for long and short term should not be a fixed percentage; instead, a maximum of circa two-thirds should be allocated for long-term explicit auctions, and a minimum of circa one third for implicit short term auctions. This ratio should be reviewed over time, as the market structure develops. In particular, it may be both feasible to move to increasing implicit auctions & financial transport rights as the market matures.

A single round, ascending bid with payment at the marginal price is our preferred bidding mechanism (Q3). This is consistent with the current Belgian-Netherlands model, for example.

We do not support limiting the interconnector capacity for individual participants (Q4). This would be difficult to enforce, when taking into consideration the potential use of trading by affiliated companies or bilateral trades. Instead we support the principle of use-it-or-lose-it, which is already applied successfully on other cross-border interconnectors such as France-Germany. Neither do we believe it good practice to prevent a player from nominating both ways. If the players own the capacity it should be within its right to nominate as desired, subject as before to an effective use-it-or-lose-it regime to address the “strategic capacity withholding” issue (Q6). It is further questionable whether this would be an issue once market coupling is in place.

The creation of a secondary market is to be supported (Q8). In practice this should allow traders to buy and sell the title of a product, with the final purchaser only presenting this to the auctioneer to exercise the right to the capacity stated with the traded title.

In our opinion, when the TSO is obliged to sell all capacity as firm capacity, the TSO tends to be conservative in its estimation of future availability. Allowing or obliging the TSO to offer additional capacity on an interruptible basis is thus likely to increase the overall capacity made available (Q9). For any firm capacity that it not available, the user should be reimbursed at market price (i.e. OTC spread).

We do not support the obligatory use of long and medium term products, believing this to be inefficient (Q11). Neither do we consider it important to oblige market participants to nominate capacity long in advance. In our experience the further in advance the capacity has to be nominated, the more inefficient the systems becomes (for example the German-Dutch border, where the market in the Netherlands frequently clears below that in Germany but the flows cannot be reversed due to the 07.30 nomination deadline).

We support a full harmonisation between the two related markets for all auction durations, including auction rules and gate closures. In this it is critical that the process for capacity calculation method is coordinated. It is important to have access to both directions of capacity in the same type of allocation/auction procedure to gain optimum efficiency across the region.

3 DAY AHEAD MARKET COUPLING

Our preferred method for day ahead market coupling is implicit auctions (Q17 & Q18). The use of cross border capacity will therefore be optimised as it is neither sold (as in the Belgian-Dutch border) nor allocated (as in the French-Belgian border) to individual market parties who can decide whether to use it or not. Financial risk of cross border trading will be reduced as market parties no longer have to buy cross border capacity on an individual basis as with explicit auctions, running the risk of paying more than the actual spread between the markets. When sufficient cross border capacity is available the lowest priced power will flow, regardless of the national market where the power was generated. Day ahead market coupling thus maximises the available capacity, increases simplicity and avoids uneconomic flows.

It will also facilitate the development of BELPEX as a traded market with some liquidity, notwithstanding Electrabel's dominant position in Belgium. Greater transparency in the underlying markets would thus make it more attractive to other parties (Q20).

4 CROSS-BORDER INTRADAY TRADE

We support the establishment of a cross-border intraday trade, as long as its introduction does not cause delay to the overarching aim of achieving greater regional market harmonisation. This improves optionality without having a large detrimental influence on price. Cross-border intraday trade should not be limited to specific purposes (Q 22 & Q23); there is little logic for such a restriction and it would be more-or-less impossible to police.

Reserving an amount of capacity should be considered for cross border intraday trade but this should be a limited amount only. Firstly market coupling will fully utilise all capacity made available up to day ahead (or whenever market coupling is run) therefore some capacity must be reserved for any intra-day trading. Secondly the amount should be limited as it may otherwise affect the efficiency of market coupling. We believe that some reservation is probably good to allow intra-day activity but it is second order to the other trading periods. Intraday trade could also include additional capacity that the TSO had reserved for safety margin, and which is no longer required on the day for this purpose.

As before, we would support the use-it-or-lose-it principle for all capacity to avoid potential market manipulation. This would clearly require the introduction of additional "closure gates" within-day, as in the case of the France-Spain interconnector.

5 CROSS-BORDER BALANCING TRADE

In principle, we support the establishment of cross-border balancing trade, as this should enhance cross border and regional market operations. By utilising existing and enhanced market based mechanisms (as discussed through this consultation) to the full, cross border balancing should be improved, without the need to a prescribed solution, which may artificially distort the market. As mentioned in the introduction, however, we regard this as a second-order priority as compared with the basic DAMC mechanism.

6 MARKET TRANSPARENCY

Market transparency is critical to market participants; in particular the amount of information available to vertically integrated incumbents via internal systems/history which may be more than is available to new entrants (especially non vertically integrated ones) via the market. Such asymmetric information may give trading advantage to incumbents.

The development of efficient and liquid wholesale markets is key to the liberalisation of electricity markets. Market transparency is crucial to the successful development and operation of such efficiency wholesale markets. We would draw attention to a position paper published by EFET in July 2003 on "Transparency and Availability of Information in Continental European Wholesale Electricity Markets".

It is our belief that as much information should be published as possible, whilst taking into account all due consideration of true commercial sensitivity and confidentiality. Information available should be consistent across the three national markets.

7 MARKET POWER

We do not agree with the assertion that regional market integration is likely to exacerbate the existing problems of market power or the potential for abuse (Q 40). No single instrument can be regarded as a panacea, but we take the view that creating market mechanisms and enlarging the size of well-interconnected markets will certainly be positive rather than negative in its impact (Q 43).

However, we do agree that regional market integration will require effective regulation cross-border and we therefore support the need for greater co-operation between regulators of the three countries (Q 41). This will help mitigate abuse of dominance and market power.

More coordination is necessary if the markets integrate as although increased market integration should tend to reduce market power of any one player the exercise of market power across borders could occur with no one regulator having overall visibility or responsibility. Also positions/dominance of players now needs to be considered in both local and regional markets rather than just at local level

Consistent with the views set out above, we certainly do not agree that regional market integration should be deferred until other market power mitigation measures have been implemented. Market power on the current level can only be addressed by a carefully co-ordinated suite of measures, which are implemented in parallel and monitored effectively thereafter.

Centrica/Regulatory/CRh/5Sept2005

DTe
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SENT PER FAX, E-MAIL AND MAIL

Date: 9 September 2005
Reference: SHA/05090591
Subject: Consultation: Regional market integration between the wholesale electricity markets of The Netherlands, Belgium and France

Dear Sirs, Madams,

APX welcomes the joint consultation of the Dutch, Belgian and French regulators concerning the integration between the wholesale markets of their countries. This joint effort is a very important step towards an integrated European electricity market, the most important objective of the European Electricity directive. Moreover, it is an essential step towards a better and more international wholesale market in this region. Knowing that this document is primarily aimed at market participants to be reviewed by them in detail, APX would prefer to make a few more general remarks on the subjects in the document.

APX supports the main elements of response as drafted by the Dutch association EnergieNed, section Trade & Wholesale. Many of the views expressed by EnergieNed also harmonize with the position paper by EFET on transmission capacity allocation. Both documents give support for a mixed solution: explicit auctions for the existing long-term transmission capacity, implicit auctions for the short-term transmission capacity.

This also enables the flexible re-utilization (under terms described by EnergieNed) of any unused long-term explicit capacity into the implicit daily allocation mechanism. This ensures with 100% certainty that no transmission capacity remains unused for as long as the market needs it; being an outstanding improvement to the current situation.

APX also notes the support at the European Regulatory Forum ("Florence Forum") and the European Commission for the instrument of implicit auctions, as described in the minutes from the 2004 Forum, based on the presentation on Flow-based Market Coupling by EuroPEX and ETSO. The positive effects of implicit auctioning mentioned are summarized in the attachment.

As your document states, the integration of markets involves a wide range of other issues: inter-TSO cooperation, inter-regulator cooperation, intra-day markets, market power issues, and other. Overseeing the discussions in the Florence Forum, these issues have been on the agenda for many years. In fact, our markets are already integrated to quite a degree - by current explicit auctions and other allocation methods, although in a relatively inefficient way and in some ways not transparent. The change from one market-based allocation method to another (from a daily explicit auction to a daily implicit auction) cannot have a negative impact on these issues.

Implicit auctioning improves the efficiency and transparency of the market integration, and therefore it may highlight some issues already existing, but it does not aggravate issues or create any new ones. It does bring improvements, for instance by reducing some possibilities for exercise of market power, as listed in the attachment.

It also brings some basic economic improvements, as a more efficient market by coupling across a wider geographical area generally should lead to reduction of price volatility and other uncertainties. Yet, it also protects different national markets from another by producing a “splitting” of prices if market tensions would lead to exceeding the available transmission capacity.

Regarding all the different possibilities for improvement of our market integration, we hold the view that “the perfect is the enemy of the good”: it is better to make progress where we can, and different elements of the list should be able to go forward at different speeds. This guarantees progress better than trying to make one improvement dependent on another. For instance, the introduction of implicit auctioning stimulates processes leading to other improvements further on.

Related to this, it is important that arrangements remain flexible and capable of further development over time. The proposed arrangement is flexible by being a mix between explicit and implicit auctions, whereby the regulator is in control of the amounts of capacity to both. We believe that ex post monitoring is a very important method in order to follow the developments. APX will be ready to assist in this monitoring by the regulators, like we have done before.

We hope that these comments help you in further developing the market integration from your side. We would be ready to illustrate and discuss any of the above with you further. Please don't hesitate to ask any further questions. You can contact Jeannette de Beus (020 305 4000).

Sincerely yours,

APX B.V.

A handwritten signature in black ink, appearing to be 'B. den Ouden', enclosed within a large, loopy oval shape.

B. den Ouden
CEO

Attachment

Attachment: Some characteristics of implicit auction solution

Advantages described in the papers from the Florence Forum as prepared by Europex and ETSO

The use of implicit auctions that simultaneously trade energy and the use of transmission capacity have proven to be very successful in Scandinavia and have contributed to the successful development of that market. Market coupling has the following advantages.

- Combining capacity allocation and energy trading removes the risks of trading one before the other and improves the accessibility to the market
- Implicit auctioning ensures that flows of electricity go in the right direction - i.e., from the low to the high price areas
- The automatic netting carried out in market coupling enables optimal use of interconnector capacity.
- Implicit auctioning will support liquidity in the markets concerned and should contribute to its development in areas where liquidity is still an issue
- Implicit auctioning makes it easier to transfer power on several successive interconnectors.
- 100% guarantee of “Use it or lose it” and 100% re-use of any unused capacity.

Reduction of possibilities for exercise of market power

From the perspective of market power, implicit auctioning has the following additional benefits:

- For the amount of capacity involved in the implicit auction, market parties cannot influence the pricing by holding back transmission capacity from the market, directly or indirectly
- For the amount of capacity involved in the implicit auction, market parties cannot influence the pricing by scheduling import and export flows in opposite directions.
- For the amount of capacity involved in the implicit auction, parties cannot take large positions on the border in order to get a bigger or more dominant position in a certain price area.
- Market parties have reduced ability for discriminating between their home area and other areas, therefore they are more subject to real price competition both on their home area and the other areas.
- Market parties do not know with certainty beforehand if price areas are “coupled” or “split”, reducing their ability to influence pricing in specific areas, and promoting the use of real market pricing.

By generating a more efficient market across a wider geographical area, implicit auctioning reduces of price volatility and price uncertainty; this reduces the risk on spot market positions for small participants and traders. Therefore, more parties will be more active in the market, reducing the market power of existing parties.

VOEG's response to the consultation document ("Consultation Document") prepared by DTe, CREG and CRE on regional market integration between the wholesale electricity markets of the Netherlands, Belgium and France

Dear Sirs,

VOEG, the association of energy traders, would like to thank you for the opportunity offered to give our views on market coupling. Before giving the detailed answers, we would like to point out that in electricity markets, the true spot market is the balancing market. Because retail consumption is impossible to predict with complete certainty, a supplier without flexible supply should be able to rely on the balancing market.

An electricity system changes in real time and so prices cannot be created and acted on by third parties quickly enough to fully optimise.. Only the TSO has sufficient information to do so. Therefore, the best solution is to allow the TSO to act directly in the day ahead and balancing markets, to match crossed bids and offers at the system marginal price. Benefits that result from these actions have to be returned to market participants to ensure the TSO does not have an incentive to exercise its monopoly powers. This can be done through "sub-contracting" or through regular auctions of the congestion revenues collected by the TSO. Therefore, VOEG strongly believe that the most optimal market evolves if holders of capacity rights can mandate the TSO to optimise the usage of the acquired capacity in the intraday market on their behalf.

1. What is your preference for the selection of the time frames for the explicit auction mechanism (annual, quarterly, monthly, weekly and day-ahead)?

VOEG believes in general that a mixture of products should be offered. It is however very important that longer term products offered can be delivered with a 100% certainty, at least from financial point of view. However, all explicit capacity sales should be subject to a use-it-or-lose-it protocol to ensure that hoarding of transmission to create artificial constraints and price differentials does not occur.

2. The allocation of the available capacities on different time frames can be based on the following principles:

- a. A maximum of capacity is allocated on a longer term basis, and the remaining capacities are allocated on shorter time frames.**
- b. A predefined ratio (%) is chosen for the different time frames.**
- c. A minimum of capacity is foreseen for specific time frames.**

Which of the principles mentioned above (or a mix of them) do you recommend for the allocation of the available capacity on different time frames?

More important than the precise allocation to the different time frames is that the certainty of delivery is kept very high. In an ideal market design, the TSO would hold participants harmless by financially guaranteeing the availability.

- 3. What type of price-setting mechanism (marginal price, pay-as-bid, ascending, etc.) do you recommend for long and medium term products (e.g. yearly, monthly) and why?**

The marginal price is strongly recommended for all auctions. It is the most fair system since it removes the advantage for parties with more (inside) market information.

- 4. Is it necessary to limit the interconnector capacity (volume cap for import and/or export capacity) that can be given to a market party and if necessary, which value should be imposed for the different time frames?**

A limitation should only apply for those parties that are deemed to have market power. A clear set of standards administered by regulators is required to judge if the existence of deemed market power.

- 5. To what extent do you recommend the allocation of yearly and /or monthly capacities in a single round or in two or more different sessions per year and why?**

Having several auctions of yearly capacity might have a positive influence on market liquidity. However, VOEG has no particular strong feeling about this. Organising more than one auction for monthly capacity seems does not seem an effective way to improve market liquidity.

- 6. Do you consider it to be important, in order to prevent strategic capacity withholding, to limit *ex ante* the possibilities for a market party to nominate energy in both directions? If so, which propositions would you recommend?**

VOEG does not see a need for this in case ‘use it or lose it’ is implemented in combination with an ability for the TSOs to equalise price differences as far as possible in real time. VOEG does support the need for “net scheduling” by single parties who may want to reverse flows after the initial schedule.

- 7. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive behaviour?**

VOEG does consider ex-post market monitoring to be sufficient, but only in case explicit and well-understood standards to determine the existence of market power will be established and misbehaviour consequently will be penalised.

- 8. Do you consider it to be important to create a secondary market for transfer of cross-border transmission capacity rights? If so, what form of transfer of capacity rights should be allowed:**

- a. A free transfer of capacity rights through a bilateral secondary market with final reconciliation by the TSO?**

- b. An organized transfer of capacity rights through a centralized re-allocation under the TSO's responsibility in the subsequent explicit auctions time frames?**

If with 'create a secondary market' is meant any kind of sponsoring, than that does not fit in VOEG's view of a free market. If the transport rights are (financially) guaranteed, a secondary maker might evolve if there is a need for.

- 9. What type of commitment should the TSO's provide with respect to the allocated capacities/nominated programs?**

- a. Firm and definitive in both cases, except in case of "force majeure"?**
- b. Reductions of capacity and /or nominated programs are possible under a very strict regulation with respect to the duration of the reduction, the compensation mechanism for any reduction, etc.?**
- c. No firmness at all?**
- d. A mixture of cases a, b and/or c? Please explain your commitment preferences.**

a. Please see our responses to question 1. As mentioned in answer 2 and 8 as well, TSO's commitment to financial certainty is very important

- 10. In the case of questions 9b and 9c, where a reduction of the available interconnection capacity/nominated programs is possible, what would be your preferred reduction rule (mainly when the reduction is known after the short term allocation):**

- a. To reduce firstly the long term assignments?**
- b. To reduce firstly the short term assignments?**
- c. To reduce proportionally both long and short term assignments?**

We prefer option b.

- 11. Do you recommend an obligatory use (a constant strip for the whole duration of the product) of long and medium term products?**

No, the acquisition of capacity rights should be treated as an option.

- 12. To what extent do you consider it of importance to oblige the market parties to firmly nominate their long and medium term capacity rights sufficiently in advance before day-ahead allocation, and why?**

It is not necessary if proper "use it or lose it" arrangements are in place and the TSOs can allocate unused capacity or reverse a scheduled flow after the scheduling deadline or in real time.

- 13. Under the condition that day-ahead explicit auction is implemented, to what extent do you consider the firm nomination of these day-ahead capacity rights to**

the TSO sufficiently before the intraday sessions as an effective way to counter strategic capacity withholding, and why?

Referring to answer 12, also here a proper ‘use it or lose it’ ultimately should be effected by TSO’s acting directly on cross border balancing market prices and passing benefits back to holder of the capacity rights.

14. What level of harmonisation (auction rules, gate closure time, etc.) do you recommend for the organisation of explicit capacity auction for long, medium and short term time frames on the two borders? Please specify what aspects require harmonisation.

Since VOEG represents traders (amongst others) active in the Dutch market, we prefer the TSO auction rules to be the standard for the French/Belgium border as well.

15. The determination of cross-border capacities foreseen for yearly and monthly allocation is not always coordinated across borders. Which importance do you give to the implementation of a more coordinated capacity calculation method?

It is essential to improve the functioning of the market. A lack of coordination creates risk and risk raises cost.

16. Regarding the above questions (1 to 15), to what extent do your answers apply to the other borders (the French-UK, French-German and Dutch-German interconnections) as well?

To the full extend.

17. Which market-based congestion management method do you prefer to manage the day ahead cross-border congestion on the French-Belgian and Belgian-Dutch borders;

a. A trilateral DAMC mechanism between the three power exchanges, APX, BELPEX and POWERNEXT?

b. A day-ahead explicit auctions between the three TSO’s, TENNET, ELIA and RTE, or

c. A mixture of the above? Please specify.

b. Exchanges are not necessarily the best platforms for buying or selling power. Therefore, the exchanges should not become (de facto) monopolists in operating the spot markets (DA or balancing). Buyers should at least have the right to turn the capacity over to the TSO’s to be optimised according to prices in the balancing markets on either side of the border and the proceeds returned to the owner.

18. Could you give your opinion on the pros and cons of the congestion methods mentioned in question 17, particularly in terms of flexibility, simplicity, market power mitigation, risk management, implementation costs, netting of capacities, liquidity, etc.?

The purpose of a free market is to achieve a macro economic optimum in the chain production, transmission till consumptions. TSO's play a very important role in this optimisation, especially (near) real time. Therefore, only TSO's can achieve efficient coupling. Exchanges can not act in the near real time and if placed in a dominant position, might try to block this development that is essential for the development of an efficient pan European energy market.

19. In the case of an implementation of the DAMC, give your opinion about the cross-border capacity that should be allocated to the DAMC process:

- a. The potentially volatile remaining capacity (after the allocation of long and medium term explicit auctions and the release of capacity by the market parties, pursuant the article 6.4 of the regulation)?**
- b. A predetermined fixed minimum capacity? If so, which one?**
- c. The potentially volatile remaining capacity plus a predetermined fixed minimum capacity?**
- d. All the capacity?**

We prefer answer a

20. Do you think that the launching of the Belgian Power Exchange could be realised without simultaneous implementation of the DAMC?

As mentioned before, VOEG does not favour exchanges to be operator of a spot market. Therefore, launching the Belgium exchange and DAMC should not be related to each other.

21. What harmonization issues between the existing Power Exchanges do you see as important for implementing the DAMC (block bids' definition and treatment, price settlement, time frames, etc.)? For each of these issues, could you precise what is your preference?

As mentioned in the introduction of this response, VOEG sees the restructuring of the balancing mechanism into true markets as being key to further market improvements. The price signals in the balancing markets should be based on actual market economics in all countries involved in the coupling.

22. Do you wish the establishment of a cross-border intraday trade and, if so, why:

- a. To revise its day-ahead position in case of physical disturbance (outage of a generation unit for example)?**
- b. To make some new, or not already done, price arbitrage?**
- c. For all purposes?**
- d. For other purposes?**

In line with our previous answer, if the balancing markets are organised properly answers a. and b. should be equal. Parties or the TSO so mandated by parties will react on price changes

that occur due to unexpected events. VOEG therefore sees no other reason for intraday rescheduling.

23. Do you think cross-border intraday trade should be limited to one of the above particular purposes? And, if so, why?

In case the balancing mechanisms are correct, only a. and b. should be a reason unless being done to manipulate the market in some way.

24. In case you agree with the establishment of cross-border intraday trade, what market and/or regulatory obstacles need to be removed before such a trade can be implemented? Please specify.

Restructured balancing markets, coordination between TSO's, ability to ask TSO's to act for owners of transmission in capturing intraday price arbs.

25. Do you consider it suitable to reserve an amount of the cross-border capacity to the intraday allocation mechanism, or should capacity only be made available for intraday trade that has not been previously allocated and/or used at the day ahead allocation?

If a proper 'use it or lose it' system is in place and TSO can act for the holders, capacity reservation is not needed.

26. Do you consider it useful to limit *ex ante* the possibilities of nomination in the intraday market in order to prevent potential ineffective market outcomes such as:

- a. a market party who would nominate energy in both senses in order to withhold capacity, or**
- b. a market party who would shift its imbalances into the neighbouring market in order to benefit from differences in the balancing market designs, or**
- c. other anti-competitive or free-riding behaviours?**

If so, which propositions would you recommend?

Same answer as previous question.

27. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive or free-riding behaviour?

Yes, see also our answer under question 7

28. Do you consider it relevant that the capacity rights allocated in the intraday framework (so near the real time) correspond to obligations (rather than options) to use/nominate the equivalent energy and, if so, why?

yes, unless and in as far as the holder of capacity rights mandates the TSO to optimise the usage.

- 29. How do you think this cross-border intraday trade should be implemented:**
- a. By allowing market parties to realise cross-border intraday trade in the limit of the capacity rights obtained in the day-ahead explicit auction mechanism (in the case where an explicit auction is implemented in day-ahead)?**
 - b. By allowing market parties to obtain specific intraday capacity rights through a specific cross-border capacity allocation method (in order to allocate the non-used or the not already- sold capacity)?**
 - c. By a combination of the two above proposed methods?**

We prefer answer c but other solutions might be suitable as well.

- 30. In the case where a specific intraday cross-border capacity allocation is implemented, which allocation method do you consider the most appropriate for organizing this intraday trade (taking into consideration the possibility of concentrating trade in single shot or continuous trade):**
- a. A market coupling procedure extended to the intraday time frame?¹⁴**
 - b. An explicit auction procedure?**
 - c. A free pro-rata, where demanding market parties would receive an intraday capacity proportionally to their demand?**
 - d. A “merchant” pro-rata with an access price based on:**
 - i the day-ahead price differential (in the case where a DAMC is implemented in day-ahead), or**
 - ii the day-ahead capacity price (in the case where an explicit auction is implemented in day-ahead)?**
 - e. A free first-come/first-served procedure?**
 - f. Another method?**

VOEG is convinced that if holders of capacity rights can mandate TSOs to optimise the usage, there will be only limited need for a specific intraday cross border allocation.

- 31. Do you wish the establishment of cross-border balancing trade and, if so, why?**

VOEG does not see a need for this in a free market with efficient and workable balancing systems.

- 32. How do you think this cross-border balancing trade should be implemented and why:**
- a. By allowing market parties to realize cross-border balancing trade in the limit of the capacity rights obtained in the day-ahead or intraday explicit auction mechanism (in the case where an explicit auction is implemented at these time frames)?**

- b. By letting the TSO to manage the cross-border balancing trade in the limit of the available capacity (integration of balancing markets)?**
- c. By another method?**

Not applicable (see previous answer)

- 33. What do you think about the differences in market designs between the three existing balancing mechanisms and a possible need for harmonisation? Please specify.**

If the suggestions made in this response are met, most of the differences become less important. We would like to stress however that any deviation from a single clearing point is suboptimal.

- 34. To what extent do you agree that market design differences may result in arbitrage between them? If so, do you propose countermeasures? Please specify.**

Arbitrage most likely will occur. Arbitrage in itself should lead to a more efficient market, given that the basic features of the market design take into account the suggestions made in this response.

- 35. Do you consider it necessary to avoid any reservation of cross-border interconnection capacity for the balancing needs of TSO's before the end of every intraday trading session, during which market parties are the only ones to intervene?**

No, in our proposal, TSOs have sufficient control over the capacity. It is however important that TSOs are able to post interface prices also in case these prices differ from internal market prices.

- 36. Do you consider it suitable to reserve an amount of the cross-border capacity to the balancing mechanism?**

In line with our answer on question 35: no reservations should be made by the TSOs

- 37. What types of information in each of the three countries are currently not available and should be made available to the market? Please indicate:**

- a. A precise denomination of the data you want to be released to the market.**
- b. If relevant, the delay after real time (or before, for forecasted information) at which the data should be delivered.**
- c. If relevant, the desired time frames of the data.**
- d. If relevant, the period covered by the data.**
- e. Your preference concerning the disclosure of this information (to the public or only to the market parties concerned?).**
- f. The level of priority of this information**

In general VOEG opposes a high administrative burden for market participants to disclose lots of information. Only there where market power can be deemed, disclosure should be imposed. This applies particular for actions of the TSO's!

The kind of information to be disclosed depends strongly on the phase in the development of the market and thus varies over time.

38. In your view, based on your practical experience in the Dutch, Belgian, French and/or other markets, which examples of market transparency should be taken as a basis for harmonisation efforts?

We have a strong preference for the Dutch system. However, a basic mistake in the design of the Dutch system is the occurrence of the so called 'status 2', the double sided clearing prices. This design error should be avoided in the Belgium and French market And taken out of the Dutch system as soon as possible.

39. The market information that is currently available is not always easily accessible, different formats are used and the information is published by different entities like TSO's, PX's, regulators and others.

a. Do you think that access to market information must be improved? If yes, what should be the role of TSO's, PX's, regulators and other entities?

b. Should formats be harmonised between the three countries? If yes, what is currently the best example for formatting the different types of information?

c. Should definitions and interpretations be harmonised? If not, why? Or, if yes:

i On what topics?

ii What is currently the best example which should be used as a basis to harmonise the different definitions and interpretations?

Excel formats and/or formats that can be downloaded in back office systems probably are preferred

40. To what extent do you agree with the above analysis concerning regional market integration and (potential) abuse of market power (paragraph 7.1)?

We fully agree and we are convinced that in this response we made good suggestions to improve the functioning of the market

41. To what extent do you agree with the above analysis concerning the cooperation between regulators in the three countries (paragraph 7.2)?

We fully agree

42. To what extent do you expect the integration of the Dutch, Belgian and French electricity markets to influence the market power of market parties that are already dominant in their incumbent markets?

We fear a growing influence of the dominant market parties. This has to do with their size, their presence in all three markets and the nature of their installed capacity, cheap nuclear.

- 43. To what extent do you agree that market power mitigation on dominant market parties should be implemented before regional market integration and/or market coupling can be successfully implemented and, if so,**
- a. Why do you agree?**
 - b. What type of measure do you propose against what market party or market parties and why?**

To start with: The process of integrating should proceed independently of the monitoring and prevention of abuse of market power. Abuse of market power is an ongoing concern independent of the state of market integration. However, given the situation in Belgium and France, (see report from London Economics 2004) prevention of abuse of market power should be the prime priority. VPPs, even if increased in size, most likely will not be able to do the job. Mainly since VPPs do not offer intraday and/or real time flexibility. Splitting the dominant market players in multiple parties most likely will be required to improve competition.