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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', written in a cursive style.

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.