



**Federation of
Energy Companies in the
Netherlands**

Utrechtseweg 310
6812 AR Arnhem
P.O. box 9042
6800 GD Arnhem
The Netherlands
Telephone +31 26 - 356 94 44
Fax +31 26 - 446 01 46
E-mail ened@energiened.nl
Internet www.energiened.nl

To DTe
P.O. Box 16326
2500 BH The Hague
the Netherlands

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
Dial-direct + 31 026 - 356 34 23
Faxnumber + 31 026 - 442 83 20
E-mail rotter@energiened.nl
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Dear Mr. Spencer,

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

section
Trade and Sales



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