

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

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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:

- 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?

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:

- 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?

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. 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?

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:

- 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?

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?