Consultation document DTe, CREG, CRE

September, 3th, 2005

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 prince, 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.

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- 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. TSOss 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 proved[1].

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 an 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.