

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.

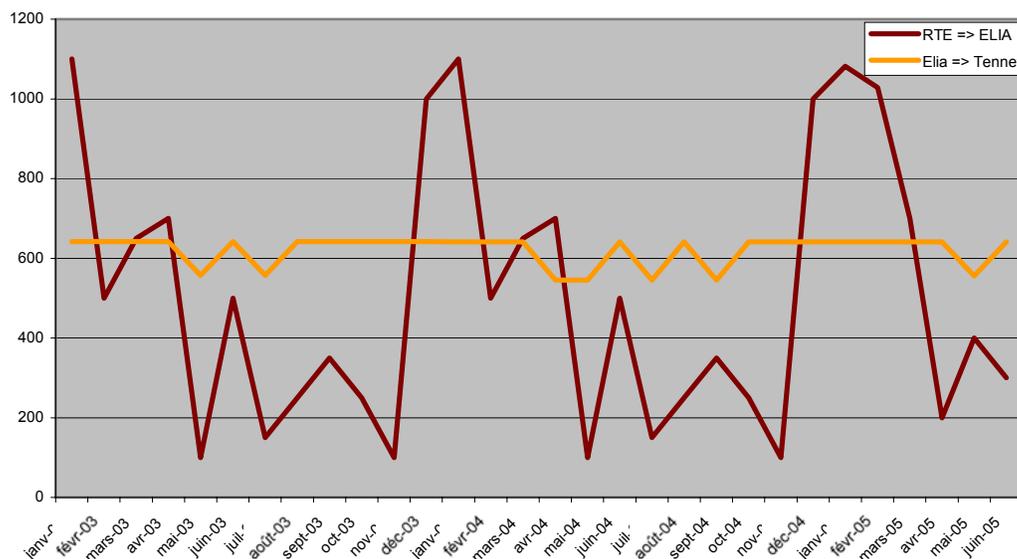
As long as we discuss about coordinated allocation between TSO, a few simple but obvious principles should be set in order to ease any mechanism:

- 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:

- 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?

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 :

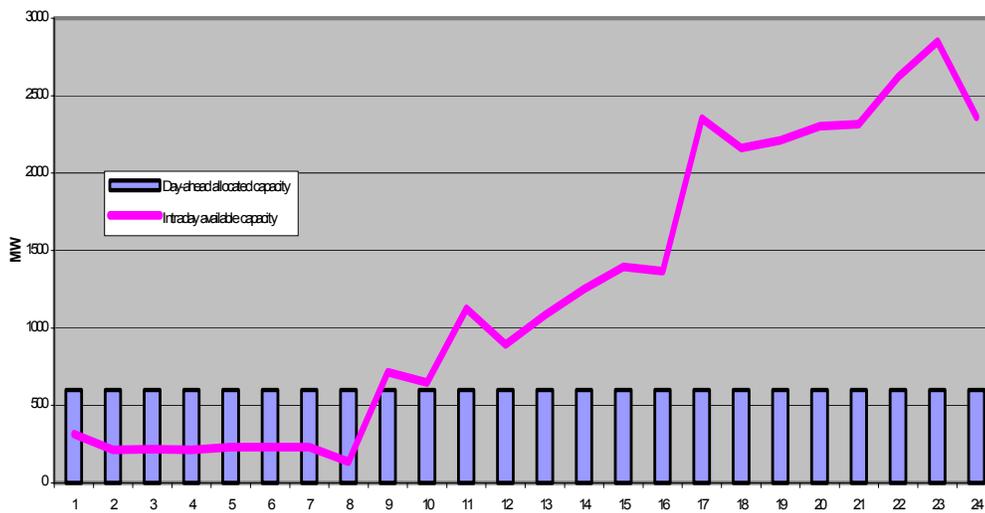
- Volume issue

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.