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Woerden : September 5th, 2005

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re : Response to consultation document market integration

Dear Mr. Spencer,

VEMW appreciates the opportunity to respond to issues concerning the integration of the North West European electricity market. This letter is our response to the consultation document "Regional market integration between the wholesale electricity markets of The Netherlands, Belgium and France – July 2005". The consultation document deals with the issues of market integration and market power.

In this response we will not get into the very specific and detailed questions in the consultation document, because our experience with practical issues concerning international trading in electricity and capacity markets is limited. Instead we do point out some critical issues on market integration and market power<sup>1</sup> which are of great importance to the Dutch non-domestic consumers of electricity.

Improving market integration and limiting market power are in the opinion of VEMW critical for realising a well functioning electricity market. Market integration creates a level playing field and improves efficiency. Limiting market power improves competition, which will increase choice, lower costs and stimulate investments and innovation. The consultation document suggests that measures on market integration may affect market power, either positively or negatively. In the opinion of VEMW regulators should make these effects explicit, in order to take concrete steps to (1) improve market integration and simultaneously (2) limit market power. Regulators should not choose between the two, but actively pursue both issues with a coherent policy. This point is illustrated below with some specific remarks on subjects mentioned in the consultation document.

#### Strategic capacity withholding

The issue of strategic capacity withholding, as a result of market power, is mentioned several times (#6, 7, 13, 26, 27). VEMW is of the opinion that if market power will have been limited,

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<sup>1</sup> Although abuse of market power causes market failure, the exercise of market power is difficult to prove. In the opinion of VEMW the sheer presence of market power inhibits proper market functioning and therefore needs to be dealt with.

additional rules concerning allocation of capacity are not necessary. This will also avoid possible problems with regard to enforcement of these rules. These extra rules may have unforeseen effects and could hamper a well functioning and free market, with or without structurally limiting market power.

Also the consultation document is not clear to what extent the problem of the simultaneous nomination of imports and exports actually exists.

#### Limit interconnection capacity to market parties

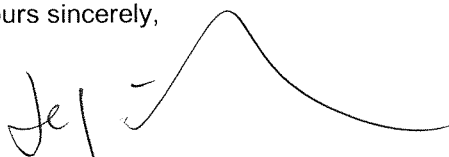
Limiting dominant producers to get access to imported electricity is mentioned in the document (#4). This option is used in Spain, for example, where dominant market parties cannot import electricity. The effects of this and alternative measures like VPP should be investigated by regulators in order to assess their potential for reducing market power without substantially hampering market integration.

#### Relevant market

In chapter 7 the issue of market power is explicitly mentioned. In relation to the analysis in this chapter, VEMW would like to point out that the measures considered in the consultation document to integrate the North West European market constitute a useful, but small step towards a fully integrated market. In the opinion of VEMW this step will not increase the "relevant market" as long as price differences and congestion continue to exist. Therefore the proposed steps towards market integration cannot be seen as substitutes for measures to reduce market power.

The measures mentioned in the consultation document are meant to improve the use of existing interconnection capacity. In order to formulate and implement measures effectively, regulators should constantly and actively monitor the use of interconnector capacity. Specific points of attention are: possible withholding, calculation of available capacity by TSOs, netting of import and export, nominations and physical imports and exports

Yours sincerely,



Dr. H. Grünfeld  
Managing Director