

VOEG's response to the consultation document ("Consultation Document") prepared by DTe, CREG and CRE on regional market integration between the wholesale electricity markets of the Netherlands, Belgium and France

Dear Sirs,

VOEG, the association of energy traders, would like to thank you for the opportunity offered to give our views on market coupling. Before giving the detailed answers, we would like to point out that in electricity markets, the true spot market is the balancing market. Because retail consumption is impossible to predict with complete certainty, a supplier without flexible supply should be able to rely on the balancing market.

An electricity system changes in real time and so prices cannot be created and acted on by third parties quickly enough to fully optimise.. Only the TSO has sufficient information to do so. Therefore, the best solution is to allow the TSO to act directly in the day ahead and balancing markets, to match crossed bids and offers at the system marginal price. Benefits that result from these actions have to be returned to market participants to ensure the TSO does not have an incentive to exercise its monopoly powers. This can be done through "sub-contracting" or through regular auctions of the congestion revenues collected by the TSO. Therefore, VOEG strongly believe that the most optimal market evolves if holders of capacity rights can mandate the TSO to optimise the usage of the acquired capacity in the intraday market on their behalf.

1. What is your preference for the selection of the time frames for the explicit auction mechanism (annual, quarterly, monthly, weekly and day-ahead)?

VOEG believes in general that a mixture of products should be offered. It is however very important that longer term products offered can be delivered with a 100% certainty, at least from financial point of view. However, all explicit capacity sales should be subject to a use-it-or-lose-it protocol to ensure that hoarding of transmission to create artificial constraints and price differentials does not occur.

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?

More important than the precise allocation to the different time frames is that the certainty of delivery is kept very high. In an ideal market design, the TSO would hold participants harmless by financially guaranteeing the availability.

- 3. What type of price-setting mechanism (marginal price, pay-as-bid, ascending, etc.) do you recommend for long and medium term products (e.g. yearly, monthly) and why?**

The marginal price is strongly recommended for all auctions. It is the most fair system since it removes the advantage for parties with more (inside) market information.

- 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?**

A limitation should only apply for those parties that are deemed to have market power. A clear set of standards administered by regulators is required to judge if the existence of deemed market power.

- 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?**

Having several auctions of yearly capacity might have a positive influence on market liquidity. However, VOEG has no particular strong feeling about this. Organising more than one auction for monthly capacity seems does not seem an effective way to improve market liquidity.

- 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?**

VOEG does not see a need for this in case ‘use it or lose it’ is implemented in combination with an ability for the TSOs to equalise price differences as far as possible in real time. VOEG does support the need for “net scheduling” by single parties who may want to reverse flows after the initial schedule.

- 7. Alternatively, do you consider that an *ex post* market monitoring could be sufficient to prevent this type of anti-competitive behaviour?**

VOEG does consider ex-post market monitoring to be sufficient, but only in case explicit and well-understood standards to determine the existence of market power will be established and misbehaviour consequently will be penalised.

- 8. Do you consider it to be important to create a secondary market for transfer of cross-border transmission capacity rights? If so, what form of transfer of capacity rights should be allowed:**

- a. A free transfer of capacity rights through a bilateral secondary market with final reconciliation by the TSO?**

- b. An organized transfer of capacity rights through a centralized re-allocation under the TSO's responsibility in the subsequent explicit auctions time frames?**

If with 'create a secondary market' is meant any kind of sponsoring, than that does not fit in VOEG's view of a free market. If the transport rights are (financially) guaranteed, a secondary maker might evolve if there is a need for.

- 9. What type of commitment should the TSO's provide with respect to the allocated capacities/nominated programs?**

- a. Firm and definitive in both cases, except in case of "force majeure"?
- b. Reductions of capacity and /or nominated programs are possible under a very strict regulation with respect to the duration of the reduction, the compensation mechanism for any reduction, etc.?
- c. No firmness at all?
- d. A mixture of cases a, b and/or c? Please explain your commitment preferences.

a. Please see our responses to question 1. As mentioned in answer 2 and 8 as well, TSO's commitment to financial certainty is very important

- 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?

We prefer option b.

- 11. Do you recommend an obligatory use (a constant strip for the whole duration of the product) of long and medium term products?**

No, the acquisition of capacity rights should be treated as an option.

- 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?**

It is not necessary if proper "use it or lose it" arrangements are in place and the TSOs can allocate unused capacity or reverse a scheduled flow after the scheduling deadline or in real time.

- 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?

Referring to answer 12, also here a proper ‘use it or lose it’ ultimately should be effected by TSO’s acting directly on cross border balancing market prices and passing benefits back to holder of the capacity rights.

14. What level of harmonisation (auction rules, gate closure time, etc.) do you recommend for the organisation of explicit capacity auction for long, medium and short term time frames on the two borders? Please specify what aspects require harmonisation.

Since VOEG represents traders (amongst others) active in the Dutch market, we prefer the TSO auction rules to be the standard for the French/Belgium border as well.

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?

It is essential to improve the functioning of the market. A lack of coordination creates risk and risk raises cost.

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?

To the full extend.

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.

b. Exchanges are not necessarily the best platforms for buying or selling power. Therefore, the exchanges should not become (de facto) monopolists in operating the spot markets (DA or balancing). Buyers should at least have the right to turn the capacity over to the TSO’s to be optimised according to prices in the balancing markets on either side of the border and the proceeds returned to the owner.

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.?

The purpose of a free market is to achieve a macro economic optimum in the chain production, transmission till consumptions. TSO's play a very important role in this optimisation, especially (near) real time. Therefore, only TSO's can achieve efficient coupling. Exchanges can not act in the near real time and if placed in a dominant position, might try to block this development that is essential for the development of an efficient pan European energy market.

- 19. In the case of an implementation of the DAMC, give your opinion about the cross-border capacity that should be allocated to the DAMC process:**
- a. The potentially volatile remaining capacity (after the allocation of long and medium term explicit auctions and the release of capacity by the market parties, pursuant the article 6.4 of the regulation)?**
 - b. A predetermined fixed minimum capacity? If so, which one?**
 - c. The potentially volatile remaining capacity plus a predetermined fixed minimum capacity?**
 - d. All the capacity?**

We prefer answer a

- 20. Do you think that the launching of the Belgian Power Exchange could be realised without simultaneous implementation of the DAMC?**

As mentioned before, VOEG does not favour exchanges to be operator of a spot market. Therefore, launching the Belgium exchange and DAMC should not be related to each other.

- 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?**

As mentioned in the introduction of this response, VOEG sees the restructuring of the balancing mechanism into true markets as being key to further market improvements. The price signals in the balancing markets should be based on actual market economics in all countries involved in the coupling.

- 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?**

In line with our previous answer, if the balancing markets are organised properly answers a. and b. should be equal. Parties or the TSO so mandated by parties will react on price changes

that occur due to unexpected events. VOEG therefore sees no other reason for intraday rescheduling.

23. Do you think cross-border intraday trade should be limited to one of the above particular purposes? And, if so, why?

In case the balancing mechanisms are correct, only a. and b. should be a reason unless being done to manipulate the market in some way.

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.

Restructured balancing markets, coordination between TSO's, ability to ask TSO's to act for owners of transmission in capturing intraday price arbs.

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?

If a proper 'use it or lose it' system is in place and TSO can act for the holders, capacity reservation is not needed.

26. Do you consider it useful to limit *ex ante* the possibilities of nomination in the intraday market in order to prevent potential ineffective market outcomes such as:

- a. a market party who would nominate energy in both senses in order to withhold capacity, or**
- b. a market party who would shift its imbalances into the neighbouring market in order to benefit from differences in the balancing market designs, or**
- c. other anti-competitive or free-riding behaviours?**

If so, which propositions would you recommend?

Same answer as previous question.

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?

Yes, see also our answer under question 7

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?

yes, unless and in as far as the holder of capacity rights mandates the TSO to optimise the usage.

- 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?**

We prefer answer c but other solutions might be suitable as well.

- 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?**

VOEG is convinced that if holders of capacity rights can mandate TSOs to optimise the usage, there will be only limited need for a specific intraday cross border allocation.

- 31. Do you wish the establishment of cross-border balancing trade and, if so, why?**

VOEG does not see a need for this in a free market with efficient and workable balancing systems.

- 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?**

Not applicable (see previous answer)

- 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.**

If the suggestions made in this response are met, most of the differences become less important. We would like to stress however that any deviation from a single clearing point is suboptimal.

- 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.**

Arbitrage most likely will occur. Arbitrage in itself should lead to a more efficient market, given that the basic features of the market design take into account the suggestions made in this response.

- 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?**

No, in our proposal, TSOs have sufficient control over the capacity. It is however important that TSOs are able to post interface prices also in case these prices differ from internal market prices.

- 36. Do you consider it suitable to reserve an amount of the cross-border capacity to the balancing mechanism?**

In line with our answer on question 35: no reservations should be made by the TSOs

- 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**

In general VOEG opposes a high administrative burden for market participants to disclose lots of information. Only there where market power can be deemed, disclosure should be imposed. This applies particular for actions of the TSO's!

The kind of information to be disclosed depends strongly on the phase in the development of the market and thus varies over time.

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?

We have a strong preference for the Dutch system. However, a basic mistake in the design of the Dutch system is the occurrence of the so called 'status 2', the double sided clearing prices. This design error should be avoided in the Belgium and French market And taken out of the Dutch system as soon as possible.

39. The market information that is currently available is not always easily accessible, different formats are used and the information is published by different entities like TSO's, PX's, regulators and others.

a. Do you think that access to market information must be improved? If yes, what should be the role of TSO's, PX's, regulators and other entities?

b. Should formats be harmonised between the three countries? If yes, what is currently the best example for formatting the different types of information?

c. Should definitions and interpretations be harmonised? If not, why? Or, if yes:

i On what topics?

ii What is currently the best example which should be used as a basis to harmonise the different definitions and interpretations?

Excel formats and/or formats that can be downloaded in back office systems probably are preferred

40. To what extent do you agree with the above analysis concerning regional market integration and (potential) abuse of market power (paragraph 7.1)?

We fully agree and we are convinced that in this response we made good suggestions to improve the functioning of the market

41. To what extent do you agree with the above analysis concerning the cooperation between regulators in the three countries (paragraph 7.2)?

We fully agree

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?

We fear a growing influence of the dominant market parties. This has to do with their size, their presence in all three markets and the nature of their installed capacity, cheap nuclear.

- 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?**

To start with: The process of integrating should proceed independently of the monitoring and prevention of abuse of market power. Abuse of market power is an ongoing concern independent of the state of market integration. However, given the situation in Belgium and France, (see report from London Economics 2004) prevention of abuse of market power should be the prime priority. VPPs, even if increased in size, most likely will not be able to do the job. Mainly since VPPs do not offer intraday and/or real time flexibility. Splitting the dominant market players in multiple parties most likely will be required to improve competition.