

May 12, 2010

**Comments of swissenergy to ERGEG Public Consultation paper
"Draft benchmarking report on medium and long-term electricity transmission capacity allocation rules"**

Dear Sirs:

Swissenergy welcomes the opportunity to respond to the ERGEG consultation "on medium and long-term electricity transmission capacity allocation rules". We strongly support this initiative as it is a cornerstone of further EU market integration and harmonization. Swissenergy is a functional subgroup of swisselectric, which is a co-operation of the six large Swiss electric utilities which together own a large part of the Swiss high voltage grid. Swissenergy as subgroup deals with the energy aspects of the aforementioned utilities. Swissenergy is strictly unbundled from all network related areas and qualifies as energy suppliers and traders.

Although Switzerland is not part of the EU but has common borders with several EU-Member States we believe that Switzerland must be included in any kind of market harmonization rules discussion in *all of the involved regions* and must be treated as an equal "partner country". Therefore Switzerland must become "partner" of more than one region, i.e. CWE, CSE and CEE (in the ERGEG consultation paper Switzerland is only allocated to the Central-South region). This will ensure that a harmonization of the rules at the interface can ease trading across borders and thus create strong synergy effects and most importantly advantages to all the participating countries. At this stage it is also important to highlight that Switzerland is in ongoing negotiations with the EU regarding the further integration of Switzerland into the EU energy markets. Swissenergy supports a useful harmonization. These discussions underscore our call to be included in different regions.

Questions for Public Consultation (ERGEG document item 1.2):

Do you think that an important degree of convergence has been reached in terms of conditions for participation in the auctions, the characteristics of allocated products and the functioning of secondary markets?

Yes, good improvements have been made especially on a regional basis. Nonetheless we think there is room for further improvement among others in the field of:

- Inter-regional convergence and harmonization of auction rules and products definition;
- firmness of transmission rights and maximization of cross border capacity;
- Operational and structural coordination between TSOs;
- Uniform market spread based compensation of curtailments;
- Uniform implementation of efficient credit risk management schemes all over the European area;
- Elimination of existing charges and fees which hinder European cross border trading. This excludes of course the ITC (inter TSO compensation).

It is important that secondary markets exist and function properly. We prefer to have an automatic resale on the basis of UIOSI at the marginal price of the auction at which

the capacity was resold. UIOSI is from our point of view the most market based mechanism which increases liquidity.
Consistent intraday systems as well as uniform nomination schedules and trading windows for the whole European region are essential for well functioning secondary markets.

Do you think that a special attention should be paid by ERGEG on lack of harmonization of auction rules, lack of firmness of both allocated and nominated capacities and long-term financial capacity products not allocated by TSO's?

We think that ERGEG should pay attention to that auctioned available capacity at each time frame are maximized, issued as firm contracts and used effectively by the TSO's involved. The more effective the use of the available capacity the firmer the allocated capacity will be. In addition to that, TSO's should closely monitor that:

- market rules at adjacent borders be harmonized as much as possible
- networks rules must be developed well in advance and allow market participants to prepare themselves for the procedures
- There should not be any ex-post changing of the rules incl. the ex-post establishments of fees.
- All TSO should follow uniform, very narrow restrictive clear and transparent definitions of the terms "force majeure" and "network endangerment" which prevent any abuse. This would improve firmness of capacity and certainty in trading.

What share of the available transmission capacity should be allocated on long-term basis and what should be reserved for short-term allocations? Please give your justification for the proposed shares.

The overall goal must be that TSO's should auction the maximum of the available capacity at each time frame, from yearly (or multi-annual product) to intraday hourly volumes.

In this respect it is of importance to allow long term products in order to hedge positions in the long term. Transmission capacity should be allocated in line with what is traded in EU energy markets. There is a liquid futures market in some European Regions for at least 3 years to come. Therefore a certain part of the capacity should be auctioned over the same long-term period of time on a multi-annual basis.

Considering that 100% of the available capacity is allocated through auctions, a possible repartition could be the following:

- 20% of capacity could be allocated for Y+2
- 40% of capacity could be allocated for Y+1
- Remaining capacity could be allocated through auctions of shorter term products.

Percentages can differ regionally also due to a different market liquidity, but should relate to the TSO's maximum available capacity.

What concrete improvement in long-term auction rules would you propose?

Most probably there are different region specific improvements that can be addressed which range from the rules through the operation to the transparency.

Some of them are:

- TSO's should allocate on auctions the maximum available capacity, separately calculated for each trading day and hour;
- TSO's should offer cross border capacity on a fully financial firm basis;
- Curtailed transmission rights should be compensated at the full cross border market spread;
- A clear, harmonized and uniform definition of force majeure, emergency situation or security events
- The product's range which is offered should be homogeneous through-out Europe, should be defined in order to have enough liquidity that means not fragmented and not with discontinuous products.

Other possible improvements re operations and transparency, and relating to:

- Establishing one single auction platform for the entire European region. This should be the overall goal. The reduction of the number of auction platforms should be the necessary intermediate steps.
- Inter-regional coordinated capacity calculation improvements in order to maximize the allocated cross border capacity
- Well functioning secondary markets. For that purpose consistent intraday systems, uniform nomination schedules and trading windows are necessary.
- The timely publication of offered capacity
- Explanatory statements of last minute cancellation of planned capacity auctions
- Harmonized and centralized publication of capacity allocation results and access to the results even if the participant didn't gain any capacity or didn't participate in the auction
- Publication of planned outages of crossborder transmission lines

What are the main difficulties, concerning auction rules, for trading electricity on a long-term basis from one country to another crossing several interconnections?

Main difficulties are:

- Different licencing procedures
- Different allocation procedures
- Different interpretation of the terms "force majeure" and "grid endangerment"
- Different auctions rules

How do you see the development of auction platforms and what would you consider the most efficient solution for the internal electricity market (a more centralized approach or the current decentralized one) taking into account the developments on the solutions for day-ahead and intraday timeframes?

One of the most important conditions which have to be considered when thinking about the development of auction platforms is the reliability, quality and cost of the service.

As mentioned before, the overall goal should be to move toward a single European auction platform considering that intermediate steps in direction of the reduction to few regional platforms are necessary.

We thank you for the opportunity to comment and hope that our comments and suggestions are useful in reaching the goal of a truly pan-European market place.

Yours very truly

Hans Achermann
President swissenergy

Swissenergy is a functional subgroup of swisselectric which consists of representatives of the energy suppliers and traders of the following companies which form the membership of swisselectric:

- Alpiq, Bahnhofquai 12, 4601 Olten
- BKW-FMB Energie AG, Viktoriaplatz 1, 3001 Bern
- CKW – Centralschweizerische Kraftwerke AG, Hirschengraben 33, 6002 Lucerne
- EGL AG – Lerzenstrasse 10, 8953 Dietikon
- Axpo AG – Parkstrasse 23, CH-5401 Baden