

E.ON Energy Trading SE's response to ERGEG's consultation regarding Draft benchmarking report on medium and long-term electricity transmission capacity allocation rules

Before answering the individual questions placed by ERGEG we have a general remark to ERGEG's benchmark report. From our perspective the report does not cover all existing borders where congestion management procedures are applicable. The following borders are missing:

- Ø The remaining Swiss borders: DE/CH, AT/CH and FR/CH. They seem not to be covered by the ongoing CSE initiative either.
- Ø Some borders between EU Member States that are not tackled by any regional initiative: HU/RO, RO/BG and BG/GR
- Ø Borders to Third Countries where at least one EU Member State is involved are not covered by ERGEG's work, for example SI/CR, RO/SR and HU/SR.
- Ø The SEE region is organised in the Energy Community and has agreed to comply with all provisions set out in 1228/2003 and the CM Guidelines 2006, but their borders are not included in this benchmark report.

All these borders must also be in the focus of ERGEG's future work to maintain a coherent development of all congestion management procedures within the European Union as well as within the Energy Community.

1. 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?

An important achievement we see is the definition of a common target model through the PCG work.

However, when it comes to the actual auction rules and operational procedures we will only experience true convergence for cases where several borders are administered by one common auction office and only one set of auction rules. Today only one regional auction office is in place: CASC-CWE. Even though most issues have been harmonised, the CASC-CWE auction rules have different regulations for specific borders when it comes to firmness, compensation and nomination gate closures.

When estimating the degree of convergence from our daily operative perspective, except for CASC-CWE we unfortunately cannot confirm that any important degree of convergence has been reached: we are forced to establish for each cross-border auction we take part in individual routines to reflect all diverging requirements (i.e. collaterals, invoicing, auction and nomination gate closures, scheduling requirements, IT platforms).

With regards to CSE in particular it appears from the Benchmark Report that Terna was coordinating all auctions at Italian borders for 2010. However, the "harmonised" auction rules are merely a compilation of individual requirements as shown by the long list of appendices. Also, each TSO requires its own bank guarantee, and its own original copy of statement of acceptance. Moreover, the "harmonised" auction rules were not approved by the CSE regulators until 21.12.2009! The interested auction participants were required to register in advance and thus forced by their statement of acceptance to comply with auction rules that - from a legal point of view - did not exist. Then all Italian border yearly auctions took place on 22. and 23.12.2009 for the year 2010 which is unacceptable. From the recent CSE

Implementation Group meeting we have learned that all Italian borders shall be included in the CASC-CWE allocations from 2011 on. We welcome this. However we do not understand why the auctions rules cannot be harmonised in this very same step. Otherwise all Italian borders will remain to be operated by CASC-CWE under today's non harmonised rules!

We feel that some regional initiatives focus only on the ultimate goal instead of having a step by step approach. For example the CEE region has been working since 2005 on the introduction of flow-based allocations. Unfortunately CEE regulators only focus on the introduction of a flow-based capacity calculation and allocation. Due to difficulties in developing a functioning and acceptable calculation method the other part of the project, to harmonise auction rules and procedures, was postponed accordingly. However, it was definitely realistic to establish, for the yearly auctions for 2008 at the latest, if not already for 2007, a common auction office replacing the 5 existing auction procedures and operating them under one common set of auction rules using the NTC-calculation method. By not doing so the CEE region has missed repeatedly a big chance to facilitate noticeably cross-border trade within the region.

2. Do you think that a special attention should be paid by ERGEG on lack of harmonisation of auction rules, lack of firmness of both allocated and nominated capacities and long term financial capacity products not allocated by TSOs?

Yes, ERGEG should pay special attention on lack of harmonisation of auction rules and lack of firmness of both allocated and nominated capacities. These issues are crucial and need to be further developed and implemented.

Long term financial capacity products not allocated by TSOs do not exist. In the Nordic market Contracts for Difference (CfD) can be traded, but they are used to hedge the difference between a bidding area and the virtual system price and they are not related to transmission capacity at all. We see no reason that ERGEG should pay any attention to the CfD market. Instead ERGEG should ensure that transmission rights are auctioned by the Nordic TSOs for all borders between bidding areas.

**3. 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.**

As a general rule 2/3 of available capacity should be allocated on a long-term basis and 1/3 on a short-term basis. From our perspective it is very important to integrate forward markets properly as the biggest electricity volumes are traded in forward markets. Moreover, we request TSOs to allocated yearly capacity not only year ahead but also two or three years ahead to be in line with the products traded in forward markets.

Usually due to better forecast possibilities and netting of long-term nominations there is more capacity available for the short term allocations in any case.

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

The final goal should be one set of LT auction rules for the whole of Europe. Differences should be handled by Appendices. At the same time the number of allocation platforms should be reduced as much as possible, ideally to one as well.

To get there, auction rules and allocation platforms should be first harmonised on a regional basis:

- Implement the allocation of LT capacity rights (either PTR or FTR) at all borders/ bidding areas where not in place today (for example in Nordic).
- Same requirements for collaterals: common approach on calculating the amount of the collateral, the requirements to be fulfilled by the issuing institute (rating, business seat), wording of the guarantee and validity time and beneficiary (the auction office, not each individual TSO like for CSE borders). The same applies to borders that operate with business accounts.
- Gate closure times for LT nominations: D-1 in the morning and final nominations in the afternoon.
- The UIOSI principle must be applied at all borders and capacity holders must be paid the daily auction price or the day-ahead market spread for returned capacity. Caps as foreseen by the consulted CAO auction rules mustn't be applied.
- Clear and limited definition of emergency situations or security events.
- Nominated capacity should be "fully financially firm". In case of curtailment the full cross border market spread must be paid to the capacity holder.
- Removal of trade barriers such as the pass through of Triads and cable losses on UK interconnections, export fees on Romanian borders, licensing requirement, as these mechanisms prevent cross border trading.
- The product range should be limited to daily, monthly and calendar yearly products, thus no seasonal, quarterly, weekly or other annual (with particular starting date, discontinuous products...) or peculiar products (i.e.: monthly base load only in one direction) are required.

Very concrete improvements are common principles for consulting on auction rules and a common timetable. It is in the nature of the yearly auctions that usually within two or three weeks changed rules and requirements are published and participants need to fulfil all kinds of individual requirements to register. For a company active across Europe this means that during a very short period over 20 different auction rules need to be checked and individual registration requirements need to be fulfilled.

- If auction rules are consulted or changed, a version that highlights all the track changes should be always published.
- For the yearly allocation final auction rules should be available two months prior to the auction date. With publication of the auction rules the crucial changes as well as the participation requirements should be clearly highlighted.
- The yearly capacity auction should take place end November Y-1 at the latest.

5. 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 the multiplicity of IT systems, the provision of collaterals to auction offices/TSOs, lack of financial firmness and that registration for more than 20 different auction procedures, including reading and checking the individual auction rules, needs to take place within 2-3 weeks.

6. 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 centralised approach or the current decentralised one) taking into account the developments on the solutions for day-ahead and intraday timeframes?

We would prefer a centralised approach – ideally one auction platform for the whole of Europe. To better analyse and compare existing platforms in order to find the most efficient solution (i.e. simplicity of use, reliability, service, response time) a separate questionnaire issued by ERGEG could make sense.

7. Any other comments.

Point 8

The benchmark Report gives the impression that the CEE auction office is already providing a centralised service. This is not the case, as all CEE borders are managed by different auction rules and platforms (in total 5). CAO has only taken over from CEPS the operation of the CZ/DE, PL, SK borders and for all other borders its function is merely an interface one. For the borders that were transferred to CAO the registrations with each auction procedure, the guarantees and the 1:1 nominations had to be delivered to CAO. In the course of doing so we have experienced several difficulties that resulted in almost not being allowed to participate in annual auctions and that allocated and paid capacity could not be nominated and used by us.

One cause of these difficulties was the fact that CAO and TSOs operating auctions gave contradictory individual information to the market. For example it was requested that all 1:1 nominations be delivered to CAO; CAO playing the “forwarder” to the respective TSOs. This worked out except for the CEPS/SEPS border where market participants only discovered after rejection of their nominations by the TSOs that the 1:1 nomination had to be delivered separately to CEPS instead of CAO.

Additionally, the time given to participants to deliver the requested papers was shortened by CAO to allow it time to forward them on. This resulted in some extreme cases in the time to provide a bank guarantee being shortened from 4 working days, which is already too short, down to 2 days!

All of these obstacles were easy to avoid, especially as market participants had requested through EFET, CEE regulators and TSOs not to change the current procedures for 2010 at all.

Section 3.5 – Participation at LT capacity auctions

For participating in the explicit auctions at the DK West/DE border no guarantees are needed. However, we do not understand why it is only emphasized for this very border that TSOs require some type of collaterals for balancing contracts. This is no special requirement by TPS and ENDK as all EU TSOs request separate collateral for the balancing contract.

Annex II - Abbreviations

CAO stands for Central Allocation Office GmbH not for Common Auction Office
ENDK stands for energinet.dk not for Energie-Kompetenzzentrum der Kantone.