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EREGG's Consultation Paper

Dear Fay,

RWEST appreciates the opportunity to comment on ERGEG's consultation paper on medium and long-term electricity transmission capacity allocation rules. We strongly support ERGEG's objective to harmonise capacity allocation rules in order to ease interconnection access including nomination timetables and processes. Complicated and diverse allocation rules will discourage cross border transactions leading to reductions in the level of liquidity of electricity markets, damaging the prospects for competition.

We agree that a single set of auction rules needs to be developed as part of binding guidelines on capacity allocation and congestion management. These rules should bring about the development of a common allocation platform at European level with the following features requiring the most evolution from current regime:

- a) **All** capacity should be available for sale as medium and long term financial transmission rights (FTRs) with capacity holders buying the right to receive the transmission price resulting from the day ahead allocation stage. The artificial split between longer term products and the day-ahead stage would then be removed. TSOs rather than financial markets should be obliged to provide medium and long term products as well as operating the day ahead market coupling. The failure to do this in, for example, Nordic markets and MIBEL is a barrier to the development of cross border retail competition.
- b) Capacities must be financially firm with curtailed capacity compensated at the market spread. The current degree of firmness provided for cross border transactions is inadequate. There would appear to be a systematic discrimination between purely national and cross border transaction contrary to the existing congestion management guidelines and EU Competition rules. A common definition of force majeure is needed which should not include vague terms such as "emergency situations".

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Seite 2

- c) Allocations should be made through a common platform. Within the UCTE area, the most sensible way to achieve this would be to extend the coverage of existing auctions offices such as CASC-CWE rather than to develop new auction offices at regional level.

The attached note contains our responses to the specific questions in the consultation.

Yours sincerely,

RWE Supply & Trading GmbH

William Webster

Dr. Marco Garbers

Encl.

ERGEG Consultation on Draft benchmarking report on medium and long-term electricity transmission capacity allocation rules

Statement of RWE Supply & Trading GmbH

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?

RWEST recognises the progress which has been made during recent years to harmonise cross border capacity. We appreciate that (as the benchmark report shows) substantial convergence has been reached on a number of issues (e.g. product standardisation, marginal pricing and UIOSI). However, in detail there are still significant differences (e.g. definition of force majeure, timing of auctions, timetable for nominations and accessibility of secondary markets). Further harmonisation of these all issues is necessary.

It is important that the same standards also apply for the interconnectors which are currently planned or under construction - even if the new interconnector is exempt from tariff regulation such as Britned. We would expect these projects to allocate cross-border capacity at existing auctioning platforms.

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?

Firmness

It is clear that TSOs are reluctant to provide for comprehensive financial firmness. This needs to be resolved and TSOs need to be given the obligation and the resources to remove any discrimination between national and cross border transactions with respect to firmness.

In an efficient market, risks should ultimately lie with the party best placed to manage that risk. With TSOs best placed to manage the connector availability, they should guarantee the availability of transmission rights to auction participants. Auction participants are not in a position to efficiently provide for the curtailment risk. Therefore, it is welfare enhancing if auction rules provide for full damages. As an alternative to paying damages, TSOs could buy-back capacity from the secondary market in cases where this is cost efficient.

Therefore, as a general principle TSOs should refund the market value of the interrupted capacity. That means that the capacity owners receive the full market spread. TSOs only have limited possibilities to invoke force majeure.

- For **allocated capacity** TSOs should refund the full price spread unless there is a case of force majeure.
- For **nominated capacity**, TSOs should pay full damages according to the price spread in case of curtailment. Nominated capacities should **not** be subject to force majeure clauses.

Damages should be paid from the congestion rents. These payments will not cause a significant reduction of the total amount of congestion rent because:

- market parties will value financially firm capacity (which is hedgeable) more highly and will therefore bid a higher price;

- cases of force majeure are rare events;
- TSOs can be incentivised to minimise the cases of curtailment and to keep the costs of the payments for damages low (and at the same time to maximise the available rights).

Harmonisation of auction rules:

We consider it as beneficial for cross-border electricity trade if auction rules are further harmonised. This will make it easier for shippers to transit electricity through two or more countries. The extension of existing auction platforms to new regions would be the most effective way to achieve this.

Long-term financial capacity products

RWEST has the view that medium and long-term capacity rights allocated by TSOs are indispensable for the development of competition. Financial hedging products referring to the spot market, offered by financial intermediaries, should not be the only option for medium and long term transactions (as in Nordpool) since their availability is restricted and existing providers do not have sufficient information to provide this service effectively.

We believe that TSOs are the only party able to stimulate a liquid market in transmission hedges in that they are the only party that is naturally long congestion.

We recommend that TSOs offer financial transmission rights as longer term hedges as spot markets become more and more liquid. This will give market participants more flexibility which is necessary for retail markets to develop.

Long term capacity allocation is vital for cross border retail competition to develop. Most end-users require prices to be fixed over a certain period and a supplier from another country seeking to provide such as service needs to hedge their exposure over the same period.

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.

All capacity should be potentially be available for yearly and monthly products on the basis of Financial Transmission Rights. The exact split between different tenors should ideally reflect the preferences of end-users in terms of the types of contracts being typically offered.

The use of FTRs will allow the full physical capacity to be used for day-ahead market coupling and provide liquidity to those markets. No capacity should be reserved for intraday allocation.

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

It is important that the maximum technically available interconnection capacity is completely offered for auction. TSOs should not be entitled to set additional safety margins or retain capacity for balancing purposes. A more interconnected system should (all else being equal) be significantly more stable and require less reserve in total. Locally derived reserve definitions which fail to reflect the increased interconnectedness and resilience will be massively sub-optimal compared to a global solution.

In addition, RWEST can see no justification to set up fixed export and/or import limits with regard to the minimum power reserve requirements. Import/export limits would mean to systematically underutilise the available technical interconnection capacity. If imports or

exports create problems for the system stability in a particular situation, TSOs have always the option of redispatching and curtailing in emergency situations.

Auction rules should provide that TSO **publish detailed information** on the non-availability of interconnections in a uniform format, as early as possible. TSOs shall explain the reasons for outages in every case. They should give an estimate when the full capacity will be available again. Status information shall be updated as new information becomes available.

Gate closures and nomination timetables must be harmonised. Early gate closures prevent traders from using their rights efficiently. TSOs should exhaust the technical and operational potential to establish late gate closure times. Where physical transmission rights are used, gate closure should be no earlier than 06:30 CET on D-1 in order to provide much needed flexibility to market participants. In case both counterparties submit their nominations on D-2, TSOs should provide automatic pre-matching and provisional confirmation of flows on the same day. Such automatic mechanism will ensure that potential discrepancies in the nomination process are identified and corrected well in advance. Hence, it will reduce operational and financial risks for both TSOs and market participants and at the same time safeguard the security of the grid. The gate closure for short-term nomination must be aligned with the time schedules of the power exchanges. Traders need an adequate window to submit their nominations.

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?

A range of different allocation rules, platforms, products and nomination schedules is a large disincentive for companies to trade electricity across borders and to enter markets in new Member States. Each different mechanism to be negotiated adds an unnecessary cost to companies seeking to enter a new market. The following table highlights some of the key concerns we have with the current arrangements, which were identified in the report.

	Availability of LT allocation	Auction design and products	Nomination timetable	Firmness and force majeure	Secondary trading
South West	X – no products within MIBEL	X – no peakload products		X – caps on compensation	X – deadline too long
Central West		X – no peakload products	X – nomination too early	X – not at market spread	X
Central East	X – Poland not covered			X – not at market spread	X – via the TSO, not traded
Central South		X – limited peakload products	X – nomination too early	X – not at market spread	X – deadline too long
Northern	X – no products offered by TSOs	X – no peak load products		X – not at market spread	X – deadline too long. transfers not re-sale
FIU		X – no peak load products	X – nomination too early	X – not at market spread	

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 think that there should be only a limited number of auction platforms. Not every region needs a separate platform. It is efficient if market parties have to deal with few auctioning rules and admittance processes (financial agreements, bank guarantee & risk management instruments, IT requirements and secondary trading platforms). We therefore encourage TSOs and operators of interconnectors to distribute the cross-border capacity at the existing auctioning offices. In contrast, RWEST is not convinced that decentralised auctioning with numerous auctioning platforms has any benefits for TSOs or market participants. We cannot see how regional differences make decentralised auctioning platforms necessary and would recommend that the existing platforms should extend their coverage, particularly in the UCTE region.