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Per email: Benchmark_LT_auction_rules@ergeg.org

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EREGG consultation on medium and long-term electricity transmission capacity allocation rules (# E10-PC-49)

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Dear Ladies and Gentlemen, dear Mrs Geitona,

EnBW welcomes the opportunity to comment on ERGEG's consultation on its "Draft benchmarking report on medium and long-term electricity transmission capacity allocation rules".

We appreciate ERGEG's work on this comprehensive report and fully support its findings. In order to grow towards a fully internal electricity market we also see the need to further harmonise long-term products including a single set for medium and long-term capacity rights. We would also welcome if such a "benchmarking report on medium and long-term electricity transmission capacity allocation rules" is undertaken on a regular basis.

Medium and long term electricity transmission capacity products play an important role in cross-border trading. They are urgently needed in order to also allow cross-border hedging activities. Power companies usually sell their production several years in advance and sales unit purchase their needs also on the forward market; both intend to hedge their price risks in advance. Currently, we see a liquid wholesale market for up to three years ahead in many markets. Thus, for cross-border exchanges where usually a limited capacity is available (bottlenecks at the inter-connectors) energy companies need to have access to as firm as possible long term capacity products.

In our view, it is essential that TSO and regulators, at least within each ERI, agree quickly to a harmonised set of auction rules while the final goal should be a common set of rules across Europe. We believe that this is a very pragmatic approach as we may consider it more difficult to directly go for one auction platform (also against the background that we already see several platforms being established in parallel).

Question 01: 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?

In general, yes. As we can at least within the ERIs, TSOs and regulators have started to harmonise the auction rules for cross-border transmission capacities on a regional basis. A good example is the CWE region where with the establishment of the CASC-CWE auction office a high degree of convergence has already been achieved.

We also agree with the ERGEG report which indicates that progress to converge has already been made on many issues. However, much still needs to be done in terms of conditions for participation in the auctions, the characteristics of allocated products and the functioning of secondary markets.

Furthermore, with the agreement of a common target model in the PCG work, a major step has been achieved towards a harmonised approach also guiding regional markets to convergence to the target model. At the same time it is important to mention that the requirement out of the PCG models for multi-year capacity allocation is not implemented yet. Also the UIOSI principle which is the key function in secondary markets is not yet implemented on all borders either.

Therefore, we agree with ERGEG that work has to continue in order to reach a common and harmonised set of rules for long-term allocation. Issues that are to be addressed include: definition of the allocated products, firmness of the allocated products, common grid calculation (i.e. maximisation of the available capacities) which includes a very close coordination between TSOs.

Question 02: 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 TSOs?

Yes. As these are the key factors to achieve the mentioned target model. The report shows that there is a lack of harmonisation up to now and we encourage ERGEG to continue to work on these aspects. At the same time we request TSO and regulators within each ERI to implement the target models on medium/long-term allocation and particularly to harmonise their auction rules; again, we see good progress in the CWE region.

We believe that at least financial firmness of both allocated and nominated capacities should be guaranteed through the TSOs; with the exception of situations due to force majeure. Market participants are not in a position to manage this risk. Generally,

firmness of capacities could be physical or financial granted. In order to ensure that maximum capacity is given to the market any mechanism chosen must be subject to regulatory approval including the approval of all costs for TSOs for guaranteeing firmness.

Question 03: 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.

In order to maximise available capacities while ensuring system security a very close cooperation between TSOs is needed. Based on a robust calculation of available capacity with sufficient capacity being kept available for short-term allocations to ensure robustly and smoothly functioning spot markets, it should be up to the market to decide by way of public consultation how the capacity value is then split up to the different timeframes and also taking into account grid reliability issues. Such surveys should be conducted on a regular basis with the market participants as their needs may also change over time. In any case it should be ensured that always 100% of the maximum available capacity is auctioned by TSOs to the market.

In order to allow long-term hedging possibilities as described above, we think that also multi-year products – in accordance with the products in the energy market (y+3; y+2; y+1) – are essential in combination with the requirement to maximise the available cross-border transmission capacities over all timeframes.

Question 04: What concrete improvement in long-term auction rules would you propose?

- Firmness: We believe that firmness of transmission capacity rights is essential for trading cross-border enhancing market integration and fostering competition. We understand that there are still different views on the scope of application of firmness. In our opinion, transmission capacity should be at least financially firm (i.e. market spread compensation) with the exception in cases of curtailment situations due to force majeure. In this context we would like to refer to the ERGEG position paper of 15 July 2008 (E08-EFG-29-05) that clearly states that at least "nominated" energy flows are firm. Also, it is essential that clear and harmonised criteria are developed and applied for force majeure.
- Products: products should be harmonised and represent the common need of traders (i.e. Y+3, Y+2, Y+1; M, D products).
- Harmonisation or extending of existing auction platforms such as CASC CWE. One possible way is the integration of additional borders, as it is discussed between CSE and CWE (easy access for traders "one stop shop").
- Harmonisation of the auction rules and to implement transparency requirements following Regulation 714/2007 (and ERI Transparency Reports).

Question 05: What are the main difficulties, concerning auction rules, for trading electricity on a long-term basis from one country to another crossing several interconnections?

The main risk with multiple cross-border trading probably lies with the uncertainties connected with non-harmonised rules as well as possible operational issues including varying gate-closure and scheduling times.

Question 06: 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?

Generally, one single auction platform would be the most efficient solution and thus the final goal. As this will require major work, we think that this will not be achievable in the short term. Thus we would like to advocate a pragmatic approach focusing the respective work on the maximised harmonisation of the auction rules, both on already existing auction platforms such as CASC-CWE as well as between existing platforms or auction offices. We think that the establishment of new auction offices or platforms should be avoided; rather the existing ones should be used to allocate additional borders. Again, the main focus should be to establish common harmonised auction rules and clear rules on essential issues such as firmness.

EnBW hopes that its comments contribute to ERGEG's consultation on medium and long-term electricity transmission capacity allocation rules.

We remain at your disposal should you have any further enquiries.

Kind regards.

Yours sincerely

EnBW Energie Baden-Württemberg AG

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