



ETSO Comments on ERGEG Convergence and Coherence Report

12 October 2007

ETSO welcomes ERGEG initiative to launch a public consultation on convergence and successful integration of the European electricity markets, and notes that ETSO and ERGEG share the overall objectives for the development of the market. ETSO would like to provide some general comments as well as more detailed answers to the questions raised by ERGEG.

The XIVth Florence Forum requested ETSO and EuroPex, in consultation with other stakeholders such as EFET, to write a common discussion paper before March 2008 to address the implementation of regional and interregional capacity allocation methods, in particular the governance of the bodies running the system and to address the technical, legal and commercial challenges. The views expressed in this paper are therefore of interim nature before a more in-depth analysis is performed in this framework.

Section 1. General Comments

1. The past two years have witnessed important progress in the management of access to European interconnectors while the national arrangements have remained unchanged in most cases. ETSO feels that going a step forward might require stronger pan-European harmonization of some basic features of national wholesale markets such as the spot market design (e.g. time frames) and the balance responsible arrangements, but also the competences of regulatory authorities.
2. ETSOVista as one IEM wide coherent transparency facilitation service may be used as an important means for transparency convergence. New releases planned for end of 2007 and Spring 2008 including more data from TSOs (Day Ahead NTC, Network availability and outage data, Actual and forecast system load data, High level balancing data ...). The development of common standards for third party data supply and publication and data provision agreements is also on ETSO's agenda. ETSO would welcome the opportunity to provide a central platform of European scope also for other stakeholders, such as Generators, Distributors, Market Operators and PEXs.
3. It is very positive that ERGEG recognises the increasingly important roles to be played by Power Exchanges in the field of market integration in cooperation with TSOs. Several TSO/PX initiatives promise to yield good results, provided that requirements and deadlines are not too tight.
4. As regards Congestion Management and Balancing issues, ETSO has recently finished the a number of reports relevant for this consultation. ETSO is currently working on different reports such as an Intraday Trading Reference Model, which is planned to be ready by the end of this year. These reports can be downloaded at:

http://www.etso-net.org/activities/congestion_management/e_default.asp

http://www.etso-net.org/activities/BalanceManagement/e_default.asp

Section 2. ETSO answers to ERGEG's questions

ETSO feels that market participants might be best placed to answer some of the questions included in this section. ETSO is looking forward to a fruitful dialogue with market participants and other stakeholders in order to refine these concepts and contribute to making them effectively happen.

- Capacity calculation
 - The level of transparency of the current and future capacity calculation methods applied by the different TSOs; The level of transparency in capacity calculation has been improved over the past years together with the adoption of market-based mechanisms. It should be noted that the CM Guidelines make a clear distinction between publicly available data in this field and data that the TSOs should provide under confidential terms to the EC and Regulators (Section 5.10).
 - The need and the importance of long term (year, month) capacity rights (physical or financial) and the associated need for long term capacity calculation; and We understand the traders' wish for obtaining long term transmission rights (physical or financial). It seems reasonable that European TSOs or other institutions (i.e. exchanges, banks, ...) continue to issue transmission risk hedges in order to facilitate cross-border trade opportunities. Irrespective of whether capacity rights are auctioned by TSOs as 'physical' or 'financial', it is important that they provide effective price signals related to the underlying power system whose availability conditions may change over time. It is also important that there always should be capacity available for the daily trade to allow spot trade between different coupled market areas.
 - Which information should be published in the case of a flow (PTDF) based capacity allocation? Indeed, some implementation scheme may imply that ex-ante cross border day ahead capacity estimation should not be available anymore. It is of course possible to publish information about the capacities available for a flow-based allocation before the allocation takes place. In order to have similar information as is available for NTC-based auctions, it would be necessary to publish the flow-based parameters. Since flow-based allocations avoid the need for sub-optimal ex-ante 'slicing' of available capacities across interconnectors, the related publications can no longer be the same as today and different solutions can be envisaged. TSOs are willing to consult market participants in order to align the transparency requirements and the market needs with the possible implementation techniques.

- Is there any added-value of implementing PTDF-based allocation method without an implicit allocation method or an explicit auction of obligations to nominate? In the first place, from a TSO perspective, it is expected that flow-based allocations increase the level of ex-ante system security analysis for the entire region. From the market perspective, the explicit capacity allocation on a flow-based basis as day-ahead options (as opposed to obligations) is seen as an interim solution towards implicit allocation. Capacity allocation on a flow based basis is certainly most efficient when combined with implicit methodologies; however already combining it with explicit auctions could increase the regional socio-economic benefit and ex-ante security conditions, as studies have shown.
- Long and medium term capacity allocation
 - Current auction procedures as well as the products auctioned are different in some aspects:
 - a. Can different auction procedures (where to go to acquire capacity, nominations, functioning of secondary markets, time frame....etc) on different interconnections hamper cross border trade where a market player wishes to or must trade over more than one interconnection? Yes, it has been stressed by market participants and possibilities for improvement are currently addressed through the Regional Initiatives, however the specific conditions of the different regions and the design of the markets should be taken into account here. One-stop-shops are aimed at in some regions.
 - b. Can different auction products (product profile, duration, degree of firmness etc) on different interconnections hamper cross border trade where a market player wishes to or must trade over more than one interconnection? Yes, it has been stressed by market participants and possibilities for improvement are currently addressed through the Regional Initiatives. However, since different products reflect the needs of different markets, harmonisation is difficult. One approach might be to facilitate the transformation of standard products into more diverse and flexible ones by making more effective use of secondary markets.
 - c. To what extent can the harmonisation of auction procedures and products contribute to a convergent development? To a limited extent if we only refer to explicit auctions. However, since the differences in spot market designs (portfolio vs. physical model, gate closure time, firm results publication time...) are probably more important in this respect, the harmonisation/integration of spot markets should deliver higher benefits. In a second step, harmonisation of other key features such as balance responsible arrangements and imbalance settlement policies would further contribute to convergence and simplification of trade across markets.

- Can the coexistence of PTRs and FTRs on different borders reduce the degree of hedging for a market player who wishes to or must trade over more than one interconnection? Can such coexistence on different borders cause any other obstacle to cross border trade where a market player wishes to or must trade over more than one interconnection?

Market participants might be better placed to answer these questions than TSOs and ETSO will be happy to contribute to the necessary consultation on this issue.

- Day ahead capacity allocation :

- Can day-ahead NTC based allocations and flow (PTDFs) based allocations coexist as such? Yes, however this would not be an optimal solution. NTC based allocations could be used as a substitute element within a PTDF model in situations where the generation of the flow-based parameters fails.
- Can day-ahead market coupling and market splitting coexist as such? Would you consider market splitting (a single power exchange) more efficient, in the longer run? Yes, this is currently being examined in the various projects related to the coupling of the CWE and NWE regions.
- Does the linking or merging regions using implicit auctions require a high degree of harmonization of “algorithms” and to some extent products and legal framework? Yes and this is probably the reason why market coupling should be seen the most promising means, given the current starting point, to integrate markets, and only after that as an efficient tool to manage congestions. Moreover, the harmonisation required constitutes a great challenge for power exchanges, regulators and TSOs. Therefore, an implementation on short notice might not be possible, especially between regions, since the required works are not yet finished within the regions.
- Do you regard “volume coupling” (each PX participating in a joint auction office still calculating own prices, but based on auction office calculated volumes on interconnectors) as a flexible option in a transitional period towards a price coupling? Yes.

- Intra day :

- Should regions pursue the implementation of continuous trading platforms? This option should be actively pursued where its implementation can demonstrate significant incremental cost benefit improvements over and above the current improvements envisaged in Long Term and Day Ahead timescales. Continuous trading might be inappropriate due to specific conditions in some regions and also the design of the markets should be taken into account.
- What could or should be the geographical scope of such continuous trading platforms? At least the same as that of the underlying day-ahead market.

- Will the development of several competing intraday platforms in the same geographical area not be detrimental to the development of liquidity in intraday? Market participants might be better placed to answer these questions than TSOs and ETSO will be happy to work with EuroPEX on this issue. The same question was discussed some years ago concerning day-ahead markets and it did not seem to materialise in the long run for many reasons. The fact that day-ahead markets are said to be more profitable to power exchanges than intra-day platforms tends to argue that this question might not be relevant in the long run.
- If, for liquidity reasons, one single intraday platform appears to be relevant, who should offer this service? TSOs? PXs? Other? Should it be regulated, and how? Hourly blocks of energy is basically the product traded in such intra-day platforms and this kind of product is today offered by Power Exchanges. As for day-ahead market coupling/splitting, there starts to be a role for TSOs as long as the intraday platform is used to optimise the use of available transmission capacity. TSOs could perform that task and should be subject to national arrangements. It is important to point out that, whoever offers this service, must under all circumstances respect the requirements of the TSOs in case of an emergency and respects the rules regarding cross-border trading. The question of whether it should be regulated or not seems to be identical to the question of whether a monopolistic day-ahead market should be regulated or not.
- Balancing Market participants might be better placed to answer most of these questions The ETSO reports mentioned in the first section of this paper provide some input to the discussion.
- Is the harmonization of the remuneration schemes for balancing bids/offers (pay-as-bid versus pay-as-cleared) a pre-requisite to the integration of balancing markets? Preferably yes but this point should be seen as a small part of a bigger issue. Working towards the harmonisation of the methodologies by which bids and offers are prioritised and activated in balancing timescales (i.e. close to real time) seems more important. Taking the most economic actions from the balancing offers available should in all cases be a transparent process and the cost of these actions should form the basis of market imbalance price signals.
- Is the harmonization of the methods which determine the share of automatically activated reserves and manually activated reserves in the balancing reserves procurement a pre-requisite to the integration of balancing markets? One needs to keep in mind that the use of automatically activated reserves requires the direct connection between the controller and the power plants. This is in part a technical challenge, but also a legal and regulatory problem. In the context of establishing pre-requisites, the starting point should be definition and compatibility of balancing/reserve products, the timescales in which they may be available for activation by TSO and their purpose in managing transmission systems

- To what extent a common intraday trading platform could be used for or interact with balancing trades? Where applicable, liquid intraday trading platforms can at best help market participants to optimise their balancing energy costs and reduce their energy imbalances (MWh). The reserved capacity for balancing services (MW), however, cannot be reduced.
 - Could “TSO to TSO” balancing trades co-exist with “Actor to TSO” balancing trades? Could both processes co-exist and interact using a common balancing trade platform? Coexistence is hard to imagine on a given interconnector. In Europe, both approaches have already been implemented and both approaches have their own pros and cons. TSO - TSO facilitated solutions have the ability to act as a bridge between differently structured wholesale markets (e.g. UK and France). TSO - Actor solutions can be implemented, but might require a higher degree of convergence of market structure.
 - To what degree should TSO to TSO coordination be enhanced or merged for national balancing markets to become properly integrated? It is common knowledge that larger balancing areas are easier to balance, but harder to control. So far, there is no scientific research as to the optimal size of balancing areas. This trade off between better balancing and higher risk for system security must be kept in mind when discussing the integration or even merging of balancing markets.
- Transparency :
- Is the described coordination of regions concerning the treatment of transparency sufficient? See general comment on ETSOVista.
 - What should be expected or required in terms of a harmonised level of transparency across the EU? Especially for those TSOs belonging to more than one region, the only acceptable level would be the highest. In this context, a fundamental issue is the definition of the transparency details, e.g. what is the definition of ‘vertical system load’, to which system does it refer etc. Obliging a TSO to publish various versions of the same value since transparency rules differ between regions would be absurd. ETSOVista could help in avoiding this absurdity.
- Governance and regulation :
- Who should preferably be the owners of joint auction offices? How should “shares” (ownership and voting rights) be determined? It might depend on the scope of activities of the Auction Office. The term Auction Office might be too restrictive in the long run; a more general designation such as regional entity should be preferred. The key is to ensure independence in its operations and equal access to all participants.

The next two questions should be analysed on a case-by-case basis bearing in mind that, whatever the choice might be depending on the level of monopolistic conditions, the primary goals should be simplicity, non discrimination, independence and cost effectiveness, always in the interest of the customers to whom these services are provided.

- Should auction offices, interconnectors operators and PXs disposing of all or part of interconnection capacity (disposing of an “essential facility”) be regulated? Which governance elements could ensure non discriminatory access of additional owners to a joint auction office?
- Could you mention other important governance requirements for PXs and auction offices
 - a. providing “essential facilities”?
 - b. undertaking purely competitive business?