



**Benchmarking report on medium and
long-term electricity transmission
capacity allocation rules**

An EREGG Conclusions Paper

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INFORMATION PAGE

Abstract

On 18th March 2010, ERGEG launched a public consultation on the benchmarking report on medium and long-term electricity transmission capacity allocation rules (E09-ERI-23-03). 15 respondents answered to this consultation, which will allow ERGEG to identify best practices and to further improve the level of harmonisation of long-term products. This is a step forward to establish a single European set of auction rules for medium and long-term capacity rights.

This document E10-ERI-27-03 is the ERGEG's conclusions paper to this public consultation on the benchmarking report on medium and long-term electricity transmission capacity allocation rules, which includes at Annex 3 a list of the respondents and an evaluation of the responses received.

Target Audience

Energy suppliers, traders, gas and electricity customers, gas and electricity industry, consumer representative groups, network operators, Member States, academics and other interested parties.

Related Documents

CEER/ERGEG documents

- ERI Coherence and Convergence Report. An ERGEG conclusions paper, 15 February 2008, Ref. E08-ERI-12-04, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/ELECTRICITY/ERI%20Coherence%20and%20Convergence/CD/E08-ERI-12-04_CCR-CP_2008-02-15.pdf
- Second ERI Coherence and Convergence Report. An ERGEG conclusion paper, 11 March 2009, Ref. E08-ERI-19-04, http://www.energyregulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/ELECTRICITY/2008%20ERI%20Coherence%20and%20Convergence/CD/E08-ERI-19-04
- Safeguarding the move to a single EU energy market. ERGEG Regional Initiatives Progress Report – November 2009, Ref., http://www.energyregulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/Progress_Reports/2009/RI_Annual_Reports/RI%20Progress%20Report%2016%2010%202009.pdf

- The Regional Initiatives – Europe’s key to energy market integration. ERGEG Regional Initiatives Annual Report – February 2008, Ref., http://www.energyregulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/Progress_Reports/2008/RI_Annual_Reports/RI_annual%20report_Feb2008.pdf
- ERGEG Regional Initiatives Annual Report. Progress and Prospects – March 2007, Ref., http://www.energyregulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/Progress_Reports/2007/RI_Annual_Reports/RegionalInitiatives%20annual%20report_0.pdf
- Firmness of nominated transmission capacity, an ERGEG document, 15 July 2008, Ref. E08-EFG-29-05, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Electricity/2008/E08-EFG-29-05_FirmnessTransmissionCapacity_2008-07-15.pdf
- New version of IFE rules. Public consultation Conclusions paper, ERI SW REM, 23 September 2008, Ref. E08-ERI-SW-RCC-05-03b, http://www.energyregulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/South-West/Final%20docs/E08-ERI-SW-RCC-05-03b%20IFE_%20rules_%20pc_%20conclusion_%20final.pdf
- European Energy Regulators’ 2010 Work Programme, 10 December 2009, Ref. C09-WPDC-18-03, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/C09-WPDC-18-03_public-WP2010_10-Dec-09.pdf
- Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity, Ref. E10-ENM-20-03, 8 September 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/draft%20Framework%20Guideline%20CACM%20Electricity/CD/E10-ENM-20-03_CACM%20FG_8-Sept-2010.pdf

External documents

- Congestion Management Guidelines annexed to Regulation (EC) No 1228/2003 of the European Parliament and of the Council of 26 June 2003 on conditions for access to the network for cross-border exchanges in electricity, European Commission, as amended on 9 November 2006, Ref: Commission Decision 2006/770/EC, <http://www.example.com/reference>
- Orden ITC/1549/2009 – Modifica la Orden de 30 de diciembre de 2005, sobre régimen para la realización de intercambios intracomunitarios e internacionales de energía eléctrica, Ministerio de Industria, Turismo y Comercio, 10 June 2009, <http://www.boe.es/boe/dias/2009/06/13/pdfs/BOE-A-2009-9840.pdf>

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EXECUTIVE SUMMARY

This benchmarking report feeds into the work on the draft Framework Guidelines on capacity allocation and congestion management¹ by providing information on the arrangements currently applied across EU Member States and affiliated countries (Switzerland, Norway) for allocating medium and long-term capacity.

The contributions received during the public consultation help ERGEG to identify the path towards further improvements and harmonisation of medium and long-term allocation rules. The two following lessons learnt from the public consultation are important points that should be addressed in the context of the Framework Guidelines on Capacity Allocation and Congestion Management (CACM):

- As a long-term goal, it is important to establish a European-wide platform, operating a single set of auction rules;
- As short-term solutions, specific features of the auction rules have to be harmonised, e.g. reinforcement and harmonisation of firmness before and after nomination; definition of force majeure and emergency situation; products' definition (format); timing removal of trade barriers; reinforcement of the existing secondary markets.

The main insight from the public consultation is the clear need for the European energy regulators to focus on concrete projects in line with the target model. This is especially true for the medium and long-term timeframe which is one of the most advanced and mature topic.

In this context, ERGEG will pay special attention to concrete regional and inter-regional projects for the medium and long-term timeframe which tie in with the development of framework guidelines and network codes on CACM. Possibilities of special interest are:

- Extension of CASC-CWE (Capacity Allocating Service Company for Central West Europe) to the Central-South region and Switzerland.
- Further possible extension of CASC to the Northern-CWE borders².
- Creation of a regional auction platform in the France-UK-Ireland (FUI) region including Moyle, IFA, Britned and East West Interconnectors, or possible extension of other regional platforms to FUI (e.g. CASC).

¹ ERGEG draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity, Ref. E10-ENM-20-03, 8 September 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/draft%20Framework%20Guideline%20CACM%20Electricity/CD

² Cross-border financial hedging as an alternate to PTR and FTR, according to point 3.2 of the draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity (E10-ENM-20-03), has not been considered and is outside of the scope of this study.

- Further possible extension of CASC on the French-Spanish border or the creation of a regional auction platform in the South-West region.
- Implementation of harmonised rules with capacity auctioned by the Capacity Allocation Office (CAO) created in the Central-East independently of the implementation of the flow-based approach.

1. Introduction

1.1. Background

1.1.1. Importance of medium and long-term products

In order to go towards the European Single Electricity Market, cross-border interconnections play an important role. Medium and long-term products have a crucial importance due to the great volume of electricity that they represent over cross-border exchanges. Moreover, long-term products retain also a hedging purpose for market operators from day-ahead prices volatility.

1.1.2. Objective and purpose of this paper

On 18 March 2010, ERGEG launched a public consultation on the benchmarking report on medium and long-term electricity transmission capacity allocation rules (E09-ERI-23-03).

This public consultation report had the objective of comparing and identifying the best practices across the seven regions of the ERGEG Electricity Regional Initiatives (ERI) concerning medium and long-term electricity transmission capacity allocation rules. Through this document, ERGEG will be able to identify next steps to be adopted in order to improve further the efficiency of long-term capacity allocation, e.g. harmonisation in long-term products, harmonisation of nomination rules.

Indeed, the most relevant issue resulting from this public consultation is the strong preference expressed by consulted parties for a single European set of auction rules for medium and long-term capacity rights, as this is expected to facilitate cross-border trade over the long-term. Moreover, also a general need for further improvements of auction rules is emerging (explained in more detail later in this conclusion paper).

This conclusions document assesses the feedback from stakeholders and explains ERGEG views on key questions raised in the public consultation document.

1.2. Recap of ERGEG public consultation

The ERGEG benchmarking report on medium and long-term electricity transmission capacity allocation rules gives an overview of the mechanisms in place in the seven regions of the ERGEG ERI.

Since the launch of the Regional Initiatives in 2006, almost all regions have been working on the improvement and harmonisation of allocation rules for long-term interconnection capacity. These have been identified as priorities in the Central-South (CSE), South-West (SWE), France-UK-Ireland (FUI), Central-West (CWE) and Central-East (CEE) electricity regions.

ERGEG had already identified in its most recent ERI Coherence and Convergence Report the two main targets for the long-term allocation: the “harmonisation of auction rules for long-term capacity should [...] be put as a priority for all regions. [...] Alongside the harmonisation of rules and procedures, regions should work to improve auction rules”³.

Currently only the CEE and CWE regions have implemented a common allocation platform (respectively CAO and CASC-CWE) and only the CWE region has adopted a single set of harmonised rules, even though some differences still exist about firmness on specific borders (e.g. on the Dutch-German border). Moreover, each relevant TSO is still in charge of nominations for each country (see consultation document E09-ERI-23-03).

Such developments are ongoing in the CEE region, where the regional auction rules were supposed to enter into force in March 2010 but suffered a delay due to difficulties in implementing a new flow-based regional capacity calculation method. In the CSE region, since 2008 a common set of auction rules for the Italian borders is in place, with specific appendices describing the different financial guarantees required and the type of products sold (e.g. a specific annual peak-load and off-peak load product is only sold to Greece) related to each border. However more harmonisation is still needed in all regions in order to achieve one single set of rules for all the borders.

2009 witnessed improvements in the implementation of new allocation rules on several borders: on the interconnection France-Spain in the SWE region, on IFA in the FUI region and on all the borders of the CWE region.

This benchmarking report is based on rules currently in place across twenty-one borders in six regions (SWE, CWE, CSE, Northern, Central-East and FUI regions). For this benchmarking report, ERGEG has chosen to further investigate the conditions for participation in long-term auctions, the format of long-term auction (i.e. the type of products auctioned), the firmness before and after nomination, the functioning of the secondary markets, and the force majeure definition obligations and responsibilities.

The report highlights a convergence of long-term auction rules on the twenty-one borders that have been taken into account in this study, notably in terms of conditions for participation in the auctions, characteristics of allocated products and functioning of the secondary market (see sections 4.2 and 4.4 of the public consultation document). The cross-regional part highlighted main differences in the level of capacities allocated in the long-term timeframe, and in the availability of continuous products.

³ “Second ERI Coherence and Convergence Report. An ERGEG conclusion paper”, Ref. E08-ERI-19-04, 11 March 2009, http://www.energyregulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/ELECTRICITY/2008%20ERI%20Coherence%20and%20Convergence/CD/E08-ERI-19-04

According to EREG, discontinuous products are acceptable if and only if the periods of interruptions are clearly specified in the auction rules. Nevertheless it should be noted that the allocation of non-standardised cross-border products on certain borders may hinder regional and cross-regional market integration and competition. The right trade off between the amount of capacity to allocate at long-term timeframe and the relevant level of firmness should be addressed.

EREG's position is that the development of a harmonised and anonymous platform for capacity transfers should be pursued as an improvement of the secondary market, the possibility for TSOs to buy back capacities on such platforms as well as the possibility for users to acquire capacities on a multi-annual basis could also be considered.

However, there is a potential for harmonisation on firmness of both allocated and nominated capacities (see section 4.3 of the public consultation document). Following the EREG position paper on Firmness of Nominated Transmission Capacities⁴ and taking into account the forthcoming extension of market coupling in several regions, physical firmness is recommended by EREG for firmness of nominated capacity. Even though physical firmness is the preferred approach for nominated capacity, financial firmness is also an acceptable solution in the context of explicit auctions. For firmness of allocated capacities (before nomination), EREG has recently made a concrete proposal in the context of the draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity⁵.

Further work on the force majeure definitions, obligations and responsibilities will be also undertaken by the European energy regulators.

EREG encourages regions to pursue the harmonisation of the long-term allocation rules within and across them. This could be facilitated by implementing a common allocation platform at regional level or between regions. EREG considers that the merging of regions on that specific topic, the allocation of long-term products, could deliver results in the future.

EREG also encourages regions to continue working on the improvement of the nature of allocated products by studying the implementation of Financial Transmission Rights (FTR), which are also addressed in the target model identified by the Project Coordination Group in 2009.

The development of non-coordinated products such as the one implemented on the Portuguese-Spanish border by the Spanish Ministry should be avoided. In this context, the MIBEL Regulators' Council (formed by Spanish and Portuguese energy and financial regulatory authorities) have presented to their respective Governments a coordinated proposal on a feasible coordinated long-term financial product to be implemented on this border.

⁴ Firmness of nominated transmission capacity, Ref: E08-EFG-29-05, 15 July 2008, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_EREG_PAPERS/Electricity/2008/E08-EFG-29-05_FirmnessTransmissionCapacity_2008-07-15.pdf

⁵ Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity, Ref: E10-ENM-20-03, 8 September 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/draft%20Framework%20Guideline%20CACM%20Electricity/CD/E10-ENM-20-03_CACM%20FG_8-Sept-2010.pdf

The regional report on the use and the management of the interconnection that the SWE, CSE, CWE and FUI⁶ regions have published could help ERGEG to assess the efficiency of the products allocated and could be useful to address further improvements of the mechanisms currently in place.

1.3. Questions for Public Consultation

In addition to inviting relevant stakeholders and market participants to respond generally to this consultation and participate in the discussions on this document, ERGEG sought the opinion of the respondents on a number of specific issues.

The respondents were therefore invited to reply and provide comments on the following questions:

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?
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?
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.
4. What concrete improvement in long-term auction rules would you propose?
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?
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?
7. Any other comments.

⁶ Regional reporting on electricity interconnection management and use in 2008 of the South-West region, January 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/South-West/Final%20docs/Report%20on%20electricity%20interconnection%20SWE%202008.pdf; of the Central-South region, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/Central-South/Final%20docs/Report%20on%20electricity%20interconnection%20CSE%20region%20-%20final.pdf; of the Central-West region, 16 March 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/Central-West/Report%20on%20electricity%20interconnection%20-%20CWE%20region%20-%202000.pdf and of the FUI region, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/France-UK-Ireland/Final%20docs/FUI%20Report%20on%20Electricity%20Interconnection

2. Insights from the public consultation and ERGEG views

Respondents welcome and appreciate the work carried out by ERGEG in order to give a complete overview of the current status of transmission capacity allocation rules in European interconnections. Moreover, the document identifies the relevant issues for the future development of allocation and auction rules.

This work will contribute to trigger the discussion on the necessary improvements to be established in order to reach best practices for a set of rules for cross-border trading of electricity. A respondent suggests that such a “benchmarking report on medium and long-term electricity transmission capacity allocation rules” is undertaken on a regular basis.

2.1. Question 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?

Some respondents thought there is some convergence of long-term auction rules, particularly in terms of conditions for participating in the auctions, characteristics of the allocated products and the functioning of secondary markets, while further efforts are needed (ENTSO-E, EDF, RWEST, EnBW, Gas Natural Fenosa, Swissgrid).

However, RWEST and Edison stated that there are still significant differences in auction rules across different borders and, in particular, market participants still have to deal with different counterparts for nominating their capacity rights (TSOs). According to Swissenergy, EDF and Scarsi important progress has been made within regions but not between regions. In general, the specific characteristics of each region to a large extent have determined the level and pace of coordination, with some regions progressing faster than others (ENTSO-E).

EFET, Iberdrola and Swissenergy raised two major concerns: firmness and secondary market. These are the two most important areas for improvement in nearly all auction rules.

EFET and Iberdrola added that a lot remains to be done in terms of evolution of the allocation rules, operational simplifications, operational and structural coordination between TSOs (for example through auctions platforms), definition and firmness of the allocated products, maximisation of cross-border potential.

However ENTSO-E noted that in regions where forward financial electricity markets are well developed and have shown their efficiency (e.g. Nordic countries), all interconnection capacity may be allocated through implicit auctioning. Therefore there is no need to provide a single set of long-term auction rules applicable to all regions, but rather focus on harmonising auction rules in those regions where agreement can be reached on compatible solutions for long-term capacity allocation.

A number of respondents consider the definition of a common target model through the PCG work an important achievement (E.ON, EFET, Iberdrola, EDF, BDEW, Edison, EnBW and Swissgrid).

Respondents also added specific comment on regions:

- E.ON, EFET, Iberdrola and BDEW noted a true convergence only for CASC-CWE, where several borders are administered by one common auction office and only one set of auctions rules is applied. EFET and Iberdrola added that, even in the case of CASC-CWE, auctions rules still have different provision for specific borders when it comes to firmness, compensation, nomination, and gate closures.
- EFET claims also a lack of efficiency in the credit risk management solution adopted by CASC-CWE requesting an evolution towards more advanced methods (such as bank guarantees, credit limits, company rating).
- E.ON stressed that in the Central-South region, the harmonised auction rules are a compilation of individual requirements as shown by the long list of appendices and proposes to harmonise the auctions rules together with the implementation of CASC as auction operator at all Italian borders.
- Edison noted that an important degree of convergence has been reached in the CSE region, through, e.g. the development of a common auction tool for the allocation of cross-border capacity in the direction from Italy to neighbouring countries (France, Switzerland, Austria, Slovenia and Greece).
- E.ON, EFET and Iberdrola felt that some of the Regional Initiatives focus only on the ultimate goal instead of having a step-by-step approach. For example, the Central-East region missed the opportunity since end of 2006 to harmonise the five existing long-term auctions procedures under one common set of auction rules operated by one platform as it focused only on the introduction of flow-based allocations since 2005.
- Gas Natural Fenosa, Iberdrola and EFET thought that the impact of non-harmonised requirements and national laws that hamper participation in auctions should be analysed. An example can be found on IFE where the participation of dominant MIBEL market players is forbidden in auctions from France to Spain.
- EFET, Iberdrola and RWEST stated that it is important that the same standards also apply for interconnectors which are currently planned or under construction, even if the new interconnector is exempt from tariff regulation, such as Britned.

2.2. Question 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?

Almost all respondents thought that ERGEG should pay special attention to the lack of harmonisation of auction rules and the lack of firmness of both allocated and nominated capacities. These issues are crucial and need to be further developed and implemented (E.ON, Energy Norway, Scarsi, EFET, Iberdrola, EDF, BDEW, RWEST, EnBW, Gas Natural Fenosa and Swissenergy).

Regarding firmness:

EFET and Iberdrola insist that TSOs must guarantee firmness of both allocated and nominated capacities through their network management function. Moreover, TSOs benefit from the congestion revenues, whereas market participants are not in a position to manage the risk of non-availability of capacity. RWEST, EDF and EnBW also share this view. RWEST and BDEW added that as an alternative to paying damages, TSOs should buy back capacity from the secondary market in cases where this is cost efficient.

According to ENTSO-E the firmness of capacity rights has an impact on the share of available transmission capacity allocated over the long-term. The ability of TSOs to hedge and the refinancing options available will determine the degree of firmness possible.

Regarding the compensation in case of curtailment, the majority of respondents thought that TSOs should provide compensation at the full cross-border market spread, i.e. that capacities should be offered on a fully financial firm basis (EFET, Iberdrola, BDEW, EDF, RWEST, Gas Natural Fenosa, EnBW, Swissenergy and E.ON). According to ENTSO-E an appropriate balance of risks must be established between market participants, TSOs and end users when defining the compensation. Moreover, for regulated interconnections the distribution of costs falling to TSOs should be ultimately covered by regulated tariffs to avoid perverse incentives for reducing the level of cross-border capacity.

Some respondents added specific views on firmness of allocated capacities and nominated capacities:

- Firmness of nominated capacities:

ENTSO-E acknowledges the principle, used on many interconnections, that after gate closure, trade across interconnections should be firm, except in case of force majeure or rights and obligations of TSOs in case of emergency situations.

Swissgrid stated that in this case traders are not able to react anymore; compensation payments should therefore incentivise TSOs to take appropriate measures. In case of curtailments the allocated capacity should therefore not be compensated with the full market spread but with the auction price, in order to incentivise traders to look for alternative solutions to maximise their profits instead of relying on the full market spread compensation.

According to EnBW, at least financial firmness should be guaranteed, with the exception of situations due to force majeure.

However, according to RWEST, nominated capacities should not be subject to force majeure clauses.

- Firmness of allocated capacities:

According to RWEST, TSOs should refund the full price spread unless there is a case of force majeure. However, the day-ahead market spread compensation implemented on the French-Spanish border in case of curtailment of allocated capacities is highlighted as a good practice by EFET, Iberdrola, EDF and Gas Natural Fenosa.

Regarding long-term financial products that are not allocated by TSOs:

ENTSO-E considers it important to maintain a clear distinction between transmission rights that are based on the underlying physical capacity and financial derivatives that are not directly linked with cross-border capacity and can be offered by any third-party. Financial Transmission Rights (FTRs) should be considered at a later date when markets are more mature, market coupling arrangements are in place and market participants have indicated their clear preference for financial rights over physical rights. Physical Transmission Rights (PTRs) with Use-It-Or-Sell-It (UIOSI) are an effective tool for maximising the allocation of capacity to the market.

RWEST and Gas Natural Fenosa view medium and long-term capacity rights allocated by TSOs as crucial for the development of competition. RWEST added that financial hedging products referring to the spot market, offered by financial intermediaries, should not be the only option for medium and long-term transactions.

Energy Norway advocates the gradual introduction of FTRs or other financial instruments for the medium and long-term. Energy Norway noted that while Contracts for Difference (CfD) work in theory, the market (Nordpool countries) is currently lacking liquidity and CfDs for some price areas are missing, which makes the hedging of substantial volumes difficult. Irrespective of the room for internal improvements, the question of medium and long-term capacity allocation is also relevant for the Nordic region due to the ongoing price coupling projects with Central-Western Europe.

E.ON and BDEW see no reason for ERGEG to 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.

2.3. Question 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.

Some respondents support the PCG target model and furthermore they state that all capacity should be potentially available for monthly and yearly product on the basis of FTRs and no capacity should be reserved for short-term in advance (RWEST, Swissgrid, Gas Natural Fenosa and EDF). Also, according to EFET, Iberdrola and RWEST, no capacity should be reserved for intraday allocation.

Provided that UIOSI clauses, resale and transfer mechanisms are in place, other respondents believe that a large share of cross-border capacity should be allocated on long-term basis. EDF stated that in a temporary phase a reserve of 20% of the capacity for the day-ahead market would be acceptable to create confidence and be sure that physical interconnection capacity will be released for market coupling. ENTSO-E shares this view.

E.ON proposed as a general rule that 2/3 of the available capacity should be allocated on a long-term and 1/3 on a short-term basis. RWEST specified that the exact split between different timeframes should ideally reflect the preferences of end-users in terms of the types of contracts being typically offered.

ENTSO-E specified that when drafting their proposals, TSOs need to consider the characteristics of the market; the operational conditions; the NTC calculation method (top-down, bottom up); and the level of harmonisation in terms of the percentages and timeframes in place.

Moreover E.ON, EFET, Iberdrola, Swissenergy, BDEW and EnBW request TSOs to allocate yearly capacity not only year ahead but also two or three years ahead, to be in line with the products traded in forward markets. ENTSO-E would agree if this is decided on a regional basis. EFET, Iberdrola, Swissenergy and BDEW give an example of repartition (until markets are liquid) based on the aspects agreed in the PCG target model:

- 10% of capacity should be auctioned for Y+3;
- 20% of capacity should be auctioned for Y+2;
- 40% of capacity should be auctioned for Y+1.

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

Most of the respondents identified the lack of harmonisation between procedures in different markets as the main hurdle to be resolved in long-term auctions. The most important areas to be harmonised in the future have been identified by the respondents as follows.

Harmonisation of pre-requisites for cross-border capacity allocation: firmness, force majeure definitions, capacity calculation and characteristics of PTRs and FTRs, transparency requirements:

- Eleven respondents are asking for a cross-border definition of firmness of transmission rights before and after nomination (BDEW, EDF, EFET, Iberdrola, EnBW, Gas Natural Fenosa, Swissenergy, RWEST, Edison, SWM and E.ON), see also respondents' answers to question 2;
- ENTSO-E suggests a Europe-wide adoption of PTRs with UIOSI, with two upgrading options: (i) the use of financial derivatives in mature financial markets; or (ii) the transition towards FTRs under specific conditions of the energy market (i.e. the realisation of market coupling);
- Three respondents (Energy Norway, BDEW and E.ON) called for the introduction of FTRs in the NordPool market area;

- Swissgrid suggests that, in general, there should be a distinction between physical and financial capacity markets: physical capacity should be auctioned mainly on day-ahead and intraday markets, while risks of price volatility should be hedged by using FTRs;
- Six respondents (BDEW, ENTSO-E, E.ON, Swissenergy, EFET and Iberdrola) require a clear and uniform definition of force majeure, emergency situation and security-related events;
- BDEW underlines the importance of coordinated capacity calculation at regional level. By the same token, RWEST and Swissenergy call for the maximisation of the technically available capacity to be offered at the auctions;
- BDEW asks for more harmonisation of transparency requirements, i.e. the timely publication of offered capacities, publication of information concerning planned outages of cross-border transmission rights and so on.

Harmonisation of operational issues, as products, bank guarantees, gate closure and nomination times, platform for secondary trading:

- Seven respondents mentioned the need for harmonisation of products offered (BDEW, EFET, Iberdrola, EnBW, E.ON, Swissenergy and SWM) at long-term auctions;
- The range of products should be limited to daily, monthly and calendar yearly products (E.ON and BDEW). EFET and Iberdrola agreed while they stated that peculiar products (e.g. monthly base-load only in one direction) or seasonal, quarterly, weekly products could be traded for some structural energy market reasons (like in UK);
- Edison calls upon the introduction of a single bank guarantee for auctions, while Gas Natural Fenosa suggested at least a flexible portfolio of guarantees;
- EFET, Edison, E.ON, RWEST and SWM ask for the harmonisation of gate closure times and introduction of a single platform for nomination;
- BDEW, EFET, ENTSO-E and Swissenergy suggested the implementation of a harmonised and easy-to-use platform for secondary trading.

Definition of a coherent strategy towards integration of the electricity market and development of cross-border trade in the EU:

- BDEW and EDF ask for more coordination between different regional coupling projects;
- BDEW, EFET and Iberdrola call for the definition of a consistent intraday market in order to further improve the cross-border allocation of capacity rights along all time-frames;
- BDEW, EFET, Iberdrola, Gas Natural Fenosa, Swissenergy, SWM and Scarsi call for the set up of a single auction platform for the EU/EEA area, while EnBW suggests extending the scope of existing auction platforms as CASC-CWE.

Removal of trade barriers:

- The pass through of triads and cable losses on UK interconnections, export fees on Romanian borders and licensing requirements are mentioned as trade barriers by EFET, Iberdrola and E.ON, while RWEST notes that the existence of fixed import or export limits with regard to the minimum power reserve requirements imply a systematic underutilisation of interconnection capacities. Iberdrola, EFET and Gas Natural Fenosa also highlight the case of limitation of participation of the four dominant MIBEL market players in auctions from France to Spain.

Specific issues:

- Three respondents (EFET, Iberdrola and E.ON) thought that common principle for consulting on auction rules and a common timetable are concrete improvements. For the yearly allocation final auction rules should be available two months prior to the auction date. With the 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 by end November Y-1 at the latest.

2.5. Question 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?

The most recurrent issue identified by respondents is the lack of harmonisation of auction rules across countries with special reference to: gate closures, IT system use, products definition, administrative requirements for participation, including different financial guarantees (BDEW, EDF, EFET, ENTSO-E, EnBW, E.ON, Gas Natural Fenosa, RWEST and Swissenergy).

Furthermore, some features of this unharmonised set of rules have direct consequences in terms of higher risks for market operators, as the lack of an uniform definition of financial firmness (BDEW, E.ON and RWEST) and the unavailability of long-term auctions for capacity in some areas (RWEST and Energy Norway). This set of different arrangements results in time-consuming analysis before the actual trading phase. Moreover, also a lack of harmonisation and transparency has been identified, even before auctions take place, when TSOs perform capacity calculations: this may result in higher discrepancies between scheduled and physical flows (Edison).

As concerns the general market conditions, two main problems have been identified by respondents, and should be taken into account when drafting new market rules:

- a. first, an underdeveloped secondary trading market which implies higher risks on market participants (EDF and RWEST);
- b. second, the lack of effective locational price signals and/or nodal pricing mechanism, which might incentivise electricity generation close to consumption centres (Swissgrid).

2.6. Question 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?

The following table shows the views of respondents towards the creation of a Single Auction Platform for electricity markets. In general, most respondents identified the centralised approach as the target model, while a decentralised approach might be more feasible to proceed in the path towards regional harmonisation of auctions as from now on.

Decentralised approach	Single Auction Platform
<ul style="list-style-type: none"> • BDEW, RWEST, ENTSO-E, EnBW, Swissenergy: this could be the first step towards a process, which will ultimately achieve a Single Auction Office for the EU/EEA. It is important, however, to maintain the existing platforms without adding new ones, widening their scope to other regions. • According to EFET’s opinion, the decentralised approach could represent an interim solution, until adequate functioning (e.g. a regional fall-back mechanisms) is ensured by the centralised solution. • Scarsi suggests the adoption of a decentralised approach only for the day-ahead and intraday timeframes. • Edison supports the creation of few central auction offices, in order to take into account the peculiarities of each region. 	<ul style="list-style-type: none"> • BDEW, Gas Natural, EnBW, E.ON, EFET, Swissgrid, Swissenergy and SWM: the centralised solution is the first best. E.ON suggests launching a public consultation in order to identify the features of existing platforms which should be included in an ideal well-functioning Single Auction Platform. • Scarsi suggests a centralised auction platform only for the long-term timeframe. • EDF is in favour of common auction platforms with common set of rules within a region and between regions. Those auction platforms should communicate together, especially to ensure the operability across region’s overlapping countries (like France and Germany).

3. Conclusions and Recommendation

When issuing the benchmarking report on medium and long-term transmission capacity allocation rules, ERGEG aimed at providing an overview of the mechanisms in place in the seven ERI regions.

ERGEG welcomes all the contributions received in the public consultation, which helped to identify the path towards further improvements and harmonisation of medium and long-term allocation rules.

ERGEG agrees with respondents that improvements have been made especially in regions where a common auction platform and common auction rules have been implemented. ERGEG also agrees with respondents that further harmonisation is needed.

ERGEG is the view that this conclusions paper and the views expressed by the stakeholders should be taken into account in the current elaboration of Framework Guidelines which will be the basis for the future Network Codes.

The most important areas of present long-term capacity allocation to be harmonised and improved have been identified by the respondents and include:

- reinforcement of firmness before and after nomination; common definition of force majeure and emergency situation; common capacity product definition; secondary markets centralised platforms; financial guarantees management.

In particular respondents have identified the need to move towards a more centralised approach either for capacity allocation – the development of a Single Auction Office at regional and possibly at continental level is widely supported – or nomination procedures. Evolution towards Financial Transmission Rights allocation – in connection with the development of market coupling – is favoured by most respondents.

ERGEG encourages the seven regions of the Electricity Regional Initiative to pursue their work aiming at further harmonising the rules and the capacity allocation platform within each region as well as among the regions. In this context, ERGEG will pay special attention to concrete regional and inter-regional projects for the medium and long-term timeframe which tie in with the development of framework guidelines and network codes on CACM. Possibilities of special interest are:

- Extension of CASC-CWE (Capacity Allocating Service Company for Central West Europe) to the Central-South region and Switzerland.
- Further possible extension of CASC to the Northern-CWE borders⁷.

⁷ Cross-border financial hedging as an alternate to PTR and FTR, according to point 3.2 of the draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity (E10-ENM-20-03), has not been considered and is outside of the scope of this study.

- Creation of a regional auction platform in the France-UK-Ireland (FUI) region including Moyle, IFA, Britned and East West Interconnectors, or possible extension of other regional platforms to FUI (e.g. CASC).
- Further possible extension of CASC on the French-Spanish border or the creation of a regional auction platform in the South-West region.
- Implementation of harmonised rules with capacity auctioned by the Capacity Allocation Office (CAO) created in the Central-East independently of the implementation of the flow-based approach.

Annex 1 – ERGEG

The European Regulators Group for Electricity and Gas (ERGEG) was set up by the European Commission in 2003 as its advisory group on internal energy market issues. Its members are the energy regulatory authorities of Europe. The work of the CEER and ERGEG is structured according to a number of working groups, composed of staff members of the national energy regulatory authorities. These working groups deal with different topics, according to their members' fields of expertise.

This report was prepared by the Electricity Regional Initiatives Task Force of the Regional Initiatives Working Group.

Annex 2 – List of abbreviations

Term	Definition
ATC	Available Transmission Capacity
Baltic	Baltic region (ERGEG)
CACM	Capacity Allocation and Congestion Management
CAO	Common Auction Office
CASC	Capacity Allocation Service Company
CEE	Central-East region (ERGEG)
CEER	Council of European Energy Regulators
CSE	Central-South region (ERGEG)
CWE	Central-West region (ERGEG)
CfDs	Contracts for Difference
ERGEG	European Regulators Group for Electricity and Gas
ERIs	(ERGEG) Electricity Regional Initiative
EU	European Union
FTRs	Financial Transmission Rights
FUI	France-UK-Ireland region (ERGEG)
GGP	Guidelines for Good Practice
IFA	Interconnection France Angleterre
MIBEL	Mercado Ibérico de Electricidad (Iberian Electricity Market)
Northern	Northern region (ERGEG)
NTC	Net Transmission Capacity
PTRs	Physical Transmission Rights
SWE	South-West region (ERGEG)
TSO	Transmission System Operator
UIOSI	Use-It-Or-Sell-It

Table 1 – List of Abbreviations

Annex 3 – Evaluation of Responses

Responses received

Responses were received from the following organisations:

Organisation	Abbreviated name
Bundesverband der Energie- und Wasserwirtschaft (German Association of Energy and Water Industries)	BDEW
Edison Spa	EDISON
Electricité de France	EDF
Energie Baden-Württemberg AG	EnBW
Energy Norway	Energy Norway
E.ON Group	E.ON
European Federation of Energy Traders	EFET
European Network of Transmission System Operators for Electricity	ENTSO-E
Gas Natural – Union Fénosa	Gas Natural
Gian Carlo Scarsi (privat person, UK)	Scarsi
IBERDROLA	IBERDROLA
RWE Supply and Trading GmbH	RWEST
Stadtwerke München GmbH	SWM
Swissenergy	Swissenergy
Swissgrid a.g. (Swiss National Grid Company)	Swissgrid

Evaluation of responses

Question 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?

Respondents' views	EREGG's position	Explanation
A number of respondents thought that an important achievement is the definition of a common target model through the PCG work (E.ON, EFET, Iberdrola, EDF, BDEW, Edison, EnBW and Swissgrid).	Agree	
Substantial convergence has taken place concerning long-term auction rules, particularly in terms of conditions for participating in the auctions, characteristics of the allocated products, marginal pricing and UIOSI, but further efforts are needed (ENTSO-E, EDF, RWEST, Edison, EnBW, Gas Natural Fenosa).	Agree	
According to ENTSO-E, progress has been made in each region. However, the specific characteristics of each region have determined the level and pace of coordination, with some regions progressing faster than others.	Agree	
According to Swissgrid, considerable progress concerning the harmonisation of auctions rules has been made and harmonisation between regions has started. Harmonisation must go in the sense of the PCG target model.	Partially agree	The progress towards auction rules harmonisation has not been uniform across different electricity Regional Initiatives. PCG provided a good basis, but its work will be further refined by EREGG.
However E.ON, EFET, Iberdrola and BDEW are the view that true convergence has taken place only in cases where several borders are administered by one common auction office, as for CASC-CWE.	Agree	
BDEW notes that however most issues have been harmonised the CASC-CWE auction rules have still different regulations for specific borders when it comes to firmness, compensation and nomination gate closures.	Agree	
According to Edison, an important degree of convergence has been reached in the		

Respondents' views	EREG's position	Explanation
CSE region, as the development of a common auction tool for the allocation of cross-border capacity in the direction from Italy to neighbouring countries (France, Switzerland, Austria, Italy and Greece).	Agree	
Swissenergy, Scarsi and EDF find that there has been an important progress within regions, but not between regions.	Agree	
According to RWEST, there are still significant differences in auction rules across different borders, e.g. the definition of force majeure, timing of auctions, timetable for nominations and accessibility of secondary markets.	Agree	
EFET, Iberdrola and Swissenergy have underlined two major concerns: firmness and secondary market. Regarding firm allocation of capacity, all compensation for curtailment in the absence of force majeure should be made according to a market-based standard.	Agree	
EFET noted that on the French-Spanish border and on Eastern borders of Germany and Hungary the definition of network security and emergency situations is defined in a satisfactory way.	n/a	
E.ON has learned that all Italian borders shall be included in the CASC-CWE allocations from 2011 on. E.ON welcomes this and recommends to fully harmonising the auctions rules at this very same step.	Agree	
E.ON, EFET and Iberdrola find that some Regional Initiatives focus only on the ultimate goal instead of having a step-by-step approach. For example the CEE region is working since 2005 on the introduction of flow-based allocations. As CEE regulators do only focus on the flow-based mechanism the definitely realistic chance was repeatedly missed since end of 2006 to harmonise the five existing long-term auction procedures under one common set of auction rules operated by one platform and auction office.	Partly agree	It is important to plan the steps to be taken keeping in mind the ultimate goal. Nevertheless, feasibility must be a key criterion when defining the phases of implementation projects.
According to EFET and Iberdrola a lot		

Respondents' views	EREG's position	Explanation
<p>remains to be done in terms of evolution of the rules, operational simplifications, operational and structural coordination between TSOs (for example through auction platforms), definition and firmness of the allocated products, maximisation of cross-border potential.</p> <p>In particular EFET considers that credit risk management performed by auction offices should evolve towards more efficient solutions (such as bank guarantees, credit limits, company rating etc.).</p>	<p>Agree</p>	
<p>EFET will continue to actively contribute in identifying the necessary adaptations and evolutions both at regional and inter-regional levels in order to facilitate the harmonisation process. Some of these include: credit scheme; non-harmonised additional requirements and national laws that hamper participation in auctions; merchant interconnections should not benefit from any special treatment (IFA and Britned are characterised by the use of very particular concept and charges).</p>	<p>Agree</p>	
<p>According to ENTSO-E, in regions where forward financial electricity markets are well developed and have shown their efficiency (e.g. Nordic countries), all interconnection capacity may be allocated through implicit auctioning. There is therefore no need to provide a single set of long-term auction rules applicable to all regions, but rather focus on harmonising auction rules in those regions where agreement can be reached on compatible solutions for long-term capacity allocation.</p>	<p>Partially agree</p>	<p>Implicit auctions are the target mechanism to allocate cross-border transmission capacity. They should be used everywhere and not only in those areas where financial markets are less developed.</p> <p>However, it is true that the ERI's approach to IEM integration calls for a "two speed" methodology, where solutions are tested and implemented in the most advanced regions, and later on extended to other regions.</p>
<p>According to Swissgrid in central Europe explicit auction procedures are widely harmonised, including secondary markets. This also includes the auctions at the Swiss borders.</p>	<p>Disagree</p>	

Question 2: Do you think that 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?

Respondents' views	ERGEG's position	Explanation
ERGEG should pay special attention to the lack of harmonisation of auction rules and the lack of firmness of both allocated and nominated capacities. These issues are crucial and need to be further developed and implemented (E.ON, Energy Norway, Scarsi, EFET, Iberdrola, EDF, BDEW, RWEST, EnBW, Gas Natural Fenosa and Swissenergy).	Agree	
EDF believes that TSOs should be asked to offer firm forward capacity, this could allow market players to better hedge their transmission costs and to integrate the forward power markets through price convergence. TSOs should financially compensate market players for any reduction or limitation of the allocated capacity.	Agree	
EFET and Iberdrola insist that TSOs must guarantee firmness of both allocated and nominated capacities through their network management function. They benefit from the congestion revenues, whereas market participants are not in a position to manage the risk of non-availability of capacity. RWEST, EDF, EnBW and BDEW also share this view.	Agree	
Edison, Gas Natural Fenosa and EnBW believe that regulators, also at a European level (ERGEG and later ACER), should play a central role in coordinating this harmonisation process of auction rules across European countries and regions.	Agree	
Regarding firmness for allocated capacity TSOs should refund the full price spread unless there is a force majeure case. For nominated capacity, TSOs should pay the full damages according to the price and should not be subject to force majeure clauses. Damages should be paid from the auction revenues (RWEST).	Agree	
EnBW believes 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	Agree	

Respondents' views	ERREG's position	Explanation
<p>majeure. Market participants are not in a position to manage this risk.</p>		
<p>According to ENTSO-E, the firmness of allocated rights has an impact on the share of available transmission capacity allocated long-term. The ability of TSOs to hedge and the refinancing options available will dictate the degree of firmness possible. ENTSO-E outlined its main views on this topic in the paper <i>'Firmness of cross-border capacities and compensation schemes in case of curtailments'</i>, published in January 2009.</p>	<p>Agree</p>	
<p>Concerning firmness, Swissgrid recommends that compensation payments are either financed by auction revenues or can be included in the tariff, that TSOs should be incentivised to increase firm cross-border capacities. Regarding the compensation, if allocated capacities are reduced, traders still should be incentivised to pursue other alternatives. If nominated capacities are reduced, traders are not able to react anymore. Compensation should therefore incentivise TSOs to take appropriate measures.</p>	<p>Agree</p>	
<p>E.ON and BDEW see no reason that ERREG should pay any attention to the CfD market. Instead ERREG should ensure that transmission rights are auctioned by the Nordic TSOs for all borders between bidding areas.</p>	<p>Agree</p>	
<p>Financial derivatives, although not in the TSOs scope, can operate in parallel with transmission rights. In regions with sufficiently liquid day-ahead implicit auctions and mature financial markets they may be considered as an adequate and valid alternative to transmission rights (e.g. Nordic region).</p>	<p>Agree</p>	
<p>RWEST and Gas Natural Fenosa have the view that medium and long-term capacity rights allocated by TSOs are indispensable for the development of competition. According to RWEST: financial hedging products referring to the spot market, offered by financial intermediaries, should not be the only option for medium and long term transactions.</p>	<p>Agree</p>	

Respondents' views	EREG's position	Explanation
<p>According to Energy Norway while CfDs work in theory, the market is currently lacking liquidity and CfDs for some price areas are missing, which makes the hedging of substantial volumes difficult. Irrespective of the room for internal improvements, the question of medium and long-term capacity allocation is also relevant for the Nordic region due to the ongoing price coupling projects with Central-Western Europe.</p>	<p>Agree</p>	
<p>Iberdrola would like to ensure that the introduction of FTRs boosts cross-border trading. But this won't happen if tax issues create distortions and new entry-barriers in comparison to current PTRs (Physical Transmission Rights).</p>	<p>n/a</p>	
<p>Energy Norway advocates the gradual introduction of financial transmission rights or other financial instruments for the medium- and long-term, as physical capacity should be automatically allocated and used in the day-ahead price coupling processes. These financial solutions should be firm to encourage trading.</p>	<p>Agree</p>	
<p>ENTSO-E considers important to maintain a clear distinction between transmission rights that are based on the underlying physical capacity and financial derivatives that are not directly linked to cross-border capacity and can be offered by any third-party. Forward transmission capacity, allocated by TSOs as physical or financial rights, should reflect the available physical capacity (i.e. based on capacity calculation) of the system.</p>	<p>Agree</p>	
<p>Financial Transmission Rights (FTRs) at a later date when markets are more mature with market coupling in place and if market participants have indicated their clear preference for financial rights over physical rights. PTRs with UIOSI are an effective tool for maximising the allocation of capacity to the market (ENTSO-E and RWEST share this view).</p>	<p>Agree</p>	

Question 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.

Respondents' views	ERGEG's position	Explanation
E.ON thought that a general rule of 2/3 of available capacity should be allocated on a long-term and 1/3 on a short-term basis. It is very important to integrate forward markets properly as the biggest electricity volumes are traded in forward markets.	n/a	
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 (EFET, Iberdrola, Swissenergy, EnBW).	Agree	
RWEST sais that all capacity should be potentially available for monthly and yearly products on the basis of FTR. The exact split should reflect the preferences of end-users in terms of contracts being typically offered.	Partially agree	There shouldn't be a pre-determined split of capacity rights between timeframes.
Edison believes that a large share of cross-border capacity should be allocated on long-term basis, provided that UIOSI clauses, resale and transfer mechanisms are in place in order to achieve an adequate level of flexibility.	Agree	
Gas Natural Fenosa supports the idea that all available transmission capacity should be dedicated and distributed between long-term products (for example beginning from months to calendar years) and no capacity should be reserved for short-term in advance.	Agree	
As recommended by the PCG, EDF wishes the maximisation of the forecasted capacity to be allocated on a long-term basis. In a temporary phase, a reserve of 20% of the capacity for the day-ahead market. EDF points out that interconnection capacity that is not allocated to market players before the day-ahead market coupling is a waste of hedging opportunity. The share of capacity allocated for each maturity should be determined by the market players' requirements.	Partially agree	ERGEG agrees that the capacity allocated on a long-term basis should be maximised. A reserve of capacity should not be applied.
Moreover, E.ON, EFET, Iberdrola, Swissenergy and EnBW request TSOs to	n/a	To be assessed in the context of the FG on CACM.

Respondents' views	EREG's position	Explanation
allocate yearly capacity not only year ahead but also two or three years ahead to be in line with the products traded in forward markets.		
<p>According to EFET, Iberdrola, Swissenergy and BDEW an example of repartition (until markets are liquid) - PCG Model:</p> <ul style="list-style-type: none"> - 10% of capacity has been sold for Y+3 - 20% of capacity has been sold for Y+2 - 40% of capacity has been sold for Y+1 <p>With 100% of the capacity available offered at the auction.</p>	n/a	
According to E.ON, due to netting of long-term nominations there is more capacity available for the short-term allocations in any case.	n/a	
According to Scarsi, there is no "one size fits all" answer. It depends on: individual regions; the number of cross-border points; long-run expected wholesale power prices across pairs of borders; the current and expected level of congestion across individual border pairs; whether there is any non-EU country involved in the transaction.	Agree	
According to ENTSO-E, to define an appropriate structure, TSOs need to consider the characteristics of the market; the operational conditions; the NTC calculation method (top-down, bottom up); and the level of harmonisation in terms of the percentages and timeframes in place.	Agree	
According to ENTSO-E, the distribution of cross-border capacity allocated between the different timeframes should be decided regionally based on the characteristics of each regional market. The possibility of providing multi-year allocations should also be decided on a regional basis. The adoption of multi-year allocations also raises questions concerning the capacity calculation method and the share of capacity to be made available and whether capacity should be firm or non-firm.	n/a	
Swissgrid supports the idea of the PCG target model.	Partially agree	PCG provided a good basis, but its work will be further refined by EREG.
No intraday capacity should be reserved for	Agree	

Respondents' views	EREGG's position	Explanation
intraday allocation (EFET, IBERDROLA and RWEST).		

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

Respondents' views	EREGG's position	Explanation
The final goal should be one set of long-term auction rules for whole Europe. At the same time the number of allocation platforms should be reduced as much as possible, ideally to one as well (E.ON, EFET, IBERDROLA, Swissenergy, EDF, Edison and EnBW).	Agree	
According to E.ON, auction rules and allocation platforms should be first harmonised on a regional basis: implement PTR or FTR at all borders; same requirements for collaterals; UIOSI; gate closure time for nominations; capacity fully financially firm; removal of trades barriers (e.g. triads and cables losses on UK interconnections); the range of products limited to daily, monthly and calendar yearly products. EFET and Iberdrola also share these views.	Agree	
The introduction of a single bank guarantee for capacity auctions on all cross-border interconnections, whatever the direction of flows may be, could be a relevant improvement to reduce costs and to allow a broader participation to the market (Edison).	Agree	
Unless specific energy products are traded in a country for some structural energy market reasons (like for the UK market) no seasonal, quarterly, weekly or other annual (with particular starting date, discontinuous products, etc.) or peculiar products (e.g. monthly base-load only in one direction) should be allocated, according to EFET and Iberdrola. E.ON and BDEW disagree and find that only daily, monthly and calendar yearly products should be auctioned.	n/a	
According to E.ON, very concrete improvements, namely common principles for consulting on auction rules and a common timetable are needed. For the yearly allocation	Agree	

Respondents' views	EREGG's position	Explanation
<p>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 by end of November Y-1 at the latest. EFET and Iberdrola also share this view.</p>		
<p>An efficient secondary market for trading transmission capacity rights should be established, along with PTRs with UIOSI according to Scarsi, ENTSO-E, EFET, Iberdrola and E.ON.</p>	Agree	
<p>According to EFET, Iberdrola, BDEW and in certain extend Swissenergy, RWEST, EnBW, Gas Natural Fenosa and SMW, various improvements are still needed depending on the region:</p> <ul style="list-style-type: none"> - rules improvements: harmonisation and reinforcement of the firmness of capacities before and after nomination; timing; network security and emergency; products, removal of trade barriers; secondary markets; - operational improvements: Overall goal should be to set up one single auction platform for the EU/EEA region; - coordination improvements: between and within regions; - transparency: e.g. harmonised publication of capacity allocation results, harmonised format; - Implementation improvements: reporting, consultation, ensuring sufficient time for markets players to adapt their internal process. 	Agree	
<p>Edison believes that a single nomination platform with the possibility to bundle nominations of capacity in import and export on each cross-border interconnection would contribute to reduce transaction costs and to facilitate market access.</p>	Agree	
<p>According to ENTSO-E, the establishment of PTRs with UIOSI across all interconnections or, when the necessary preconditions are met, the introduction of financial derivatives in mature</p>	Partially agree	Necessary preconditions must be defined and agreed.

Respondents' views	EREGG's position	Explanation
markets as used in the Nordic region would be a positive step forward. It may also be feasible to evolve from PTRs with UIOSI towards FTRs if certain preconditions are met (market coupling is in place across the interconnections and there is an appetite for financial transmission rights over physical transmission rights with UIOSI from market participants).		
A harmonised definition of force majeure would be beneficial for all stakeholders. This would apply to both 'force majeure' and also 'emergency situations' (ENTSO-E, EFET, Iberdrola and Swissenergy).	Agree	
According to ENTSO-E, finding an appropriate balance of risks between market participants, TSOs and end-users on the issue of firmness and harmonising the approach taken across regions, where possible, would be a positive development.	Agree	

Question 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?

Respondents' views	EREGG's position	Explanation
E.ON, BDEW, EFET, Iberdrola, EDF, RWEST, EnBW, Gas Natural Fenosa and partly Swissenergy find that 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.	Agree	
According to Scarsi, the present difficulties and hindrances stem from non-harmonised designs, rules, platforms, and frequencies across regions, and from relatively under-used secondary markets where these exist. Another potential issue is the existence of transit countries which are not EU Member States.	Agree	
Edison believes that efficiency problems related to the NTC/ATC calculation still hamper the use of available interconnection capacity	Agree	

Respondents' views	EREG's position	Explanation
so as to prevent the maximisation of social welfare.		
According to ENTSO-E, the difficulties involved in long-term allocation across several interconnections will depend on the allocation rules in use across the interconnections. A single set of auction rules should be in place or where this is not feasible, increased coordination across the interconnectors with harmonised products, timeframes and gate closures should be developed.	Agree	
According to Swissgrid, the present system does not offer price signals for necessary grid and production investments. Incentives could be brought with nodal pricing.	n/a	

Question 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?

Respondents' views	EREG's position	Explanation
<p>A number of respondents thought that ideally there should be one auction platform for whole Europe (E.ON, BDEW, Scarsi, Swissgrid, Swissenergy, SMW, RWEST, EnBW and Gas Natural Fenosa). EFET and Iberdrola also share this view and according to them, an extension of the service area or a common market interface between various service providers or an integration of service providers is suitable.</p> <p>ENTSO-E also shares this view and states that the establishment of an auction office in one region should provide for the future membership of other members once the allocation rules have been coordinated or should enable the future merging of auction platforms into inter-regional platforms.</p>	Agrees	
EFET and Iberdrola favour the solution of a common European model as soon as possible.	Agree	
E.ON suggests to better analysing and	Agree	

Respondents' views	EREGG's position	Explanation
<p>comparing existing platforms in order to find the most efficient solution (i.e. simplicity of use, reliability, service, response time). A separate questionnaire issued by EREGG could make sense.</p>		

Question 7: Any other comments

Respondents' views	EREGG's position	Explanation
<p>Iberdrola would like to bring EREGG's attention to the effects of imports ban to dominant operators on the IFE interconnection: non-harmonised additional requirements and national laws that hamper participation in auctions. Any additional regulatory requirement, and notably if it limits participation, should have a clear impact analysis on how it affects competition and efficient allocation of capacity rights. Gas Natural Fenosa and EFET share this view.</p>	n/a	
<p>E.ON added specific comments on the CAO in CEE region (see the annex of its contributions).</p>	n/a	
<p>ENTSO-E added factual clarifications to the draft benchmark report with regard to the developments in the regions (see the annex to their contributions).</p>	n/a	
<p>According to EDF, harmonisation could be done via bottom-up approach. EDF indicates that any improvement should consider the central position of the Swiss grid connections as a cross-road status within Europe, and the EU Commission be invited to pursue the negotiations opened in 2007 with the Swiss authorities.</p>	Agree	