



To: Mrs. Fay Geitona

ERGEG - European Regulators' Group for  
Electricity and Gas

[Benchmark\\_LT\\_auction\\_rules@ergeg.org](mailto:Benchmark_LT_auction_rules@ergeg.org)

Milano, 14<sup>th</sup> May 2010

**EDISON'S COMMENTS ON THE "DRAFT BENCCKMARKING REPORT  
ON MEDIUM AND LONG-TERM ELECTRICITY TRANSMISSION  
CAPACITY ALLOCATION RULES (E09-ERI-23-03)"**

**GENERAL REMARKS**

Edison welcomes the opportunity to comment on the ERGEG public consultation on long-term electricity capacity allocation rules. This document gives a clear overview of the rules now in force across European regional markets, allowing to identify best practices and major problems.

An appropriate share of cross-border interconnection capacity to be allocated annually and monthly can help to guarantee an adequate level of certainty as regards cross border electricity flows. Hence, a secured market environment in terms of cross border flows turns out to be beneficial by actively contributing to the integration of the internal market for electricity. Moreover, we believe that long term allocation of capacity rights is of paramount importance for hedging purposes by reducing the risks associated with short term-volatility of price differential between interconnected markets.

Thus, we support the congestion management methods and capacity allocation procedures as defined by the Regulation 1228/2003 EC, especially with regard to firmness of transmission capacity and flexibility tools (e.g. UIOSI clauses) which extend the scope and the chances for cross-border trading (e.g. through secondary market etc.). Edison also considers the Project Coordination Group's Target Model for congestion management, balancing market and capacity calculation as an important benchmark for the development of electricity cross-border trade in Europe.

We are eventually in favour of the implementation of common allocation platforms with a common set of rules, also across different European regions, as a fundamental stage to improve cross border electricity trade.

The key points of our response are as follows:

- An important degree of convergence has been reached but further efforts are needed for a stronger harmonization of auction rules and the creation of common auction platforms
- Regulators play an important role in supporting this harmonization process



- Long-term cross border capacity products are preferable to short term allocation, as long as flexibility tools (e.g. transfer or resale of capacity, UIOSI clauses etc.) are introduced
- Introduction of a single bank guarantee for auctions at any border and creation of common nomination platforms
- The maximization of cross border capacity allocated by TSOs.

**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?**

We think that an important degree of convergence has been reached in our region (CSE) through, for instance, the development of a common auction tools for the allocation of cross border capacity in the direction from Italy to neighbouring countries (FR, CH, AT, SI, GR)<sup>1</sup>. Furthermore, the application of UIOSI clauses and the opportunity to resell or transfer the allocated annual and monthly capacity on all Italian borders have enabled market operators to develop a secondary market.

Nevertheless, market participants still face some differences in auction rules across different borders and have to deal with different counterparts (TSOs). Thus, we believe that further efforts should be made in view of a further harmonization of auction rules, e.g. through a single auction office for all transactions on regional borders.

**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?**

We believe that Regulators, also at a European level (ERGEG and later ACER), should play a central role in coordinating this harmonization process of auction rules across European countries and regions. Regulatory action should actually guarantee a strengthened cooperation between TSOs which is greatly needed in order to successfully achieve further integration in the internal electricity market.

Regulators should also provide an adequate level of transparency as regards auction rules by requiring TSOs to publish them simultaneously and duly in advance in order to reduce the efforts and the costs incurred by energy traders to carry out their activities. Further possible areas of regulatory intervention will be specified in the answers to the following questions.

**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.**

We think that long-term cross border capacity products are preferable to short term allocation (e.g. intraday), as long as flexibility tools (e.g. transfer or resale of capacity, UIOSI

---

<sup>1</sup>For the PTRs (Physical Transmission Rights) with delivery starting from 1st April 2010 (Phase 2), TERNA (Italian TSO) will fully become the Auction Operator on both directions on the France – Italy border.



clauses etc.) are introduced in order to develop secondary markets. Cross-border capacity allocated long-term, when an adequate level of firmness is guaranteed, also contribute to secure electricity flows across European countries, enabling market operators, both on demand and supply side, to rely on them. Furthermore, as far as generation capacity is concerned, the existence of PTRs, substantially firm and allocated annually and monthly, can trigger investments otherwise unfeasible only counting on national markets.

Thus, we believe that a large share of cross-border capacity should be allocated long-term, provided that UIOSI clauses and resale and transfer mechanisms are in place in order to achieve an adequate level of flexibility. It is also of paramount importance that capacity firmness, at least financial, be properly ensured. The remaining capacity should instead be allocated short term (intraday) and mainly devoted to balancing purposes.

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

In the Central South East region market players are so far bound to provide one bank guarantee for each exporting countries, whereas different levels of “minimum amount” are requested to participate to the auctions. This means that companies active in the Italian market incur in significant additional costs since they must open as many bank accounts as the countries from which they intend to import electricity. Therefore, 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.

As far as nomination is concerned, we believe 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.

#### **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?**

We believe that efficiency problems related to the NTC/ATC calculation still hamper the use of available interconnection capacity so as to prevent the maximisation of social welfare. Inappropriate capacity calculation schemes can actually result in high differences between scheduled and physical flows. Hence, a strong regulatory intervention should be carried out in order to guarantee harmonization and transparency in capacity calculation by TSOs. This action should be clearly aimed at maximizing available capacity by reducing security margin not justified by network technical requirements.

#### **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?**

As already stressed, we believe that the development of common allocation platforms at a regional level or between regions is the most appropriate solution in order to cope with the issues mentioned above. In our view common auction offices, such as CASC-CWE, are able to introduce a higher level of harmonization of rules across different borders, also as regards bank guarantees. A streamlined capacity allocation process would enable market



players to reduce transaction costs, thus allowing for a broader participation to electricity cross border trading. Therefore, Regulators have an important role in driving the process towards the creation of single auction platforms and the extension of the existing ones with the aim to foster the integration of the internal electricity market. Nevertheless, the peculiarities of each regional market should be duly taken into account in order to avoid distortions and inefficiencies.