

EuroPEX POSITION REGARDING:

- Inter-TSO payment scheme and the network access tariffs in the European network**
- Congestion management**
- Importance of infrastructure**
- Security and reliability standards**

The Association of European Power Exchange Operators, **EuroPEX A.S.B.L.**, is a non profit legal entity that promotes the role of Power Exchanges in supporting the development of competition in the European energy market through the establishment of trustworthy price references and risk management tools, as well as supporting the increasing integration of the Member States energy markets through market based congestion management. Active members of EuroPEX must be European Power Exchanges. Any other Association of operating Power Exchanges Entities and non-European Power Exchanges Entities may be admitted to EuroPEX as observer members.

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1. EuroPEX position regarding “Inter-TSO payment scheme” and the network access tariffs in the European network

1.1. Introduction

EuroPEX opinion is that any “Inter-TSO payment scheme” (the CEER name for the subject is better than the ETSO name “CBT Mechanism”) should aim at creating an environment for participants similar to the one that would exist if the European interconnected network were treated as an integrated unique network, and be no more costly to them. In such a network, losses would need to be taken into account. This should include the potential for injections or withdrawals of power which reduce losses to attract a payment, not a charge.

1.2. EuroPEX proposal for the network access tariffs in the European network

The final solution to be adopted for the global network access tariff should be in line with the following principles:

- The structure of the tariff should be the same, independently of the Member State electrical network in which an operator is connected.
- The tariff itself could be different in the different Member States, but not its structure.
- The tariff should be defined with the aim of integrating the different electric energy markets, therefore avoiding any possible fragmentation in different markets of different products.
- In the internal energy market there should not be mechanisms that work against price convergence and arbitrage. Organised electricity exchanges promote the kind of transactions that lead to price

convergence, by themselves or with the adequate coordinating mechanisms between them, without the requirement of any kind of monopoly rent. Therefore, there should be no payments associated with the concept of “exporting energy”, since this concept should not be relevant in the internal market.

- In case any kind of tariff for exporting/importing electricity is established, it should be as low as possible.
- In case this kind of tariff exists, it should be predictable so as to distort the market as little as possible, since the market can be impacted both by:
 - The tariff itself; and
 - The unpredictability condition of the tariff.
- The main guiding principles for cross border tariffication should be included in a Community regulation at sufficient level so that it will be directly implementable in all Member States.

Based on the above principles, EuroPEX strongly believes that the network access tariffs basic rules, and the intermediate steps to achieve it, should form part of the new Directive and/or Regulation.

2. Congestion management

This point illustrates EuroPEX's position on cross-border congestion management and on the role of Power Exchanges (PE) in this respect.

EuroPEX advocates the use of implicit auction (/market splitting) for congestion management, wherever and to the extent that this is feasible, on the ground that the implicit auction system:

- guarantees the efficient use of transmission resources in the short and long run;
- is the most transparent way to allocate the right to use the transmission system;
- is compatible with any kind of financial risk management mechanism, while achieving an efficient short term congestion management procedure;
- guarantees the highest level of integration between neighboring countries;
- does not require a level of coordination among the involved TSOs higher than any other congestion management solution that satisfies reasonable efficiency and transparency standards;
- allows for the coexistence of bilateral and exchange-based trading at non-discriminatory conditions.

EuroPEX advocates the use of a financial system to allow for price difference risk management, that is consistent with the use of implicit auction (/market splitting) for short-term interconnection congestion management. This long term risk management mechanism could be based on a financial definition of transmission rights or price difference between the two markets that the

interconnection couples and it could use as an index the short term implicit auction price results.

In case, as a temporary solution, an explicit auction system were adopted, EuroPEX recommends that the auctions be organised and run by PEs, if they operate, in order to achieve an efficient initial allocation, thanks to the open, transparent and non discriminatory environment that PEs create. In order to constantly ensure that the interconnection capacity is efficiently allocated, particular emphasis should be put on the organisation of secondary markets for the rights allocated in the first place through explicit auctions.

3. Importance of infrastructure

This point highlights EuroPEX position on the importance of infrastructures. It stresses how, in EuroPEX opinion, the ultimate goal of a European internal electricity market and the reality of today's market should drive TSO's long term and short term decisions regarding infrastructures.

3.1. Long term policies must be “internal market friendly”

Long term objectives aim at constructing the appropriate infrastructures for a properly interconnected network. They should take more into account the immediate needs of the current wholesale market participants.

3.1.1. The cost benefit analysis must include the immediate market dimension

The construction of new infrastructures is the result of a long decision making process that includes a cost – benefit analysis where very diverse issues are examined (technical constraints, environmental and political issues, impact on existing congestions...).

EuroPEX suggests that the immediate impact of infrastructures investments on the wholesale electricity market and on the market participants ability to operate be included in the cost – benefit analysis. This could be a guideline in decisions such as the choice of which congestion to address first.

3.1.2. A transparent financing system must be put in place

Different sources of revenues can be used to finance network improvements and infrastructure financing can be set at different levels. Transparency of the infrastructure financing system helps better understand market conditions, which is a key element for market confidence.

EuroPEX suggests that maximum transparency be made at TSO level on investments made in infrastructures of European interest.

3.2. Short term management should take into account current wholesale market reality

The construction of appropriate infrastructure is a long process that takes several years. In the meantime, interim measures, congestion management, are put in place to cope with the scarcity in the available interconnection capacity.

3.3. Conclusion

- 1. EuroPEX welcomes initiatives to improve existing infrastructures and construct new ones.** Infrastructures are indeed the backbone of the internal electricity market in Europe but are currently not sufficiently developed to enable the electricity to be freely transported across –all borders.
- 2. EuroPEX stresses that decision making regarding infrastructures should first of all consider improvements which have a direct effect on the construction of the European internal electricity market.** The

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ultimate goal of strong networks is a smooth functioning internal electricity market and the need of market participants should be taken into account.

4. Security and reliability standards

This point illustrates EuroPEX's position on security and reliability standards.

4.1. General approach.

EuroPEX has the opinion that security and reliability standards are best met by means of a secure and reliable market in the first place. If there is a concern on security and reliability, the first question should be why the market is not providing the adequate security and reliability: which obstacles are preventing the market from working properly. As there are still many of such obstacles due to incomplete liberalization, insufficient transparency and less than optimal cross-border arrangement, we should focus on removing these obstacles in order for the market to function more properly. The market will then generate the proper short term and long-term price signals for investments, so that security and reliability is better secured.

4.2. Security and reliability of transmission networks and network information.

EuroPEX agrees with the Commission as far as the importance of international electricity trading between the different Member States and with third parties is concerned. In EuroPEX opinion, the following issues should be included in the Directive and/or the Regulation. A clear -EU authorities controlled- definition of network security common for all Member States, that should allow for transparent procedures of defining how much is commercially usable from the available physical interconnection capacity, and where are the specific transmission network problems that limit the physical capacity.

Non-discriminatory release of information on the available transmission capacity and timely publication of any changes in available transmission capacity will be necessary in order to guarantee a secure and reliable market.

4.3. Security and reliability of production capacity information.

Transparency in the market can be further improved by the non-discriminatory disclosure of market sensitive information. In most Member States a limited number of market participants have access to specific market sensitive information (asymmetric information), such as schedules regarding planned maintenance, unplanned maintenance and outages. EuroPEX strongly believes that the lack of publicly available information is jeopardizing the ongoing liberalization process.

EuroPEX is convinced that the harmonization of disclosure rules in different Member States would enhance competition between market participants in different Member States.

Because the disclosure of such market information leads to more transparency in the market, EuroPEX recommends that the Commission develops rules on disclosure of market information.

In order to improve the transparency in the market by ensuring all market participants have a full assessment of market fundamentals, non-discriminatory disclosure of market information concerning the available production capacity over time is needed. Member States should ensure that all market participants should have disposal of information concerning maintenance schedules, planned outages of production capacity and available transmission capacity. Non-compliance with this rule or spreading of false information should be subject to sanction.

4.4. Tender Procedures and price caps

EuroPEX is warning against any attempts to introduce artificial mechanisms like tender procedures and price caps. These instruments are harmful to the market and tend to create the problems rather than solving them.

EuroPEX fully supports the Commission's concern about the possibility of introducing market price caps in amendment 125 of the European Parliament. Like the Commission stated in the explanatory memorandum (Directive 96/92/EC, part B, I, Article 3: 'Universal and Public Service Obligation'), the existence of market price caps has contributed to the crisis in security of supply in California. Because market price caps can distort the market fundamentals with all its consequences, EuroPEX strongly recommends ruling out any implementation of market price caps.

As far as long term generation capacity adequacy is concerned, EuroPEX notes that Article 6 of the Commission proposal allows for the use by Member State authorities of tendering procedures for means of generating capacity, to ensure security of supply. EuroPEX observes that the adoption of such measures, in a situation with few market players and frictions to entry, could exacerbate the problem of capacity adequacy that it tries to address and could induce postponing the investments, as a way to push the competent authorities to initiate a tendering procedure to assist in the finance of new power plants. EuroPEX believes that market price signals, as in many other commodity markets, should be the mechanism to stimulate the investment in additional capacities, being that interconnection capacities or generation capacities.