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Subject Preferred planning of coupling projects and allocation of  
XB capacity between CWE and North market

### **Background**

The North and Central West European regions are relatively advanced in the development of their respective energy markets. Currently there are several market coupling regimes or processes implemented or in development, where NordPool, France-Benelux and Germany are involved. Within these markets three individual coupling projects are under development/implementation: EMCC (coupling of NordPool with Germany), NorNed (coupling of TLC with NordPool) and CWE market coupling (coupling CWE market). These projects are not sufficiently coordinated either regarding involved parties, planning or technical aspects. Currently only EMCC has started as of end September 2008, but has been unfortunately suspended to a later date due to some problems. As some price areas concerned are simultaneously involved in different coupling projects NorNed coupling cannot be envisaged as long as the CWE market coupling is not in place. Currently the CWE market coupling has a "floating planning" between mid 2009 and end 2009.

### **Preferred sequence for market coupling of the two regions**

Given the situation above decisions have to be taken on the sequence of the further steps in market coupling and the harmonisation and integration of the different solutions/ projects. At the moment several interim solutions are being discussed to implement coupling on the NorNed interconnection with or without integration with EMCC. As market parties we see that this could lead to a complicated patchwork of interim solutions which are negative for market functioning. We therefore propose to keep the interim solution of explicit auctions on NorNed until the CWE coupling takes place. All effort of the involved parties could and should be focussed on the CWE project before adapting the approach of NorNed. We do not see any technical obstacles as the first phase of this coupling will be based on ATC, so a start before the summer 2009 should be possible with a sound technical solution. Market parties should be integrated in the implementation in time.

After CWE coupling is implemented, CWE and the Northern regions should be coupled in an harmonised and coordinated way on all relevant interconnections. Also the market coupling between CWE and the Northern regions should not hinder or limit other coupling initiatives of other regions, an open solution for integrating further regions is necessary. The preferred allocation mechanism is described in the next section.

### **Preferred allocation mechanism between the CWE and N market**

The CWE and N market have different market designs regarding the allocation of interconnection capacity. The preferred solution between the markets does not however imply that this is also the preferred solution within each separate region, and that internal changes should be done in this respect. This will be subject to evolution after the coupling of the two market regions.

Regarding the allocation mechanism between the two regions we see the following important principles:

1. The allocation congestion management mechanism should lead to an efficient use of the existing interconnections between the 2 regions.
2. Market parties should be able to financially hedge their forward price difference risk between two price areas<sup>1</sup>, and in particular also between price areas of the 2 regions.
3. In the final implementation of the market coupling (assuming liquid and mature markets on all coupled price areas) we prefer a completely financial solution where capacity holders get a payout in cash and all capacity enters the market coupling. In a transitional period a hybrid solution with a use it or sell it (UIOSI)<sup>2</sup> mechanism where only unsold or unused capacity enters the market coupling could be acceptable.
4. The physical transmission risk should be handled and the financial consequences borne by the entities with the best ability to mitigate the risk. These are the TSOs that sell financial firm capacity rights on the different interconnectors between the regions save under force majeure condition. This will lead to the lowest risk profile in the market (and therefore highest welfare).
5. A significant<sup>3</sup> amount of this capacity should be sold (financially firm) on a longer term basis to allow efficient price forming of the capacity rights. In order to do so an efficient and appropriate administration platform for a region to facilitate secondary trade of capacity rights is essential.

#### **Nordenergi**

*Nordenergi is collaboration between the Nordic electricity industry associations.*

#### **NWE MPP**

*The North West European Market Parties Platform is a cooperation of BDEW, UFE, Organisation des Entreprises d'Electricité Du Lux-embourg, FEBEG and EnergieNed representing the electricity wholesale market parties in Germany, France, Luxembourg, Belgium and the Netherlands.*

<sup>1</sup> (

lin)

<sup>2</sup> In this paper we regard the UIOSI mechanism the same as the Use It Or Get Paid For It mechanism which is also often used.

<sup>3</sup> This amount is not fixed, but should be adjusted to the needs and development of the market.