Dear Mr. Ibrovic,

Re: Implicit auctioning NorNed, Net Code amendment proposal 103148

The European Federation of Energy Traders (EFET) has carefully considered the Net Code amendment proposal 103148 to implement an implicit auctioning system on the NorNed cable. As already mentioned in our letter dated 24 April 2007, we recognise that, when implemented correctly, day-ahead market coupling can bring socio-economic benefits, lead to more efficient markets and contribute to optimal use of interconnections. However, we believe that the current proposal for NorNed implicit auctions – with double gate closure on the APX – would induce counter-productive effects in the CWE wholesale power market. We realise the proposal is based on a study conducted by the Brattle Group, but we question some of the assumptions behind the study.

The 700 MW of capacity on the NorNed cable would be removed from the 11:00 APX gate closure market, having as a direct consequence a split of liquidity. We believe this split would increase price volatility in the Netherlands and impede price convergence among TLC countries. The current TLC market coupling project and its further enlargement in the CWE region precisely aims at consolidating existing liquidity, whereas the implicit auction proposal as presented will tend to produce a contrary effect. It would divide the (already narrow) Dutch day-ahead market effectively into two platforms. We have noticed the concern of the Energiekamer about market depth and resilience on APX in its liquidity monitoring reports. Splitting day-ahead
trading on APX between two gate closures should be evaluated in light of that concern. We also fear that two consecutive deadlines will raise new operational complications for some traders.

Besides that, such an implementation would interfere with the CWE market coupling project, which has a higher priority for EFET members. By March 2010 it should be operational and represent a key step towards further market integration. The volume exchanged within the CWE project is much more important and the overall benefits of this coupling will be far more significant.

Therefore, we think it is not worth implementing any substantial change on the NorNed cable for only a few months, especially given the limited additional congestion revenues forecast by TSOs. All market participants seem to agree that current explicit auctioning is working well. 93% of volumes transit towards the higher price area at any given time, and revenues generated are much beyond initial forecasts.

EFET recommends current explicit auctions and nomination arrangements be maintained at least until CWE market coupling is in place – prospectively aligning the gate closure time between the Nord Pool region and the whole CWE region at 12:00. That delay would allow time for you and the Norwegian regulator to consult cable users about the arrangements they would like to have for intra-day nominations for any spare capacity on the cable and intra-day adjustments to day-ahead nominations. That delay would also allow time for a consultation in CWE and the Nordic region about how longer maturity transmission rights should be allocated on the NorNed cable on a permanent basis, in accordance with the suggestion made in point 5 of our previous letter of 24 April 2007. These rights could be used in the day-ahead timeframe alongside the implementation of implicit allocation, based on the UIOGPFI principle.

We understand the Nordic area TSOs remain reluctant to issue forward transmission rights, even of a financial character, and link those rights to day-ahead auctions through a UIOGPFI mechanism. This reluctance is impeding convergence of the continental and Scandinavian wholesale power market models. In the long run, a harmonisation of the models would improve the chances of effective and liquid links between price areas, not just over NorNed but also across Jutland and the cables passing over Eastern Denmark.

We recently published a discussion paper on Dual Purpose Transmission Rights, where we recommend that fully firm DPTRs are sold by TSOs across Europe, on the basis that these can either be used physically or financially. DPTRs will allow flexibility for trading on different platforms and in different ways, as well as future-proofing the way in which capacity across borders trades allow for any future changes in technologies or approaches. A new annex to the paper contains recommendations in relation to DPTRs for the Nordic market.

1 “Dual Purpose Transmission Rights: The pros and cons of physical and financial transmission capacity rights and a recommended EFET approach for a pan-European model”, discussion paper, available on www.efet.org
Just last Friday, EFET has discussed the findings set out in our paper with the Danish and German regulators in connection with plans for a re-launch of the EMCC. We think it would be a good idea if the Dutch and Norwegian regulators could meet us for a similar session in connection with the plans for NorNed.

Yours sincerely,

On behalf of EFET,

Jan van Aken
Secretary General

Attachment: EFET letter sent on 24 April 2007 and the Appendix “Application to the Nordic market” to the EFET paper on the “Dual Purpose Transmission Rights”