

# Consultation organised by CRE and CREG on the France-Belgium interconnection

## 1. Introduction

### 1.1 Objectives

In June 2002, RTE and ELIA put forward a proposal to CRE and CREG for setting up a new joint mechanism for allocating capacity on the Franco-Belgian border. As it contained a number of improvements, the regulators authorised its use as from July 1<sup>st</sup> 2002. At the same time, they announced that users would be consulted during Autumn 2002 on the way RTE's and ELIA's commitments had been reflected in contractual terms, the transparency of the allocation process, the new mechanism's overall efficiency and the possibility of allocating capacity on an annual basis.

CRE and CREG ask everybody concerned by electricity transfers between France and Belgium to give his or her opinion on the way in which the interconnection's new operating conditions contribute at present, or could contribute in the future, to developing fair and efficient competition on European Union electricity markets.

Interaction between electricity markets and interconnections, especially the rules and conditions of competition, has an impact on cross-border power transfers. This explains why all those who contribute to this consultation are invited to take into account the workings of the French, Belgian, Dutch, German and adjoining countries' electricity markets in any analysis they send to CRE and CREG. Contributions may include descriptions of any inefficient operating systems or malfunctions noted in the past and analyses of their impact on conditions of fair competition in European Union electricity markets.

CRE and CREG would also like to know users' wishes concerning future developments in the way power is allocated at the Franco-Belgian border, for it to give maximum support in developing fair and efficient competition on French, Belgian and adjoining electricity markets.

Lastly, during July and August 2002, there was a significant reduction in the capacity proposed for allocation compared with the corresponding figures for 2001. The regulators are examining this situation at present.

### 1.2 Replies to the consultation

Replies to this consultation must be received by CRE and/or CREG before October 31<sup>st</sup> 2002 at the latest:

- Any interested persons may contact CRE in writing - by post addressed to the President of the Commission or by e-mail to [com@cre.fr](mailto:com@cre.fr), - by meeting Commission representatives - by contacting Grid Access Management units (Tel: 01 44 50 41 02) - or by requesting to be heard by the Commission.

- Persons interested may contact CREG in writing - by post addressed to the Technical Operations Director for the CREG electricity market or by E-mail to [dir.ET@creg.be](mailto:dir.ET@creg.be) - by meeting Commission representatives - by contacting electricity market technical operations management (Tel: 02 289 76 53) - or by requesting to be heard by the Commission.

The list of persons who have participated in the consultation together with a synthesis of their contributions will be published, subject to any restrictions imposed by legal requirements for secrecy. We also guarantee the confidential nature of contributions and/or the anonymity of their authors, if so requested.

Contributors to the consultation are invited to reply to all or part of the following questions and send CRE and CREG any other analysis they consider to be of interest.

## 2. The new allocation mechanism in application since July 1<sup>st</sup> 2002

### 2.1 A reminder of recent developments

After detecting that the operating rules for the Franco-Belgian interconnection did not contribute satisfactorily to developing conditions of fair and efficient competition, CRE and CREG asked RTE and ELIA on November 29<sup>th</sup> 2001 to undertake the following programme of action:

- Resume studies on two interconnection reinforcement projects as soon as possible.
- Take any measures required to make the interconnection status sufficiently transparent,
- Define a common, transparent and non-discriminatory method, capable of taking user requirements and the Franco-Belgian context into account, for allocating as much capacity as possible on an annual level and for preventing any allocated capacity from being held back (the "use it or lose it" rule).

As a result of these requests, grid operators have resumed preparatory studies for constructing the Moulaine-Aubange and Avelin-Avelgem lines. Progressively, they have improved the information published on interconnection management. Lastly, on July 1<sup>st</sup> 2002 and with their regulators' permission, they launched the new joint mechanism for allocating capacity on the Franco-Belgian border.

The main characteristics of the new interconnection operating system are as follows:

- Net capacities proposed for allocation and available interconnection capacities are jointly calculated by the grid operators;
- Capacities are co-allocated by RTE and ELIA, who are jointly and severally responsible for the operation;
- The "use it or lose it" principle can be applied using a joint capacity management system: monthly non-used capacity or capacity made available on (D-1) are now reallocated in the daily cycle;
- RTE et ELIA propose monthly and daily transactions, which are valid for access to both grids;
- Capacities allocated on a monthly basis remain firm except on one day per month;
- The minimum capacity utilisation factor for users to keep their place in monthly and daily allocation waiting lists has been set at 65 %;
- The maximum size for daily transactions has been reduced to 25 MW and the number of transactions to which a single actor may be entitled has been limited.

## 2.2 Operational summary since July 1<sup>st</sup>

Since July 1<sup>st</sup> 2002, RTE and ELIA have improved information provided to actors by co-publishing different data, by making chronicles available and issuing information on the following points:

- Grid availability (maintenance operations in progress),
- Use of interconnections (capacities requested/allocated/used),
- Available capacity forecast on daily and monthly bases.

Question 1: Is information supplied on capacities proposed for allocation, allocation results and information concerning future and past interconnection management operations useful and satisfactory? Please explain your reply.

Question 2: Is information supplied on congestion management on the Franco-German, Franco-Swiss, and Dutch-Belgian borders together with the way it is published sufficiently clear for creating conditions of fair and efficient competition on the markets concerned? Please explain your reply.

The new capacity allocation mechanism is described in the joint RTE ELIA document "Access conditions via the Franco-Belgian interconnection".

Question 3: Is the allocation mechanism described clearly? Is it reflected satisfactorily in the contractual documents?

The present rule for making allocations via a waiting list protects cross-border transfers from any rises in price. Since July 1<sup>st</sup> 2002, the new rules applied by RTE and ELIA have led to a partial change in the actors who have regular access to the interconnection. At the same time, the interconnection utilisation ratio has increased over the summer period and has since remained stable.

Question 4: What do users think of the present mechanism and its impact on competition conditions on the electricity markets concerned?

Question 5: Taking into account market regulations in force in France, Belgium and the Netherlands today, are the present allocation rules adequate for supplying eligible customers in Belgium and the Netherlands with power imported from France? Please explain your reply.

Question 6: From your point of view, are the prices applied under the new mechanism justified? Please explain your reply.

Using the new mechanism for monthly allocations, on the 20<sup>th</sup> of every month grid operators can increase or decrease the capacity made available for monthly allocations the following month.

Question 7: As far as monthly allocations are concerned, what problems are encountered as a result of reductions being made on the 20<sup>th</sup> of the month to capacities announced at the beginning of the month?

Capacities allocated on a monthly basis are firm, except on one day per month and in cases of force majeure.

Question 8: Have you been compelled to reduce the transfer programme you have drawn up on the basis of the capacity you were actually attributed in the context of monthly allocation? What measures did you have to take?

### 3. Interaction between electricity markets and interconnections

CRE and CREG hope that interconnections will contribute to developing fair and efficient competition on European union electricity markets.

For conditions of fair and efficient competition to be set up on electricity markets, actors must be provided with appropriate and adequate information. Any lack of symmetry in information between different actors can only reinforce the market power of those who are best-informed - who are usually also dominant actors. However, except for the price and volume references provided in the indices (Platts, Heren, etc.) or by existing exchange markets, information on electricity markets is rarely available.

Question 9: Are French, Belgian, Dutch and German wholesale markets sufficiently transparent today for all the actors, especially newcomers to carry out cross-border transactions on these markets under conditions of fair and efficient competition? Please explain your reply.

Question 10: Does the information that is published help to foresee French, Belgian, Dutch and German market prices, an essential condition for fair and efficient competition? Please explain your reply.

A requisite condition for economic efficiency on markets is for the volume of trade and the number of actors to be sufficiently high for them to be able to call freely on arbitrage.

Question 11: Is the liquidity of the French, Belgian, Dutch and German wholesale markets sufficient at present to enable newcomers to liquidate any positions resulting from their cross-border transactions? Please explain your reply.

The ease with which newcomers can enter a national market is also an essential condition for creating conditions of fair and efficient competition, especially in electricity markets where incumbent operators are dominant. This especially depends on technical and economic market-access conditions, such as those concerning imbalance costs and conditions of access to transmission and distribution grids.

Question 12: What technical, organisational or financial complications make organising transactions over several frontiers difficult today? What are their origins? Do these difficulties penalise competition heavily on the French, Belgian, Dutch and German market group?

## 4. Developments in congestion management on the Franco-Belgian border

### 4.1 Annual allocations

The new allocation mechanism contains a daily and a monthly capacity allocation system.

Question 13: Should this mechanism be completed with a system for allocating capacity on a yearly basis? Please explain your reply.

Question 14: In the context of any possible yearly allocation system, what would be the most appropriate mechanism? Please explain your reply.

### 4.2 Co-ordination between transmission grid operators

The increase in physical fluxes on the Franco-Belgian border took place at the same time as a reduction in the capacities allocated by grid operators.

Today information is exchanged daily between RTE, ELIA and TenneT. Co-ordinated management of cross-border flux nominations by all the grid operators concerned would help them take better account of all transfers programmed between France, Belgium, the Netherlands, Germany and Switzerland, when they make their D-1 grid status calculations prior to accepting or refusing any access requests they receive.

Question 15: Would co-ordinating nomination management improve competition conditions significantly? Please explain your reply.

In a congestion management system, if requests for access include nomination commitments, the extent of commercial trade permitted is considerably greater than when there are no commitments to nominate.

Question 16: Would it be a good idea for grid operators to set up this type of system at annual, monthly and/or daily deadlines? Please explain your reply.

### 4.3 Allocation methods

With the *pro rata* rule of allocation, cross-border transfers remain free of charge and annual allocations can be made.

Question 17: Taking into account the present situation on the French, Belgian, Dutch and German energy markets, would a pro rata form of allocation be better than the present system for developing fair and efficient competition? Please explain your reply.

Economic theory considers that perfect competition exists if:

- All the actors are perfectly informed (transparency);

- There are numerous actors, so that none of them can influence market prices (market power is inexistent);
- Actors can enter and leave the market freely (no barriers);
- The product is homogeneous.

Under these conditions, capacities would be allocated optimally by using an auctioning system for allocating capacity.

Moreover, economic theory also illustrates that, in the presence of market powers, certain organisational rules inherent in auctioning lead to this market power being increased on importing markets.

The result is that no appropriate allocation mechanism can be chosen correctly without taking the reality of market structures into account.

Question 18: Taking into account the present situation on French, Belgian, Dutch and German markets, is the time right for changing the present allocation mechanism into a mechanism based on auctioning? Why? What effects could be expected?

#### 4.4 Interconnection management on the arrival of real-time transfers

Real time energy transfers (adjustments) represent 5 to 10 % of all electricity produced. Competition is limited on what is a non-negligible aspect of electricity supply. Present projects do not make allowance for (or only marginally) any access to real time energy transfers by foreign producers or consumers.

Question 19: Is bringing adjustment mechanisms into line in different countries a priority for improving competition conditions? Please explain your reply.

Question 20: Would participating in adjustment mechanisms through interconnections between France, Belgium, the Netherlands and Germany be a good idea? Please explain your reply.

The subjects for reflection proposed in the above questions are only a general framework intended as a stimulus and a guide for persons participating in the present consultation. Any remarks and proposals concerning other questions related to interconnections will of course be studied most carefully by CRE and CREG.