

## Deliberation of the French Energy Regulatory Commission (CRE) of 19 July 2012 approving amendments to the intraday interconnection capacity allocation rules for the French-German and French-Swiss borders.

Present: Philippe de LADOUCKETTE, Chairman, Olivier CHALLAN BELVAL, Frédéric GONAND, Jean-Christophe LE DUIGOU and Michel THIOLLIÈRE, commissioners.

In application of Clause 30 of the technical specifications attached to the agreement of 27 November 1958 awarding RTE Réseau de Transport d'Electricité (RTE - Electricity Transmission Network) the public electricity transmission system, and adopting the wording of Decree no. 2006-1731 of 23 December 2006 approving the specifications awarding the public electricity transmission system, on 9 July 2012 RTE sent a mail to the French Energy Regulatory Commission (CRE) requesting approval of the following:

- a proposal of rules for allocating the intraday interconnection capacity on the French-German border;
- a proposal of rules for allocating the intraday interconnection capacity on the French-Swiss border.

### 1. Context

The intraday capacities allocated allow the players to rebalance their positions throughout the day after the national spot markets have closed (D-1) by taking advantage of the liquidity of the neighbouring markets. The way intermittent production develops reinforces this need. CRE's recommendations with regard to intraday trades have been brought together in the target mechanism as set out at the European level: continuous trading where orders are classified according to economic priority and that generate implicit trades.

French-German intraday interconnection capacities may be allocated either implicitly or explicitly. Intraday interconnection capacities on the French-Swiss border may only be allocated explicitly. This is used for OTC trades or adjustment trades.

The four transmission system operators (TSOs) - RTE, Amprion, TransnetBW and Swissgrid - would like to apply adjustments to the intraday capacity allocation rules with regard to problems encountered and have therefore submitted changes to the rules for approval by the regulators.

The rules projects in question were subject to a public consultation published by RTE on its website between 21 June and 4 July 2012.

## 2. Findings regarding the use of intraday interconnection capacities

In accordance with the provisions of Article L.131-2 of the French Energy Code, the French Energy Regulatory Commission (CRE) *"monitors, for electricity and natural gas, transactions made between suppliers, traders and producers, transactions made on the organised markets as well as cross-border trades. It monitors the consistency of the offers [...] made by producers, traders and suppliers [...] with their economic and technical constraints"*. This surveillance mission now falls within the framework of the European regulation REMIT on the transparency and integrity of energy markets. Entered into effect on 28 December 2011, REMIT prohibits market manipulations and insider trading in wholesale energy markets.

The first finding regards the behaviour of players during the allocation process that TSOs brought to the attention of the regulators. Over the first semester of 2011 for the French-German interconnection and the first months of 2012 for the French-Swiss interconnection, the following behaviour was noticed during the explicit allocation process for the intraday capacity:

- certain players reserve all or part of the remaining capacity for a given delivery time as soon as it is made available;
- shortly before the allocation process closes, these same players reserve a similar volume for the same delivery time in the other direction thus cancelling out the initial reservation.

This behaviour is possible in view of the allocation mechanism currently in place on the borders. The mechanism introduced on 18 January 2012 on the French-Swiss border is completely explicit. Allocation on the French-German border has been both implicit and explicit since December 2010. With explicit allocation, the capacity allocation and energy purchase/sale processes are not linked. Furthermore, the available intraday interconnection capacity for each hour of the day is proposed the evening before as of 21.05: it is free and allocated on a first come, first served basis.

Nonetheless, this behaviour results in those interconnection capacities that correspond to the reserved volume in one direction and then, in the other, being blocked to the detriment of other players wanting to purchase interconnection capacities and to the detriment of the interconnection being used efficiently. This finding therefore raises questions regarding the individual behaviour of the players involved.

The second finding concerns errors made by players when allocating interconnection capacities as part of adjustment trades between these players and RTE. These errors may have consequences for RTE's operational management and therefore for the safe operation of the system and introduce an element of risk to RTE in terms of disputes regarding the invoicing of the adjustment mechanism.

## 3. CRE analysis

As part of its monitoring operation of the wholesale markets and border trades, CRE has therefore analysed the players' behaviours during the intraday allocation of capacities on the French-German and French-Swiss interconnections.

CRE has interviewed two players active on the French-German interconnection and five players active on the French-Swiss interconnection with regard to technical and economic reasons that could justify such behaviour.

On the German border, and in the context of the market coupling between French and German spot markets, CRE has also asked the players involved to provide the details of their transactions both on the French and German intraday markets insofar as transactions on the German market are likely to have an effect on the French intraday or spot prices.

Explanations provided by all players relate to the fact that they are seeking to use the interconnection capacity in order to be able to take advantage of situations of arbitrage (price spreads, re-optimisation of production assets) or covering themselves in case of imbalance. The players questioned stressed that the lag time between the capacity reservation stage, the actual transactions and the delivery time could explain the cancellation of the reserved capacities. Therefore the conditions of price and production may change

very significantly and differently from as anticipated between the point in time when the capacity is made available, i.e. the evening before, and the delivery time. Furthermore, the low liquidity in the French and Swiss intraday markets does not always allow purchase/sale transactions on either side of the border to utilise the reserved capacity.

CRE also notices that, on the French-German border, both involved players indicated they had taken operational steps to ensure that reserved capacities would correspond as much as possible to definite requirements and be used to transfer energy. However, only one player took a similar commitment on the French-Swiss border.

CRE finally finds that all players were able to provide technical/economic explanations which, according to them, could justify the behaviour identified within the current operational rules for intraday capacity allocation. Furthermore, the analysis carried out by CRE of the various cases did not reveal market manipulations within the terms of REMIT.

Insofar as such behaviour is likely to lead to a less than optimum utilisation of the interconnection capacity, CRE is in favour of adapting the rules governing the explicit allocation of the intraday interconnection capacity allowing this to be avoided.

#### **4. Principle methods proposed by RTE**

At the same time as the investigations of CRE into players' behaviour, the TSOs have been working at developing rules in order to avoid behaviours hindering the efficient utilisation of interconnection capacities.

Therefore RTE is proposing that two clauses of the rules are amended in order to more precisely define the behaviour of "gaming" and specify what the players and regulators are notified of in the event of suspension. This amendment should clarify the TSOs' steps where a player's behaviour is likely to harm the overall operation of the allocation system.

Furthermore, RTE proposes adding a penalty system to the rules where players make errors in the allocation of capacities. The amount of the penalty proposed is one thousand five hundred euros. It was based on the amount of the penalty set out in the Import Export rules (Rules of Access to the French Public Transmission System for Import and Export V3.4) where similar errors are dealt with.

#### **5. CRE's observations on RTE's proposal**

In its analysis of how the French-Swiss interconnection capacities are allocated, CRE notes that the priority given to historical contracts between Swiss and French players is a reason for the inefficiency of the allocation process. In practice, the flexibility clauses prevent RTE from knowing the volume of capacities that may be allocated sufficiently early on the evening before for the next day. As a result, only a limited part of the interconnection capacities can be allocated by auction on the evening before for the next day. Furthermore, the volume offered for the intraday deadline is particularly significant. The intraday system is designed for re-balancing, it is therefore not suited to managing a significant capacity.

RTE's proposal to amend the rules regarding the suspension of a player is a short-term response. However, in the long-term, handling priority access of long-term contracts is necessary to optimise trades on the French-Swiss border.

On the other hand, RTE's proposal to add a penalty system as a result of players making errors in allocating interconnection capacities within the terms of adjustment trades should encourage the players to be more rigorous with their management. The amount of the penalty of one thousand five hundred euros, in line with that of the Import Export rules, was set in order to cover RTE's human resource costs in analysing and correcting the errors made.

## 6. CRE decision

Subject to the approval of the other regulators concerned, CRE approves the proposals for rules submitted to it on 9 July 2012, namely:

- the rules for allocating the intraday interconnection capacity on the French-German border;
- the rules for allocating the intraday interconnection capacity for the French-Swiss border.

## 7. CRE demands for future progress

For more efficient management on the French-Swiss border, CRE insists on the importance of finding a solution that puts an end to the priority of access to long-term contracts and limits as much as possible the impact of flexibility of these contracts on the allocation of interconnection capacities.

CRE would like to introduce - no later than when the solution stated in the above paragraph is implemented - a market coupling that will ensure efficient utilisation of French-Swiss interconnection capacities on the evening before for the next day.

The allocation on the French-German border is less an issue as the parallel implicit allocation allows for better allocation of the capacity. In the same way, CRE is also asking RTE, in collaboration with its partners, to introduce, as of the beginning of 2013, an implicit system for allocating intraday interconnection capacities between France and Switzerland in coordination with the French-German interconnection. This project shall be consistent with the introduction of the intraday target mechanism in Europe.

In particular, CRE would like this mechanism to include a method that allows capacity price to emerge at least when the intraday market opens and efficient management of congestion. Setting a price to the intraday deadline on opening will therefore limit the behaviour of gaming.

Signed in Paris on 19 July 2012

For the French Energy Regulatory Commission

The Chairman,

Philippe de Ladoucette