



**Title: Harmonization of the congestion management methods between
FRANCE-ITALY-AUSTRIA**

A consultation document prepared by E-Control and CRE

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1 Introduction

1.1 *The background*

The Central Southern Europe is currently characterized by a great heterogeneity in the cross-border congestion management rules currently implemented.

On the French-Italian interconnection, two radically different allocation methods currently coexist:

- a free pro-rata allocation of financial rights to the sole Italian consumers, the so-called “S1 method”, managed by GRTN, on 50% of the available commercial capacity,
- an explicit auction method, managed by RTE, on the other 50% of the available commercial capacity.

On the Austrian-Italy interconnection,

- a free pro-rata allocation of financial rights to the sole Italian consumers, the so-called “S1 method”, managed by GRTN, on the Italian share of the available commercial capacity,
- an explicit auction method on the Austrian share, in case there is available commercial capacity

Moreover there are several other methods in operation at other borders in particular including countries which do not have to comply with the EC Regulation n° 1228/2003 of 26th June 2003.

In this context, on the occasion of the Central Southern Europe Mini-Forum held in Milan the last 25th of January 2005, the stakeholders highlighted the need:

- to harmonize allocation methods for 2006 in full compliance with the EC Regulation n° 1228/2003 of 26th June 2003 (coordinated, market-based, transparent and non-discriminatory);
- to define sufficiently in advance the 2006’s congestion management rules;
- to address the market power issues.

The three Regulators, CRE, AEEG and E-Control decided therefore to collaborate in order to address these congestion management issues. Following the Mini Forum and the subsequent discussions, CRE and E-Control consider Explicit Auction to be the sole method applicable for the capacity allocation for 2006.¹ Indeed, in contrast to other mainly financial and administrative based methods currently applied, an Explicit Auction method provides under legal considerations a robust basis for the cross-border Congestion Management as it is market-based and compliant with the EC Regulation n°1228/2003 of 26th of June 2003 in terms of transparency, coordination and non-discrimination. Moreover it can be implemented without any delay from the 1st of January 2006.

In this respect, the two regulators wish to get a better view on the opinions of the stakeholders on the optimal design of auctions rules, and particularly on the several possibilities to address market power concerns in this framework. Additionally, it appeared to be a good opportunity to test the market

¹ Another market-based method, fully compliant with the EC Regulation is the implicit auction where energy and capacity are allocated at the same point in time – this method can be realised e.g. by implementing a so-called “coordinated market coupling” between Power Exchanges. While the necessary requirements to implement this method in the Central Southern Europe are not fulfilled yet, the two regulators consider it as the most appropriate method to manage shorter term cross-border congestion in the future.

players' interest and if so, to get their opinions on the best way to develop cross-border intraday and balancing trade in the future.

Even if more work is needed, notably in terms of market transparency and in terms of cooperation between TSOs and Power Exchanges, the two regulators are convinced that all the issues raised in this consultation represent an important step in the development of an integrated regional market. They both intend to further their collaboration keeping this final objective in mind.

1.2 The public consultation issue

The result of this common public consultation will be:

1. A joint synthesis of contributions from all involved parties and stakeholders on the optimal design of the Explicit Auction mechanism to be implemented on the French-Italian and Austrian-Italian available commercial capacity. Additionally, the stakeholders are consulted on their interest to the development of the cross-border intraday and balancing trade and on the way to do so in the future.
2. A common "Roadmap" for further elaboration and implementation of these designs by the respective TSO. This common Roadmap will be published in the current of October 2005 and used by each of the regulators to safeguard a harmonised approach.

This consultation document addresses all market parties interested in the trade between the three countries and beyond. It invites them to give their opinion on the important issue of capacity allocation and congestion management in line with the mentioned Regulation. It is hoped that a consensus will emerge from this consultation and will help the three regulators to agree on a fully harmonized, optimal and compliant with the EC Regulation, allocation method for 2006.

CRE and E-Control therefore invite all interested market parties to send in their answers, observations, comments or recommendations based on the questions detailed below.

1.3 Status of the document

Please note that all opinions and analyses expressed in this consultation document are preliminary in nature. All opinions and analyses can be subject to changes, based on input from market parties to this consultation document. Therefore, the contents of this consultation document shall not be binding nor shall they be construed as constituting any obligation on the part of CRE and E-Control. The same holds true for input from market parties that concerns only the (national) jurisdiction of and/or is directed solely to one of the regulators.

2 Issues opened to the public consultation

2.1 *Optimal design for the Explicit Auction mechanism*

1. What are your preferences for the selection of the time frames for the explicit auction mechanism (annual, quarterly, monthly, weekly, day-ahead)?
2. Which of the principles mentioned below (or a mix of them) do you recommend for the allocation of the available capacity on different time frames?
 - a. A maximum of capacity is allocated on a longer term basis, and the remaining capacities are allocated on shorter time frames.
 - b. A predefined ratio (%) is chosen for the different time frames.
 - c. A minimum of capacity is foreseen for specific time frames.
3. What type of price-setting mechanism (marginal price, pay-as-bid, ascending, etc.) do you recommend for products (e.g. yearly, monthly and day-ahead) and why?
4. Is it necessary to limit for market power reasons the interconnector capacity (volume cap for import and/or export capacity) that can be given to a market party² and if necessary, which value(s) should be imposed for the different time frames? Do you think that a volume cap should be related to the demand of the end consumers of the respective market participant in one of the involved markets and why?
5. Do you recommend the allocation of yearly and /or monthly capacities in a single round or in two or more different sessions per year and why?
6. Do you consider it to be important, in order to prevent strategic capacity withholding, to limit *ante* the possibilities for a market party to nominate energy in both directions? If so, which propositions would you recommend?
7. Do you consider it to be important to create a secondary market for transfer of cross-border transmission capacity rights? If so, what form of transfer of capacity rights should be allowed:
 - a. A free transfer of capacity rights through a bilateral secondary market with final reconciliation by the TSO?
 - b. An organized transfer of capacity rights through a centralized re-allocation under the TSO's responsibility in the subsequent explicit auctions time frames?
8. What type of commitment should the TSO's provide with respect to the allocated capacities/nominated programs, considering also that a higher degree of firmness might lead to a lower amount of capacity available for the market?

² Bearing in mind the possible affiliation of particular market parties to another market party.

- a. Firm and definitive in both cases, except in case of “force majeure”?³
 - b. Reductions of capacity and /or nominated programs are possible under a very strict regulation, notably with respect to the compensation mechanism scheme?⁴
 - c. No firmness at all?⁵
 - d. A mixture of cases a, b and/or c? Please explain your commitment preferences.
9. In the case of questions 8b and 8c, where a reduction of the available interconnection capacity/nominated programs is possible, what would be your preferred reduction rule (mainly when the reduction is known after the short term allocation):
- a. To reduce firstly the long term assignments?
 - b. To reduce firstly the short term assignments?
 - c. To reduce proportionally both long and short term assignments?
10. Do you recommend an obligatory use (a constant strip for the whole duration of the product) of long and medium term products? If not, to what extent do you consider it of importance to oblige the market parties to firmly nominate their long and medium term capacity rights sufficiently in advance before day-ahead allocation⁶, and why?

2.2 Cross-border Intraday Trade

1. Do you wish the establishment of a cross-border intraday trade and, if so please explain why?
2. Do you think cross-border intraday trade should be limited to particular purposes (e.g. to revise a day ahead position in case of disturbances like unplanned outage of generation plants)? And, if so, why?
3. In case you agree with the establishment of cross-border intraday trade, what market and/or regulatory and operational obstacles need to be removed before such a trade can be implemented? Please specify.
4. Do you consider it suitable to reserve an amount of the cross-border capacity for the intraday allocation mechanism, or should capacity only be made available for intraday trade that has not been previously allocated and/or used at the day ahead allocation?
5. Do you consider it useful to limit certain actions/behaviours in the intraday market in order to prevent potential ineffective market outcomes? If yes, please explain how and why.

³ It is supposed that with this level of firmness, the financial risk to market parties will be reduced to its minimum level in the event of a physical reduction of the interconnection capacity,

⁴It is supposed that with this level of firmness, the financial risk will be shared between the TSO and market parties in the event of a physical reduction of the interconnection capacity

⁵ It is supposed that with this level of firmness, market parties accept all the financial risks in the event of a physical reduction of the interconnection capacity.

⁶ To allow the application of the so-called “use it or use it” principle.

6. Do you consider it relevant that the capacity rights allocated in the intraday framework (i.e. near real-time) correspond to obligations (rather than options) to use/nominate the equivalent energy and, if so, why?
7. In the case where a specific intraday cross-border capacity allocation is implemented, which specific allocation method do you consider the most appropriate for organizing this intraday trade (taking into consideration the possibility of concentrating trade in single shot or continuous trade)? In case your preferred solution cannot not realistically be implemented in the near future, please precise what would be your “second-best” solution.
 - a. A market coupling procedure extended to the intraday time frame?⁷
 - b. An explicit auction procedure?
 - c. Another method? Please describe.

2.3 Cross-border Balancing Trade

Although the effective implementation of cross-border balancing trade could take some time, the two regulators think this consultation is a good opportunity to get a better view on the opinions of the stakeholders on this issue.

1. Do you wish the establishment of cross-border balancing trade and, if so, why?
2. How do you think this cross-border balancing trade should be implemented and why:
 - a. By allowing market parties to realize cross-border balancing trade in the limit of the capacity rights obtained in the day-ahead or intraday explicit auction mechanism (in the case where an explicit auction is implemented at these time frames)?
 - b. By letting the TSO to manage the cross-border balancing trade in the limit of the available capacity (integration of balancing markets)?
 - c. By another method?
3. What do you think about the differences in market designs between the three existing balancing mechanisms⁸ and a possible need for harmonisation? Please specify.
4. To what extent do you believe that market design differences may result in arbitrage between them? If so, do you propose countermeasures? Please specify.
5. Cross border balancing and balancing trade are strongly dependent on congestion at the related interconnection. Please explain whether you consider it suitable that a certain amount of capacity of the already congested interconnection be reserved (i.e. deducted from the available capacity) for balancing trading purposes? Please explain.

⁷ This would require a centralised intraday trade, which is currently non-existent.

⁸ Please refer to the respective websites of the involved regulatory authorities for the detailed description of the relevant balancing mechanisms – alternatively you might directly contact the authorities in order to have a specific question of relevance answered, referring to the email address listed at the end of the document in chapter 3.

3 Further proceedings

3.1 Responses to the consultation document

The answers to this consultation should be sent, preferably in English and no later than 30 September 2005, to E-Control and/or the CRE.

As far as E-Control is concerned, interested parties are invited to address its offices:

- by post addressed to the Chairman, Energie Control GmbH, Rudolfsplatz 13a; 1010 Vienna, Austria;
- by electronic mail, to the following address: martina.sangare@e-control.at
- to arrange a meeting if it is necessary to clarify any issue from this consultation document, to the email address listed above or by phone at +43-1-24-724-501

As far as CRE is concerned, interested parties are invited to address its offices:

- by post addressed to the President of CRE, 2, rue du Quatre Septembre; 75084 Paris Cedex 02; France;
- by electronic mail, to the following address: com@cre.fr;
- to arrange a meeting with the Commission's services or to ask for an audience with the Commission;
- or by contacting the "Direction de l'accès aux réseaux électriques" (Tel. : (+ 33) 1 44 50 41 02).

3.2 Confidentiality of contributions

Unless indicated by contributors as confidential, all contributions may be published by each of the regulators. Requests for confidentiality and/or anonymity of contributions will be considered under applicable Freedom of Information Acts. However, all contributions will be shared among the three regulators (CRE, AEEG, E-Control).

A joint synthesis of all these contributions to the public consultation will be published by the E-Control and CRE, provided this would not be in breach of applicable Freedom of Information Acts.