

**PUBLIC CONSULTATION CONJOINTLY
ORGANISED BY THE CRE AND THE CNE
ABOUT THE CONGESTION MANAGEMENT
METHOD FOR THE FRANCE-SPAIN
INTERCONNECTION**

29 October, 2004

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1. Introduction

The French-Spain Interconnection is presently characterized by a superposition of two different and non-coordinated day-ahead and intraday congestion management methods. This lack of coordination constitutes a severe impediment to the efficient development of electricity trade between the two countries and requires some significant improvements in order to comply with the EC Regulation n° 1228/2003 of the 26th June 2003.

To this end, the market operators, OMEL (Operador del Mercado Ibérico de Energía - Polo Español SA) and POWERNEXT SA, and the system operators, REE (Red Eléctrica de España) and RTE (Réseau de Transport d'Electricité), were asked to work together in order to make proposals for a better coordinated jointly operated method to allocate the capacities unused by the historical contracts which benefit from a priority access right for the French-Spain interconnection.

On the basis of the preliminary conclusions drawn up by the operators the regulators can figure out the main already acceptable characteristics of the proposal namely that:

- the mechanism would be operated in coordinated way both sides of the border;
- the method would make use of consistently designed long and short term allocation procedures;
- the short term procedure (i.e. the day-ahead one) would be based on a market coupling between OMEL and POWERNEXT that would properly apply the “use-it-or-lose-it” principle notably for longer term allocated not-used capacity;

This method should be accompanied by the removal of any extra-costs affecting international trade (i.e. power guarantees, losses and constraint-solving costs in Spain)

Nevertheless, some important issues are still being debated by the four involved Parties. The document attached hereto summarizes the respective position of each Party.

This consultation paper will allow the interested market actors to give their opinion on these important issues. It is hoped that a consensus will emerge from this consultation and will help the two concerned Regulators to decide about the best way to answer these questions.

The CRE and the CNE, therefore, invite all interested parties to send in their answers, observations, commentaries or recommendations based on the questions detailed below.

The answers to this consultation should be sent no later than 15th November, 2004 to the CRE and/or the CNE. As far as the CRE is concerned, interested parties could address the Commission:

- by post addressed to the CRE's President, 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, by contacting the “Direction de l'accès aux réseaux électriques” (Tel. : (+ 33) 1 44 50 41 02),

A joint synthesis of all these contributions to the public consultation may be published by the CRE and CNE, provided this would not be in breach of the Secrecy Acts. If so

requested by an interested party, the confidentiality and/or the anonymity of its contribution will be guaranteed.

2. Issues opened to the public consultation

1-. What should be the nature of the capacity rights conjointly allocated by the TSOs before the Day Ahead Market Coupling (DAMC)? Do you prefer to hold Financial or Physical capacity rights and why?

2-. What would be your preference for the use of the capacity rights obtained in the different allocation time frames before the DAMC, i.e. what would be your preference for applying the “use-it-or-lose-it” rule:

- before the DAMC (in this case at which hour) ?
- or inside the DAMC ?

3-. Indicate what is your preference for :

- the best sequencing of times frames (annual, quarterly, monthly, weekly, day-ahead) and,
- the preferred repartition of capacities between these different time frames (in %).

As a reference, 1/3 of the capacities could be allocated on the DAMC, 1/3 quarterly and 1/3 annually.

4-. If necessary, what would be the best organization of a secondary market ?

- through bilateral trading with a final reconciliation conjointly managed by both TSOs? Or,
- through a specific market (conjointly organized by the TSOs in case of physical capacity rights or conjointly organised by the Power exchanges in case of financial capacity rights)?

In addition, what would be your preference in terms of trade periods for this secondary market?

5-. Do you consider it essential (or of secondary importance) to give the actors the opportunity to make price-difference bids (or capacity bids) for executing cross-border bilateral trade inside the DAMC ?

6-. In the case of reduction of the available interconnection capacity, what would be your preferred reduction rule (mainly when the reduction is known before the short term allocation) :

- to reduce firstly the long term assignments (in case of several long term time frames, in which order)?
- to reduce firstly the short term assignments?
- to reduce proportionally both long and short term assignments?

Furthermore, what should be the foreseen compensation payments for any capacity reduction?

7-. Have you any suggestions to improve the present Intraday allocation mechanisms?

3. Annexes

Please report yourself to the attached file.