



**Roadmap for the congestion management methods
between FRANCE-ITALY-AUSTRIA**

A document prepared by E-Control and CRE

1 Introduction

1.1 *The background*

On 31 August 2005, E-Control and CRE published a jointly prepared consultation document concerning the harmonisation of congestion methods on their respective border with Italy. Both regulators invited market parties to contribute on this important issue, and help define the best design of explicit auction mechanisms as well as the way forward for effective implementation of cross-border intraday and balancing trade.

The answers received by both regulators revealed a strong and net opposition between market actors as regards to the mechanism to be implemented in 2006. On one side, there are market actors (essentially Italian industrial consumers' associations) who favour the Italian financial pro-rata mechanism, the so-called "S1 method", and on the other side, there are all the other market actors who support the implementation of an explicit auction mechanism.

Based on the industrial consumers' support, the Italian authorities expressed their position favourable to the renewal of a possibly modified or unchanged S1 method for 2006. While at this stage, neither E-Control, nor CRE, is precisely aware of the foreseen improvements from the Italian authorities, both regulators anticipate that access to the interconnection will still not be equally shared by all market players

In the extent that E-Control and CRE already expressed their position as regards to the doubtful compliance of the S1 method with the EC Regulation n° 1228/2003 of 26th June 2003, both regulators can merely state the fact, and regret, that:

- the harmonization of cross-border congestion management methods between France, Italy and Austria won't still be possible for 2006, and
- two different allocation methods will coexist on each border (the French-Italian border and the Austrian-Italian border) and, in both cases, for 50% of the available import capacities.

1.2 The objective of the roadmap

The objective of the roadmap is to define a common approach between regulators for an improved integration of the regional market. The roadmap includes joint regulators' requirements to be implemented for the 1st January 2006 and beyond. Section 2 presents the high features of the design of explicit auctions mechanisms to be implemented for the 1st January 2006. Section 3 treats the future development of cross-border intraday and balancing trade. Finally, section 4 summarizes the planning of the Roadmap.

1.3 Status of the document

E-Control and CRE fully agree on the contents of the Roadmap. Any delay to implement regulators' requirements in due time will have to be precisely justified and accompanied with a precise agenda for later implementation.

1.4 Publication of contributions

Both regulators have published a joint synthesis of contributions to the consultation document on their website.¹

¹ See www.cre.fr and www.e-control.at

2 Roadmap for the implementation of explicit auctions mechanisms by the 1st January 2006

Allocation timeframes and price setting mechanism

E-Control and CRE have agreed on the organisation of sealed bids explicit auctions at marginal price for the annual, monthly and day-ahead timeframes. The opportunity of quarterly and multi-annual allocation should be investigated by TSOs for 1 September 2006. The capacity which will become actually available will depend on the outcome of the ongoing efforts and activities of the CRE and E-Control to release those parts of the interconnection which are presently still bound by the long-term reservations.

E-Control and CRE request TSOs to analyse the possibility to have more than one round of auctions for the annual auction for 2007. TSOs shall deliver their conclusions to both Regulatory Authorities until June 1, 2006.

Repartition of long term capacity

The TSOs shall maximise the capacity of the interconnections that can be proposed, on a permanent basis, during the whole year. This capacity shall constitute the minimum of the capacities that will be allocated on the yearly, monthly and daily timeframes, with a preference for longer timeframes.

Based on the responses, E-Control and CRE decided to allow for allocation of all the available capacity through the annual auction and to allocate then the remaining capacity (not used / given back) through the monthly and day-ahead auction.

Level of Firmness

Both regulators request TSOs to make allocated capacity rights "as firm as possible". In case of a reduction before nomination, TSO will have to compensate capacity rights' holders in the limit of 110 % of the capacity paid price for the duration of the reduction. If necessary, this level of compensation could be adapted for the 2007 auctions.

On the contrary, nominated programs shall be fully firm, except in case of "Force Majeure". In this respect, both regulators urge TSOs to agree on a precise and common definition of this concept for approval by the regulators before publication of auction rules.

Secondary capacity markets

In order to stimulate the availability and usage of cross-border capacity, secondary trading must be implemented as soon as a possible. E-Control and CRE request TSOs to draft a proposal allowing both types of secondary trading (bilateral and centralised) in consultation with market parties. This proposal shall be harmonised between both markets, finalised by 1 April 2006 at the latest, submitted to the regulators for approval and be implemented no later than July 2006.

Ex ante market power mitigation measures

Possibilities to impose ex ante market power mitigation measures (volume caps for example) will be further examined by the regulators. In the meantime, a regulatory task force will be constituted in 2006 for monitoring the results of the explicit auctions in combination with the Italian allocation methodology on this interconnection. This regulatory task force will allow regulators to react rapidly and to propose corrective measures in case of suspected/detected anti-competitive behaviour. An annual report will be published to give feedback to market participants on the functioning of explicit auction methods.

Products' nomination

Firm nominations of annual and monthly capacity rights shall take place sufficiently in advance before the day-ahead allocation. A common deadline for nominations shall be adopted for these products (at the latest at 8.00 am on the day preceding the day of transport).

For the time being, E-Control and CRE consider that capacity rights should be kept as "physical" as possible. It is why both regulators prefer, as a first step, to implement a strict "use it or loose it" (UIOLI) rule. This rule implies that if a capacity holder decides not to nominate the equivalent energy corresponding to its rights, he will lose them without any financial compensation. The opportunity to transform this UIOLI rule into a "use it or get paid for it" one will also be further investigated in the future.

Firm nominations of day-ahead capacity rights on borders shall also take place sufficiently in advance before the first intraday allocation (looking forward its soon implementation). A common deadline for nominations shall also be adopted for this product. A strict UIOLI rule will also be applied for day-ahead capacity rights.

3 Roadmap for the implementation of cross-border intraday and balancing trade

The implementation of cross-border intraday and balancing is seen by all the market participants as a very important step for the future. Several advantages have been pointed out by market participants to support this implementation:

- more flexibility to market actors;
- optimization of the utilization of capacities;
- enhancing of competition in these near real-time markets;
- stability of the network and reduction of the TSO's' overall costs.

Consequently, E-Control and CRE strongly support the establishment of a cross-border intraday and balancing trade and consider that all market obstacles shall be removed and be made compatible as soon as possible.

E-Control and CRE agree with market parties that there is no need to reserve an amount of cross-border capacity to the intraday and balancing mechanism.

E-Control and CRE agreed on the following features for the cross-border intraday trade:

- It shall enable revision of day-ahead positions independent from the purpose of the trading activity.
- No particular restrictions will be imposed in terms of nomination.
- as a first step, and for obvious operational reasons, the intraday allocation mechanism will be kept as simple as possible with discrete gate closure times.
- capacity rights allocated in the intraday framework will be considered for mandatory use/nomination of the equivalent energy rather than offered as an option.

By the end of July 2006, all the involved TSOs are requested to submit a joint proposal for cross-border intraday trade, including the above features. Once approved by the regulators, implementation of this cross-border intraday mechanism shall be effective no later than the 1st January 2007.

Regarding cross-border balancing trade, E-Control and CRE have a strong preference for the "TSO-TSO" model (where only the TSO's are responsible for the management of cross-border balancing trade), which seems not only simpler (and so easier to implement) but more secure and efficient than the "direct participation" model.

By the end of July 2006, all the involved TSOs are requested to submit a joint proposal for cross-border balancing trade. Once approved by the regulators, implementation of this cross-border balancing scheme shall be effective no later than the 1st January 2007.

4 Summary of the planning of the Roadmap

Date	To be implemented	Reference
End November 2005	TSOs' definition of "Force Majeure" for regulatory approval	1
1 December 2005	Publication by the TSOs of the minimum of the yearly, monthly and daily capacities to be allocated for the following year on the French-Italian and Austrian-Italian borders	2
	Publication of the final version of the Auction Rules on the French-Italian and Austrian-Italian borders	3
1 January 2006	Implementation of sealed bids explicit auctions at marginal price for the annual, monthly and day-ahead timeframes on 50% of the available capacities on both borders.	4
1 April 2006	TSOs' proposal for secondary trading	5
1 June 2006	TSOs' analysis of the opportunity of multiple rounds allocation for the 2007 annual product	6
1 July 2006	Implementation of secondary trading after regulator approval	7
1 August 2006	<ul style="list-style-type: none"> ▪ TSOs' proposal for cross border intraday trade 	8
	<ul style="list-style-type: none"> ▪ TSOs' proposal for cross border balancing 	9
1 September 2006	TSOs' analysis of the opportunity to propose quarterly and multi-annual products	10
1 November 2006	Publication by the TSOs of the minimum of the yearly, monthly and daily capacities to be allocated for the following year on each border	11
1 January 2007	<ul style="list-style-type: none"> ▪ Implementation of cross-border intraday trade 	12
	<ul style="list-style-type: none"> ▪ Implementation of cross-border balancing trade 	13