

Implementation of a coordinated congestion management method at the German-French border

Summary of Comments

1 Context

RWE Transportnetz Strom GmbH, EnBW Transportnetze AG and Réseau de Transport d'Electricité (RTE) declared to introduce a coordinated congestion management mechanism that will start at 1st January 2006. In order to facilitate the establishment of a congestion management method fully harmonized, optimal and compliant with the EC Regulation n°1228/2003 and the guidelines on congestion management, the French energy regulator Commission de Régulation de l'énergie (CRE) and the German energy regulator Federal Network Agency decided to jointly consult the preliminary project of auction rules conjointly elaborated by the Réseau de Transport d'Electricité (RTE), EnBW Transportnetze AG and RWE Transportnetz Strom GmbH.

Overall, 21 comments were received either by the Federal Network Agency or CRE. The following briefly sums up the comments received by participants in the consultation. This document complements the publication of the comments received, unless they were declared as confidential. The summary follows the questions as listed in the original questionnaire.

2 Issues opened to the public consultation

2.1 Which 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)?

Overall, participants agree that yearly, monthly, and daily were necessary. A few comments also refer to multi-annual, quarterly and, to a lesser extent, weekly auctions as important. It is noted, that the timeframes available will matter less as soon as a liquid secondary market is in existence.

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.

Most of the answers ask for maximisation of capacity for annual auctions. To some extent, option b) is emphasized. Consequently, some comments refer to specific splits, most of them proposing a split in three thirds. However, in suggesting specific splits some commentaries are in favour of a larger percentage given to annual capacity.

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?

Basically, the comments agree on marginal pricing as the most efficient way to find prices. One of the reasons also mentioned is that this price setting mechanism parallels the one used with other auctions such as the Dutch-Belgian border.

4. Is it necessary to limit the interconnector capacity (volume cap for import and/or export capacity) that can be given to a market party¹ for reasons of market power 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?

A majority of participants is against any limitations on bidding for participants. Still, a few comments propose specific caps, e.g. 50% of ATC maximum per participant.

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?

While participants agree that monthly capacity should be dealt with in a single round, comments differ in their position towards the annual auction. About half of the participants are in favour of two rounds; however, they do not agree on the timetable for these two rounds. While some propose two rounds within a few weeks, some suggest a rolling system, having auctions for annual capacity every 6 months.. One comment suggests several consecutive rounds of auctions for annual capacity to improve the opportunity to discover the true marginal price of capacity.

¹ Bearing in mind the possible affiliation of particular market parties to another market party.

6. Do you consider it to be important, in order to prevent strategic capacity withholding to limit ex ante the possibilities for a market party to nominate energy in both directions? If so, which propositions would you recommend?

Most comments put forward that the use-it-or-lose-it principle in combination with netting, as included in the Auction Rules, will prevent strategic capacity withholding. Any further regulation would only distort the market additionally without further improvement.

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 TSOs?
 - b. An organized transfer of capacity rights through a centralized re-allocation under the TSOs' responsibility in the subsequent explicit auctions time frames?

Comments agree on the necessity of a secondary market for transfer of cross-border transmission capacity rights to increase efficiency. The Auction Rules proposed by the three TSOs are criticized for not allowing for such a secondary market. Both methods a) and b) in the questionnaire were mentioned. However, the majority of comments prefer a free transfer of capacity rights. Of these, most favour a centralized registry for capacity rights transferred.

8. What type of commitment should the TSOs 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?
- a. Firm and definitive in both cases, except in case of "force majeure"?²
 - b. Reductions of capacity and /or nominated programs are possible under a very strict regulation, notably with respect to the compensation mechanism scheme?³
 - c. No firmness at all?⁴
 - d. A mixture of cases a, b and/or c? Please explain your commitment preferences.

All parties agree that capacities should be as firm as possible, most of them proposing either option a) of the question concerned or a combination of a) and b). Some put forward that financial firmness should not reduce the physical capacity. Also, some comments accept the compensation scheme of the Auction Rules as appropriate. One comment warns that any obligation on TSOs to sell all capacity as firm will make TSOs conservative in the estimation of ATC.

² 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,

³ It is supposed that with this level of firmness, the financial risk will be shared between the TSOs and market parties in the event of a physical reduction of the interconnection capacity

⁴ 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.

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?

Comments disagreed on the rule to be applied for reductions of capacities. All three options mentioned in the questions are put forward. A clear conclusion on a specific rule on reduction of capacity cannot be drawn.

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 allocation⁵, and why?

Participants in the consultation generally agree that an obligatory use is not necessary.

2.2 Additional issue on Cross-border Intraday and Balancing Trade

While almost all comments respond to the first section of questions, the issue of cross-border intra-day and balancing trade is answered more selectively.

2.2.1 Cross-border Intra-day Trade

The aspects raised by the comments regarding cross-border intra-day trade are summed up as follows.

11. Do you wish the establishment of a cross-border intra-day trade and, if so, why?

Market participants strongly support the introduction of cross-border intra-day trade. The main benefits of the introduction of cross-border intra-day trading are seen in the promotion of market efficiency, competition and flexibility of market participants for short-term adjustments of their portfolios.

12. In case you agree with the establishment of cross-border intra-day trade, what market and/or regulatory obstacles need to be removed before such a trade can be implemented? Please specify.

Approximately half of the market participants see a need for further harmonisation of the intraday markets to establish a well functioning cross-border intraday trade. However, the level of harmonisation required by market participants varies. Additionally, market participants find it important to open the cross-border intra-day market to all participants.

⁵ To allow the application of the so-called "use it or use it" principle.

13. Do you consider it suitable to reserve an amount of the cross-border capacity to the intra-day allocation mechanism, or should capacity only be made available for intra-day trade that has not been previously allocated and/or used at the day ahead allocation?

The vast majority of participants think that capacity should not be explicitly reserved for the intraday trading. Instead, capacities should result from netting, be made available from the capacities not nominated in the day-ahead market or previously not allocated. Those few participants who favour the reservation of capacity for cross-border intra-day trade qualify their position by arguing that this should not withhold capacity for long-term or day-ahead trading purposes.

14. Do you consider it useful to limit ex ante the possibilities of nomination in the intraday market in order to prevent potential ineffective market outcomes? If yes, please explain how and why.

Almost all participants regard it either not useful or not necessary to limit ex-ante the possibilities of nomination in the intraday market, especially if functioning electricity markets exist.

15. Alternatively, do you consider that an ex post market monitoring could be sufficient to prevent some sort of anti-competitive or free-riding behaviour?

The vast majority of market participants consider ex-post monitoring to be sufficient to prevent anti-competitive behaviour. For those two comments who opposed even an ex-post monitoring it is superfluous as the market volume of the intra-day market is very limited.

16. Do you consider it relevant that the capacity rights allocated in the intra-day framework (near the real time) correspond to obligations (rather than options) to use/nominate the equivalent energy and, if so, why?

With regard to the character of capacity rights allocated for the intra-day framework equal proportions of market participants voted for obligations as well as for options. The main reason against the implementation as obligations cited is the negative impacts on market flexibility. On the other hand, according to some comments difficulties in capacity assessment for cross-border balancing trade might result from implementing capacity allocations in the intraday-timeframe as options. Also, some comments consider that intraday time schedules are so tight that optional use is not possible anymore, which means that the risks for market participants from these obligations are limited.

17. How do you think this cross-border intra-day trade should be implemented:
- a. By allowing market parties to realise cross-border intraday trade in the limit of the capacity rights obtained in the day-ahead explicit auction mechanism (in the case where an explicit auction is implemented in day-ahead)?
 - b. By allowing market parties to obtain specific intraday capacity rights through a specific cross-border capacity allocation method (in order to allocate the non-used or the not-already-sold capacity)?
 - c. By a combination of the two above proposed methods?

The majority of market participants votes for an implementation of the cross-border intraday market by allowing a specific method. They recommend that intraday capacities should be made available from

the capacities not nominated in the day-ahead market, from previously not allocated capacities, or from additional capacities resulting from actual network security calculations. Four market participants explicitly stated that the intra-day allocation should be free of charge.

18. 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?⁶
 - b. An explicit auction procedure?
 - c. Another method? Please describe

Regarding the allocation method the responses of the market participants do not clearly indicate preference for one single method. Basically, comments are split in equal proportions between market coupling and explicit auctions. However, almost half of the participants recommend an alternative method. In this, the Scandinavian Elbas-market is referred to most often, the “first-come-first-served” principle being second.

2.2.2 Cross-border Balancing Trade

On the issue of cross-border balancing trade, the following results are to be noted.

19. Do you wish the establishment of cross-border balancing trade and, if so, why?

The vast majority of comments proposes the establishment of a cross-border balancing trade. Possible benefits are the increase in opportunities available to system operators in balancing supply and demand. This would further competition and ultimately reduce overall balancing costs.

20. 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?

Most of the participants favour implementation in a way that TSO manage the cross-border balancing trade within the limits of the available capacity.

⁶ This would require a centralised intraday trade, which is currently non-existent.

21. What do you think about the differences in market designs between the three existing balancing mechanisms and a possible need for harmonisation? Please specify.

The vast majority of participants consider it important to harmonise the market arrangements of the national balancing markets concerned in order to enable a liquid and transparent regional balancing market.

22. To what extent do you agree that market design differences may result in arbitrage between them? If so, do you propose countermeasures? Please specify.

Comments agree that any difference in the market designs can lead to arbitrage between the markets. Approximately half of participants consider the harmonisation of the market designs as an appropriate countermeasure. The other half do not see the need for countermeasures against arbitrage.

23. Do you consider it suitable to reserve an amount of the cross-border capacity to the balancing mechanism?

According to the vast majority of market participants it is not necessary to reserve an amount of the cross-border capacity to the balancing mechanism as this will limit the scope for long and short term cross-border trade and will therefore be detrimental.