

Decision concerning the guidelines of the French energy regulatory Commission (CRE) for the explicit access to intraday interconnection capacity

Present: Philippe de LADOUCETTE, President, and Olivier CHALLAN BELVAL, Frédéric GONAND and Jean-Christophe LE DUIGOU, Commissioners.

1 Context of the public consultation concerning the explicit access to intraday capacity

In recent years, a broad reflection was conducted thanks to regional initiatives for electricity and on the pan-European level in order to define effective, coordinated, and harmonised mechanisms for allocating interconnection capacity. With intraday trading, the chosen model consists of a mechanism for implicit allocation of the interconnection capacity through continuous trading on power exchanges. Consideration and allocation of interconnection capacity are assured in a transparent and automatic manner by a tool for managing capacity.

This mechanism has existed in the Scandinavian countries since the early 2000s. This mechanism has also been established between France and Germany on 14 December 2010. The solution retained on the Franco-German border has a feature that allows players – in addition to and in parallel with the implicit access to interconnection capacity through the EPEX Spot exchange – to have explicit access to the interconnection capacity, and thus enables OTC exchanges between players in France and in Germany.

In the framework guidelines, adopted on 29 July 2011, concerning Capacity Allocation and Congestion Management of electricity networks, it is expected that the Capacity Management Module can allow explicit access to the capacities during a transitional period. Moreover, it is clear that, on the borders for which access has been explicitly authorised, sophisticated products available on the implicit platform should replace direct access to capacities if these products meet the needs of market participants, after public consultation and regulatory approval.

The other French interconnections are managed for the intraday timeframe via explicit access that is continuous (Switzerland), auction-based (Spain, Great Britain and Italy), or on an improved pro rata basis (Belgium).

As part of considerations on the implementation of the pilot project in the North-West region of Europe and its future extension, the question has been raised as to whether or not explicit continuous access should be authorised on a transitional basis at the same time as the implicit continuous allocation via the intraday market organised by power exchanges. At this point in time, there are various situations for the interconnections in the North-West region and on a European level: at some borders continuous explicit access is permitted while at others only implicit access is authorised. Therefore, ACER has asked CRE if it wishes to authorise explicit access on French interconnections.

In addition to considerations and the consultation of players for the North-West project and for its future extensions, the CRE would like to obtain the opinions of players active on French interconnections on the issue of explicit access, and on the following two points in particular:

- Are you in favour of the possibility of explicit continuous intraday access alongside continuous implicit allocation? Can you explain the reasons for your position, as well as differences, border by border, where necessary?
- In your opinion, what is the importance of harmonising this practice for all the borders of a given region?

2 Profile of contributors

The public consultation resulted in the contribution of 13 players, divided as follows:

- 6 producers/suppliers (ALPIC, Compagnie Nationale du Rhône, EDF, Edison Spa, GDF Suez, Vattenfall);
- 3 traders (Danske Commodities, EDF Trading, EON Energy Trading);
- 1 association representing companies trading energy (EFET);
- 1 association representing industrial consumers of electricity and gas in Belgium (Febeliec);
- 1 Transmission System Operator (RTE);
- 1 industrial consumer (INEOS).

3 Summary of contributions

3.1 Comments regarding the possibility of explicit continuous access on an intraday basis in parallel to the implicit continuous allocation

Eleven of the thirteen contributors (ALPIC, Compagnie Nationale du Rhône, Danske Commodities, EDF, EDF Trading, Edison Spa, EFET, EON Energy Trading, GDF SUEZ, RTE and Vattenfall) support the possibility of an explicit continuous access on an intraday basis in parallel to the implicit continuous allocation.

- **The explicit access is needed, transitorily, since the reliability of the system as well as the volume and liquidity of the implicit platform are not guaranteed.**

ALPIC strongly supports the coexistence of explicit and implicit access for the implementation of the transitory model. This would enable a transition between the various current models and the target model.

Danske Commodities and ALPIC expressed their concerns regarding the reliability of the implicit Elbas system.

EDF also believes that explicit access is essential during the transitional phase so as not to restrict the means for cross-border trade on an intraday basis, since today's trading platforms do not offer all required functionalities.

EDF Trading insisted that changes in the intraday market should be implemented without impairing liquidity and that, to this day, over-the-counter market liquidity has contributed to the development of the intraday market in Europe.

Edison Spa believes that an explicit access can meet the needs in terms of products, and increase volumes and liquidity.

EFET believes that it is important to keep the various means of explicit and implicit trading on the intraday market because of the current lack of maturity of the market design using this timeframe. For EFET, the obligation to exchange on the implicit platform cannot be instituted exclusively unless it has been demonstrated that the platform is reliable and efficient.

- **An explicit access is essential as long as adequate sophisticated products are not available on the implicit platform.**

EDF stressed that over-the-counter trading is essential in the absence of liquidity on intraday exchanges or if there are no suitable products available.

EON Energy Trading would like to have an explicit access implemented in parallel to an implicit access as long as there are no sophisticated products available. Once sophisticated products are available on the implicit platform, EON Energy Trading says it will no longer use explicit access because, with this type of access, it is difficult to detect a blockage of the available capacity.

Based on its experience with the implicit Elbas access platform between Belgium and the Netherlands, GDF SUEZ evoked the difficulty of providing a non-standard product. However, this is possible with over-the-counter trading through which "profile blocks" can be sent through a single transaction.

Based on the positive feedback regarding the exchanges between France and Germany, RTE considers that, for trading, explicit access constitutes a complementary access needed until power exchanges can offer products that meet existing needs.

- **Over-the-counter exchanges are necessary for the balancing mechanism.**

RTE recalls that continuous explicit access on an intraday basis aims to acquire capacity for bilateral trade and for the balancing mechanism. For RTE, it would not be appropriate to limit implicit access while the drafting of framework guidelines for the target model of the balancing mechanism is in progress. In fact, not allowing explicit access would limit future options for cross-border balancing exchange operations. And, according to RTE, this could impact the security of the French system since 20% of activated balancing offers are German or Swiss.

EDF Trading also shows a shared interest in explicit access for the establishment of the cross-border balancing mechanism.

- **Explicit access must be maintained in order to ensure a backup plan beyond the transitory phase.**

ALPIC, Danske Commodities and EDF emphasised the importance of maintaining a parallel explicit access to better cover the risks of service interruptions as a result of technical problems, as well as those associated with the implementation of a new system.

GDF SUEZ shares this view and indicated that exclusive implicit access leads to an inability for border trades on an intraday basis during shortages of the implicit platform and/or during maintenance periods.

EDF Trading and EFET believe that explicit access should be maintained to ensure a fall-back procedure including in the target model.

- **In parallel to an implicit access, an explicit access provides advantages in terms of cost, risk and flexibility.**

The Compagnie Nationale du Rhône (CNR) indicated that an organised market model, with compulsory exchange and implicit auctions, presents risks concerning the exchange of large volumes. The CNR believes that it is more expensive to execute a large number of orders on the power exchange than to enable multiple bilateral transactions. The CNR also indicated that the exchange model using a power exchange is conducive to speculation, which has no beneficial role regarding intraday trading. In addition, the CNR believes that it is not possible to standardise the time profiles traded on an intraday basis for power exchanges. In addition, the bilateral trade of a time profile is much easier to achieve than via a power exchange.

Danske Commodities believes that companies should be able to adjust their production and consumption related to a country based on those of another country, without this being visible to the market. In order to do this, the coexistence of an explicit access with an implicit access is essential.

EDF Trading indicated that maintaining an explicit access for all borders seems necessary even in the target model. EDF Trading is concerned that only a limited number of types of products will be offered on the implicit exchange platform and that the products will not be specific enough to enable an effective optimisation such as in over-the-counter exchanges. EDF Trading considers that, in the French market, the need for complex and flexible products is considerable since most means of production display little flexibility.

EDF Trading confirmed the interest presented by an explicit access for a company operating in several countries in order to effectively manage its positions and risks.

For GDF SUEZ, the coexistence of explicit and implicit access (as on the border between France and Germany) enables: maximising the choices available to market players, improving market efficiency in order to meet balancing needs, and transmitting energy to another country or trading assets within the portfolio of a single market player. In addition, GDF SUEZ evoked a disadvantage related to the implicit access, which concerns transaction costs causing an implicit price differential estimated at 0.16 €/MWh.

Vattenfall also highlighted the potential for a company to optimise its cross-border capacities through over-the-counter exchanges without going through the power exchange. An exclusive access through power exchanges could generate practices not in conformity with the REMIT Directive, with fictitious transactions traded within the same company. Conversely, for Vattenfall, over-the-counter trading would be very useful in case of the non-functioning of certain means of production. Consequently, if there were no options for over-the-counter trading, inadequate standard products will be offered on the market at higher prices.

Two of the thirteen contributors (Febeliec and INEOS) are not favourable to the possibility of explicit continuous intraday access in parallel to the continuous implicit allocation.

Febeliec believes that explicit access does not provide a societal benefit compared to implicit access. Febeliec supports the recommendations made by AHAG – today named AESAG – summarised as follows:

- A harmonised solution based on a continuous implicit allocation at the European level should be adopted as soon as possible;
- New solutions are not to be introduced concerning the over-the-counter exchange on borders where a mechanism does not exist (except after an explicit agreement of the relevant regulators);
- Existing over-the-counter exchange mechanisms should be eliminated by end of 2014 at the latest.

INEOS considers that explicit access is not beneficial to end consumers for the reasons listed below.

- Over-the-counter exchanges dilute the ease of use and access for end-consumers to the energy and they diminish transparency of prices in the intraday market.
- Liquidity on the implicit platform is reduced.
- Over-the-counter exchanges can make day-ahead prices less reliable since adjustments on the positions taken on day-ahead can be made in an intraday timeframe, without this being visible on the market.
- Over-the-counter exchanges pose problems in terms of transparency. It is difficult to evaluate

the reliability of over-the-counter trading prices. Over-the-counter trading prices may not represent the actual price since the transaction may include compensation elements through other contracts.

- Adding an over-the-counter trading functionality at the level of the capacity allocation platform will make the system more complex and will involve additional development costs.
- Accepting over-the-counter exchanges will reduce the pressure on players to develop sophisticated products.

Moreover, considering that cases requiring sophisticated products are rare and that national over-the-counter exchange markets exist, INEOS believes that it would be better not to risk damaging the robustness of day-ahead and intraday market with access to over-the-counter trading.

3.2 Comments on the importance of harmonising intraday access

Seven of the thirteen contributors (ALPIC, EDF Trading, EFET, Febeliec, GDF SUEZ, INEOS and Vattenfall) attach high importance to harmonising practices regarding intraday access across all borders of a given region.

For ALPIC, it is essential that the intraday market is perfectly harmonised to achieve the objective set by the European Commission for integration of national electricity markets. ALPIC believes that this will increase liquidity and will thus have a positive effect on competition and the ability of players to achieve a balance. The use of flexible production capacities between countries will be facilitated.

EDF Trading indicated that maintaining an explicit access for all borders seems necessary even in the target model. In addition, EDF Trading believes that the harmonisation of explicit and implicit access will facilitate the development of intraday trading on borders, in particular through the development of a Capacity Management Module and a Shared Order Book.

EFET believes that harmonisation will allow better coordination of power exchanges and their transfers, better access to capacity, improvement of liquidity and it will avoid restrictions related to time slots prohibiting trading.

GDF SUEZ would like a harmonisation across borders in the region, in order to have the same mechanism in the CWE region, and more widely in Europe. GDF SUEZ emphasised that the development of intraday activities demands significant efforts to be made by market players, which represents a substantial barrier to entry for developing liquid intraday markets. GDF SUEZ is also favourable to the harmonisation of platforms in the interests of transparency and efficiency.

INEOS and Vattenfall believe that harmonisation would decrease development costs of the target model. In addition to the gains from cost reductions of information and telecommunications systems, Vattenfall also thinks this would mean implementing a more optimised management and making the intraday market more transparent.

EFET believes that harmonisation will facilitate the development and the implementation of a Shared Order Book.

Febeliec supports adopting as soon as possible a harmonised solution based on an implicit continuous allocation at the European level.

Four of the thirteen contributors (Danske Commodities, EDF, Edison Spa, and EON Energy Trading) believe that harmonising practices regarding intraday access across all borders of a given region is not a priority.

Danske Commodities believes that implementing a reliable system is what is most important. Harmonisation should not be carried out at the expense of the performance and robustness of the system. For Danske Commodities, the benefits of harmonisation, such as the increase in liquidity, will not compensate for losses due to the malfunctioning of the platform or inadequate emergency procedures.

EDF and Edison Spa consider that harmonising access practices is not a current priority. Harmonisation does not seem necessary to them since the target model provides for harmonisation around an implicit platform with sophisticated products.

For EDF, it seems legitimate that explicit access be granted for each of the French borders. It should be removed as liquidity is achieved and a variety of products are deemed sufficient. EDF therefore supports an open architecture allowing explicit access across all borders.

Edison Spa believes that the level of development of mechanisms for cross-border exchanges and capacity allocation will consistently differ with the transitory solutions having different durations and characteristics. Therefore, Edison Spa would like to have the explicit access progressively withdrawn, border by border, from the time when sufficient volumes and suitable products are available on the European platform.

Even if EON Energy Trading is generally in favour of harmonisation, the company would prefer that certain cases in particular be taken into account. The Franco-Spanish and the Franco-Italian borders should be treated differently because national mechanisms on intraday trading do not allow near real-time exchanges.

Two of the thirteen contributors (CNR and RTE) have offered no opinion concerning the importance of the harmonisation of intraday access practices across all borders of a given region.

3.3 Other comments

Edison Spa supports the implementation of explicit access between France and Italy, but indicates two prerequisites:

- It is necessary to improve the design of the Italian market and the respective network management, especially in order to increase intraday flexibility, which would allow near real-time nominations and over-the-counter exchanges at borders;
- To address issues blocking capacity, especially by strengthening oversight for detecting gaming behaviour.

4 CRE Guidelines

On the one hand, given the answers to the public consultation given by market players, maintaining explicit continuous intraday access in parallel with continuous implicit allocation is relevant, at least during the transition to the target model. Therefore the CRE will support maintaining this on the French borders, when it becomes possible and in accordance with the relevant regulator.

The establishment of over-the-counter trading across borders should be accompanied by detailed and regular monitoring in order to control any behaviour impeding competition or proper management of the interconnection. Exchanges made within an explicit access framework must therefore meet transparency requirements.

Explicit access is already provided on some borders, additional costs for its implementation on other French borders should be negligible or non-existent. The CRE will ensure that additional costs are not excessive.

The use of an explicit access should not affect the commitment made by exchanges and players for the development of sophisticated products and, consequently, for reaching the target model. In accordance with the framework guidelines for capacity allocation and congestion management and based on the opinion of market players, the interest in having explicit access may be reviewed when sophisticated products are introduced in the future.

On the other hand, a harmonised solution across all borders concerning the issue of explicit access appears preferable. However, this is not a priority since the target model provides for harmonisation, with the eventual replacement of explicit access by sophisticated products traded on the exchange.

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For the *Commission de Régulation de l'Énergie*,
The Chairman,

Philippe de LADoucETTE