

Summary of the consultation organised by CRE and CREG on management of the France-Belgium interconnection

NUMBER AND SOURCE OF RESPONSES

Nineteen responses were received, a figure that reflects actors' keen interest in the consultation. Most came from the countries directly concerned by the consultation - France, Belgium, Germany, and the Netherlands. Contributions came from a wide range of sources, including two consumers' associations, six historical producers or their subsidiaries, one distributor, one independent producer, three traders, two eligible customers, the European Commission and one university.



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- *Transparency*

In the opinion of the actors, the allocation mechanism is becoming increasingly transparent. Five of them, however, call for the format and content of published data to be harmonised.

Nevertheless, all users criticise the lack of transparency in the rules on calculating capacities, the lack of information regarding the status of interconnections (including the German and Swiss borders) and the quality of capacity forecasts. The European Commission underlines the fact that considerably more information is required, if the actors are to understand the major interactions between these different borders.

- *Constraints imposed by the "one to one" rule*

The "one to one" rule means that the user who acquires capacity on the interconnection must be authorised to make nominations through RTE and ELIA. This in turn means that he must hold a usage contract for the France-Belgium interconnection in France and an ARP contract (*Access Responsible Party*) in Belgium. This requirement simplifies management of nominations for grid operators. The risks of error associated with nominations by different actors on both sides of the border are thus reduced. One user insists on the following result: carrying out block exchanges between ARPs in Belgium and not on the border would lead to fiscal costs, and the CBT (cross-border trade) tariff would therefore be applied twice to exchanges of energy between ARPs during one transit.

- *No possibility of making daily nominations in the direction Belgium - France*

The mechanism is only joint in the direction France – Belgium. In the opposite direction, on the Belgian side ELIA organises a monthly allocation of 4 blocks of no more than 100 MW per actor. According to one user, this leads to a 100 MW limit being placed on the capacity that can be allocated to a single actor, even though there is no congestion.

This same actor points out that the timing of monthly nominations prevents arbitration with the French market, since under the current mechanism daily transport may not be nominated. However, prices in the Netherlands are often 0 €/MWh at off-peak times on Sundays and Monday mornings.

Four other contributors criticise this absence of daily allocation.

- ***Compatibility of nomination rules***

Nine contributors call for improvements in the compatibility of nomination rules, procedures and deadlines for the France-Belgium, Belgium-Netherlands and France-Germany borders. They would also like the information systems for nominations to be standardised. KISS, the German system of infra-daily nominations is held up as an example by 2 contributors.

Whatever the case, harmonising information transmission systems would smooth exchange operations and facilitate entry for newcomers by limiting the investment required in terms of computer software.

- ***"Timing" of allocation procedures***

Many actors complain about the poor co-ordination of allocation procedures on the various borders, and in particular about the difficulty in making transits in the direction France-Netherlands.

Three actors propose that the timing of allocations be reviewed.

As a minimum measure, awaiting a co-ordinated mechanism and insofar as flows are mostly oriented in the direction France-Netherlands, two actors suggest that:

- the definitive value of the monthly capacity allocated by ELIA be published (the first working day following the 20th of Month M-1) *before* the monthly TSO Belgium-Netherlands auction takes place (10th working day of Month M-1);
- the daily Belgium-Netherlands auctions (9:00am) be moved back so that actors have time to react to confirmation of daily capacity allocations on the France-Belgium border.

- ***Lack of consistency in capacity guarantee***

The contributors accept that the capacity guarantee has a price, but ask that it apply to for the entire period during which access rights are valid. Consequently, four contributors criticise article 9 of the allocation mechanism, which stipulates a guarantee "excepting, for monthly capacity, no more than one day per month". This criticism is centred particularly on the fixed cost invoiced by ELIA¹.

Furthermore, two actors criticise the unclear definition of responsibilities between the two TSOs in the event of an interruption.

- ***Long-term contracts***

¹ . This rule is also applied by TSO-Auction on the Belgium-Netherlands border.

Lack of transparency regarding reserved power and nominations as part of long-term contracts also comes in for criticism by a number of contributors.

The European Commission demands application of the recommendations on transparency put forward by the CEER, which were adopted in Rome on October 17th and 18th 2002. It also indicates that no explanation is given of the nature, the workings and the duration of existing long-term contracts on the France-Belgium interconnection. In the opinion of the Commission, one solution might be to transform these long-term contracts into financial contracts.

Two market actors criticise the existence of long-term contracts. One of the two suggests that auctions be organised for the entire capacity, and that those with long-term contracts should have revenue corresponding to their own capacity ceded back to them.

- ***Low available capacities***

Seven actors highlight the low commercial capacities available on the interconnection.

- ***Accuracy and reliability of capacity forecasts published by TSOs***

Under the rules agreed between the two TSOs, an "indicative value of the capacity available for monthly allocation" is published on the first working day of month M-1 for month M, with the definitive value being fixed on the 20th. Many actors observe and criticise the poor quality of forecasts made by the two TSOs at this time, as capacities generally fall by half between these two dates. Five actors indicate the dangers and extra costs associated with covering this risk. Two contributors talk about an "insurmountable problem". Two others suggest updating monthly capacities on a weekly basis, to alleviate the phenomenon.

- ***Price of redispatching***

One actor contests the validity of payment for redispatching required for the capacity guarantee. The others do not contest it, subject to greater transparency regarding the rules used for calculating the congestion costs invoiced to them (7 responses) and regarding the way revenue is allocated (4 responses). Despite RTE's efforts at promoting transparency, which are highlighted by all actors, some are still unsatisfied with the explanations already given on its site. Elia provides little explanation regarding the origin and amount of the congestion costs it invoices.

The actors criticise the fact that current measures for Germany and Switzerland oblige them to act "in the dark", since the information provided to them by RTE is neither accurate nor relevant enough. Nevertheless, their criticism is only concerned with the transparency of the congestion costs mechanism for exchanges at D-1. They have no complaints about the principle of redispatching for increasing interconnection capacities and invoicing the associated costs.

There are varying opinions on the rules for recovering these costs: a fixed cost for two users who insist upon the need to ensure foreseeability and limit financial risks, and a provisional hourly cost for two others who insist upon the need for the signal price of congestion to reflect the real time state of the grid. To improve the information given to users, one contributor suggests publishing that an hourly cost profile rather than a single value, thus enabling users to identify the "riskiest" times.

In addition, one contributor criticises the current situation whereby capacities on the Belgian border are guaranteed without RTE invoicing a redispatching cost. This leads to

constraints on power available for export and the costs associated with absorbing them being passed on to the other French borders.



INTERACTIONS BETWEEN THE MARKETS AND INTERCONNECTIONS

- *Belgium*

All actors are disappointed with the weak opening of the Belgian market. The main obstacles mentioned include the impossibility of obtaining "modulation energy" in Belgium, the absence of an energy exchange (and therefore of a price reference), the lack of transparency, and the fact that one operator dominates the market.

The European Commission draws attention to the fact that the Belgian wholesale market is insufficiently liquid, and that there is no undisputed price index in Belgium that might serve as a reference.

Several actors emphasise the need for an energy exchange in Belgium. One actor deems this stage to be a priority, whilst two others have pointed out that the creation of an exchange would lead to improved transparency with regard to prices. Three contributors highlight the improvement in the market's liquidity. Finally, 4 responses contain proposals for selling Electrabel virtual production capacities, to promote the opening of the market.

- *France*

Some contributors, including the European Commission, underline the French wholesale market's insufficient liquidity. One of them believes that the liquidity of the French market is decreasing daily and that the volumes being exchanged on Powernext are stagnating, affirming that the current mechanism is one of the reasons behind this slump.

- *Netherlands*

The Dutch wholesale market is seen as being rather thin in the Netherlands (3 responses). One actor states that weak liquidity on the APX is behind possible price manipulation by those involved in the exchange.

RULES ON ALLOCATING INTECONNECTION CAPACITIES

- *General considerations*

The European Commission emphasises that, when determining rules for allocating interconnection capacities, it is important to take into account the current state of the markets, particularly when high levels of concentration are observed on production markets.

One contributor defends the method of allocation based on the Co-ordinated cost +.

- *Advantages and opportunity of annual reservations*

Almost all contributors observe that, where physical deliveries to eligible customers in Belgium are concerned, annual reservations are vital but implementation of some is

subject to a process of allocation by auction. Two others highlight the fact that the low overall level of capacities makes this project illusory.

- **Auctions**

Several major producers and traders extol the virtues of "market based" allocation mechanisms, mainly explicit auctions. In their opinion, implementing these mechanisms either implicitly or explicitly would enable the quality of forecasts to be assured, while contributing to the openness and transparency of the markets (particularly the Belgian market), making a maximum level of capacities available to actors, etc. The actors not operating on this border insist upon its theoretical capacity to enable everyone to take part in the allocation process.

On the other hand, the industrial consumers' associations consider that organising auctions would threaten competition in Belgium, insofar as in the short term competition is exercised via imports, given the absence of any local production other than that of the dominant producer.

Other actors believe that capacity auctions can only be the final stage in the opening of markets still to be created. To this end, they say, measures must be taken to ensure that wholesale markets are liquid and that rules governing access and imbalance settlement are transparent.

One actor believes that whilst awaiting the implementation of a system of auctions, the current Franco-Belgian mechanism must be extended to other borders, and in particular the Franco-German border.

The European Commission supports the efforts of the two transmission system operators to reach a co-ordinated allocation system. In the long term, it believes the best solution would be one based upon market mechanisms for the region as a whole.

- **Pro rata**

Not all actors are convinced by the advantages of the *pro rata* system, which is envisaged in particular for annual allocation. One actor is favourable towards it, whilst four others see it as a satisfactory interim solution, subject to certain conditions (limiting capacity acquired by the subsidiaries of one single entity and allowing a secondary market, reserving capacity for delivery contracts, allowing for firm and interruptible capacity and practising capacity slicing). The other contributors do not see the improvements that the *pro rata* system would bring compared with the current situation.

The European Commission says that the *pro rata* system has one unfortunate aspect, namely that it results in fractured capacities which then hinder entry for potential competitors of dominant operators. Furthermore, it indicates that there is no proof that the *pro rata* system is more efficient for markets where there is a high level of concentration on production markets, and where the maintaining the zero price level will not necessarily improve the situation.

- **Advantages and opportunity of infra-daily allocations**

Nine actors express a desire to see infra-daily allocation of capacities organised.

- **Co-ordinated management of allocations on several borders**

Almost all actors are favourable to co-ordinated management of allocations on several borders, if it would allow higher capacities to be allocated.