Bundesnetzagentur

COMMISSION DE RÉGULATION DE L'ÉNERGIE

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

A consultation document prepared by Federal Network Agency and CRE

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 Regulation 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.

The market parties' contributions will help the two regulators to get a better view on the opinions of the stakeholders on the optimal design of auctions rules for the allocation of the interconnection capacity at the French-German border. Both energy regulators are convinced that this public consultation procedure will efficiently contribute to the establishment of an optimal design of a congestion management mechanism compliant with the EC Regulation n° 1228/2003 of 26th of June 2003. Additionally, both energy regulators wish to take the opportunity of this public consultation to test the market parties' interest and if so, to get their opinions on the best way to develop cross-border intraday and balancing trade in the future.

The result of this common public consultation will be:

1. A joint synthesis of contributions from all involved parties and stakeholders on the optimal design of the Explicit Auction mechanism to be implemented on the German-French available commercial capacity.
2. A common "Roadmap" for further elaboration and implementation of these designs by the respective TSOs. This common Roadmap will be published at the end of October 2005 and used by each of the regulators to safeguard a harmonised approach.

1.1 Responses to the consultation document

Consequently, CRE and Federal Network Agency hereby invite all relevant market parties to answer to the questionnaire provided in section 2 and to add any comment on the TSOs' proposed auction rules. The answers, comments and/or recommendations will have to be sent preferably in English and not later than 19th October, 2005, to Federal Network Agency and/or the CRE.

As far as CRE is concerned, interested parties are invited to address its offices:

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

As far as Federal Network Agency is concerned, interested parties are invited to address its offices:

- by post addressed to Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen, Referat Zugang zu den Übertragungsnetzen und grenzüberschreitender Stromhandel, Tulpenfeld 4, 53113 Bonn
- by electronic mail, to the following address: cbtportal@bnetza.de
- or by contacting the „Referat Zugang zu den Übertragungsnetzen und grenzüberschreitender Stromhandel" (Tel.+49 228 14 57 21).

1.2 Confidentiality of contributions

Unless indicated by contributors as confidential, all contributions may be published by each of the regulators. Requests for confidentiality and/or anonymity of contributions will be considered in line of applicable legal provisions. However, all contributions will be shared among the two.
A joint synthesis of all these contributions to the public consultation will be published by the Federal Network Agency and CRE, provided this would not be in breach of applicable legal provisions.

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)?

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.

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?

4. Is it necessary to limit the interconnector capacity (volume cap for import and/or export capacity) that can be given to a market party[1] 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?

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?

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?

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?

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.

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?

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

c. To reduce proportionally both long and short term assignments?

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 allocation[5], and why?

2.2 Additional issue on Cross-border Intraday and Balancing Trade

In view of possible future developments and considering the Guidelines on Congestion management to be adopted according to Regulation 1228/2003 on conditions for access to the network for cross-border exchanges in electricity, CRE and Federal Network Agency wish to take the opportunity to receive views on possible introduction of cross-border intra-day and balancing trade.

2.2.1 Cross-border Intra-day Trade

The possible introduction of cross-border intra-day trade is part of the Study Group on Congestion Management established at the Federal Network Agency where intense studies on the subject on a national basis are undertaken. However, even at this early stage CRE and Federal Network Agency think it useful to study market actors approach to intra-day trade to enhance their own investigation into this issue.

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

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.

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?

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.

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?

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?

[5] To allow the application of the so-called “use it or use it” principle.

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?

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

2.2.2 Cross-border Balancing Trade

Before the introduction of cross-border balancing trade a number of obstacles will have to be overcome. This is expressed in the recently published ERGEG Position Paper on Balancing Mechanisms Compatibility. However, both regulatory authorities view this consultation process a valid opportunity to receive views on this issue.

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

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?

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.

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.

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

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