E-CONTROL

COMMISSION DE RÉGULATION DE L'ÉNERGIE

Harmonization of the congestion management methods between FRANCE-ITALY-AUSTRIA

Summary of Comments

1 Context

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 relevant 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.

Overall, 18 comments were received either by the E Control or CRE. The following briefly sums up the comments received by participants in the consultation. This documents 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 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)?

A slight majority of companies prefers yearly, monthly and day-ahead auctions. Some companies also recommended multi-annual allocations in order to have firm capacities for long-term supply contracts. Others (in particular Swiss companies) stressed the need for intra-day allocations, but mentioned also that therefore other allocation methods are needed.

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.

In general, market actors privilege the long-term timeframes (annual and/or monthly). Still, some market actors argue for a specific predefined ratio between long and short term (70 % for the long term and 30 % for the short term).

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?

A large majority of participants recommends marginal pricing.

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

Many participants see it reasonable to limit capacity given to single market participant. Some mentioned that also affiliated companies and existing long term contracts have to be taken into account in calculating these capacities. Proposed limitations were between 20 % and 50 %. Some market participants say the obtainable capacity shall not be related to the demand of end-users.

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?

In general, market actors would mainly prefer a single auction per product. Only two market actors propose multiple rounds for yearly capacities.

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?

A slight majority of participants does not consider it necessary. UIOLI principle and netting are often mentioned as means to maximize capacity for the market.

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

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

Secondary markets are considered of being important by most participants. A majority prefers option a) of a bilateral secondary market with final reconciliation by the TSOs. Only one participant advocates for a central secondary market. Two participants are against the creation of any secondary market since it would lead, according to them, to speculative behaviour in the auctions.

8. What type of commitment should the TSO's 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.

According to the specific groups of participants, there are differences in the answers. TSOs prefer the possibility of reducing capacities under strict regulation also including a compensation scheme whilst traders clearly advocate for very firm capacities (except in case of "force majeure").

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?

[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 TSO 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.

Comments disagreed on the rule to be applied for reductions of capacities. Some participants recommend to curtail short term products firstly, while others would prefer to curtail all capacities proportionally.

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?

Most companies do not recommend obligatory use and say that UIOLI with nomination sufficiently in advance can be applied. Two TSOs would prefer nominations for long term products on D-2. Only some industrial consumers advocate for obligatory use of capacities.

2.2 Cross-border Intraday Trade

1. Do you wish the establishment of a cross-border intraday trade and, if so please explain why?

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

2. Do you think cross-border intraday trade should be limited to particular purposes (e.g. to revise a day ahead position in case of disturbances like unplanned outage of generation plants)? And, if so, why?

Except some industrial consumers, who consider that cross-border intraday trade should be limited to revise its day-ahead position in case of physical disturbance (outage of a generation unit), market participants in general think that cross-border intraday trade should not be limited to particular purposes, but should be as open as possible to all market players. In particular, all available capacity should be offered to the intraday market in order to allow market participants to freely adjust their physical position and optimise any spare capacity available on a intraday basis.

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

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

A majority of participants requests a common regulatory framework and rules be applicable to all three countries simultaneously (timeframes, schedules nominations, IT systems should be compatible to all countries) in order to guarantee a fair and non discriminatory access to any third part within the regional market.

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

Except three participants, who consider it useful to reserve capacity for intraday mechanism (nevertheless depending on the size of the NTC value, on the existence of a cross-border balancing market and on the requirements of the markets), a majority of participants considers that no capacity should be reserved other than the one that has not been previously allocated and/or used.

5. Do you consider it useful to limit certain actions/behaviours in the intraday market in order to prevent potential ineffective market outcomes? If yes, please explain how and why.

A large majority of participants prefers that no constraint be applied ex ante to operators participating in the intraday market.

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

A majority of participants recommends obligations for intraday markets. For two participants, obligations should be imposed only if the intraday allocation mechanism implemented is not merchant. In the case of an explicit auction mechanism, they indeed think these obligations should be avoided but that the effective use of the intraday capacity should be closely monitored.

7. 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.

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

A slight majority of participants thinks that a free method based on « first come, first served » would probably be the best solution for implementing intraday trading in the short term. Still, some industrial consumers think that this mechanism should be merchant with payment of the differential between the cleared prices of the Power Exchange at both sides of the border, for the considered hour (a negative differential must lead to the payment of the user).

Some participants advocate for a Market coupling, but say that to achieve this a clear and consistent regulatory framework and well developed coordination processes are necessary.

Two participants think that the explicit auction method should also be applied to intraday trading.

Finally, as a long term solution, few participants recommend implementation of a continuous trading platform, based on delivery obligations and enabling continuous netting, similar to Elbas.

2.3 Cross-border Balancing Trade

Although the effective implementation of cross-border balancing trade could take some time, the two regulators think this consultation is a good opportunity to get a better view on the opinions of the stakeholders on this issue.

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

For a vast majority of comments, the possibility to participate to the balancing mechanism, via cross-border balancing trade, is considered a very important feature. Indeed, cross-border balancing market enhance both competition and cooperation between countries. Moreover, cross-border balancing markets should increase network security, particular in the context of a further expansion of non-predictable power resources like wind and should optimize the use of available capacity.

2. 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?

Except one participant who considers that the TSOs should not take part in cross border trading and another one who rejects both solutions a) and b), a majority of participants considers that, because of the operational conditions (accessing capacity right, nomination) within a very short time frame, it makes more sense TSOs manage the cross-border capacity for balancing purposes, in the limit of the available capacity, respecting security for both neighbouring countries.

3. What do you think about the differences in market designs between the three existing balancing mechanisms[7] and a possible need for harmonisation? Please specify.

The vast majority of participants considers it important to harmonise the market arrangements of the national balancing markets concerned in order to enable a liquid and transparent regional balancing market. In general, this requires at least a harmonization in timetables, IT platforms and scheduling systems.

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

A majority of participants considers that differences in market designs and arbitrage are basic elements of trading which will give the right price signals to the market. Rather than envisaging to have complex rules to limit cross border activity, such arbitrage should nevertheless incentive TSOs to reduce market design differences.

For some industrial consumers, there is no need to impose countermeasures if the balancings are led by the TSOs.

5. Cross border balancing and balancing trade are strongly dependent on congestion at the related interconnection. Please explain whether you consider it suitable that a certain amount of capacity of the already congested interconnection be reserved (i.e. deducted from the available capacity) for balancing trading purposes? Please explain.

A majority of participants thinks 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.

[7] Please refer to the respective websites of the involved regulatory authorities for the detailed description of the relevant balancing mechanisms – alternatively you might directly contact the authorities in order to have a specific question of relevance answered, referring to the email address listed at the end of the document in chapter 3.