



**Roadmap for the congestion management methods
between FRANCE-GERMANY**

A document prepared by FEDERAL NETWORK AGENCY and CRE

1 Introduction

1.1 The background

On 22 September 2005, FEDERAL NETWORK AGENCY and CRE published a jointly prepared consultation document concerning the harmonisation of congestion methods on their common border. 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.

1.2 The objective of the roadmap

The objective of the roadmap is to define a common approach between regulators for an improved integration of both markets. As far as possible, this roadmap took into account the several contributions received by regulators in the public consultation framework.

The roadmap includes joint regulators' requirements and recommendations to be implemented for the 1st January 2006 and beyond. Section 2 presents the high features of the design of explicit auctions mechanisms. Section 3 treats the future development of cross-border intraday and balancing trade. Section 4 deals with the calculation of cross-border capacity. Finally, Section 5 concludes with the planning of the roadmap.

1.3 Status of the document

FEDERAL NETWORK AGENCY and CRE fully agree on the contents of the Roadmap. Any delay to implement regulators' requirements in due time will have to be precisely justified and accompanied with a precise agenda for later implementation.

1.4 Publication of contributions

Both regulators have published all public contributions to the consultation document on their website except those declared to be confidential.¹ A joint synthesis of public contributions is also published. Readers are referred to the public contributions for further detail.

¹ See www.cre.fr and www.bundesnetzagentur.de

2 Roadmap for the implementation of explicit auctions mechanisms by the 1st January 2006

Allocation timeframes and price setting mechanism

FEDERAL NETWORK AGENCY and CRE have agreed on the organisation of sealed bids explicit auctions at marginal price for the annual, monthly and day-ahead timeframes. The opportunity of quarterly, multi-annual and possibly weekly allocation should be investigated by the TSOs before September 1, 2006.

Due to the tight timeframe available, annual auction for 2006 will take place in one round as put forward in the auction rules for 2006. However, FEDERAL NETWORK AGENCY and CRE ask the TSOs to analyse the possibility to have more than one round of auctions for the annual auction for 2007. This should also include a rolling auction as proposed in some comments received by the Regulatory Authorities. TSOs shall deliver their conclusion to both Regulatory Authorities until June 1, 2006.

A strictly positive price is to be charged only in case the sum of all bids exceeds the interconnection capacity available, i.e. congestion actually occurs. Consequently, Article 4.01 (Case 2) of the Auction Rules has to be amended accordingly.

Repartition of long term capacity

The TSOs shall maximise the capacity of the interconnections that can be proposed during the whole year. This capacity shall be announced to the market by the TSOs together with a clear firmness level. This capacity shall constitute the minimum of the capacities that will be allocated on the yearly, monthly and daily timeframes, with a preference for longer timeframes.

The statements received during the consultation don't reveal a clear preference of market players for a specific allocation. Accordingly, FEDERAL NETWORK AGENCY and CRE consider that the following allocation of long term capacity would be appropriate for 2006:

- a minimum of 10% of overall capacity for the day-ahead timeframe,
- a minimum of 20% of overall capacity for the monthly timeframe,
- all the remaining capacity will be allocated through the annual auction.

Based on the auction results these figures may be revised in 2006 for the shorter timeframes and for future auctions in 2007.

The Regulatory Authorities are aware of the recent ruling of the European Court of Justice regarding long-term contracts (C-17/03). Depending on further analysis of the issue, Regulatory Authorities will provide their common position on the priority of long-term contracts to be granted within the auctions in due time.

Level of Firmness

Analysis of the comments received in the consultation does not give a clear indication on the optimal level of firmness. Consequently, the Regulatory Authorities agreed that due to the current legal framework a change of the auction rules towards increased firmness for allocated capacity will not be requested.

As stated in the auction rules, nominated programs shall be fully firm, except in case of "Force Majeure". In this respect, the two regulators urge TSOs to agree on a precise and common definition for evaluation by the regulators.

Secondary capacity markets

In order to stimulate the availability and usage of cross-border capacity, secondary trading must be implemented by TSOs as soon as possible. FEDERAL NETWORK AGENCY and CRE request TSOs to draft a proposal allowing both types of secondary trading as mentioned in the questionnaire in consultation with market parties. This proposal shall be harmonised between both markets, finalised by 1 April 2006 at the latest, submitted to the regulators for evaluation and be implemented no later than July 2006.

Ex ante market power mitigation measures

Unless TSOs can justify the caps proposed in Articles 3.04 (3) and (4) no ex ante market power mitigation measures may be imposed on market actors for the 2006 auctions. In the meantime, a regulatory task force will be constituted in 2006 for monitoring the well functioning of explicit auctions on this interconnection. TSOs are requested to provide exhaustive data on bids and auction results for both directions and for all types of auctions on a monthly basis. The regulatory task force will allow regulators to react rapidly and to propose corrective measures in case of suspected/detected anti-competitive behaviour. An annual report will be published by the Regulatory Authorities to give feedback to market participants on the functioning of explicit auction methods.

Products' nomination

Firm nominations of annual and monthly capacity rights shall take place sufficiently in advance before the day-ahead allocation. A common clear deadline for nominations shall be adopted for these prod-

ucts. The opportunity to extend the duration of the firm nomination (from the day to the week for example) in order to allow for better forecasts of available capacities for TSOs will be further investigated. TSOs are requested to assess the use of such an extension during 2006.

For the time being, FEDERAL NETWORK AGENCY and CRE consider that capacity rights should be kept as “physical” as possible. It is why both regulators prefer, as a first step, to implement a strict “use it or lose it” (UIOLI) rule. This rule implies that if a capacity holder decides not to nominate the equivalent energy corresponding to its rights, he will lose them without any financial compensation. The introduction of secondary market for capacity rights will help participants to comply with the UIOLI rule. The opportunity to transform this UIOLI rule into a “use it or get paid for it” one will also be further investigated in the future.

One-stop-shopping

Both Regulatory Authorities ask the TOSs involved to discuss the advantages and disadvantages of integrating both auctions into a single Auction Office. This analysis should be presented to the Regulatory Authorities by the end of June 2006.

Current analysis shows that the additional bank guarantee required in the current Auction rules could be considered as a barrier to entry. Requiring only one bank guarantee for participating in auctions in both directions should be envisaged. Also, one single Auction Office would facilitate auctions as only one website would be used and would further the information exchange between Auction Office and market participants and between the TSOs involved.

3 Roadmap for the implementation of cross-border intraday and balancing trade

The implementation of cross-border intraday and balancing is seen by the market participants as very important steps for the future. Several advantages have been raised by market participants to support this implementation:

- more flexibility to market actors;
- optimization of the utilization of capacities;
- enhancing of competition in these near real-time markets;
- stability of the network and reduction of the TSOs' overall costs.

Intraday Trade

The results of the joint consultation clearly show that market participants ask for the introduction of intra-day trade. However, there is not yet indication on how this shall be implemented. Consequently, FEDERAL NETWORK AGENCY and CRE strongly support the analysis of the establishment of a cross-border intraday trade and consider that all market obstacles shall be removed and be made compatible as soon as possible.

For FEDERAL NETWORK AGENCY and CRE the consultation results on intra-day trade can be summarized as follows:

- there is no need to reserve an amount of cross-border capacity to the intraday and balancing mechanism.
- Intra-day trade shall enable both revision of day-ahead positions in case of physical disturbance and price arbitrage.
- No particular restrictions should be imposed in terms of nomination.

By the end of August 2006,² the three TSOs are requested to submit their joint analysis for a feasible system of cross-border intraday trade, including the above features and a specific schedule for implementation. By the end of October 2006, the Regulatory Authorities will publish their opinion on this analysis.

Balancing trade

The results of the joint consultation show that the majority of market participants ask for the introduction of balancing trade. However, there is not yet indication on how this shall be implemented. Consequently, FEDERAL NETWORK AGENCY and CRE strongly support the analysis of the establishment of a balancing trade and consider that all technical obstacles shall be removed and be made compatible as soon as possible.

The statements of market parties show some preference for the “TSO-TSO” model (where only the TSO’s are responsible for the management of cross-border balancing trade), which seems not only simpler (and so easier to implement) but more secure and efficient than the “direct participation” model.

By the end of August 2006, the three TSOs are requested to submit a joint proposal for cross-border balancing trade based on the analysis of both models, including a specific schedule for implementation. By the end of October 2006, the Regulatory Authorities will publish their opinion on that matter.

² This timeframe takes into account the studies to be commissioned by the German Study Group on Congestion Management.

4 Roadmap for the calculation of cross-border capacities

As requested by article 5 of the Regulation n°1228/2003, calculation of cross-border capacities must be approved by involved regulators and be published.

For this purpose, FEDERAL NETWORK AGENCY and CRE consider as critical that all TSOs involved in the regional market improve the exchange of relevant data for the calculation of cross-border capacities for the different times-frames and in particular:

- Best estimation of detailed generation and demand pattern;
- Network topology and characteristics;
- Already committed power transactions.

Based on this common set of information/forecast optimally updated, all involved TSOs will have to provide, before August 2006, for regulator's approval, according to Art. 5 (2) of Regulation 1228/2003 a common, coordinated, transparent and non-discriminatory method for the calculation of both "long term" capacities (i.e. annual and monthly timeframes) and "short term" capacities (i.e. day-ahead, intraday and balancing timeframes).

This method shall also propose rules for the distribution of available capacities on coupled borders and will also have to define the conditions of cooperation between TSOs for the optimisation of the scheduling of maintenance periods, for curative cross-border re-dispatching, for the reduction/interruption of programs, etc.

While this kind of coordination cannot be achieved for the 2006 auctions, the Regulatory Authorities nevertheless request the TSOs at least to publish, in parallel to the final version of the Auction Rules, the current method of calculating capacity for 2006 auctions, i.e. the general scheme for the calculation of the total transfer capacity and the transmission reliability margin based upon the electrical and physical features of the network. This includes the assumptions for the so called base cases. Apart from the general scheme TSOs will also have to publish estimates of the available transfer capacity as mentioned in Article 5 (3) of Regulation 1228/2003.

5 Conclusions

TSOs are requested to submit the TSOs' Agreement, which – among other things – clarifies the split of revenues of the auction between the TSOs involved, to Regulatory Authorities until November 15, 2005. Until then, TSOs will also revise the Auction Rules according to the requirements and recommendations mentioned above.

Furthermore, TSOs are requested to publish annually overall aggregate auction revenues and the aggregate costs of auctions.

Summary of the Road Map's Contents

Date	To be implemented	Reference
November 15, 2005	Clarification of the TSOs' agreement on the splitting of auction revenues	1
December 1, 2005	Publication by the TSOs of the minimum levels of the yearly, monthly and daily capacities to be allocated for the following year on the German-French border	2
	Publication of the current method of calculating cross-border capacity	3
	Publication of the final version of the Auction Rules including the regulators' recommendations (precise definition of "force majeure", possibly no ex ante volume caps, common deadline for nomination times, amendment on Article 4.01 (Case 2))	4
January 1, 2006	Implementation of sealed bids explicit auctions at marginal price for the annual, monthly, and day-ahead timeframes on the German-French border	5
April 1, 2006	TSOs' proposal for secondary trading	6
June 1, 2006	Submission of joint TSOs' conclusions for the implementation of multiple rounds for the annual capacity rights as well as the opportunity of rolling auctions	7
July 1, 2006	Implementation of secondary trading after regulators' approval	8
	Submission of joint TSOs' proposal regarding the advantages and disadvantages of having one TSO Auction Office	9
August 1, 2006	TSOs' proposal for a common calculation of cross-border capacities	10
September 1, 2006	Submission of a joint TSOs' analysis for a feasible cross-border intra-day trade including a specific schedule for implementation	11
	Submission of a joint TSOs' analysis for a cross-border balancing trade including a specific schedule for implementation.	12
	Submission of joint TSOs' conclusions for the implementation of weekly, quarterly and multi-annual capacity rights	13
November 1, 2006	Publication by the Regulatory Authorities of the opinion on the joint TSOs' analysis for a feasible cross-border intra-day trade	14
	Publication by the Regulatory Authorities of the opinion on the joint TSOs' analysis for a for a cross-border balancing trade	15
	Publication by the TSOs of the minimum of the yearly, monthly, and daily capacities to be allocated for the following year on the German-French border	16