

CRE consultation on the incentive framework for infrastructure investment projects at the French-Belgian and French-Spanish borders



EFET response – 23 February 2018

The European Federation of Energy Traders (EFET) thanks CRE for the opportunity to provide its view on the incentive framework for the planned infrastructure investments at the French-Belgian border (reinforcement of the Avelin-Avelgem line) and the French-Spanish border (new Bay of Biscay DC cable).

Q1: Do you have comments on the provisional expenses planned for the Avelin-Avelgem interconnection project?

EFET is not in a position to comment.

Q2: Are you in favour of the fixed premium and the rate-of-use variable premium being zero for the Avelin-Avelgem interconnection project?

The 2015 and 2016 ACER Market Monitoring Reports¹ have clearly identified a systemic problem of under-use of interconnections by the TSOs, especially for AC lines in meshed networks. The Reports focus in particular on the interconnection capacity made available to the markets, and the results of this analysis show that capacities in CWE are made available to the market at an average of 59% of their thermal capacity once the n-1 criterion has been taken into account (or about 27% of the pure thermal capacity). ACER notes that these numbers “suggest significant scope for increasing available cross-zonal capacity in the region”.

¹ 2015 ACER Market Monitoring Report, dated 16 September 2016, available at: http://www.acer.europa.eu/official_documents/acts_of_the_agency/publication/acer%20market%20monitoring%20report%202015%20-%20electricity.pdf, and 2016 ACER Market Monitoring Report, dated 6 October 2017, available at: https://acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Market%20Monitoring%20Report%202016%20-%20ELECTRICITY.pdf.

Any infrastructure, if used below its optimum of welfare creation, comes at a cost for the consumer. Consumers cannot be expected to contribute to expanding the regulated asset base of TSOs without regional welfare benefits coming out of such projects. The TURPE 5 HTB tariff regulation rightly links RTE's cost recovery for interconnection projects to a number of principles, chief among which is the effective use of the interconnection. This is however only a first step in the right direction, as we believe the incentive should be placed not (only) on the use of the interconnection, but also on the amount of capacity that the TSOs make available to the market. This should be the basis for an evolution towards incentives based on the regional welfare creation of specific projects, calculated ex-post as the difference between the expected regional welfare benefits in the initial cost-benefit analysis underpinning the investment decision compared to the actual regional welfare benefits created by the investment once commissioned.

We criticise the choices and justifications for RTE not to request a fixed premium and a rate-of-use variable for the following reasons:

- Any new infrastructure investment expands the asset base of a TSO. Whether premiums have been requested or not, the simple fact that a new investment is included in the network is a positive financial incentive for the TSO.
- Not requesting a fixed premium automatically limits the effect of a possible rate-of-use variable premium to a null-or-positive premium. Hence, no penalty could be applied if the project were to under-deliver in terms of usage, capacity made available to the market and ultimately welfare creation. We believe that authorising RTE to go around the tariffs regulation like this would be a wrong signal from CRE.
- Not requesting a rate-of-use premium exonerates the TSO of all responsibility with regard to the actual usage, capacity made available to the market and ultimately welfare creation for this project. The justification that a benchmark target value is too complex to establish at the French-Belgian as flow-based market coupling has made the flows at this border too unpredictable is not acceptable for EFET. A recent CREG report² has show that capacities made available to the market since the start of flow-based market coupling have decreased in CWE, including at the French-Belgian border. In this report, the Belgian regulator cited as a primary reason for these disappointing flow-based results the lack of coordination between TSO and the still missing justifications of a number of key parameters in the functioning of the algorithm. The lack of predictability of flow-based results is therefore largely a consequence of TSO actions and decisions, many of which remain to be justified to the CWE regulators.

Therefore, we believe that CRE should set a benchmark target value for the interconnection's rate-of-use, or even better, for the increased capacity made available to the market at this border. This should be the basis for both

² CREG report on the functioning and design of the Central West European day-ahead flow based market coupling for electricity: Impact of TSOs Discretionary Actions, dated 21 December 2017, available at: <http://www.creg.be/sites/default/files/assets/Publications/Studies/F1687EN.pdf>.

incentives and penalties for the TSO. While we understand that RTE is not solely responsible for improvements in the functioning of flow-based market coupling, it is time that regulators reassert their monitoring and control of what is happening at the CWE borders, and that TSOs collectively improve the functioning of a mechanism that does not seem to have improved regional welfare creation since its beginning.

Q3: Do you have other remarks on the Avelin-Avelgem interconnection project?

According to the flow-based data published by RTE through the JAO platform, the Avelin-Avelgem line seems to be congested less than 1% of hours. If our understanding of the data is right, then EFET wonders about the relevance of this EUR 39 million project.

A clear roadmap with infrastructure investment priorities based on publicly available data showing congestions on internal and cross-border transmission lines would be beneficial. While we are conscious of the European target of 10% interconnectivity by 2020 (15% by 2030) and firmly believe that well interconnected networks are key to integrating energy markets at EU level, we believe that a target based on the capacity of interconnection is the wrong metric: improving the integration of networks should be about how interconnectors are used, made available to the market, and create welfare at regional level. Those elements, which we hope are already the basis for the cost-benefit analysis underpinning interconnection projects, should be the decision factors for interconnection investments. We would not want interconnection targets pre-defined at European level to be an incentive for unnecessary investments that would only come at a cost for consumers.

Q4: Are you in favour of a zero fixed premium for the Bay of Biscay interconnection project?

As mentioned in our response to Q2 on the Avelin–Avelgem interconnection project, the 2015 and 2016 ACER Market Monitoring Reports have clearly identified a systemic problem of under-use of interconnections by the TSOs. For the SWE region, the data compiled by the Agency shows that capacities are made available to the market at an average of 53% of their thermal capacity once the n-1 criterion has been taken into account (or about 27% of the pure thermal capacity). We refer to the rest of our response to Q2 for more thoughts on the elements that should be the basis of the incentive framework.

As mentioned in our response to Q2, not establishing a fixed premium automatically limits the effect of the requested rate-of-use variable premium to a null-or-positive premium. Hence, no penalty could be applied if the project were to under-deliver in terms of usage, capacity made available to the market and ultimately welfare creation. We believe that this would be a wrong signal from CRE.

Q5: Which rate-of-use incentive seems appropriate for the Bay of Biscay interconnection project?

We disagree with the proposed benchmark target of 50% rate of use proposed by RTE:

- First RTE ought to properly define the scope of this rate of use: does it apply to thermal capacity, or thermal capacity after the n-1 criterion has been taken into account. Second, as mentioned in our response to Q2 on the Avelin–Avelgem interconnection project, we believe that the incentive should be placed not (only) on the use of the interconnection, but also on the amount of capacity that the TSOs make available to the market. This should be the basis for an evolution towards incentives based on the regional welfare creation of specific projects, calculated ex-post as the difference between the expected regional welfare benefits in the initial cost-benefit analysis underpinning the investment decision compared to the actual regional welfare benefits created by the investment once commissioned.
- Second, a 50% rate-of-use benchmark target seems far too low considering the DC technology intended to be used for the Bay of Biscay cable. Quoting again the 2015 ACER Market Monitoring Report, the capacity made available to the market compared to the pure thermal capacity on European HDVC cables averaged between 77% and 94%. A benchmark target value of 50% would be excessively low, even considering the one decided for the IFA2 cable of 63%, which already represented a disappointingly all-time low.

Further, the incentive premium of 25% proposed by RTE seems disproportionately high. As CRE suggests, this premium should be aligned on the one of the Savoy-Piedmont, i.e. at 5%. We also insist that this premium also acts as a penalty when the target is not met.

An incentive framework needs to set the right level of ambition, otherwise it should be considered as a plain subsidy scheme and reported to the relevant authorities as such. Therefore, we recommend:

- Basing the benchmark target on the capacity made available to the market compared to the thermal capacity once the n-1 criterion has been taken into account
- Setting the target at least at a level of 74%, which represents the lowest average capacity made available to the market compared to the pure thermal capacity on HDVC cables in Europe.
- Setting both a premium and a penalty of 5% maximum.

Q6: Do you have other remarks on the Bay of Biscay interconnection project?

First, EFET notes that the TYNDP considers additional capacity increases thanks to reinforcements (other than the Bay of Biscay interconnection) and thus the new interconnection's regional costs and benefits should be evaluated taking account of these additional capacities. Therefore the reference for estimation of additional flows should be at least the maximum of the currently observed capacity complemented by the additional reinforcements (evaluated at 2GW in the TYNDP). In order to steer

Member States towards greater harmonisation of market conditions, we would also like the infrastructure developers to indicate in their cost-and-benefit evaluation how the lack of harmonisation of fiscal policy and regulation is affecting the result of their analysis.

Second, the last interconnection project completed between France and Spain, the Baixas-Santa Llogaia DC link doubled the thermal interconnection capacity between the two countries. However, according to the 2016 Market Monitoring Report, the capacity made available to the market since the commission of that interconnector did not double, but increased by 85%.

As mentioned before, consumers cannot be expected to contribute to expanding the regulated asset base of TSOs without regional welfare benefits coming out of such projects. The RTE proposal of a very low rate-of-use target makes us fear that this interconnection could be used far below its optimum of welfare creation. Once again, while we are conscious of the European target of 10% interconnectivity by 2020 (15% by 2030) and firmly believe that well interconnected networks are key to integrating energy markets at EU level, we believe that improving the integration of networks should be about how interconnectors are used, made available to the market, and create welfare at regional level. Those elements, which we hope are already the basis for the cost-benefit analysis underpinning interconnection projects, should be the decision factors for interconnection investments. We would not want interconnection targets pre-defined at European level to be an incentive for unnecessary investments that would only come at a cost for consumers