



## RTE consultation on cross-border participation to the French capacity remuneration mechanism



### EFET response – 9 June 2017

The European Federation of Energy Traders (EFET) thanks RTE for the opportunity to provide expertise and input on its consultation on the cross-border participation of foreign capacities to the French capacity remuneration mechanism (CRM).

The RTE reflection on the evolution of the French CRM rules follow the request of the French government on the subject, and a broad agreement with DG Competition at the European Commission. Details in the design of a mechanism allowing the participation of foreign capacities are however still to be determined, and we appreciate the open dialogue with RTE on these points via a series of working group meetings.

As a reminder, EFET has not and will not take a position on the establishment of the French CRM. In our view, **establishing a new CRM or maintaining an existing one should be based on a pan-European capacity adequacy assessment taking account of all capacities** (generation, DSR and storage, including across borders) and an appropriate cost-benefit analysis including alternative solutions.

Besides, we believe that **the consideration or the establishment of a CRM should never be a reason to relinquish efforts to improve the energy market design. Undistorted energy prices give an accurate signal for dispatch on the one hand, and for investment and divestment on the other hand.** Accurate price signals will allow market participants to identify the need and timing for investments in peaking generation units, storage solutions and demand-side management, alongside more traditional investment in generation and transmission capacity. We

refer to our Discussion Paper on the free formation of prices in the wholesale electricity market for more details on the subject<sup>1</sup>.

The purpose of this contribution is to provide feedback to RTE from a European market perspective. Experience from discussions on CRMs has shown us that keeping those debates at Member State level risks negatively affecting the functioning of the internal energy market, to the detriment of end-consumers at European level. When discussing cross-border participation to a CRM, opening up the discussion to third-country and/or pan-European stakeholders is of vital importance.

*Question 1: What do you think of the proposals regarding the revision of the security coefficient? In particular, do you think that the calculated value of the security coefficient should be fixed for a given delivery year?*

As highlighted in previous EFET contributions<sup>2</sup>, we believe that if and when CRMs are established in a specific bidding zone, the contribution of capacities (generation, demand response and storage) situated outside of this bidding zone to the security of supply of the zone where the CRM is established should be duly taken into account. Notwithstanding potential other flaws in its design, the French CRM has the advantage to be a decentralised model that would easily enable the trading of capacity certificates across borders.

Hence, EFET has been advocating a reform of the current “implicit” consideration of foreign capacities’ contribution to French security of supply, and the implementation of an “explicit” model where generation, demand response and storage capacities situated outside of the RTE control area may **directly** (or “explicitly”) participate in the mechanism.

The reform of the security coefficient goes in the right direction, as it would allow the consideration of explicit participation of foreign capacities in the mechanism. However, we believe that the following elements should be improved:

- **Transparency:** The way in which the security coefficient is computed should be fully transparent, especially as far as how demand forecasts are established.
- **Visibility:** The security coefficient should be **absolutely fixed** for a given delivery year at the start of the trading period (DY-4) and until the end of the

<sup>1</sup>The importance of free formation of prices in the European wholesale electricity market, an EFET Discussion Paper, June 2016, available at: [http://www.efet.org/Cms\\_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/~contents/GG\\_H299HP5MPZQ5T5/EFET\\_Free-formation-of-prices-power-market.pdf](http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/~contents/GG_H299HP5MPZQ5T5/EFET_Free-formation-of-prices-power-market.pdf).

<sup>2</sup> For extensive details on this question, please refer to the EFET response to the RTE consultation on the cross-border participation of foreign capacities to the French CRM, 15 October 2015, available at: [http://www.efet.org/Cms\\_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/VQZ2CYM5GYDLESUF/EFET\\_RTE-consultation-XB-CRM\\_final.pdf](http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/VQZ2CYM5GYDLESUF/EFET_RTE-consultation-XB-CRM_final.pdf), as well as in our EFET contribution to the RTE reflection on the evolution of the French Capacity Mechanism rules, 7 September 2016, available at: [http://www.efet.org/Cms\\_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/QV22DPTCX64MV66H/EFET\\_CRM-FR\\_RTE-questions\\_07092016.pdf](http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/QV22DPTCX64MV66H/EFET_CRM-FR_RTE-questions_07092016.pdf).

trading period (DY+2). The security coefficient should not be used as an adjustment tool for the system. It is crucial, for a healthy functioning of the capacity certificates market, including across borders, that the demand in certificates is known from the beginning of the trading period in order to permit the free formation of prices on the certificates market.

Finally, RTE has determined that the security coefficient will continue to take account of the contribution of the Swiss bidding zone implicitly, thereby closing the door to an explicit participation of Swiss capacities to the French CRM. We understand that the agreement with DG Competition concerns borders with other EU Member States only. However, as far as we are aware, the agreement does not explicitly exclude Swiss capacities from participation in the French CRM, nor does any European legislation. We therefore request that Swiss capacities be considered for explicit participation in the mechanism, and the security coefficient be adjusted accordingly.

Also, we believe that capacities located in non-directly adjacent bidding zones do contribute to the security of supply of the zone where the CRM is established. In practice, this of course adds layers of complexity, requires multilateral agreements or bilateral agreements beyond France's direct neighbours, and would likely make capacity available for the French CRM in indirect neighbours scarcer than in direct neighbours. However, no outright exclusion should apply if concrete contribution to the French CM can be evidenced. We therefore advise RTE not to exclude the possibility of an explicit participation of capacities from non-adjacent bidding zones altogether, and to consider extending the mechanism – and adjusting the security coefficient accordingly – once the mechanism has been tested for neighbouring bidding zones.

*Question 2: What do you think of the three methodologies proposed for the breakdown of interconnection tickets allocated at each border? Are you considering alternative methods?*

We believe that the goal of RTE should be to organise the participation of foreign capacities in the French CRM in the simplest way possible in order to ensure that foreign market capacity providers actively participate in the mechanism. For this purpose, we recommend that an implicit allocation of the interconnection tickets (i.e. together with the capacity certificates) be implemented as soon as possible.

The interconnection ticket system proposed by RTE is in line with the availability model at the core of the functioning of the French CRM. We understand that this rightly means that the issuance of interconnection tickets would not result in reservation or ex-ante reduction in cross-border transmission capacities at the interconnectors

Concerning the methodology for the calculation of the breakdown of interconnection tickets allocated at each border:

- **Methodology 1 has our preference:** a statistical forecast is likely to be the most accurate, and it should of course take account of historical experience (so it will comprise methodology 2 somehow). Again, full transparency on the methodology and the results is a must.
- Methodology 3 is too uncertain and unreliable, as long-term capacities calculations differ from one border to another, and are not transparent enough. Maybe once the Clean Energy Package provisions on capacity calculation (article 14.7 of the draft recast Electricity Regulation) are applied, and full transparency is provided on capacity calculation based on a cost-benefit analysis, then we could review our opinion on this methodology.

*Question 3: In the pre-certification proposal of RTE, generation/demand capacities are not subject to an additional de-rating linked to the saturation of the interconnections (element already taken into account in the calculation of the volume of interconnection tickets allocated per border): do you think that the saturation of the interconnections should be taken into account a second time?*

We consider that the saturation of the interconnection is already considered in the calculation of the volume of interconnection tickets. Adding an additional de-rating factor would double-count the effect of interconnection saturation.

*Question 4: In your opinion, should the notion of "export margin" proposed by ENGIE be taken into account in the capacity certification process (additional de-rating), and why?*

We consider that the margin of **each neighbouring bidding zone should be considered as a whole to assess its contribution to security of supply in France**. Each capacity, whether base load, mid-merit or peak-load, equally contributes to the export margin of a bidding zone. Applying the notion of export margin at an individual plant level would put in place a discrimination element among capacity providers, which goes against the recommendations of DG Competition.

Additionally, the capability of specific generation/demand capacities to contribute to the global margin of a bidding zone should, like for French capacities, already be subject to a de-rating criteria in the (pre-)certification process, depending on their capability to be available when needed. This is why, for instance, a de-rating criterion is applied on intermittent RES generation units. Adding an additional de-rating criterion linked to the export margin would be amount to double counting.

*Question 5: Do you think it is important to put in place the possibility of multiple participation to different CRMs? If yes, under which terms and when?*

EFET has since the start of the discussion on cross-border participation to the French CRM opposed any form of reciprocity requirement, or any limitation to the participation of capacities in multiple capacity schemes. **The existence of a CRM in a neighbouring market can neither be a prerequisite nor a limitation to the participation of third-country capacity in the French CRM.** This would contradict the fundamental principles of the Third Package and of EU Directive 2005/89/EC on Security of Supply.

EFET supports a pragmatic approach whereby all capacities from a country, with or without a CRM, are allowed to participate in the CRM of a neighbouring country, provided that they fulfil the obligations and requirements of the said mechanism, including in cases of simultaneous scarcity in both markets.

It is up to RTE and the neighbouring TSOs to arrange the conditions of multiple participation to different capacity mechanisms in their bilateral agreements. Appropriate penalty regimes need to be put in place to settle the cases where a capacity provider did not fulfil its obligations under either or both of the capacity schemes. The (pre-)certification procedure and the penalty regime need to be sufficiently stringent in practice to discourage fraudulent over-commitment. Also, the bilateral agreements could contain provisions regarding which scheme gets priority on using the capacity committed to more than one CRM in cases of concomitant scarcity.

*Question 6: What do you think of the proposed arrangements for managing interconnection tickets following the initial border auction (re-balancing and secondary market)? How many rebalancing auctions should you organize (timing)?*

We call on RTE to organise **multiple auctions for the allocation of interconnection tickets**, as early in the trading period as practically feasible, i.e. ideally in DY-4 and in the worst case in DY-3. As mentioned in our answer to Question 2, **implicit allocation of interconnection tickets together with capacity certificates should be implemented as soon as possible.**

Even with multiple auctions, **the possibility to exchange interconnection tickets on a secondary market is of utmost importance.** As a consequence, in case of downward re-balancing, we suggest the application of the use-it-or-sell-it principle instead of having an obligation to return the tickets to RTE (effectively a use-it-or-lose-it model).

A secondary market does not necessarily need to be organised on a power exchange, it can take place on the OTC market without the need for RTE to put any new structure in place. The only arrangement that will need to be made is a procedure to inform RTE of the holder of the interconnection ticket(s) after a transaction has taken place. Since such arrangements already exist for the exchange

of capacity certificates, EFET does not understand why these arrangements could not be extended to the interconnection tickets.

*Question 7: Do you see barriers to the implementation of foreign capacity controls consistent with those applied in France?*

The basic principle should be that **the same controls should apply in France and abroad**. Market participants already provide high level of transparency on the availability of their assets via national or European reporting mechanisms. We believe that even outside of specific rules to be developed in the framework of bilateral agreements between RTE and its neighbouring counterparts, the reporting already performed by market participants should be of great help for foreign capacity controls.

As we are not privy to the discussions between TSOs, it is difficult for us to judge potential hurdles to the establishment of control procedures in neighbouring bidding zones. Should RTE or its counterparts identify technical barriers to capacity controls in the neighbouring bidding zones, then they should clearly identify them so that market participants can help TSOs address them.

*Question 8: Do you envisage any other way of organizing the calendar for the participation of foreign capacities to the capacity market (in normal functioning mode)? In particular, do you think that certification of foreign capabilities and setting of parameters should be earlier?*

In order to **ensure that the trading period for capacity certificates (both French and foreign) is not *de facto* reduced compared to the initial design of the CRM**, we recommend the following modifications to the calendar:

- In normal functioning mode, the (pre-)certification of foreign capacities should happen in DY-4, like the French capacities.
- The establishment of the security coefficient should also happen in DY-4. This is a vital element that has an impact on the value of the certificates, both for French and foreign capacities. Setting the security coefficient in DY-2 would effectively reduce the trading period for all capacities by two years.
- As mentioned previously, the explicit auctions – or rather implicit allocation – of interconnection tickets should be organised as quickly as possible after the (pre-) certification of foreign capacities and security coefficient have been confirmed, i.e. ideally in DY-4 and in the worst case in DY-3.

As far as the first delivery years are concerned, especially DY 2019, we are concerned about the timing of the process. According to the capacity certificates auction calendar published by EPEX Spot, the first auction for DY 2019 is scheduled for December 2017 and six further auctions for the same delivery year are planned in the course of 2018. This means that the security coefficient for DY 2019 will need to be fixed before December 2017. Ensuring the participation of foreign capacities in the CRM for DY 2019 would also require that the agreements with foreign TSOs are in

place, the pre-certification has been completed and interconnection ticket auctions have been organised before December 2017 – or that implicit allocation of interconnection tickets and capacity certificates is in place for the December 2017 EPEX Spot certificates auction.

*Question 9: What do you think of the proposals for controlling interconnection capacity (fallback option)?*

As such the control process looks fine, but CRE (possibly in collaboration with neighbouring regulators) should have the final say on the control process. RTE cannot be judge and party to the control process.

*Question 10: Which method of valuing the contribution of foreign generation/demand capacities in the context of the fallback option seems to you the most appropriate?*

We refer to our answer to Question 12.

*Question 11: Do you envisage other topics to be addressed in the bilateral TSO cooperation agreements?*

The RTE proposal is fine; we do not have additional comments.

*Question 12: Do you think that the revenues related to the interconnection capacities (tickets in the target model or certificates in the fallback option) must be shared between the two interconnection managers?*

The ventilation of revenues collected by interconnections (through interconnection tickets in the target model or through capacity certificates in the fallback option) poses the **question of the incentive, for the foreign TSOs but also for RTE, to effectively pursue the development of the target model and conclude cooperation agreements:**

- For the target model, the 50-50 sharing of the revenues from the sale of interconnection tickets seems the fairest option. It mirrors the solution applied for cross-border transmission capacity, and would financially incentivise foreign TSOs to work on agreements with RTE.
- For the fallback option, where the interconnections would be granted capacity certificates directly and sell them, the question is more problematic:
  - Sharing the revenues from the capacity certificates between RTE and the foreign TSOs would intuitively seem the fairest option once again. Yet, it would not incentivise foreign TSOs to conclude cooperation agreements with RTE: indeed, if no agreement is in place, the TSOs would capture the entirety of the revenues linked to the contribution of a foreign bidding zone to the capacity mechanism. Even after sharing revenues with RTE, the foreign TSOs would profit more financially from

the fallback option than from the target model, and would have the additional benefit of not needing to put a bilateral agreement in place.

- Not sharing the revenues from the interconnection reverses the problem: this time it would be RTE who would have no incentive to conclude agreements with foreign TSOs. Even if RTE has a mandate from the government and DG Competition to establish such cooperation agreements, they could be made so complex and burdensome that no foreign TSO could or would be willing to sign them.

In both cases, the losers are the generation and demand capacity providers in the neighbouring bidding zones, who would be excluded from directly participating in the French CRM. One solution would be that the revenues are set aside on a blocked account by RTE with no possibility to access the funds until an agreement is found with the foreign TSOs.