

Response

to the

Public consultation regarding the participation of interconnections and/or foreign capacities in the French capacity market of RTE

Berlin, 02.11.2015

1 Vision

BDEW generally believes that capacity markets, whenever deemed necessary, need to be considered as part of the internal electricity market. A well-functioning pan-European market remains central to macroeconomic efficiency and is a key component to deliver security of supply at lowest costs.

Capacity shall be provided and hence traded cross-border from country A to country B or in the opposite direction provided that the relevant rules for the provision of capacity and requirements of TSOs for cross-border exchange are met – thus making capacity to a commodity.

2 Principles and pre-requirements

The introduction of a European capacity market is unrealistic. Realistically the introduction of regional capacity markets is not at hand in the short time, too. Thus a proper arrangement to allow for participation in the French capacity market is crucial. The principles for cross-border participation should be chosen in a way that allows their application in similar cases. In fact if a different country were to introduce a capacity market, the framework set up now for France and neighbouring countries should be such that it could serve as a raw model.

In this sense the consultation conducted by RTE is not only important for France and its neighbours it may well pioneer a regional approach on national capacity markets in a European context.

In order to establish a coherent framework remuneration should be linked to availability rather than delivery.

With the introduction of a capacity market the income of generators and storage operators is split in two. In such a market design part of the revenues will stem from the capacity market and of course there will be revenues from the energy market. But the latter ones will decrease as a result of the introduction of a capacity market. This is not only true for the national market – in this case the French market – that has introduced a capacity market but also for all other neighboring markets. Its strength depends on the degree of interconnection with the French market.

It has to be avoided that the signal sent by the French capacity market generates missing money in other countries and ultimately leads to desinvestment in those markets. An implicit approach on foreign capacity does not reward the value that actually is created outside of French borders. Therefore, BDEW welcomes that RTE considers to explicitly taking into account the contribution of other market areas to security of supply in France.

As a matter of principle remuneration of foreign capacities and interconnectors should follow the same rules as within France. Competitive electricity prices and security of supply shall be delivered on a basis which is long term.

TSO unbundling is a guiding principle throughout the EU. A conflict of roles of TSOs has to be avoided. TSOs shall not take the role of market actors providing generation, storage or DSM. As the impact of the French capacity market on prices will presumably grow over time conflicts with the principle of TSO unbundling might prove detrimental to the completion of the internal electricity market.

The assessment of the contribution of foreign market areas is mainly based on availability in previous years. Thus, it makes sense to introduce a security coefficient which ensures consistency between the reference power and the volume of certificates enabling the security of supply criterion to be met.

In addition, BDEW shares the set of key principles and pre requirements for cross-border participation in capacity markets proposed by EURELECTRIC:

- Common requirements and coherent market rules for all capacity market participants (e.g. certification, penalty regime, availability requirement, etc.);
- No discrimination of any technology taking part in the electricity markets
- Participation with the same capacity in more than one capacity market for obligations in the same timeframe should not be possible (no double commitment and earnings)¹;
- TSOs should offer a certain amount of cross-border participation based on non-discriminatory conditions and only limited by objective physical limitations (to be approved by National Regulatory Authorities and ACER);
- TSOs should not be allowed impact cross-border capacity contracts in situations of system stress;
- No reservation of cross-border capacity should be introduced to prevent interference with the functioning of the forward, day-ahead, intra-day and balancing markets, which will determine the actual direction of the energy flow.

BDEW draws the attention to EURELECTRIC's reference model based on the above mentioned principles in the publication² "*A reference model for European capacity markets*".

¹ After a learning phase even double participation could be acceptable. However, it is not possible that the same installation makes available its capacity at the same time in more than one capacity market.

² EURELECTRIC 2015, [A reference model for European capacity markets](#)

3 Answers to the questions of RTE

Q1. Should the evolution of the participation of interconnections and/or foreign capacities in the French capacity market depend upon prior changes to the practical and legal framework governing the management of scarcity situations? Why or why not?

The participation of foreign capacity to the French CRM poses the question of the practical and legal framework the certification, control, and possible sanctions foreign capacities will be subject to. In this sense, a number of rules need to be developed to ensure that these basic features of the French CRM lawfully apply to assets partially or totally outside the reach of French legislation and RTE rules. These rules should include provisions on how to deal with situations affecting the ability of foreign capacities to fulfil their obligations under the French CRM, including in such cases as energy market suspensions, as mentioned above.

Principally participation of third-country capacity to the French capacity market should be governed by the same principles underlying the contribution of French capacities in the mechanism, namely:

- certification of generation, storage and demand-response capacities,
- availability of the transmission grid,
- control of the fulfilment of capacity providers' engagements
- settlement of possible imbalances
- penalties for non-availability

BDEW observes that scarcity situations are managed by a number of basic market rules at European level, namely that (i) scarcity is expressed through market prices, (ii) cross-border energy flows follow these energy prices, so that lower priced markets export to higher priced markets, and (iii) imports/exports may not be curtailed for scarcity reasons. Export from a scarce market means that other markets face even stricter scarcity. Curtailing export (or other type of market suspension measures that could be considered) in such a situation of common scarcity, would therefore aggravate the situation, would unnecessarily increase the risks on brown-outs and would constitute an unacceptable intervention in the market.

Nonetheless, BDEW acknowledges that a number of rules need to be developed to ensure that these basic features of the French capacity market lawfully apply to assets situated outside the reach of French legislation and RTE rules. BDEW believes that any changes in the rules around the participation of foreign generation and demand to the French capacity mechanism should closely follow practical and legal developments at European level and in neighbouring countries. While BDEW would not make it conditional to an evolution of the French CRM rules, neither to implementing a proper mechanism for participation of foreign capacities, it calls on the European Commission and Member States to define and adopt joint principles for the management of situations of simultaneous adequacy problems in neighbouring markets. As a first step, BDEW sees the possibility of bilateral or multilateral agreements between the concerned Member States and their TSOs. Bilateral/multilateral agreements should ensure that market activities are not suspended or curtailed in day-ahead or intraday

between the concerned bidding zones (especially import-exports), even in the form of reduced volume of capacity being made available for allocation in day-Ahead or intraday (i.e. full firmness of allocated and of available but not yet allocated rights should be guaranteed).

At the same time specific rules applying to capacity located inside of France – as the requirement to take part in the balancing market – may prove overly burdensome and impractical to be applied to capacities located outside of France.

Q2. Should a neighbouring country be required to have a capacity mechanism in place for capacities in that country to be allowed to participate in the French capacity market?

No. The existence of a capacity market in the neighbouring markets cannot be a prerequisite to the participation of third-country capacity in the French capacity market. This would contradict the fundamental principles of the Third Package and of EU Directive 2005/89/EC on Security of Supply. It would also be unnecessary.

BDEW supports a pragmatic approach whereby all capacity from a country, with or without a CM, is allowed to participate in the CM of a neighbouring country, provided that they fulfil the obligations and requirements of the said mechanism. In practical terms, it means that:

- If a CRM already exists or is being considered in a neighbouring country, some form of coordination and compatibility needs to be ensured, even in the case of very different models. These measures are needed to avoid that the same capacity is relied upon by several mechanisms for the same time period or that the available capacities are not shared because they are pre-booked by another non-compatible CRM or equivalent: this would result in sharing only scarcity and not the available margins,
- If no CRM exists or is under consideration in the neighbouring country, specific rules for the calculation, control and sharing of the available margins across the borders during periods of scarcity once the market results have been taken into account should be put in place – in addition to managing the firmness of interconnections.

In a long-term perspective, we believe that regional and not national capacity markets are desirable.³

³ See UFE/BDEW “France-Germany Study: Energy transition and capacity mechanisms - A contribution to the European debate with a view to 2030 Executive Summary”

Q3. If a capacity mechanism is implemented in a neighbouring country, should the French capacities necessarily be allowed to participate to the capacity mechanism of this given country so that the capacities from this country participate to the French capacity market?

No. Whereas the inclusion of foreign capacities should be a basic requirement for any national capacity market⁴, there should be no such thing as reciprocity. Reciprocity – wherever this principle has been introduced in the past – has proven to be an obstacle to market integration. Thus, the existence of a capacity mechanism in a neighbouring market cannot be a prerequisite to the participation of third-country capacity in the French capacity market from a legal perspective.

Q4. If a capacity mechanism is implemented in a neighbouring country, should the participation of French capacities to the capacity mechanism of this given country be considered as a sufficient condition so that the capacities from this country participate to the French capacity market?

Up to now the regulatory framework around the coordination of TSO actions in case of Emergency Situations (cf. our comments on the possibility to suspend the day-ahead and intraday markets in the NC ER) is limited. Pending a sturdy European framework on the subject, the contribution of foreign capacities should be subject to detailed agreements between the concerned Member States and their TSOs.

At the same time, the maximum amount of foreign capacity is limited for grid security reasons to a certain amount to be assessed by the TSOs. In order to provide equal and fair treatment of foreign and French capacity providers, this amount should reflect a similar level of availability as the internal French grid has. It has to be noted that also the French transmission grid will not have a 100% guaranteed availability. The possibility that a French capacity provider cannot deliver its capacity at times of French scarcity because of unavailability (or congestions) in the French grid is apparently neglected. The same logic should be applied to foreign capacity providers. The amount as assessed by the TSOs, needs to be allocated by the TSOs to capacity providers that want to participate in the French capacity market. This allocation mechanism needs to be developed. In principle the “Capacity Market Transmission Rights” should be allocated implicitly with the acceptance of the foreign bid.

It must be noted that these Capacity Market Participation Rights are different from the well-known transmission rights that are currently used for cross-border energy trading. The cross-border participation in the French capacity market should have no impact whatsoever on the energy market and should not require any reservation of cross-border capacity.

⁴ The decentralised capacity market proposed by BDEW provides for the inclusion of foreign capacities. Generation capacities from countries without capacity markets could, under certain conditions, also participate in the DCM.

Q5. If some foreign capacities or the overall available margin in a neighbouring country were certified, what type of underlying commitment should this imply?

Foreign capacities should clearly participate with the underlying commitment of their availability in times of scarcity. These periods of scarcity should be identical to those defined by RTE for capacities located in France. The commitment specified in the proposal on a decentralized capacity market⁵ should be applied analogously.

Conversely their commitment should not be related to flows on interconnectors to France nor to the saturation of such interconnectors.

Q6. If some foreign capacities were certified, what local criteria should be used to qualify capacities? Would it be justified if they were treated differently depending on whether or not they were located in an area directly adjacent to mainland France?

Prequalification of third-country capacity should be governed by the same⁶ standards underlying the contribution of French capacities.

Q7. Should the explicit participation of an area not directly adjacent to mainland France take into account that area's interconnection with areas adjacent to mainland France? If not, why? If so, how should it be taken into account?

Capacities located in non-directly adjacent bidding zones should be subject to the same treatment as national capacities or capacities directly adjacent bidding zones.

As explained above in chapter "principles and pre-requisite" the effect of the introduction of a capacity market in France is felt in other markets. In none-adjacent markets this effect will be lower, though.

Q8. How should coordination be organised between French and cross-border parties for calculating the contribution of capacities located in other countries to security of supply for French consumers (agreement on adequacy studies, datasets, etc.)? Would it be acceptable for transmission system operators to be accountable for overall margins made available?

⁵ If, at the time of electricity shortage, the issuer of capacity certificates has marketed its sold its production through future contracts, then, in order to fulfil its supply obligation (kWh), it must do so through physical feed-in from its generation plants. The plant operator would thus have implicitly fulfilled its feed-in obligation at a time of system shortage. Insofar as the issuer of capacity certificates has not already otherwise marketed his available capacities, he will offer them on the day-ahead market for electricity at a price no higher than the shortage price. If this is reached – subject to reductions in the case of offers at the same price – this offered capacity has also been marketed and a consideration solely of the actual feed-in will suffice. Issuers of capacity certificates must guarantee one hundred percent availability in times of system shortage. In order to achieve this, it is necessary for a reserve to be provided for technical outages and revisions – either with own plants or via agreements with third party facilities. In the case of a plant portfolio, the availability of the individual plants is not important, rather the availability of the entire portfolio of the capacity certificate issuer.

⁶ Exemptions may apply for the initial phase of testing and introducing an explicit participation.

A regional framework with TSOs but also power exchanges, market parties and national regulators seems to be an appropriate framework. The pentilateral forum could serve as an organisational hub. Other relevant countries like Spain, Italy and UK may be added to this structure.

Operative calculation and verification of contributions should be done by national TSOs.

However, fundamentally it is the market itself that determines how much capacity is available and can be offered to the French capacity market. Especially if capacity is offered from a market that also has a market-wide capacity market, then there seems to be no need to administratively determine the available margin that can be offered to the French capacity market (assuming that rules are in place that preclude that one capacity provider can deliver its capacity at the same time in more than one capacity markets). Only if capacity is offered from a market without a market-wide capacity market, it may be necessary to administratively determine the margin that can be offered to foreign capacity markets.

Q9. Where appropriate, could a certification of interconnections with underlying commitments based on NTC values be suitable? If so, what deadlines for participation could be considered?

BDEW believes that direct participation of interconnections cannot be the way to proceed for the opening of cross-border participation in the French capacity mechanism. As such, the certification of interconnectors seems flawed as it only considers one part of the equation, namely the interconnection capacity: if the generation/demand capacity is not taken into account, the solution is not likely to prove durable. It is also inadequate as it implies that TSOs (such as RTE) would participate in a market that they are themselves organising and supervising. This is in direct conflict with the role of TSOs and unbundling rules.

There might be an exception for privately owned HVDC-interconnectors. But this exception remains hypothetical for the case of the central-western European market.

Q10. If both interconnection capacities and foreign generation and demand response capacities can be certified, should firmness rules apply to ensure that the responsibilities of different parties vis-à-vis their individual commitments are shared equally? If so, what principles and timeframes should apply? 6) To what extent do you think that the divergence of taxes and charges levied on electricity in different Member States creates distortions in terms of directing investments efficiently or hamper the free flow of energy?

There should be no explicit participation of (AC-)interconnections owned by TSOs. See chapter "Principles and prerequisites" and answer to Q 9.

Q11. Should the explicit participation of interconnections be allowed only if regulations are already in place to ensure that revenues collected by the two transmission system

operators via the capacity market are used in a similar way to those collected for cross-border capacity allocations in the energy market?

There should be no explicit participation of (AC-) interconnections owned by TSOs. See chapter “Principles and prerequisites” and answer to Q 9.

Q12. If so, under which regulatory framework: that of France and/or that of the EU?

There should be no explicit participation of (AC-) interconnections owned by TSOs. See chapter “Principles and prerequisites” and answer to Q 9.

Q13. Are the criteria applied in this assessment framework relevant? Should other criteria be added or removed? And if so for what reason?

[Unanswered]

Q14. Do you think that it is accurate to deal both and separately with the question of the location of the value and of its distribution? If yes, under what conditions? If not, why?

[Unanswered]

Q15. Please provide an assessment of scenario A, particularly with regard to the assessment framework presented in part 3 of this document.

Scenario A represents a status quo, and fails to meet the requests of the European Commission to find operational solutions to facilitate the participation of foreign capacities to national CMs across borders. It also fails to directly reward, and therefore optimise investment/closure decisions for capacities located outside the French borders but which contribute to security of supply in France.

Q16. Please provide an assessment of scenario B, particularly with regard to the assessment framework presented in part 3 of this document.

As mentioned in the chapter “principles and pre-requisites” and our answer to Q9, BDEW is not in favour of direct participation of interconnectors to the French CRM. Scenario B could more easily work for privately owned HVDC cable since the capacity could arguably be considered as directly connected to RTE, but it would require that the corresponding capacity is not connected to other bidding zones, otherwise the same adequacy coordination measures would have to apply.

BDEW questions the analysis of RTE regarding the attribution of value in situation 1. The value is in interconnections only at first sight. It is the availability of capacity from generation, storage and DSM that is leading to a saturation of interconnections. TSOs do not have the

legal power to force the availability of generators, storage and DSM providers to insure the saturation of an interconnection. Saturation rather reflects a certain outcome of the market.

We reiterate our concerns over the fact that Scenario B would fail to consider the generation/demand capacity, and it would imply that RTE would be participating in a scheme that it runs itself.

TSOs should instead auction the volume of interconnectors to market parties. The income from the auction should then be used to increase the volume of interconnectors (see scenario D).

Q17. Please provide an assessment of scenario C, particularly with regard to the assessment framework presented in part 3 of this document.

For the reasons given in the answer to Q 16 scenario C, too, is not assigning market roles properly.

Q18. Please provide an assessment of scenario D, particularly with regard to the assessment framework presented in part 3 of this document.

BDEW supports this scenario as the target for RTE. Calculations could be more complex, but it will reward bidding zones (or individual capacity providers within these bidding zones) based on their actual individual contribution to security of supply. We understand that Scenario D would require in-depth TSO-TSO cooperation and refer to our answers to Q5 to Q9 for additional details on this part.

BDEW stresses that in scenario D interconnectors, too, will be part of the equation:

- They will capture part of the value of a capacity market directly through the energy-only market, via the congestion income.
- TSOs shall auction the volume of interconnectors to market parties as Capacity Market Participation Rights.

The income from the auction should then be used to increase the volume of interconnectors.

Q19. Is it necessary that interconnections and/or foreign generation and demand response capacities face the same commitments and control processes as the one for domestic capacities under the French capacity market?

Principally yes. For this reason there should be no explicit participation of (AC-) interconnections owned by TSOs. See answer to Q 9. Some deviations may be appropriate though. For example the requirement to take part in the balancing market may prove overly burdensome and unpractical to be applied to capacities located outside of France.

In line with our previous answers we believe that a distinction should be made between interconnections and foreign generation, storage and demand response capacities. Interconnections are part of the transmission grid, they do not deliver capacity to the French capacity market, but they cause that foreign capacity is effectively available to the French capacity market, similar to the role of the French transmission grid that facilitates causes the availability of French capacity to the French capacity market.

Q20. In the case of a certification of interconnections and/or generation and demand response capacities based on the effective availability of capacities with ex-post controls, are there feasible alternatives to having neighbouring transmission system operators act as the margin responsible parties of last resort?

[Unanswered]

Q21. What would be the best way to share revenues if interconnections and/or foreign generation and demand response capacities participated explicitly in the French capacity market?

There should be no explicit participation of (AC-) interconnections owned by TSOs. See chapter “Principles and prerequisites” and answer to Q 9.

Q22. Should some of the scenarios in this list be automatically ruled out? Are there sub-scenarios other than those presented here that could be considered?

There should be no explicit participation of (AC-) interconnections owned by TSOs. BUT: Interconnections will receive an important part of the value and responsibility through allocation (e.g. through auctions) of the energy and of Capacity Market Participation Rights.

See chapter “Principles and prerequisites” and answer to Q 9 and 18.

Q23 Could one of these scenarios be considered a potential target? If not, what target could be considered?

BDEW considers Scenario D as the only enduring solution for cross-border participation that should be pursued by RTE.

Q24 Should intermediate steps be considered while moving toward this target?

In the early phase of the French capacity market income derived from the participation in the capacity market will presumably be negligible.

- To reduce complexity the participation of other member states might be reduced to countries adjacent to France.

- Some kind of simplified reward mechanism might apply.

Conversely any intermediate measure which leads to the confusion of market roles or the misallocation of – be it negligible –streams of income should be avoided.

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