

Mrs Fay Geitona
ERGEG
28 rue le Titien
1000 Bruxelles
Belgium

10 November 2010

Dear Fay,

Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity: Initial Assessment

EDF Energy welcomes the opportunity to comment on the draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity: Initial Assessment.

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, renewables, coal and gas-fired electricity generation, carbon capture and storage, combined heat and power and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including both residential and business users.

Our high-level comments on the consultation documents are as follows:

We agree with the main features, proposed as target models, for capacity allocation and congestion management. This should ensure the maximum capacity availability and that the most efficient use of interconnection capacities will be offered to the market, under economic and non discriminatory conditions.

- We believe that the prerequisite regarding these issues is the implementation of a transparent system which the market participants understand and in which they have confidence. This is irrespective of the model applied and the market arrangements developed. In part, this could be achieved by running the target model in parallel with existing data.
- Interim steps may last for an indeterminate undetermined period of time and thus need to work effectively and to offer a similar degree of transparency to the final target. We strongly prefer a clear process in which positive value can be demonstrated, market participants are widely consulted, and NRAs have adequate control at each stage in implementing the model.

Furthermore, the UK experience may be an instructive case study for European policy development and may reveal some missing points in the document:

- Auctions can be an efficient mechanism for price discovery. However, interconnection capacities are mainly offered by monopoly network owners. Therefore, adequate

mechanisms should be put in place by NRAs to prevent both over-recovery and TSOs benefiting from a restriction of supply.

- Particular attention should be paid to dispute resolution, governance and co-ordination of these arrangements. More details are needed on these issues.
- The Balancing Market arrangements have not been described in this documentation. Nevertheless, they have an impact on generators' and TSOs' behaviours.
- Finally, the UK experience has shown the value of fixed, or at least predictable, network costs, taking into account the relative importance of non energy costs on revenues and margins of energy suppliers. Capacity allocation incentive schemes may have an impact in this regard.

Our answers to the specific questions are attached.

Should you wish to discuss any of the issues raised in our response or have any queries please contact my colleague Sebastian Eyre on +44 20 3126 2325, or myself.

Yours sincerely,

A handwritten signature in black ink, appearing to read "D. Linford".

Denis Linford
Corporate Policy and Regulation Director

Attachment

Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity

General Issues

1. Are there any additional issues and / or objectives that should be addressed in the Capacity Allocation and Congestion Management IIA and FG?

EDF Energy believes that the issues have been adequately covered and that the objectives are sufficiently comprehensive in themselves. However, some developments related to the different timeframes of the traded markets should have been included such as the harmonisation of trading platforms or the relationships between TSOs and Power exchanges. Furthermore, we would like further consideration of three issues which are at present out of the guidelines but important nevertheless:

- Auctions can be an efficient mechanism for price discovery. However, interconnection capacities are mainly offered by monopoly network owners. Therefore, adequate mechanisms to prevent over recovery and prevent TSOs benefiting from a restriction of supply should be put in place by NRAs.
- Particular attention should be paid to dispute resolution, governance and co-ordination for these arrangements. More details are needed on these issues.
- Balancing Market has not been described in this documentation. Nevertheless, they will have an impact on the generators' and TSOs' behaviour.
- Finally, the UK experience has also shown the value of fixed, or at least predictable, network costs, considering the relative importance of non energy costs on revenues and margins of energy providers. Capacity allocation incentive schemes may have an impact in this regard.

2. Is the vision of the enduring EU-wide target model transparently established in the IIA and FG and well suited to address all the issues and objectives of the CACM?

EDF Energy agrees with the overall vision of establishing a European-wide electricity market that is both fully transparent and without undue barriers to trade. The issues and objectives should be addressed by the proposals described in the IIA and the FG. We believe that it is of paramount importance that market participants understand the rules and have confidence in them.

3. Should any of the timeframes (forward, day-ahead, intraday) be addressed in more detail?

More details should be given for each timeframe where specific sets of rules and market arrangements need to be developed. In particular, attention should be paid to the day-ahead market which has a central role in price formation and hence on cross-border trade.

4. In general, is the definition of interim steps in the framework guideline appropriate?

Interim steps may last for an undetermined period of time and thus should offer the same degree of workability and transparency as the final one.

Interim steps may last for an undetermined period of time and thus should work effectively and offer a similar degree transparency as the final target model.

We strongly prefer a clear process where: positive value can be demonstrated, market participants are largely consulted; and NRAs have a tight control at each stage in implementing the model.

5. Is the characterisation of Force Majeure sufficient? Should there be separate definitions or DC and AC interconnectors?

The draft Framework Guideline states that: "*A harmonised approach to firmness is linked to a harmonised definition of Force Majeure,*" and "*the CACM network code(s) shall also specify that the TSOs jointly define the terms of Force Majeure subject to the approval by relevant regulators.*" Clarification is needed as to whether harmonisation will be promoted through the UE binding network codes, or at the national level.

For our part, we believe that the Force Majeure clause should be generic and apply across the board to different types of electrical plant and equipment. The fact that AC or DC interconnectors bear different risk profiles should not be an issue.

As a general principle, we consider that potential events entering into the category of Force Majeure may be proven to have direct impact on interconnections.

6. Do you agree with the definition of firmness for explicit and implicitly allocated capacity as set out in the framework guideline? How prescriptive should the framework guideline be with regard to the firmness of capacity?

Yes, the definition is very clear and precise. We note the preference for physical firmness over financial firmness and for a compensation scheme based on energy market price differentials.

We consider that firmness is definitely required for the market coupling scheme and should also be applied to potential day-ahead explicit capacity auctions in order to strengthen the confidence of market participants in cross-border transactions.

For the remaining traded markets, the interconnector providers should have flexibility on what they may offer, which would then be priced accordingly. Market participants should be fully aware of the characteristics of the products offered.

7. Which costs and benefits do you see from introducing the proposed framework for Capacity Allocation and Congestion Management? Please provide qualitative and if applicable also quantitative evidence.

It is very difficult to try and quantify the benefits across the EU. However, we believe there are areas of potential benefits, for example: countries with favourable generation factor endowments and hence lower average costs should be able to export to countries with less favourable endowments.

Other benefits may include:

- Increased utilisation of generation resources and hence increased economic efficiency,
- Potentially enhanced security of supply and the diversity of generation mix will be greatly increased due to EU trade,
- Increased competition through sharper price signals at the day-ahead market,
- Increased liquidity in the Member States markets.

Section 1.1: Capacity calculation

8. Is flow based allocation, as set out in the framework guideline, the appropriate target model? How should less meshed systems be accommodated?

Theoretically, flow based allocation should optimise the use of transmission network capacities. However, it is worth noting that this model has not yet been implemented and tested. This issue could be dealt, in part, by parallel running the target model with the working methodology in place.

In any event, the market participants need to have confidence that the method is robust and it is important that they have a good appreciation of how the model actually works.

9. Is it appropriate to use an ATC approach for DC connected systems, islands and less meshed areas?

The choice of option has no bearing on the interconnection capacities if the interconnection is HVDC: it should be the nominal physical capacity.

10. Is it necessary to describe in more details how to deal with flow-based and ATC approach within one control area (e.g. if TSO has flow-based capacity calculation towards some neighbouring TSOs and ATC based to the others)?

Developments on this issue could be needed at some stage, but whether it is needed in this IIA is debatable.

If a dual approach is used between a highly meshed and relatively unmeshed area, it could potentially influence the available capacity. The important issue is that market participants are fully informed of the methodology and are confident in its results.

11. Is it important to re-calculate available capacity intraday? If so, on what basis should intraday capacity be recalculated?

The ability to remodel the transfer capacity is essential where the interconnection capacity is heavily influenced by the network topology. To do so otherwise would put the whole system within the synchronous zone at risk. It should be the respective TSO's responsibility to make this recalculation.

Section 1.2: Zone delineation

12. Is the target model of defining bidding zones on the basis of network topology appropriate to meet the objectives?

This definition appears reasonable to give sufficient flexibility. Nevertheless, we have to be aware of the dangers of small bidding zones in terms of locational market power, operational issues and variations in national prices. Furthermore, we believe that structural internal congestion should be dealt through investment in transmissions lines rather than by accommodating the market framework.

13. What further criteria are important in determining the delineation of zones, beyond those elaborated in the IIA and FG?

The development of price control incentives to eliminate national congestion is also an important issue to be considered when dealing with congestion areas.

Section 2: Forward markets

14. Are the preferred long-term capacity products as defined in the framework guideline suitable and feasible for the forward market timeframe?

Long-term capacity is relevant for energy companies who want to invest in new plant with a view to selling electricity to other Member States value. Those companies would most likely prefer an "open season" auction approach. This is distinct from energy traders, for whom a three year time horizon may be sufficient.

15. Is there a need to describe in more detail the elaborated options for the organisation of the long-term capacity allocation and congestion management?

We require comfort that new plant will be able to secure capacity for export during the life of the plant.

Section 3: Day Ahead allocation

16. Are there any further issues to be addressed in relation to the target model and the elaborated approach for the day-ahead allocation?

The target model requires a high level of coordination and harmonisation between NRAs, TSOs and Power Exchanges. This highlights the issues not covered in the document of governance, co-ordination and dispute resolution.

Section 4: Intraday allocation

17. Are there any further issues to be addressed in relation to the target model and the elaborated approach for the intra-day allocation?

Please see our response to the question above.

18. Does the intra-day target model provide sufficient trading flexibility close to real time to accommodate intermittent generation?

We need more detail to comment on this aspect. This is important because after Gate Closure, TSOs will need to fine-tune the system and the market, to accommodate the intermittency of some renewable generation.

**EDF Energy
November 2010**