
EDF response to ERGEG's call for evidence on cross-border trade incentive schemes in electricity

EDF welcomes the opportunity to answer this ERGEG consultation that ambitiously addresses the issue of exploring opportunity to design incentive schemes to promote cross-border trade in electricity.

The third Energy Package reinforces the obligation for NRAs to develop cross-border trade through all reasonable measures aiming at :

- eliminating restrictions on trade between Member States, including developing appropriate cross-border transmission capacity to meet demand and
- enhancing the integration of national markets which may facilitate electricity flows across the EU, the latter being supervised at community level by the Agency (ACER).

TSOs' missions, at national and regional levels, have been definitely turned as well towards more consideration for exchanges with other interconnected systems.

EDF particularly supports these evolutions introduced by the third Energy Package and considers that the opportunity to introduce appropriate incentive schemes at national/regional level may foster the integration of the various national markets provided that there is a clear view among the NRAs about the improvements that can be expected from the TSOs.

In EDF 's view, the incentive schemes approach should take into account the fact that, even if TSOs are on a central position for market integration, putting exaggerate pressure on them might be inefficient or create negative value since:

- a number of levers are out of TSOs' scope or shared with the multiple parties at stake (considering market fundamentals, offer-demand balance conditions from each side of the border, high European incentives put on renewable intermittent generation, regulatory issues e.g. TRIAD mechanisms in the UK, etc.), which usually creates inappropriate financial risks put on the TSOs shoulders,
- a non virtuous behaviour can emerge in cross-border management such as a more than optimal cut down in security grid margins, the use of counter-trading favouring more financially attractive interconnections and lowering the global social welfare, etc.
- the cursor on the level of financial incentive to put in place is hard to define with enough precision and might constitute either a non appropriate financial risk for TSOs or an inefficient measure.

Thus, apart from grid investments which are out of the scope of this consultation, a solution might be developed by focusing the incentive scheme on ensuring that TSOs put in place the means to optimise cross-border trade in order to bring development over:

- an increase of the interconnection capacities through:
 - o the cut down in inappropriate margins,
 - o the balance between internal congestion and cross-border flows and,
 - o more supra-national coordination (CORESO example).
- an improvement of the capacity allocation modus operandi for each timeframe in line with the PCG targets:
 - o 100% of the forecast available capacity allocated forward with a secondary market and financial firmness,
 - o day-ahead market price coupled,

- intraday implicit continuous allocation including OTC trade,
- multiple TSO cooperation for cross-border integration for electricity balancing markets,
- a harmonized and coordinated capacity calculation methodology which calls for an increased level of cooperation between TSOs.

Thus, NRAs should encourage TSOs through such financial incentive to move forward, in cooperation with the other parties involved, towards the PCG targets. NRAs could then encompass the level already achieved by each interconnection, some interconnections being on the right path regarding the targets (for example within the CWE and the Nordic regions) while other regions do not even have an intraday mechanism or a day ahead fixing exchange.

To foster the implementation of the PCG targets for each timeframe, an incentive scheme based on a tailor made set of indicators depending on the market integration progress could consist of an agreement between regulators and TSOs from both sides of the interconnection like milestones on specific projects development.

Indeed, to complete this approach, more transparency on market integration development and on the use of network infrastructure is needed towards NRAs as well as market players: the construction of pertinent indicators with frequent publication is necessary, as proposed in the present consultation.

These should be periodically published and feed in an annual report presented by the NRA as market surveillance, such as the present annual reports on interconnection from CRE or CWE regulators group. Moreover, it would enlighten the evolution of these indicators with historical data presenting the impact of the action implemented for market integration.

All the indicators described in the consultation are relevant and important for more transparency and thus more confidence in the TSOs' capacity calculation and a better understanding of the method used.

Nevertheless, EDF wishes to underline that most of the quantitative indicators described in the consultation refer to day-ahead mechanisms and not to other timeframes (balancing, intraday and long-term) which are important as well regarding the PCG targets and the directions given by the Florence Forum. EDF suggests that similar indicators be described and implemented on other timeframes (for example the evolution of forward NTC allocated to market players or the volume of intraday/balancing cross-border exchanges).

With the large development of intermittent generation forecasted for the next years, efficient short-term interconnection mechanisms that allow TSOs and players to balance their positions close to real-time with a larger playing field are very important. NRAs will have to pay attention to the increase of margin that TSOs could apply unduly in order to face this growth in generation intermittency.

Finally, Switzerland, though not a Member of the EU, is an important interconnection crossroad in Europe (central position and high interconnection capacities) and therefore its role in the development of an integrated market should not be undervalued. Any incentive scheme discussed among the NRAs should factor in TSOs ability to closely work with Swissgrid with a view to help implementing the integration principles under negotiation between EU Commission and the Swiss authorities.