

EFET response on the consulted reform of the capacity market in France

The European Federation of Energy Traders (EFET¹) welcomes the opportunity to provide our comments to the reform of the French capacity mechanism tabled by RTE.

On a general note, we deem a de-centralised system as advantageous in sustaining a trading environment, even in its overly regulated form. However, we acknowledge the intention of CRE to consult market participants on the value of the existing mechanism in terms of security of supply, as opposed to its value in terms of financing existing assets. In this context, we would like to understand what failures RTE identifies in the current mechanism and what improvements it wishes to achieve by transitioning to a centralised system.

Ideally, we ask RTE to assess the expected effects of both systems, as well as of the objectives that a centralised system in France would seek to serve regarding future signals, including expectations for response of the mechanism in different settings. Although we can draw from the experience associated with the market-wide centralised mechanism in the UK, as well as from experience in Belgium and Italy, it is important to bear in mind that those capacity mechanisms work differently compared to the French capacity mechanism. We are thus interested in focusing on the parameters of the proposed system to enhance simplicity and effectiveness. It would also be important to better explain why the change in the electrical system context in 10 years of time (from centralized assets to renewable/demand side response/batteries) needs the change from a de-centralised to a centralised system.

We need transparency over cross-border participation and certification instruments

We ask further clarity on conditions for cross-border participation, also considering preliminary DG COMP observations that the French system lacks a proper cross-border mechanism. We also need clarity as to whether the proposed mechanism will be based on certificates along the lines of the Italian example, where arrangements are made through reliability options.

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

Although we recognise that the consultation outlines principles, rather than details, of the mechanism, we need better visibility and transparency as to how volumes will be marketed based on experience of previous auctions where limitations would be in place over participation of asset owners and foreign countries, resulting in cross-border capacity being auctioned once off at zero price.

We need clarifications on price fixing, operational simplicity and effectiveness

Aside from issues around security of supply, it is important for market participants to have greater visibility as to how the price is determined. The pricing of the capacity mechanism in France is in principle based on the “missing money”, but we understand that this has never worked out from the beginning of implementation of the decentralised system.

We would also like to highlight the operational complexity of the existing system. Certifying an asset two or three times for the same delivery year, purely because an asset is moving from one BSP to the other, proves time-consuming and sub-optimum for market players.

If, in a de-centralised system, it is not possible for market participants to have a better view and understanding of their pricing, alongside less operational complexity, to what extent would a centralised system provide an advantage in this respect?

We want for the proposed system to stick to “pay as bid” and the OTC market

In response to question 9 of the public consultation asking market participants’ preference between the “pay as clear” and “pay as bid” models, we stress that the EU Commission has recognised the marginal pricing model as the target model.

In a de-centralised system, our preference is to stick to “pay-as-bid” due to bilateral transactions and the OTC market. In a centralised system however, the “pay-as-clear” option would have our preference.

Regarding our opinion about the role of the OTC market in both models (centralised and de-centralised), we stress that even a centralised model will have to allow for transfer of capacities. We thus urge for the ACER methodologies currently in place to be respected. This links back to the point about the operational complexity of the mechanism. Looking at primary exchange of capacity, we may say that the OTC market works reasonably well, which begs the question around administrative constraints regarding the RTE registry.

We recognise the need to improve the current mechanism

We have referred to several inefficiencies of the current decentralised system:

- Inefficient participation of demand side
- Issues around cross-border participation
- Lack of clarity on the price signal
- Difficulty to estimate future demand
- Issues around secondary markets

While we reckon that there is room for improvement of the current mechanism, we ask to what extent would a centralised system address the above-listed failures.