EON answer to RTE call for evidence regarding the participation to the FCR cooperation

December 2015

EON thanks RTE for the opportunity to provide its views on call for evidence on the opportunity to participate to the cooperation on Frequency Control Reserves (FCR) experimented by Austrian, German, Dutch and Swiss Transmission System Operators (TSOs).

Q.1: Do you share the interest of a cross border optimization of the reserves by auctions?

E.ON warmly welcomed this evolution. Insertion of the French PR market in the regional initiative will reinforce, with short term effects, security of supply and economic efficiency of the French PR system with spill over effects on current members systems.

This evolution implies a harmonisation of national practices and frameworks. In this context, as indicated below, E.ON strongly believe that current French rules should be amended to move towards the German one.

A non-binding system based on auctioning will contribute to enhanced economic efficiency and competitiveness.

Question 2: Do you agree with RTE's proposal to only deal with the primary reserve in a first step?

E.ON agrees with such an approach. PR is actually the most advanced product in WE regarding harmonization and therefore the easiest product to implement in the short term from a regional perspective.

Question 3: Some differences seem to you problematic? If yes why?

As above mentioned the incorporation in a cross scheme implies an harmonization of market rules, products design and regulatory frameworks.

- Certification criteria should be identical for all countries
- Energy control management must be designed on the German model in order to limit the financial flows
- Control & penalties system should be designed on the German model to gain in efficiency. As mentioned by RTE, actors (especially historical) are sufficiently serious and responsible to ensure the security of this system.
- Exchanges between actors should be admitted

Question 4 : Is the resolution of the differences a prerequisite for the coupling of primary reserve markets, or is it acceptable to work to resolve them in a second time once coupled?

Harmonization is sine qua non condition for the coupling effectiveness failing which products and market rules heterogeneities will have distortive effects and jeopardize the cross border initiative.

E.ON will appreciate that RTE give more information on the way it envisaged to move forward to harmonization and convergence.

Question 5 : Did you identify other important elements not covered ?

E.ON has concerns on the way to manage a scenario in which all the PR volume is not subscribed.

Question 6: Some French market rules measures seem to you particularly important to keep them?

No.

Question 7: Do you share the interest of the RTE's participation to the cooperation?

E.ON warmly welcomed this participation. This initiative will produce pro-competitive effects by increasing competition, securing volumes, lowering transactional costs and de-concentrating the French PR market.

Question 8: Does a weekly tender is acceptable for you? Would you prefer a daily or a weekly tender?

Such mechanism could be acceptable. The differentiation between "peak" and "off-peak" product

Question 9 : Does the 168 hours base product is acceptable ? Would you prefer to maintain 168 hours base product or the introduction of peak off-peak products?

The differentiation between "peak" and "off-peak" product could be a good option to ensure technological neutrality of weekly time framed products. Some generation assets can't be operated with an optimal level of visibility from a weekly perspective. In this context, such a product differentiation could limit potential technological discrimination.

Question 10: Do you consider problematic the absence of possibilities of cross-border reserves exchange between actors?

In a medium term perspective, it should be possible to back-up the provision of PR in State 1 with prequalified assets situated in other participant States. A pragmatic and transitory approach could let us accept a TSO side trade mechanism.

Question 11: In the absence of cross-border possibilities linked to the establishment of a secondary market as a complement to the tender, do you identify ways of improving the French secondary market?

As long as no competitive and open primary market exists, a secondary market can't grow. A competitive and liquid market can't exist if one actor is dominating on the supply side.

Question 12: Is the absence of indivisible character of the product acceptable? Do benefits of indivisible offers seem to overcome their disadvantages?

The introduction of indivisible offers would enable bidders to offer assets which are out of the money in the PR market. If the marginal price at the primary reserve auction covers the specific costs of a mustrun, these volumes would increase market liquidity. In a market without the possibility to submit indivisible offers these volumes won't be offered as the risk that by curtailing the offer the mustrun costs won't be paid is high.

Question 13 : Is the absence of dissymmetrical products acceptable for you ?

Yes, as long as in the dispatch provision a dissymmetrical provision is allowed.

Question 14 : Is the remuneration « pay as bid » acceptable for you?

Yes

Question 15 : Is the current cost sharing contracts between TSOs rule seem acceptable? Otherwise what important principles should guide its evolution according to you?

Yes

Question 16: Does the absence of consultation structure / common approval of the cooperation acceptable to you?

In the short term, the absence of formal consultation and governance structure does not appear as a critical issue. In the medium term, such structures will be necessary.

Question 17 : In view of the elements presented, would you accept that RTE join the Cooperation in the state?

Yes. E.ON warmly welcomes this initiative.

Question 18: Can you rank in descending order of importance your three change requests that you consider most important?

1. Same prequalification rules in France and Germany
2. 100% harmonized product specification for PR in participant States, especially in France & Germany
3. Possibility to backup primary reserve with assets in the other country

Question 19: Do some elements need to be compulsorily treated before RTE's participation to the cooperation? A study engagement in adequate time would it be sufficient in this case to join the cooperation in the state?

All the issues mentioned on the previous answer.

Question 20 : Do you agree with the RTE analysis?

Yes

Question 21 : In the event that the implementation of a national tender would still be decided, which scenario do you think should be retained?

E.ON is not in favour of status quo.

With the current structure of the French generation market, a national tender would be very vulnerable to market abuse. This would not be the case or at least a lot less likely in a common auction with CH, AT, NL and DE. Therefore a national tender does not make sense.

In this context, the cross border option clearly appears as the only possible option to increase the system efficiency.

Question 22 : Do you support the use of the existing platform www.regelleistung.net or would prefer that RTE make available a specific platform for France?

We prefer the use of www.regelleistung.net as common platform for TSO's from different countries to purchase primary reserve. An English translation would be beneficial.

Question 23 : Is the date of implementation on 1st of January 2017 seems to you feasible?

Yes, it is feasible. One year lead time is sufficient considering the Dutch implementation. Nevertheless, market participants will need an adequate notice between the final decision and its implementation.

Question 24 : If the cooperation should evolve "X" months after 1 January 2017 in order to take account of your main request, would you prefer that RTE join cooperation at the earliest, or in connection with this development? Is this answer depends on the value of "X"?

E.ON estimates that involvments 1 and 2 mentionned at Q.18 could be performed during the next 6 months. Point 3 can wait if like in the Netherlands a force majeure clause is part of the framework contract.

Question 25: Do you share the RTE's proposal regarding the "fallback" mechanism i.e. the use of the current prescription mechanism?

Yes, it is operative and sufficiently flexible in case of problem.

Question 26: Do you share the RTE's proposal on the optional nature of participation in cross-border tendering coupled with the provision of constructive capabilities via the balancing mechanism and the "fallback" prescription mechanism?

Yes

Question 27: Do you identify important points to consider in the evolution of the penalty regime, particularly related to the primary reserve cross-border offers project ?

In order to ensure non-discriminating rules between participant markets penalty regimes should be harmonized.