



## Answer to the consultation on the French Implementation Plan by DG ENER<sup>1</sup>

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### Introduction

ENGIE welcomes the opportunity to participate in the consultation organized by DG ENER on France's market reform plan. ENGIE supports most of the analysis provided in the implementation plan: with the notable exception of the maintenance of the regulated tariff for residential customers, electricity markets in France seem to be overall in line with the requirements contained in Regulation (EU) 2019/943 ("*Electricity Market Regulation*"), although some change or improvements should still be delivered or considered. We strongly believe that the presence of a decentralized market-wide capacity market in France is required in order to ensure security of supply at the level set by the French authorities and to trigger the investments needed in existing and new capacities, given the specific situation of France and the on-going energy transition to a low carbon economy.

ENGIE therefore believes that an opinion on the implementation plan should be delivered as soon as possible by the European Commission in order to allow at the earliest possible date in 2021 the exchange of capacity guarantees for the delivery years 2023 and 2024. Indeed, the French capacity mechanism must give visibility for all market participants over a 4-year horizon at least in order to send a signal for investing in existing capacities (ensuring that operations could be prolonged) or in new capacities. Finally, ENGIE would like to reiterate that regulated electricity prices ( "*Tarifs réglementés de vente de l'électricité*") in France today constitutes a major obstacle to the establishment of effective competition between suppliers.

### Adequacy Standards

<i>Mesure n°1 : mettre à jour, avant la fin du premier trimestre 2022, le critère de sécurité d'approvisionnement.</i>
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The Electricity Market Regulation foresees that the reliability standards shall be expressed as "*expected energy not served*" (EENS) and "*loss of load expectation*" (LOLE) and "*based on the methodology set out in Article 23(6)*". The proposed methodology for calculating the reliability standard has been published by ACER in 2020<sup>2</sup>.

The Electricity Market Regulation is acknowledging that the reliability standards remain part of the energy policy toolbox of Member States. Although based on a methodology to ensure some economic rationale, ENGIE also believes that Member States should retain their ability to include other considerations when defining - within reasonable limits compared to the outcome of the ACER methodology - the Reliability Standards. The use of the methodology should correctly reflect this

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<sup>1</sup> Document under consultation :

[https://ec.europa.eu/energy/sites/default/files/france\\_market\\_reform\\_plan.pdf](https://ec.europa.eu/energy/sites/default/files/france_market_reform_plan.pdf)

<sup>2</sup> ACER, Decision No 23/2020 of 2 October 2020 on the methodology for calculating the value of lost load, the cost of new entry, and the reliability standard



residual ability - expressed by the 'based on[...]' wording in the Regulation - by Member States to take other elements into consideration when making the final decision..

In other words, ENGIE believes that one should distinguish between a reliability standard derived from (uncertain) estimates of VoLL and CoNE, say a "target LOLE", from the reliability standards set by Member States. More specifically, a Member State could – for energy policy reasons or other considerations – set stricter or laxer reliability targets for EENS and LOLE. One should indeed be aware that the VoLL and CoNE calculations are based on numerous assumptions with significant uncertainties (ranges) and that VoLL and CoNE should necessarily also be communicated in ranges. **As security of supply remains a core Member State competence the ultimate translation of these range of values (VoLL and CoNE) into reliability standards (EENS and LOLE) should stay a political choice that falls within the competences of Member States.**

Finally, ENGIE would like to insist on two elements. First, the need for some regional alignments of the reliability standards across countries as system adequacy can only be considered from a regional perspective. Second, when performing national or European resource adequacy assessments (NRAA/ERAA), one should pay a specific attention to the distribution tails, i.e. to extreme events (cold winters, 1 or 2-week cold snaps, warm summers, Dunkelflaute events, water availability for cooling, etc.). In the framework provided by ACER for NRAA/ERAA, the use of climate scenarios reflecting climate change should not overlook the fact that the resilience of energy system will be tested against extreme events. For instance, a situation similar to winter 2012, which yields an extreme peak load less than 10 years ago, combined with a deficit in supply (nuclear, renewables, etc.), could be problematic across Central-Western Europe.

### Look-back Exercise

*Mesure n° 2 : publier et communiquer aux services de la Commission, dans le courant de l'année 2021, un rapport établi par RTE dressant les enseignements pouvant être tirés des premières années de fonctionnement du mécanisme de capacité français, et présenter le cas échéant les propositions d'évolutions qui pourraient être envisagées sur le fondement de cette analyse.*

Article 2.2 of the French capacity mechanism regulation<sup>3</sup> provides that « *Le retour d'expérience est rendu public au plus tard le 31 septembre 2020. Ces analyses pourront conduire à des évolutions des Règles du Mécanisme de Capacité.* ». ENGIE regrets that this report is only expected to be published in June 2021.

Nevertheless ENGIE shares RTE's overall approach:

- In the short term: No-regret improvements and changes for the delivery years 2023 and 2024 in order to avoid any delay in the opening of trades of capacity guarantees
- In the medium term: A consultation for delivery years starting from 2025 in order to propose further changes improving some capacity market features if necessary.

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<sup>3</sup> French capacity mechanism regulation, as approved by Arrêté du 5 décembre 2019 définissant les règles du mécanisme de capacité et pris en application de l'article R. 335-2 du Code de l'énergie and amended by Arrêté du 23 décembre 2019 modifiant les règles du mécanisme de capacité et pris en application de l'article R. 335-2 du code de l'énergie

### Interconnections and Cross-Border(XB) Participation

*Mesure 3: terminer la construction des interconnexions dont la réalisation est en phase finale. IFA2 entrera en service début 2021, Savoie-Piemont pour fin 2021, Eleclink, et Avelin-Avelgem pour 2022.*

*Mesure 4 : mener à bien le projet Golfe de Gascogne, dont le tracé et le calendrier font actuellement l'objet d'une nouvelle étude et le projet Celtic avant 2026 ;*

*Mesure 5 : poursuivre l'étude des projets de renforcement des interconnexions avec l'Allemagne*

**ENGIE support new interconnection projects that have shown a positive Cost Benefits Analysis. However, the operation of interconnections should also be done efficiently to benefit the potential welfare increase related to these new XB capacity (or to the existing XB capacity).**

An efficient use of the interconnection capacity will allow to grasp all the benefits identified during the CBA. However, this is not always the case. For instance, XB border capacities are sometimes limited in order to accommodate congestions within bidding zones. Where explicit allocation of capacity is in place, a risk that the flow is against the price differential exists. Recalculations of XB capacity in the ID timeframe are too rare and supported by inefficient processes. The pan-EU optimization of remedial action is not yet in place while it will contribute to better congestion management decreasing the need to limit XB capacities before the allocation.

*Mesure n°6: mettre en œuvre, d'ici à fin 2022, une procédure explicite de participation des capacités transfrontalières dans le mécanisme de capacité français.*

**As mentioned earlier in consultations (by EC, ACER, ENTSO-E or national TSOs/authorities), ENGIE is strongly in favour of direct cross-border participation of capacity providers located in another Member States, with a sound framework for identifying the contribution of these foreign providers.**

Recently approved capacity mechanisms are either exempted from cross-border participation (e.g. strategic reserves in Belgium) or are subject to commitments/obligations by Member States towards the European Commission (in the context of the state aid approval process). So the capacity mechanism operators should already be subject to strong commitments and clear deadlines for implementation.

In addition, the tasks of transmission system operators where the foreign capacity is located are clearly described in Art.26(10) of the Electricity Market Regulation and should be performed accordingly. The argument related to the need for bilateral agreements cannot be used to always plead for additional delays in implementing cross-border participation. The methodologies mentioned in Art.26(11) have been published by ACER in 2020<sup>4</sup>.

ENGIE would like to highlight that

- The initial timing/commitment for XB participation was DY2019 (emphasis added)<sup>5</sup>:

<sup>4</sup> ACER, Decision No 36/2020 of 22 December 2020 on technical specifications for cross-border participation in capacity mechanisms

<sup>5</sup> Commission decision of 8/11/2016 on State Aid Scheme SA.39621 2015/C, C(2016) 7086 final

(125) The implementation of these commitments requires a review of the 2012 Decree, adopted by the Council of State after consultation with the Higher Energy Council, the French Energy Commission and the Competition Authority. The French authorities do not consider it feasible that the Decree will be adopted before late 2017, followed by a review of the rules drawn up for its application. They believe that this stage could take around six months. **The schedule put forward by the French authorities is therefore based on adaptation to the regulatory framework in 2018, followed by actual implementation for delivery year 2019.**

(293) As described in recitals (119) to (125), **in response to the concerns of the Commission and third parties**, the French authorities have proposed a hybrid model involving the allocation of interconnection tickets that would, in time, allow foreign generation capacities to participate.

(294) As explained in recital (239), **the French authorities have proposed a suitable remedy that allows the explicit participation of cross-border capacities in the mechanism. This objection from the Commission has therefore been addressed.**

- The French authorities are insisting in the implementation plan (page 25, III 3°) ) that the proposed target procedure (“procédure approfondie”) is already ready since March 2018, and broadly in line with the principles set out in ACER methodologies.
- The quick implementation of the “procédure simplifiée” in 2019 has only increased the volatility of the prices on the auctions. Since 2019 no operational agreement has been found with the neighbouring TSOs and this has prevented the implementation of the proposed target procedure (“procédure approfondie”). It is unclear for ENGIE why purely operational agreements between TSOs for communicating the results of their obligations have not been concluded since the entry into force of the Electricity Market Regulation and the publication of ACER methodologies.

As a matter of fact, the French authorities are now postponing de facto by at least 4 years (DY2023, instead of DY2019) an effective scheme for cross-border participation. Of course, if any neighbouring TSO could enter into an operational agreement with RTE and communicate the elements required by the Electricity Market Regulation in a near future, implementing the target procedure (“*procédure approfondie*”) for DY2023 and DY2024 makes sense, but it might require some lead time for foreign capacity providers to prepare their participation. Otherwise, ENGIE would understand to leave this element as a further change expected for delivery years starting from 2025 (see measure n.2).

### Demand-side Management

Mesure n° 7 : renforcer les mesures de soutien au développement des effacements.

**The demand-side management sector could play a key role – now and in the future - for low-cost balancing (manual or automatic) of the system and for congestion management.** This sector is nevertheless still emerging and can hardly find its economic balance on its own from the first years. Aware of the need to limit support over time, ENGIE is nonetheless in favor of extending the duration of support by reducing the AOE (“Appel d’Offre Effacement” = call for tender for demand response) bonus. This allows a smooth transition for demand response operators and flexible consumers, without



abrupt disruption, which can allow demand response operators to anticipate or even prepare, for those who wish, an evolution of their portfolio towards lot 1 (diffuse).

**ENGIE would also like to stress the importance of considering system integration to address the decarbonization targets, but also to ensure security of energy supply at a reasonable cost for the consumers.** For instance, hybrid systems (e.g. hybrid heat pumps for individual and collective housing, but also hybrid devices for heating and cooling industrial applications or district networks) allow to balance the loads from one energy system to another, to manage the stress events (e.g. peak electricity demand), to increase overall system resilience, etc. It could be worth considering a more integrated energy system planning to foster this interplay between electricity, gases (natural gas, renewable and low-carbon gases, hydrogen) and heat.

*Mesure n°16 : dans le cadre de la refonte de l'appel d'offres effacement, supprimer les contraintes sur les prix d'offres qui pouvaient jusqu'à présent s'appliquer aux lauréats de ces appels d'offres pour les remplacer par des dispositifs de pénalisation responsabilisant.*

**ENGIE is in favor of maintaining a price cap, in order to avoid “dummy” capacity and to ensure sufficient activation frequency.** Rather, calls for tender for demand response (“Appel d’Offre Effacement”) should promote future flexibilities and therefore the emergence of low-cost demand response capacities. Removing the price cap will not help to “clean up” the market. On the other hand, it would be desirable that the tests could be remunerated at the level of this price cap.

### Storage

*Mesure n°8 : développer de procédures spécifiques de traitement des demandes de raccordement pour les stockages par les gestionnaires de réseaux en 2021, avec une poursuite des études sur le sujet.*

**ENGIE would like to emphasize that beyond stand-alone storage it would be important to implement further provisions for the consideration of hybrid devices combining storage and renewable generation,** which could provide clear advantages in terms of integration of renewable generation into the system.

*Mesure n°9 : Faire évoluer la méthode de calcul de la quote-part dans le raccordement au réseau pour tenir compte des bénéfices apportés par le stockage au système.*

**ENGIE would like to emphasize the recent decisions of CRE<sup>6</sup> and is waiting for further progress in implementing these provisions for the grid charges of storage units, both at distribution and**

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<sup>6</sup> Délibération de la CRE du 21 janvier 2021 portant approbation des méthodes de calcul du coût prévisionnel des ouvrages à réaliser par RTE dans le cadre des schémas régionaux de raccordement au réseau des énergies renouvelables ; Délibération de la CRE du 21 janvier 2021 portant approbation des méthodes de calcul du coût prévisionnel des ouvrages à réaliser par Enedis dans le cadre des schémas régionaux de raccordement au réseau des énergies renouvelables



**transmission levels.** Like for the previous measure, one should make sure that hybrid systems are fairly treated in the implementation by system operators.

*Mesure n°10 : améliorer la valorisation des injections et des soutirages des unités de stockage sur le marché d'ajustement à partir du 4ème trimestre 2021*

**ENGIE welcomes this development, which marks a real first step in the participation of storage facilities in the Balancing Market.** The current situation that allows storage to be valued either by injection or by withdrawal has not been a real step forward. This first brick must nevertheless be accompanied by more open rules on aggregation capacities (see next measure).

*Mesure n°11 : rendre possible l'agrégation d'unités de stockage dans des entités d'ajustements pour faciliter leur participation sur le marché d'ajustement (mise en œuvre en cours de concertation avec les acteurs de marché)*

**The lack of possibility for aggregation of different types of entities valued on the French mechanism is a real obstacle.** It goes against the projects currently in development, particularly on the distribution networks (knowing that a single storage connected to the transmission network must also still confirm its economic viability).

In projects that develop local production in a setting of self-consumption with sale of the surplus, for example, more and more sites will be mixed. A Balancing Entity ("Entité d'Adjustement") must be able to group together storage facilities and sites that can inject and/or withdraw. The control of actual figures must be adapted accordingly, in particular on the side of distribution network operators. Such a regrouping would also make it possible to pool sites with different characteristics in order to offer system services, which could contribute to reducing the cost of these services.

*Mesure n°12 : créer un appel d'offre de capacité de réserve secondaire à compter d'octobre 2021, afin de faciliter la participation des unités de stockage*

**As already mentioned in the various consultations on balancing in France, ENGIE supports the implementation as soon as possible of a market-based process for the procurement of balancing capacity for the secondary reserve.** This tendering should of course be open to all technologies but will allow to replace a regulated imposition by a market-based process.

Carbon-neutrality in the electricity sector will be based on a higher penetration of renewables, whereas role of fossil electricity generation will change to contribute to system reliability and to tackle the variability of renewable energy sources. Sector coupling will be a growing flexibility tool, contributing to absorb excess of electricity from renewable energy sources (via power-to-gas), store this renewable energy and provide low-carbon back-up capacity (via gas-to-power facilities) to generate electricity when other renewable energy resources are unavailable.

Seasonal supply variations and short-term fluctuations can be bridged by varied production of power-to-X as a new source of flexibility and an adequate way to balance the electricity grid. Hydrogen produced through electrolysis could be stored and used later in order to produce electricity as a long-



term, seasonal or short-term flexibility tool. Moreover, hydrogen storage facilities could operate over longer times period than what is currently possible from batteries.

Hence, green gases produced via power-to-gas technologies (especially hydrogen) should be seen as a new opportunity to reduce the environmental impact of both power and gas end-users.

### Self-consumption

*Mesure n° 13 : étendre le périmètre de l'autoconsommation collective étendue à la moyenne tension.*

**ENGIE fully approves of this provision insofar as it makes it possible to set up collective operations composed of several types of buildings in different sectors: residential, tertiary, industrial.** Insofar as these buildings may have electricity needs at different times, this makes it possible to make the most of the production of the photovoltaic panels and to optimize the rate of self-consumption.

*Mesure n° 14 : permettre aux autoconsommateurs qui bénéficient d'un dispositif de soutien de bénéficier des garanties d'origine pour l'électricité autoconsommée.*

**ENGIE fully agrees with this provision as it will contribute to the development of self-consumption.**

*Mesure n° 15 : permettre aux opérations d'autoconsommation collective la participation aux dispositifs de soutien.*

Collective self-consumption allows consumers to reduce their electricity bill, to have a better visibility on the long term and to become fully involved in the energy transition. Its large-scale development would accelerate the decentralization of energy production and improve the security of supply. To do this, it is essential to reduce the obstacles, which are still too numerous in France for these operations whose development remains embryonic to date (barely 50 of them are in service!):

**As the major obstacle for this development is the (systematic) lack of economic profitability of projects, it is imperative to put in place financial support (none to date!).** Concretely, ENGIE believes that collective self-consumption must be able to benefit, in the same way as individual self-consumption with sale of surplus, of:

- an investment premium and a purchase rate set by the State of the future tariff order (under development),
- an exemption from the Domestic Tax on Final Electricity Consumption for this type of operation.



## Balancing markets

*Mesure n°17 : Connexion de RTE à la plateforme européenne PICASSO en octobre 2021*

*Mesure n°18 : Connexion de RTE à la plateforme européenne MARI en 2024*

*Mesure n°19 : Passage à un pas de règlement des écarts de 15 minutes (ISP 15') en lien avec un passage à 96 guichets de programmation et d'offres en 2025*

**In general, ENGIE welcomes the development of EU Balancing platforms for the exchange of balancing energy. ENGIE also encourages RTE to follow the accession plan and to be one of the first TSOs to join PICASSO.**

An important element of those platforms is the level of transparency provided to stakeholders and especially Balancing Service Providers, which will efficiently price their bids based on the information at their disposal. It is important to understand how the aFRR Cross Border Marginal Price is formed. ENGIE experienced some difficulties, together with the concerned TSO (incl. RTE) to understand the price formation on the TERRE platform. We would encourage the TSO community to take advantage of the challenges encountered (and solution developed) in the first months of operation of TERRE.

ENGIE also wants to emphasize that the EU Balancing platforms aim at developing an EU-wide balancing energy market taking advantage of the XB capacity to activate balancing energy at the lowest cost, benefitting the efficiency of the whole electrical system. The use of specific products (as opposed to standard products used in the EU platforms) can be detrimental to a true integration of EU balancing markets. We ask to properly assess the added value of such specific products and, if relevant, the reason why the same results cannot be met with standard products.

Concerning the shift towards a 15min ISP, we are aware of the implementation challenges it creates but we would have been in favor of setting the go-live date earlier in order to grasp the opportunities it offers (notably concerning the access to liquid 15min products across borders).

## Additional comments beyond proposed measures

*Section VII, 5°) Regulated electricity prices (" Tarifs réglementés de vente de l'électricité" / "TRVe")*

**Despite the fact of the electricity market being liberalised for over 10 years, less than 30% of residential consumers have effectively subscribed to a market offer in France at the end of December 2020.** In a report commissioned by the European Commission and published on 17 February 2021<sup>7</sup>, on the barriers existing in Europe on the retail energy market, the regulated electricity prices (TRVe) are clearly identified as one of the main barriers to entry in France. The report notes that "*a high penetration of price regulation combined with a low margin of regulated supply is one of the main barriers in electricity*". The report points out that "*consumers with access to regulated tariffs are extremely difficult to reach with competitive offers. While regulated tariffs have a high market penetration, only a small part of the market is fully open to competition. Price regulation maintains the old market structure, where consumers have no strong incentive to compare offers from different suppliers in the market*". In summary, the report recommends, following the example of the process

<sup>7</sup> [https://ec.europa.eu/energy/studies\\_main/final\\_studies/european-barriers-retail-energy-markets\\_en](https://ec.europa.eu/energy/studies_main/final_studies/european-barriers-retail-energy-markets_en)





undertaken in gas, a gradual elimination of the regulated electricity prices to remove this obstacle considered as major for the good functioning of the market.

Similarly, ENGIE would like to stress that these regulated electricity prices prevent residential consumers from being active on the electricity markets. The regulated prices are thus delaying the further development of demand response and/or of self-consumption capacities as they are no longer aligned with the market reality needed to enable the energy transition (cfr knowledge of consumption flows via smart meters, which should on the contrary favor dynamic pricing adapted to client needs), and to reach the decarbonization targets in a cost-efficient way for all consumers (residential and industrial).

Regarding their consequences on the retail market, **regulated electricity prices** (*"Tarifs réglementés de vente de l'électricité"*) in France today **constitutes a major obstacle to the establishment of effective competition between suppliers** to the detriment of French consumers who cannot entirely benefit from the positive effects of the liberalization of the electricity sector.

ENGIE recalls that European as well as national case law (Council of State) consider that regulated electricity prices by nature constitute an obstacle to the achievement of a competitive electricity market. Henceforth, Directive 2019/944 provides that **interventions on retail prices must be temporary and comply with strict and precise conditions**, which is not the case for regulated electricity prices in France.

**The French regulated electricity prices are not justified in principle:** their contribution to general interest objectives has not been demonstrated: French regulated electricity prices are neither necessary to guarantee price stability, nor to ensure security of supply, nor to strengthen territorial and social cohesion. They are no more necessary to protect some categories of consumers, especially disadvantaged households that can benefit from a special mechanism (*"chèque énergie"*).

**French regulated electricity prices do not ensure effective price competition:** the terms of their calculation lack transparency and lead to them being set at levels which do not allow alternative suppliers to compete with them.

**Their maintenance generates distortions of competition:** In the absence of a dedicated entity and of separated brands for regulated electricity prices and for market offers, their maintenance aggravates the difficulties linked to cross-subsidies and to the confusion between the competitive and regulated activities of EDF.

The maintenance of regulated electricity prices in France does not comply with the conditions set by Directive 2019/944 relating to the temporary nature of any intervention on retail prices:

- **No time limit** is set for the application of regulated electricity prices;
- **No transitional mechanism** is planned to reduce the scope of the regulated electricity prices;
- **No assessment method** for the effectiveness of the measures taken to achieve free retail pricing has been put in place.

**ENGIE therefore considers that it is appropriate to put an end to the regulated electricity prices in France.**

## **Nord Pool EMCO response to the European Commission's Consultation on French market reform plan – 17<sup>th</sup> May 2021**

Nord Pool EMCO is of the view that the Commission decision of 8th November 2016 needs to be reviewed. Nord Pool EMCO would request the deletion of the explicit reference to EPEX Spot as the sole entity who has the exclusive right to run the auction and to provide an exclusive route for market participants to participate in the capacity mechanism auctions.

Nord Pool EMCO believes that this is in breach of Article 3 (e) and (i) of the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (the CACM Regulation): the current French capacity mechanism sets a barrier to entry for new NEMOs in the SDAC and SIDC in France as small/medium participants trading in France need a one stop shop to trade in all markets, including the capacity mechanism one. This has been mentioned by many market participants as a reason to not join Nord Pool EMCO and remain with EPEX Spot.

Nord Pool EMCO's view is that any NEMO designated or passported in France must be allowed to offer its market participants access to the capacity mechanism auctions and on the basis of shared order books with all other concerned NEMOs or Organised Market Place (OMP) running the capacity mechanism auctions in order to achieve a level playing field.

Nord Pool EMCO would propose the following options for setting up the French capacity mechanism, in order of preference:

### **Option 1**

Use an ad hoc system (e.g. EUPHEMIA and PMB) to run the auctions whereby all interested OMPs e.g. French NEMOs, can participate in the auctions of the capacity mechanism.

This proposal has two sub-options:

- a. Each interested OMP runs the auction on a rotational basis. Other entities who are not entitled to run the auction and the OMPs which are not operating the auction based on the rotational calendar send their orders to the OMP which runs the auction.
- b. A neutral and third-party entity runs the auction by collecting orders from the interested OMPs

**Option 2**

Launch a tender to select an entity to operate the capacity mechanism platform.

The winning entity would run the auction, and any interested OMPs (including entities who participated in the tender but did not win it) would send their orders to the entity which runs the auction through a specific interface on a shared order books basis in order to pool liquidity. In any event, the entity running the auction must not have the exclusive right to offer market participants the means to participate in the capacity mechanism auction. This option must be offered to any relevant entity who is interested in providing such services, e.g. any OMP operating in France.

## **European Commission consultation on the French electricity market reform plan (in the context of article 20 of EU Regulation 2019/943)**



### **EFET response – 25 May 2021**

EFET welcomes the opportunity to answer the European Commission consultation on the electricity market reform plan issued by the French government.

As a preliminary statement, we would like to recall our fundamental position that establishing or maintaining a capacity remuneration mechanism (CRM) should not come at the detriment of the design and efficiency of energy markets. Energy markets can respond to the adequacy needs of the system if they are well designed, free of regulatory distortions and well integrated with other European electricity markets. However, we also acknowledge they may not always be sufficient to provide long-term investment signals for capacity adequacy and that, if proven so by regional or European capacity adequacy assessments, CRMs may be a response to this problem.

The principle of primacy of energy markets over CRMs, now enshrined in Article 20(3) of Regulation 2019/943, aims to ensure that energy markets allow for optimal dispatch but are also in a position to contribute to security of supply, while CRMs are designed only to complement energy markets. Both the dimensioning of CRMs, their design and the cross-border contributions to these CRMs should take account of the design of energy markets in the relevant bidding zones. Where CRMs are established or maintained, the implementation of Regulation 2019/943 and related methodologies – on the European resource adequacy assessment, on cross-border participation to CRMs, and for the calculation of the value of lost load, the cost of new entry, and the reliability standard – should ensure compatibility of the different schemes and, where relevant and feasible, harmonisation.

With regard to the French market reform plan, we broadly agree with the main lines of the assessment and the plan. We believe that the electricity market in France is generally compliant with the requirements of Regulation 2019/943. However, we make a number of recommendations below as to how the functioning of the market could be improved.

<sup>1</sup> 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](http://www.efet.org)

***Measure 1: update before the end of Q1 2022 reliability standard***

We welcome an update of the French reliability standard by the end of Q1 2022. We insist that the new reliability standard be based on the provisions of article 25 of Regulation 2019/943 and the methodologies approved by ACER in its Decision 03/2020.

In particular, the new reliability standard should be expressed in terms of expected energy not served (EENS) and loss of load expectation (LOLE) – both calculated based on the value of lost load (VoLL) and cost of new entry (CONE). While the French government mentions later in the report that the VoLL, amongst other, is particularly difficult to determine, we believe that the ACER approved methodology gives precise guidelines in that regard. Hence, we insist that the responsible French authorities assess whether the existing pre-determined 3-hour lost load criteria is consistent with the harmonized approach to calculating the reliability standard agreed at EU level<sup>2</sup>.

***Measure 2 : publish and communicate to the European Commission services, in the course of 2021, a report by RTE outlining the lessons that can be drawn from the first years of operation of the French CRM and presenting, if necessary, proposals for changes that could be considered on the basis of this analysis.***

The two administrative orders (*arrêtés*) of December 2019 on the French CRM foresee that the impact assessment on the CRM should have been published by September 2020. While we regret this delay, we recognise that RTE is progressing on their report and regularly consulting market participants on expected reform plans<sup>3</sup>.

Two waves of reform, one to be implemented for the delivery years 2023 and 2024 and one for delivery years after 2025 are currently under consideration.

However, we strongly regret that these plans do not tackle the question of cross-border participation to the CRM. Despite lengthy discussions since 2014 and a convoluted cross-border participation scheme, the reality is that no generation, demand response or storage asset owner located outside of mainland France has had access to the French CRM since its inception. This is a major flaw in the design of the French CRM that needs to be addressed urgently in order to ensure compliance with article 26 of Regulation 2019/943 (see also our reaction to measure 6).

<sup>2</sup> See the EFET response to the ACER consultation on methodologies for assessing electricity resource adequacy, dated 27 May 2020 and available at: [https://efet.org/Files/Documents/Electricity%20Market/Capacity%20remuneration%20mechanism/EFET\\_ACER\\_PC\\_2020\\_E\\_10\\_27052020.pdf](https://efet.org/Files/Documents/Electricity%20Market/Capacity%20remuneration%20mechanism/EFET_ACER_PC_2020_E_10_27052020.pdf).

<sup>3</sup> See the EFET response to the RTE consultation on an impact assessment of the French capacity remuneration mechanism, dated 13 March 2020 and available at: [https://efet.org/Files/Documents/Downloads/EFET\\_RTE%20consult%20CRM%20REX\\_13032020.pdf](https://efet.org/Files/Documents/Downloads/EFET_RTE%20consult%20CRM%20REX_13032020.pdf).

**Measure 3: complete the construction of the interconnections whose completion is in the final phase. IFA2 will enter service at the start of 2021, Savoie-Piemont at the end of 2021, Eleclink and Avelin-Avelgem in 2022.**

**Measure 4: complete the Bay of Biscay project, whose route and schedule are currently the subject of a new study, and the Celtic project before 2026.**

**Measure 5: continue studying projects to strengthen interconnections with Germany**

EFET supports well-integrated markets and systems to ensure reliability and affordability of electricity supply in Europe, while it also contributes to achieving the Union's decarbonisation targets. However, such integration is primarily underpinned by effective and efficient use of interconnection (existing or new), rather than a race towards putting more copper in the ground or in the air at any cost. As a consequence, we insist that:

- the approval of any new interconnection project should be based on a positive cost-benefit analysis
- once approved and commissioned, the TSOs (or independent interconnector operator) should strictly follow the European rules on minimum capacity made available to the market (application of regional capacity calculation methodologies *in all timeframes*, and 70% rule)
- where necessary, a bonus-malus scheme should be put in place to incentivise the TSOs to make this capacity available to the market<sup>4</sup>

While we recognise the efforts made by the European TSOs to make more capacity available to the market in day-ahead, we believe this effort should intensify and apply to all timeframes (i.e. also in forward and intraday). The application of capacity calculation methodologies – whose objective remains to maximise capacity allocation in all timeframes within the constraints of security of supply, according to article 16.4 of Regulation 2019/943 – together with regional/European optimisation of remedial action and proper justifications for limitations applied to capacity allocation are paramount to ensuring an optimal use of interconnections.

**Measure 6: implement by the end of 2022 an explicit procedure for the participation of cross-border capacities in the French capacity mechanism.**

As mentioned earlier, we've been very disappointed with the process to allow foreign asset owners to participate in the French CRM. At this point, the discussion has lasted too long and the process setup by the French authorities, though sensible in theory, has not yielded any results in practice.

We insist on two fundamental principles for cross-border participation in CRMs, namely:

- Effective direct participation of foreign asset owners/operators – generation, demand response, storage – in CRMs
- Equal treatment of foreign and domestic capacities contributing to a CRM, with attention to the specific rights and obligations of capacity providers in the CRM and, where relevant, related to energy market functioning

<sup>4</sup> See the EFET response to the CRE consultation on the incentive framework for infrastructure investment projects at the French-Belgian and French-Spanish borders, dated 23 February 2018 and available at: [https://efet.org/Files/Documents/Downloads/EFET\\_CRE%20consultation%20infra%20incentives\\_23022018.pdf](https://efet.org/Files/Documents/Downloads/EFET_CRE%20consultation%20infra%20incentives_23022018.pdf).

The regulatory framework for cross-border participation to the French CRM meets these two conditions on paper. However, for this to translate into results in practice, two conditions should be met:

- There should be no reciprocity clause for cross-border participation, either *de jure* or *de facto* via impractical revenue-sharing arrangements between the TSOs
- Where effective cross-border participation hangs on TSOs concluding agreements to allow it, appropriate incentives and/or obligations on TSOs should be put in place

That is where the French regulatory framework has failed to allow the effective participation of foreign asset owners into its CRM. The French model applies an inter-TSO revenue sharing clause on rents from entry capacity allocation for the CRM. This revenue sharing is based on the existence and design of CRMs in neighbouring EU Member States (need to be similar to the French model) and on the conclusion by RTE of bilateral agreements with neighbouring TSOs. With limited perspective to benefit from revenues of the sale of entry capacity, and heavy processes and potential costs to allow the direct participation of assets in the French CRM, foreign TSOs have had no incentive to enter into negotiations with RTE. This has led to the *de facto* exclusion of foreign capacities from appropriate remuneration for the added security of supply they bring to the French system. We believe this is in contradiction with the principle of Article 26(1) of Regulation 2019/943.

For detailed explanations, we recommend reading our series of contributions to consultations on cross-border participation to the French CRM<sup>5</sup> – as well as on the related ENTSO-E methodology<sup>6</sup> that was largely inspired by the French model.

### ***Measure 7: reinforce support measures for demand response***

The goal of ensuring that those consumers who wish to participate directly in the market can do so is one we support. Clearly an active demand side would be hugely beneficial to bringing down the costs of energy for all consumers. Where regulatory or legislative barriers to the participation of consumers – directly or through intermediation – to electricity markets or balancing mechanisms exist, they should be removed in accordance with Directive 2019/944.

The primary driver for market participation of demand response is the electricity price. Consumers who may want to engage in and value the flexibility of their demand on the market will only be incentivised to do so if they see a financial benefit to it. Therefore, we consider it vital that impediments to the free formation of prices on electricity markets should be removed immediately – before entering into discussions about support measures. In the case of France, such impediments mainly relate to the role of the TSO taking balancing actions outside of the operating window, and blurring the lines between balancing and congestion management, which both have traditionally had a dampening effect on liquidity and competition in the intraday market.

<sup>5</sup> See for instance the EFET paper on reform proposals to improve the current functioning of the French CRM and ensure effective participation of foreign capacities, dated 11 January 2018 and available at: [https://efet.org/Files/Documents/Downloads/EFET%20paper\\_French%20CRM\\_11012018.pdf](https://efet.org/Files/Documents/Downloads/EFET%20paper_French%20CRM_11012018.pdf).

<sup>6</sup> See the EFET response to the ENTSO-E consultation on methodologies for cross-border participation to capacity mechanisms, dated 13 March 2020 and available at: [https://efet.org/Files/Documents/Downloads/EFET\\_ENTSOE%20consult%20XB%20CRM\\_13032020.pdf](https://efet.org/Files/Documents/Downloads/EFET_ENTSOE%20consult%20XB%20CRM_13032020.pdf).

As far as access of demand response to balancing mechanisms themselves is concerned, most large users connected to the transmission grid have access to the energy-only market. Balance responsibility gives them a right to access the market and to trade with any other market participant, with the accompanying requirement to submit schedules and settle imbalances. A specific challenge regarding balance responsibility is for demand response for retail consumers. This will be gradually covered with the roll-out of smart meters. As soon as settlement and reconciliation processes are adapted for 15-minute metering for domestic consumers, suppliers can offer dynamic price contracts where consumers can respond accordingly (implicit demand response). Note that implicit demand already exists since many years but was limited to less dynamic retail prices for household consumers (e.g. static Time of Use contracts) or for consumers above certain voltage levels (commercial and industrial) which tend to have more sophisticated meters already.

Explicit demand response should also be allowed by way of ensuring that consumers can offer the flexibility of their demand to the wholesale market, directly or through an independent aggregator. The contribution of demand response in the delivery of balancing capacity and energy (FCR, FRR and RR) must be possible, as well as in non-frequency ancillary services. This requires that TSOs and DSOs express their balancing need in a technological neutral manner and accept offers that fit these needs, including where market participants aggregate different capacities into a pool.

Ultimately, the choice to participate actively in the market should remain that of consumers themselves. Many may not wish to do so and will want to feel they're getting a fair price and that they can trust the company(ies) supplying them (and the system overall). For them, retail suppliers will continue to carry the market risk and offer fixed-price contracts, but NRAs should not relinquish efforts to phase out regulated retail tariffs – save to preserve selected consumers from energy poverty. Offering a wide range of choices to consumers was, in many ways, the rationale for introducing market competition in the first place and we think that logic holds today.

***Measure 8: develop specific procedures for processing storage connection requests by network operators in 2021, with further studies on the subject***

Without entering into the specifics of the storage connection request procedures, we would like to recall our opposition to the operation by the TSO or DSOs of electricity storage assets. In 2017, an RTE-run project for the operation of batteries was approved by the regulator CRE, to the disappointment of EFET<sup>7</sup>.

The approval of the RTE-led RINGO project by CRE happened without constructive debate on the interaction between the regulatory framework and storage, in particular the role and responsibilities of market participants vs. system operators regarding the ownership and operation of storage assets<sup>8</sup>.

<sup>7</sup> See EFET reaction to the RTE RINGO project, dated 16 October 2017 and available at: [https://efet.org/Files/Documents/Downloads/EFET%20reaction%20RTE%20RINGO%20project\\_16102017.pdf](https://efet.org/Files/Documents/Downloads/EFET%20reaction%20RTE%20RINGO%20project_16102017.pdf).

<sup>8</sup> See EFET response to the CRE survey on battery storage, dated 28 February 2019 and available at: [https://efet.org/Files/Documents/Downloads/EFET\\_CRE%20storage\\_28022019.pdf](https://efet.org/Files/Documents/Downloads/EFET_CRE%20storage_28022019.pdf).



In our view, electricity storage facilities should never be owned, developed, managed or operated by system operators for the following reasons:

- Network operators investing in electricity storage facilities undermines the unbundling principle, blurring the separation of the regulated electricity transportation/distribution business on the one hand, and market activities on the other hand. This can lead to conflicts of interests, where network operators would also act as a market participant.
- It distorts the dynamic competition between a wide range of future technologies, particularly the kind and scale of such technologies and whether they are being developed in a centralised or decentralised manner.
- Procuring market services will be cheaper than investments by system operators, because system operator assets can only be used for a limited range of purposes and the remaining value would be lost.
- Network operators are monopoly entities and therefore not subject to competitive pressure as their investment costs are socialised across network users. Any expansion of their activities thus carries the risk of: 1) increasing network tariffs to be paid by network users, and 2) putting the threshold for any new private investment at a higher level.

Where Member States allow otherwise, we urge them to follow the recommendations laid out in our guidance for the implementation of Directive 2019/944 on the question of electricity storage<sup>9</sup>. We take this opportunity to highlight that any procedures linked to the use and management of flexible capacity – whether they are connection rules or possible tenders run by the system operators – should be technically neutral in order to allow the market to propose services with the most appropriate technology possible – whether it be electricity storage, hybrid RES-E and storage, power-to-X or any other.

***Measure 10: improve the valuation of injections and withdrawals from storage units on the balancing mechanism as of Q4 2021***

***Measure 11: allow the aggregation of storage units into balancing entities to facilitate their participation in the balancing mechanism (implementation in consultation with market participants)***

***Measure 12: create a tender for secondary reserve capacity as of October 2021, in order to facilitate the participation of storage units***

We welcome this proposal to facilitate the participation of electricity storage assets in the balancing mechanism. As mentioned earlier in the case of demand response, the contribution electricity storage in the delivery of balancing capacity and energy (FCR, FRR and RR) must be possible, as well as in non-frequency ancillary services. This requires that TSOs and DSOs express their balancing need in a technological neutral manner and accept offers that fit these needs, including where market participants aggregate different capacities into a pool.

As far as procurement of reserve capacity is concerned, we support the implementation as soon as possible of competitive processes such as tenders. We welcome the evolution of the

<sup>9</sup> See the EFET position paper on the ownership and operation of storage assets, dated 13 September 2019 and available at: [https://efet.org/Files/Documents/Downloads/EFET\\_SO%20Ownership%20of%20Storage\\_13092019.pdf](https://efet.org/Files/Documents/Downloads/EFET_SO%20Ownership%20of%20Storage_13092019.pdf).

secondary balancing capacity procurement process from mandatory bidding at a regulated price to competitive tenders. Tendering of balancing capacity by the TSO should be technology neutral, in order to allow all capacities (generation, demand response and storage) to participate.

***Measure 14: allow self-consumers who benefit from a support mechanism to benefit from guarantees of origin for self-consumed electricity***

For any production of renewable energy, we see it vital that the French government allows all producers to value the renewable attribute of the energy produced directly with the customers, without regard as to whether the producer benefits from a public support scheme<sup>10</sup>. However, in the case of self-consumption the producer and consumer are the same entity. Hence, while they should be able to claim – cancel – the guarantees of origin (GoOs) corresponding to their own consumption for declarative purposes, only the GoOs corresponding to the production of renewable energy in excess of their consumption should be allowed to be sold on the GoOs market.

***Measure 17: Connection of RTE to the European PICASSO platform in October 2021***

***Measure 18: Connection of RTE to the European MARI platform in 2024***

***Measure 19: Switch to a 15-minute imbalance settlement period in connection with a switch to 96 gates in 2025***

We welcome the development of the European platforms for the exchange of balancing energy. Considering the delays incurred in their implementation, we urge RTE to connect to these platforms as soon as they go live. This should be the case for aFRR on the PICASSO platform. However, while the go-live of the MARI platform for mFRR is planned for Q1 2022, we strongly regret that RTE has applied for a derogation to connect to the MARI platform until 2024 and see no good justification for it.

As regards the ISP, EFET is convinced that harmonising ISPs across borders would facilitate the integration and efficiency of intraday market, and therefore, allow BRP to better self-balance close to real time. In our view, balancing market reform should promote efficient and liquid markets across all timeframe, including the intraday market, to enable market participants to balance their position as close to real time as possible. Harmonising ISPs closer to real time should facilitate this, by improving both intraday trading close to real time (including across borders) and facilitating the cross-border procurement of reserve capacity and the exchange of balancing energy across borders.

The timing of the move to a 15-minute ISP should be established based on the expected benefits of the reform. EFET regrets the position of the French authorities to do it as late as possible, which lacks proper justification. The correct approach is to assess what are the modifications of market design/model that are necessary in order to fully benefit from a common, 15-minute ISP. For instance, working on the development and implementation of a liquid and healthy intraday market where market participants can trade products with

<sup>10</sup> See for instance the EFET response to the French Energy Ministry consultation on a green certificates scheme for the promotion of biomethane, dated 2 March 2021 and available at: [https://efet.org/Files/Documents/Downloads/EFET\\_DGEC%20biomethane%20support\\_02032021.pdf](https://efet.org/Files/Documents/Downloads/EFET_DGEC%20biomethane%20support_02032021.pdf).

granularity aligned with the ISP. Indicators on the evolution of intraday liquidity could be used as one element allowing to quantify the benefits of a shorter ISP. Attention should also be paid to the benefits of a shorter ISP on the commercialisation of RES-E output and other flexible capacities, with a potential to stick closer to balance, minimise system imbalances and reduce subsidy expenditures<sup>11</sup>.

### **Additional elements not addressed in the market reform plan**

- **Imbalance price:** one element that is not addressed in the market reform plan is the imbalance price. RTE is currently studying the subject in consultation with market participants as the current design of the imbalance price does not provide an appropriate and reliable price signal, nor one that is available immediately after real time – but actually up to two years later. For more details on this topic, we invite the European Commission to read our recent position on the subject<sup>12</sup>.
- **Pro-active balancing model:** we invite RTE to increase transparency on its “margin model” for balancing. EFET suggested reinforcing transparency around the “calls for margins”, and in particular having transparency on the actions undertaken by RTE to build the margins, as soon as these actions are triggered (in addition to the requested publications after each ISP). Also, transparency is needed around what happens when there are not enough margins. We think that a clear scarcity signal should be sent to the market, i.e. that the imbalance price increases all the way up to the value of lost load (VoLL) when margins are exhausted. Without this, the imbalance price is meaningless and does not send an appropriate signal in the other timeframes. As a result, the electricity price in intraday, day-ahead and forward is distorted. Finally, transparency on the impact that margins activation ahead of the operational window has on the imbalance price would be needed. When a unit is activated and runs at minimum load, we understand that no action is taken to reduce energy injected elsewhere. When getting closer to real time, this probably means that less mFRR or aFRR must be activated. This hides the true value of energy in real time and has a distortive impact on the imbalance price.
- **Balancing vs. congestion management:** at the moment, and especially in the context of “calls for margins” by RTE, there is no clear distinction between the TSO’s actions for balancing (for instance, when margins are called in order to free some capacity on running units) and actions taken to manage congestions at the time when those actions are activated. As long as RTE is allowed to perform margin calls, EFET believes that they should be accompanied by full transparency. The purpose and volume of activations should be transparently disclosed as soon as the bids are selected. This should allow the signal to the market and to the TSO to be clear, as soon as actions are triggered: congestion problems should be revealed in order to trigger the right investments (in transmission but also in generation, demand response, and storage); and they should not impact the imbalance price. In addition, there should be a fair

<sup>11</sup> See the EFET response to the CRE consultation on the RTE green book for electricity balancing, dated 20 January 2017 and available at: [https://efet.org/Files/Documents/Electricity%20Market/Spot%20and%20short-term%20markets/EFET\\_CRE-consultation\\_Balancing\\_20012017.pdf](https://efet.org/Files/Documents/Electricity%20Market/Spot%20and%20short-term%20markets/EFET_CRE-consultation_Balancing_20012017.pdf).

<sup>12</sup> EFET letter to CRE on the reform of the imbalance price and the k factor, dated 8 June 2020 and available at: [https://efet.org/Files/Documents/Downloads/EFET%20letter%20RTE%20CRE%20k-factor\\_08062020.pdf](https://efet.org/Files/Documents/Downloads/EFET%20letter%20RTE%20CRE%20k-factor_08062020.pdf).

compensation for the BSP(s) that have not been selected. Today, there is a lack of proper market-based congestion management mechanism. This lack of compensation creates discrimination between market participants: some market participants lose an opportunity with their bid not being selected (“skipped bids”) despite being cheaper than the marginal price. We fully understand that the security and management of the grid might prevent some capacities to increase or reduce production or demand at a specific moment due to congestion problems. However, when such limitation occurs, there should be no opportunity loss inflicted on market participants without appropriate compensation.

## UFE's answer to the European Commission's consultation on the French electricity market reform plan

UFE, representing the French electricity industry, welcomes the possibility to comment on the electricity market reform plan submitted by the French State to the European Commission on 28 April 2021 (hereafter "the Plan"), as required by Regulation n°2019/943 of 5 June 2019 on the internal market for electricity.

Overall, UFE would like to stress its support to the Plan's key findings on all topics it covers in accordance with Article 20 of the Regulation. UFE has indeed been widely consulted by the French authorities and had the opportunity to comment on most of the proposed measures, which – combined with past and ongoing reforms – will improve the French market's efficiency in compliance with the European regulations. To that extent, we acknowledge the achievements in every area listed by the Plan, from the efficient integration of storage assets in the French power system to the development of interconnections if and when economically efficient, as well as the participation to the European balancing platforms.

Regarding demand-side response (DSR), UFE supported the launch by the French authorities of a public support plan aiming at fostering its development and at fulfilling the targets set for DSR by the *Programmation pluriannuelle de l'énergie*. UFE supports in particular the foreseen launch of an experimental call for tenders to support implicit DSR (i.e. developed by suppliers) as well as the recast of the existing call for tenders for explicit DSR, provided it is approved by the European Commission.

UFE would also like to stress specific support to the takeaways of the Plan regarding security of supply: although the need for a capacity mechanism has already been recognized by the Commission in its approval decision of November 2016 – and therefore no longer needs to be established –, it is of utmost importance to bear in mind that the reasons underlying the implementation of such a mechanism have not disappeared. As the first years of operation of the mechanism are coming to an end, RTE's ongoing empirical feedback – which UFE has welcomed and to which it eagerly contributes – will undoubtedly confirm the necessity of a capacity mechanism, while identifying orientations for its potential improvements. We welcome the fact that this feedback report will be shared with the European Commission and relevant stakeholders. This should also be considered in conjunction with the conclusions of RTE's *Bilan prévisionnel 2020*, which foresees – under the new methodological standards set by the Regulation – that maintaining a capacity mechanism at least until 2026 will be a prerequisite for fulfilling the national security of supply criterion at that horizon.



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UFE therefore believes that, whatever reforms of the short-term markets may be carried out to palliate potential inefficiencies and regardless of the level of operational performance that may be achieved in the functioning of the French electricity market and the European internal market, the achievement of the French security of supply target in the long run will remain conditional on the existence of a regulatory mechanism dedicated to ensuring it.