EFET European Federation of Energy Traders
SO YOU CAN RELY ON THE MARKET

Amstelveenseweg 998
1081 JS Amsterdam

+31 20 520 7970
secretariat@efet.org
www.efet.org

Reform proposals to improve the current functioning of the French CRM and ensure effective participation of foreign capacities

■

EFET position paper – 11 January 2018

In light of recent reform proposal for the French capacity remuneration mechanism (CRM), the European Federation of Energy Traders (EFET) wants to attract the attention of decision makers in France and beyond concerning a number of critical features of the mechanism.

With the entry into force of the French CRM on 1 January 2017, market participants have started gathering experience on the mechanism. A number of auctions have been organised by EPEX Spot, and trades have also taken place on the OTC market. Based on this first year of operation, **we highlight a few key areas where the current functioning of the mechanism should be improved**. In addition, based on the recommendations of the European Commission, RTE, CRE and the Ministry of Energy are working on a solution to allow the participation of capacities located outside of French mainland in the CRM. Some of the orientations chosen in the draft proposal of RTE in that regard go beyond what was discussed in stakeholder meetings in the course of 2017, and **we present our perspective as to how to avoid that these proposals deter effective cross-border participation in the French mechanism**.

As a reminder before diving into the subjects mentioned above, we would like to point that EFET has not taken a position on the establishment as such of the French CRM in the past, and will not take one of its continued existence. Our view in that regard, very much in line with the European Commission's State Aid Guidelines and the recent proposals in the Clean Energy Package, is that establishing a new CRM or maintaining an existing one should be based on a clear supply security need demonstrated in a pan-European capacity adequacy assessment taking account of all capacities (generation, DSR and storage, including across borders) and an appropriate cost-benefit analysis including alternative solutions to ensure that supply security standards are met[1]. Nonetheless, EFET has actively contributed to discussions on the design of the French CRM via its presence in stakeholder meetings and its responses to many consultations on the subject[2].

In any case, we believe that establishing or maintaining a CRM should never be a reason to relinquish efforts to improve energy market design. Undistorted energy prices give an accurate signal for dispatch on the one hand, and for investment and divestment on the other hand. Accurate price signals will allow market participants to identify the need and timing for investments in peaking generation units, storage solutions and demand-side management, alongside more traditional investment in generation and transmission capacity. We refer to our Discussion Paper on the free formation of prices in the wholesale electricity market for more details on the subject[3], and also to our suggestions with regard to the reform of the French balancing market[4].

Table of contents:

[1] For more details on the EFET general approach to CRMs, we refer to our discussion paper on design principles for capacity mechanisms, dated 1 February 2013, available at: http://www.efet.org/Files/Documents/Electricity%20Market/Capacity%20remuneration%20mechanism/EFET-discussion-paper-Capacity-Remuneration-Mechanisms_February-2013.pdf.

[2] See for example the EFET response to the RTE consultation on cross-border participation in the French CRM, dated 9 June 2017, available at: http://www.efet.org/Files/Documents/Downloads/EFET_RTE-consultation-XB-CRM_09062017.pdf; the EFET TF France response to the RTE consultation on the evolution of the French CRM rules, dated 25 October 2016, available at: http://www.efet.org/Files/Documents/Electricity%20Market/Capacity%20remuneration%20mechanism/EFET_CRM-FR_RTE-consultation_25102016.pdf; the EFET contribution to the RTE reflection on the evolution of the French Capacity Mechanism rules, dated 7 September 2016, available at: http://www.efet.org/Files/Documents/Electricity%20Market/Capacity%20remuneration%20mechanism/EFET_CRM-FR_RTE-questions_07092016.pdf; the EFET response to the RTE consultation on cross-border participation of foreign capacities to the French CRM, dated 14 October 2015, available at: http://www.efet.org/Files/Documents/Electricity%20Market/Capacity%20remuneration%20mechanism/EFET_RTE-consultation-XB-CRM_final.pdf; and the EFET response to the RTE consultation on the design of the capacity mechanism, dated 27 September 2013, available at: http://www.efet.org/Files/Documents/Electricity%20Market/Capacity%20remuneration%20mechanism/EFET-Consultation-CRE-CRM_27092013.pdf.

[3] The importance of free formation of prices in the European wholesale electricity market, an EFET Discussion Paper dated 2 June 2016, available at: http://www.efet.org/Files/Documents/Electricity%20Market/General%20market%20design%20and%20governance/EFET_Free-formation-of-prices-power-market.pdf

[4] Has the dream of electricity balancing reform in France died again?, an EFET memo dated 17 October 2017, available at: http://www.efet.org/Files/Documents/Downloads/EFET_French%20balancing%20roadmap_17102017.pdf.

I. Proposals to improve the current functioning of the French CRM

Despite a rather rushed approval of the final rules of the mechanism in late 2016, the entry into force of the French CRM on 1 January 2017 went smoothly thanks to the combined efforts of CRE, RTE and EPEX Spot. Educational efforts on the part of the aforementioned parties helped market participants rapidly adapt to the somewhat complex environment of the mechanism. Nevertheless, we have identified a number of areas where the functioning of the mechanism could be improved, notably regarding transparency obligations for RTE and market participants, and the revision of the security coefficient.

1. Non-aggregated certificates trade data publication by RTE on the transparency register (REGA)

Article 4.1.3.3 of the CRM rules[5] requires RTE to publish non-aggregated certificates trade data at least once per month, and at least before and after each auction. These rules are valid for delivery year 2017.

The first issue with this provision is **legal uncertainty**: the obligation contained in the rules is only valid for the delivery year 2017 at the moment. Though transactions related to the delivery years 2018 and 2019 are already published on the register, we did not identify a formal obligation for RTE to do so, and there is no indication that the obligation applicable to the delivery year 2017 is to be continued for the delivery year 2018 and beyond.

The second issue with article 4.1.3.3 is **ineffective implementation**: despite the binding obligation, we have observed that the frequency of publication of non-aggregated trade data does not always follow the rule of monthly publication on the one hand. On the other hand, the obligation to publish trade data before and after an auction is not necessarily carried out in a way that provides the right level of transparency to market participants. Here are a few examples:

- In the summer of 2017, more than six weeks passed between the publication of 12 July 2017 and the end of August.
- For the auction of 9 November 2017, the most recent publication was dated from 27 October, but with transactions concluded until 20 October. Between 21 October and 8 November, 55 transactions have been concluded with a corresponding volume of 24,6 GW. This amounts to 15% in number of transactions and 51% in MW volume of the transactions recorded on the register for 2017.
- For the second auction of 14 December, there was a publication on 7 December, but only with transaction concluded until one week before the publication. This meant that the volumes related to ARENH transactions were not part of that publication. As of 11 January, no update had been published which means that the market remains to be informed about the transactions concluded during the auction.

[5] French CRM rules adopted as part of the ministerial order of 29 November 2016, available at: http://www.rte-france.com/sites/default/files/2016_11_29_regles_mecanisme_de_capacite_1.pdf.

EFET Recommendations:

- Legal certainty must be upheld, and the obligation for RTE to publish non-aggregated trade data for the delivery year 2018 and beyond should be clarified in the CRM rules.
- The frequency of publication of non-aggregated certificates trade data on REGA needs to be improved, both to fully comply with the existing provisions of article 4.1.3.3 and to ensure its usefulness for market participants:
    - A strict application of the monthly deadline for publication is a basic minimum.
    - Publication before and after auctions should be done closer to the auctions and should contain the most recent transactions to provide a complete and accurate view to market participants. A more precise timeline should be included in article 4.1.3.3, e.g. three business days before and after the auction and including transactions until that moment.
    - Serious consideration should be given to requiring weekly, possibly daily publication of non-aggregated trade data by RTE from 2018 onwards, for all delivery years, in order to give market participants transparency on what happens on the OTC market. The rather low number of transactions registered on REGA (361 for 2017, i.e. less than one per day on average) and the limited complexity of the publication (11 data points) does not justify the prolonged wait for an automation of the system that was promised to market participants before the end of 2017: in the meantime, manual weekly or daily publication, i.e. for seven or one transaction(s) respectively, seems to us a manageable burden for RTE.

2. *Notification and transparency obligations of market participants*

According to article 9.1.6.3.1 of the CRM rules, notification of a certificates trade must be done by market participants within five days of the conclusion of transaction. While we do not question this obligation in the rules, there have been a couple of difficulties linked to its application

First, the **functionalities of the REGA platform** foresee a notification at delivery. This misalignment of the REGA functionalities and the CRM Rules poses a problem for forward transactions, where trade conclusion and delivery can be more than five days apart. After EFET and individual market participants raised this issue, RTE establish a temporary notification procedure via email for forward transactions.

Second, we raised the issue with RTE and CRE in the course of 2017 of **sleeve trades of capacity certificates or trades by market participants acting on behalf of another party**, and how the notification rules could be adapted for them. As a reminder, sleeve trades are an established practice in energy markets whereby a market participant (B) serves as an intermediary for a trade between two other market participants (A and C) without intention to hold on the transacted energy. Sleeve trades are used e.g. when no master agreement is in place between parties A and C, or when parties A and C have reached their credit limits with one another.

This type of service is performed free of charge by the intermediary market participant in the vast majority of cases. EFET believes that while all the transactions involved in a sleeve trade (from A to B and then B to C) should be reported, the notification procedure on REGA could be simplified and the operation only be registered by the final parties to the trade as a single transfer of certificates, with an indication that the trade went through a third party. The intermediary would just need to confirm that it acted as a sleever. This would avoid that the intermediary spends time and money with certificates registration. It would also speed up the certificates registration on the account of the real purchaser of the certificates as the confirmation of the registration of a trade can take up to two days at each step of the process (so up to four days with a sleeve trade). EFET confirmed that the solution would also be adapted to the case of sleeve trades with the sleever (or agent) and one of the parties belonging to the same group.

For the two issues above, CRE and RTE postponed their proposal for a lasting solution to the upgrade of the REGA platform, which along the automation of non-aggregated trade data, was promised to market participants before the end of 2017.

EFET Recommendations:

- Proceed swiftly with the upgrade of the https://rte-opendata.opendatasoft.com/ website to align its functionalities to the full spectrum of the CRM Rules. In the meantime, allocate adequate RTE resources to the manual input and publication (including basic quality checks) for the few daily CRM trades.
- Finalise the reflection on the simplification of the notification procedure for sleeve trades and include the necessary changes in the upgrade of the REGA platform.

3. *Reform of the security coefficient*

As foreseen in section 6.1.4 of the CRM Rules, a security coefficient is established to ensure consistency between the level of obligation of suppliers and the level of certificates allocated to capacity providers, taking account of the contribution of interconnections to security of supply in France. According to article 6.1.4.3, the coefficient is set at 0,93 for the time being.

Considering the upcoming reform of cross-border participation of foreign capacities in the French CRM – more on this in part II of this document – RTE proposed on 11 December 2017 to modify the security coefficient for delivery year 2019 and beyond to 0,99[6]. The organiser of the auction and market participants were informed of this proposed change three days before the first auction for the delivery year 2019 (on 14 December 2017).

According to article 6.1.4.4, RTE should propose to CRE and the Energy Ministry and the latter should approve it based on advice of the former. According to the same article, the new security coefficient must be approved at least four years in advance of the delivery year, and should remain stable for the delivery year.

[6] Announcement on the RTE website, dated 11 December 2017, available at: http://clients.rte-france.com/lang/fr/visiteurs/services/actualites.jsp?id=9780&mode=detail.

We do understand the exceptional circumstances that led to the proposed modification of the security coefficient, and the need to give suppliers guidance before the first auction for the delivery year 2019 in December 2017 – given the fact that the coefficient drives their level of obligation. We also do understand the difficulty of a strict application of article 6.1.4.4 in the first years of operation of the CRM. However, we would like to point to a number of issues linked to the RTE proposal of December 2017:

- **Process**: The proposal for a new security coefficient was requested to be applied – and indeed applied – by market participants without approval of the Energy Ministry, and without advice of CRE. Applying this new security coefficient without the approval of Energy Ministry and advice of CRE, and without even a final version of the rules for cross-border participation of foreign capacities to the French CRM – which is the justification for a revision of the coefficient – appears particularly rushed, to say the least.
- **Stability**: While the direct application of what is technically still a proposal was defended by RTE as a way to ensure the stability of the security coefficient during the trading period, we would like to recall that the trading period for the delivery year 2019 had already started before the first organised auction on 14 December 2017, and that some transactions had indeed already been registered on REGA in the course of 2017.
- **Timing**: The RTE change proposal – de facto applied – was done only three days before the first organised auction for the delivery year 2019. While we understand that the requirement of article 6.1.4.4 to have any revision of the security coefficient happen at least four year in advance of the delivery year 2019 cannot be met, three days was an awfully short time for market participants to readjust their trading strategies for this first auction.
- **Transparency**: In the midst of this particularly rushed and legally uncertain process, an efficient way to build market participants trust is to provide them a high-level of transparency on the proposed change. A detailed publication of the calculation of the new security coefficient would have helped reassure market participants that the revision proposal has a high chance to be approved by the Energy Ministry. While we hope that CRE and the Ministry did get detailed explanations and calculations from RTE, market participants requested the full explanation of the security coefficient calculation without success.

EFET Recommendations:

- We invite CRE and the Ministry of Energy to proceed swiftly with the advice and approval of the RTE proposal for a new security coefficient.
- When conditions allow it, we request that RTE strictly abides by the CRM Rules that they designed themselves
- When exceptional circumstances do not allow the strict application of the CRM Rules, we request that RTE foresees sufficient time before making changes to the functioning of the CRM to ensure market participants are fully prepared before the design changes take effect, and provides sufficient transparency to ensure full understanding of the reach and significance of the changes by market participants.

II. Reaction to the RTE proposal for explicit cross-border participation of foreign capacities in the French CRM

In the course of 2017, RTE conducted a series of dedicated working group meetings ("*GT Mécanisme de Capacité*") and consultations with regard to the explicit cross-border participation of foreign capacities in the French CRM. We thank RTE for the open and constructive discussion, to which EFET, alongside TSOs and market participants from France and neighbouring countries, participated and actively contributed.

On 8 September 2017, RTE presented a proposal of amendments to the CRM Rules in the CAM Committee ("*Commission d'Accès au Marché*")[7]. While most of the elements of this proposal reflect the consensus that emerged during the dedicated working group meetings, one key element of the document was never discussed with market participants, and puts the reform at risk of actually achieving its goal. In this second part of our paper, we describe the basics of the RTE proposal as discussed in the dedicated working group, and highlight where we believe the new element included by RTE dooms it to fail to secure effective participation of foreign capacity providers.

1. Summary of the RTE proposal as discussed in the dedicated working group

The RTE proposal stems from the decision of the European Commission (DG Competition) of 8 November 2016 allowing the French CRM under the condition that the French government sticks to its promise to implement a solution for explicit cross-border participation of foreign capacities in the French CRM in 2018, for the delivery year 2019 and beyond[8]. Consequently, the Energy Ministry requested RTE to make a proposal.

For the time being, RTE proposes to reserve explicit participation in the French CRM to entities located in adjacent EU Member States. Capacities from non-adjacent EU Member States may be considered at a later stage, while those in Switzerland (an adjacent but non-EU Member State) are excluded as there was no corresponding requirement of DG Competition.

The RTE proposal is based on the fundamental principle that participation in the French CRM should be organised with the same rights and responsibilities for French and foreign capacity providers alike. To ensure the effectiveness of this principle, RTE is to conclude bilateral agreements with each of the TSOs on the other side of its borders with an adjacent EU Member State. These agreements would ensure that

[7] For more details on this, please refer to the RTE presentation and supporting document, dated 8 September 2017, accessible on the Concerte website (upon registration) at: https://www.concerte.fr/system/files/evenement_agenda/2017%2009%2008%20CAM%20mécanisme%20de%20capacité%20crossborder.pdf and https://www.concerte.fr/system/files/concertation/2017%2009%2008%20Rapport%20sur%20prise%20en%20compte%20de%20l%27interconnexion%20au%20système%20européen%20dans%20le%20mécanisme%20de%20capacité%20français_version%20pour%20discussion.pdf.

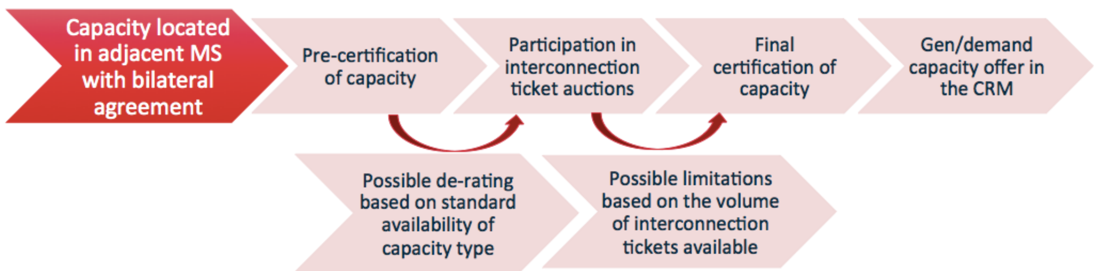
[8] Decision of the European Commission on State aid scheme SA.39621 2015/C, dated 8 November 2016 and published on 29 March 2017, available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.083.01.0116.01.ENG&toc=OJ:L:2017:083:FULL.

the (pre-)certification of capacities, control and penalty regime for non-compliance with the French CRM obligations are effectively carried out in the adjacent EU jurisdictions in a similar way to what RTE is performing in France as the organiser of the CRM.

For each adjacent EU Member State, RTE would be in charge of performing a statistical analysis of the availability of the interconnection in case of concomitant scarcity in France and the concerned country. On the basis of this an explicit contribution of the adjacent EU-Member State is established.

If no agreement could be reached between RTE and one of its counterparts, the interconnector itself would participate directly in the mechanism, with a volume of certificates corresponding to the full MW value of the statistical explicit contribution.

If an agreement is reached on the other hand, so-called "*interconnection tickets*" would be issued by RTE for each border, corresponding to the full MW value of the statistical explicit contribution. Once foreign capacity providers have pre-certified their available capacity with their local TSO, they will be invited to bid in an auction for these interconnection tickets. Following this, foreign capacity providers will be able to complete the certification of their available capacities based on the number of interconnection tickets they managed to secure (on the basis of one interconnection ticket equals one capacity certificate). Once equipped with capacity certificates, a foreign capacity provider could sell them on the French CRM like any French certificates holder.



Source: EFET

This is the basics of the RTE proposal as discussed in the dedicated working group meetings. EFET has expressed a few concerns in the course of the discussion, namely:

- **Scope**: RTE has closed the door to an explicit participation of Swiss capacities to the French CRM. We understand that the agreement with DG Competition concerns borders with other EU Member States only. However, the agreement does not explicitly exclude Swiss capacities from participation in the French CRM, nor does any European legislation. We therefore request that Swiss capacities be considered for explicit participation in the mechanism, and the security coefficient be adjusted accordingly. The example of the recent EU-Switzerland agreement on the linkage of their respective Emissions Trading Systems is a good example of effective cooperation in the energy field even in the absence of a wide-ranging energy agreement between Switzerland and the EU.

Also, we believe that capacities located in non-directly adjacent bidding zones do contribute to the security of supply of the zone where the CRM is established. In practice, this of course adds layers of complexity, requires multilateral agreements or bilateral agreements beyond France's direct neighbours, and would likely make capacity available for the French CRM in indirect neighbours scarcer than in direct neighbours. However, no outright exclusion should apply if concrete contribution to the French CM can be evidenced. As a matter of fact, the statistical analysis of RTE will only be realistic if it models countries beyond direct neighbours, as it is done for the "Bilan Prévisionnel" adequacy studies, so we assume the necessary data to be available. We therefore advise RTE not to exclude the possibility of an explicit participation of capacities from non-adjacent bidding zones altogether, and to consider extending the mechanism – and adjusting the security coefficient accordingly – once the mechanism has been tested for adjacent bidding zones.

- **Interconnection tickets trading**: The interconnection ticket system proposed by RTE is in line with the availability model at the core of the French CRM. We understand that this rightly means that the issuance of interconnection tickets would not result in reservation or ex-ante reduction in cross-border transmission capacities at the interconnectors.
  We believe that RTE should organise multiple auctions for the allocation of interconnection tickets, as early in the trading period as practically feasible, i.e. ideally in DY-4 and in the worst case in DY-3. Though not foreseen until a later stage, implicit allocation of interconnection tickets together with capacity certificates could be envisaged to simplify the whole system.
  In the meantime, and as long as interconnection tickets are allocated explicitly, the possibility to exchange them on a secondary market is of utmost importance. As a consequence, in case of downward re-balancing, we suggest the application of the use-it-or-sell-it principle instead of having an obligation to return the tickets to RTE (effectively a use-it-or-lose-it model). A secondary market does not necessarily need to be organised on a power exchange, it can take place on the OTC market without the need for RTE to put any new structure in place. The only arrangement that will need to be made is a procedure to inform RTE of the holder of the interconnection ticket(s) after a transaction has taken place. Since such arrangements already exist for the exchange of capacity certificates, EFET does not understand why these arrangements could not be extended to the interconnection tickets.

While EFET would have liked to see more progress on these elements, they were openly discussed in stakeholder meetings, and the options targeted by RTE in that regard were clear. In that sense, and without diminishing the relevance of our recommendations, we accepted the outcome of the stakeholder process on those questions.

2. *New interconnection capacity rents sharing proposal of RTE: the poison pill*

One novelty that was surely a surprise to many when RTE presented its proposal to stakeholders on 8 September 2017 is the manner in which they propose to share – or rather not – the rent of interconnection capacity with the neighbouring TSOs.

As a reminder, this matter was already discussed during the stakeholder engagement phase. As mentioned in our response to a consultation on the subject in June 2017 the distribution of revenues collected by interconnections (through interconnection tickets in the target model or through capacity certificates in the fallback option where RTE and the neighbouring TSO have not managed to conclude an agreement) poses the question of the incentive, for the foreign TSOs but also for RTE, to effectively pursue the development of the target model and conclude cooperation agreements[9].

However, **the RTE proposal of 8 September 2017 introduces for the first time the principle of reciprocity in the solution for explicit cross-border participation of foreign capacities in the French CRM**. Indeed, RTE proposes that the sharing of rents from the sale of interconnection tickets (in the target solution) or from the sale of capacity certificates by the interconnectors (in the fallback option) is conditioned on the existence of a “market-wide capacity mechanism” in the concerned Member State. If no “market-wide capacity mechanism” exists in the neighbouring EU Member State, then the following rule would apply:

- When an agreement has been reached with the neighbouring TSO (target model), then the sharing key of the interconnection ticket rents is subject to negotiations with the latter.
- When no agreement has been reached with the neighbouring TSO (fallback option), RTE will not share the rents of the capacity certificates sales with the neighbouring TSO.

Since the start of discussions on the explicit cross-border participation of foreign capacities in the French CRM, EFET has vehemently expressed its opposition to the introduction of any reciprocity requirement. **The existence and shape of a CRM in a neighbouring market can neither be a prerequisite nor a limitation to the participation of third-country capacity in the French CRM**. Applying restrictions based on a reciprocity principle to the sharing of rents from interconnection tickets or certificates sold by the interconnector stems from a skewed analysis, and is fundamentally detrimental to the effective participation of foreign capacity holders in the French CRM:

- **Legality**: This matter does not seem to have been discussed with the European Commission, and nowhere in its decision of November 2016 does DG Competition seem to foresee the possibility for a reciprocity clause. Introducing one **would contradict the fundamental principles of the Third Package and of EU Directive 2005/89/EC on Security of Supply**.

[9] EFET response to the RTE consultation on cross-border participation in the French CRM, dated 9 June 2017, available at: http://www.efet.org/Files/Documents/Downloads/EFET_RTE-consultation-XB-CRM_09062017.pdf

- **Justification**: The analysis that sharing proceed from the capacity value of the interconnectors with TSOs from a country without a market-wide capacity mechanism would create windfall profits for foreign consumers is simply wrong. If part of the capacity that ensures French security of supply stems from a neighbouring country, remunerating the cross-border transmission and generation/demand response capacities from that country cannot be considered as a hidden subsidy for the consumers of that country. **On the contrary, having those capacities in foreign countries or interconnectors remunerated for the value they bring to French security of supply is setting the balance right back where it belongs and getting rid of the windfall profit that French consumers are actually benefitting from at the moment** with the implicit – i.e. non-remunerated – contribution of interconnections in the French CRM.
- **Incentives to reach the target solution**: Incentivising foreign TSOs but also RTE to effectively pursue the development of the target model and conclude cooperation agreements is key to the effective functioning of explicit cross-border participation of foreign capacities in the French CRM that appropriately remunerates cross-border transmission and foreign generation/demand response capacities. This was the French government pledge to the European Commission. However:
    - Sharing the revenues from the capacity certificates between RTE and the foreign TSOs would intuitively seem the fairest option once again. Yet, it would not incentivise foreign TSOs to conclude cooperation agreements with RTE: indeed, if no agreement is in place, the TSOs would capture the entirety of the revenues linked to the contribution of a foreign bidding zone to the capacity mechanism. Even after sharing revenues with RTE, the foreign TSOs would profit more financially from the fallback option than from the target model, and would have the additional benefit of not needing to put a bilateral agreement in place nor a process for performing the necessary certifications of participating capacities.
    - Not sharing the revenues from the interconnection and keeping them for RTE reverses the problem: this time it would be RTE who would have no incentive to conclude agreements with foreign TSOs. Even if RTE has a mandate from the government and DG Competition to establish such cooperation agreements, they could be made so complex and burdensome that no foreign TSO could or would be willing to sign them.

  In both cases, **the losers are the generation and demand capacity providers in the neighbouring bidding zones, who would be excluded from directly participating in the French CRM**.
- **Poison pill effect**: Whether limiting in case of the target solution, or excluding in case of the fallback option, the application of a reciprocity clause for the sharing of rents from interconnection tickets or certificates sales by interconnectors will put a practical end to the explicit cross-border participation of foreign capacities in the French CRM before it even started. To this day, the only adjacent EU Member State that has a “market-wide capacity mechanism” in the sense that RTE give it is Great Britain, which is expected not to be an EU Member State by the end of Q1 2019 anymore – and hence be excluded

from explicit participation in the French CRM like Switzerland. The only other country that may fulfil this requirement in the future is Italy, depending on the current reform of the local CRM. For all the other countries, there is no indication that RTE would be willing to share rents from the interconnection capacity value – or how much – with the neighbouring TSOs if they did enter into an agreement. This will likely result in very limited incentives for foreign TSOs to enter into negotiations, and thereby to the de facto exclusion of foreign capacities (cross-border transmission and generation/demand-side response) from appropriate remuneration to the added security of supply they bring to the French system. In the end, the mechanism proposed by RTE will result in money charged by suppliers to French customers returning to French customers up to five years later following an unnecessarily complex process.

EFET Recommendations:

- Withdraw the concept of reciprocity of "market-wide capacity mechanism" from any part of the design of the reform for explicit cross-border participation of foreign capacities in the French CRM.
- For the target model – i.e. when a cooperation agreement is in place between RTE and a neighbouring TSO – introduce a 50-50 rule for sharing the revenues from the sale of interconnection tickets between RTE and its neighbouring counterpart, whether or not the neighbouring countries has a CRM in place and whatever the shape that CRM may have. This solution mirrors the one applied for cross-border transmission capacity, and would financially incentivise foreign TSOs to work on agreements with RTE.
- For the fallback option – i.e. when no cooperation agreement could be reached between RTE and a neighbouring TSO and where the interconnection itself would be granted capacity certificates – set aside the revenues from the certificates sales by the interconnector on a blocked account with no possibility to access the funds until an agreement is reached between RTE and the foreign TSO(s).