



Amstelveenseweg 998 1081 JS Amsterdam
Phone: + 31 20 520 7970
Fax: + 31 20 646 4055
Email: secretariat@efet.org
Website: www.efet.org
ABN Amro Bank Amstelveen:
Account no: 54 05 15 116

Pierre Buffière de Lair Secretariat EFET-France
C/o EOS Chemin de Mornex 10
CH-1001 Lausanne

RTE

Mr Olivier Lavoine
Directeur Marchés et
Interconnexions
Tour Initiale
12, Terrasse Bellini
TSA 41000
92919 La Défense Cedex
FRANCE

Lausanne, le 05 Septembre 2006

RE: Proposal for the implementation of secondary capacity trading on French interconnectors.

Dear Mr. Lavoine,

EFET FRANCE welcomes the opportunity to comment on your proposal to implement secondary capacity trading on French interconnectors. We favor increased flexibility and optionality in capacity allocation. Secondary capacity trading gives market players the possibility to manage their cross-border risks throughout the year and thus improving the efficiency of power markets. It is important that transmission system operators (TSOs) make such hedges available to promote the development of the liquidity, efficiency and competition. The benefits of the secondary market are more detailed in the enclosed EFET paper ("Secondary transmission capacity rights market model").

While we support RTE's initiative to introduce secondary trading, we are concerned that the suggested structure does not satisfy the requirements of the market. The proposed structure is comparable to the capacity transfer capability provided by TSO-Auction Office for the Dutch borders, which has following flaws.

- **The deadline for the notification of a transfer of capacity fixed at D-2 8 a.m.;**
- The reimbursement in case of curtailment rights goes back to the primary capacity owner instead the secondary owner who actually faces the commercial risks of curtailments.
- The TSO-Auction rules do not provide an automatic resell of non-nominated capacity (use it or sell it principle).
- A web based real time register that allows market participants to keep track of capacity owners is not available.

EFET believes that with the upcoming launch of the French secondary market of capacity rights, TSO Auction's pitfalls should be avoided; moreover, the improvements we suggest for the RTE model should also be considered also by TSO-Auction office, thus harmonization between secondary capacity markets and promoting further regional market integration.

In short, we propose the following improvements:

- **The deadline of notification acceptance for a transfer of capacity rights, as proposed by RTE, is not appropriate** with market requirements. Transfers should ideally be possible for yearly and monthly capacity rights until the last minute of the nomination gate closure and not the proposed D-2 or D-4 for Monday deliveries.
- EFET believes that the time needed for the acceptance of such a capacity trade by RTE should be as short as possible; therefore it is very important that **RTE commits to minimize the confirmation delay** towards the traders once a capacity transfer has been notified.
- The RTE rules only propose a voluntary resell of capacity. However, unused capacity after the nomination deadline should be automatically reallocated through a **Use-It-Or-Sell-It (UIOSI)** mechanism, which will reimburse the (primary or secondary) owner of non-nominated yearly and monthly capacity rights automatically at the daily auction value of the capacity right. In case intraday capacity right auctions exists, the same UIOSI principle should also be extended to the non-used capacity rights allocated in the daily auctions. This would be done at the capacity price of the intraday auction.
- Reselling capacity to the auction is a complementary service to being able to trade capacity rights. RTE's proposition is however far too restrictive to encourage market players to resell capacity. We believe that annual capacity holders should be able to split and **resell their capacity rights in monthly auctions, using products similar to what is currently auctioned** by RTE (Base, peak, offpeak...), thus not only limited to the proposed base product.
- RTE should disclose the capacity available and the names of the companies with capacity holdings (without disclosing individual positions).
- No fees should be charged for capacity transactions as charges will reduce market participants' interest in the secondary market. TSOs should work closely together in order to develop harmonized processes allowing reduced investments.

As a general remark, EFET would like to stress that the non-firm capacity rights currently auctioned by RTE will only undermine and complicate the secondary market. RTE should take this opportunity to offer firm capacity, as required in article 6.2 of EU regulation 1228/2003. RTE would then be able to intervene on the secondary capacity market and buy capacity rights back when curtailments are deemed necessary. Alternatively, when a buy-back is not possible and curtailments are necessary, RTE should compensate curtailed capacity holders (primary and secondary) at the full market spread. EFET has recently published a paper on maximization and firmness of capacity rights, which describes the benefits in more detail. We have enclosed the paper for your information.

Please see the specific comments on your draft proposal in appendix 1 for further details.

We would like to stress the importance of having a secondary market in-line with the market's need. We urge RTE to consider these concerns before finalizing their proposition in order to deliver the benefits sought from secondary trading.

Secondary markets were included in the roadmap for regional markets development in both Germany and the Benelux (Belgium and Germany). We are therefore copying CRE into our letter.

We will be happy to discuss any of the issues further if you wish.

Yours sincerely,

CC : CRE