

INTERCONNEXION FRANCE ANGLETERRE
(IFA)

CONSULTATION DOCUMENT

**PROPOSALS FOR THE IMPLEMENTATION OF
REVISED USE IT OR LOSE IT
ARRANGEMENTS**

26/05/2006

Consultation Version 26th May 2006

1 INTRODUCTION

- 1.1 National Grid and Réseau de Transport d'Electricité (RTE) are jointly responsible for the transmission of electricity across the Anglo-French Interconnector known as "Interconnexion France Angleterre" (IFA). The interconnector connects the national electricity transmission systems of France (owned and operated by RTE) and Great Britain (owned by three companies but operated by National Grid Electricity Transmission plc (NGET)).
- 1.2 The interconnector circuits comprise two AC to DC converter stations connected by 4 pairs of cables between Sellindge in England and Les Mandarins in France, some 70KM distance in total, of which 45KM is subsea. Electrical current enters and leaves the interconnector circuits at the respective points of connection to the national transmission networks at these converter sites.
- 1.3 This publication sets out proposals for the implementation of revised Use It or Lose It arrangements concerning capacity nomination procedures within the framework of the current third party Access Arrangements. This consultation should be read in conjunction with the IFA Access Rules.
- 1.4 A copy of the IFA Access Rules, (Issue 6) can be found at:
www.nationalgrid.com/uk and by clicking on Interconnectors, France, Consultations
or
www.rte-france.com and by clicking on Clients & acteurs du marché, Offres et services, Interconnexions, Modalités d'accès par frontière, France-Angleterre
- 1.5 Further information on the IFA can be obtained by contacting either National Grid or RTE:
- National Grid**
- Telephone **+44 (0) 1926 655531**
E-mail mark.pearce@uk.ngrid.com
Post National Grid, Interconnectors Business, National Grid House – B3,
Warwick Technology Park, Gallows Hill, Warwick. ENGLAND CV34
6DA
- RTE**
- Telephone **+33 (0) 1 41 02 17 87**
E-mail jean.pompee@rte-france.com
Post RTE – DRC, 1, terrasse Bellini, TSA 41000, 92919 LA DEFENSE
CEDEX, Paris, FRANCE
- 1.6 National Grid and RTE invite interested parties to provide comments on the proposals set out below and welcome alternative or amended proposals as appropriate. Comments should be provided no later than Friday 23rd June 2006.

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2 USE IT OR LOSE IT PROVISIONS

Background

- 2.1 The European Electricity Regulatory Mini-Forum for Republic of Ireland, France, and UK on congestion management took place in London on 15 February 2005. Representatives of the European Commission, Regulatory Authorities, Member State governments, TSOs and power exchanges from France, the Republic of Ireland, and United Kingdom met with a view to accomplishing the objectives as set out in the conclusions of the 11th Regulatory Forum ("Florence Forum") in Rome 16-17 September 2004.
- 2.2 Participants of the Mini-Forum noted that incremental improvements to arrangements which could enhance efficiency of trade might be possible in the area. For example, regarding the electricity interconnector between England and France ("Interconnector France Angleterre" - IFA), they consider that it may be possible in particular to refine further the operational effectiveness of the Use It Or Lose It rules.
- 2.3 In January 2006 the European Commission published draft Congestion Management Guidelines which if implemented will place a requirement on TSOs and Interconnector Operators to adopt Use It or Sell It or Use It or Lose It principles in ensuring the most efficient use of existing interconnector capacity.

Current Situation on IFA

- 2.4 Eligible Users can acquire interconnector capacity in accordance with the IFA Access Rules. Obtaining capacity permits the User the right to request (nominate) a transfer of electricity from one end of the interconnector to the other.
- 2.5 Capacity is sold separately in each direction.
- 2.6 All access rights (capacity) relate to a particular day and to each half hour period within that day. Capacity can be secured via a series of explicit "pay as bid" auctions at various periods in advance of the day of use.
- 2.7 Advance purchase of capacity is available in a series of capacity products in each direction ranging from up to 1 year ahead to one day ahead of the day of use.
- 2.8 The existing Pay as Bid auction process and the contractual obligation within the IFA access rules to pay capacity charges irrespective of use ensure that a capacity holder is incentivised to release unwanted capacity via the existing secondary capacity allocation arrangements.

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Secondary trading

- 2.9 A user that holds firm capacity may relinquish this capacity for use by others. There are two mechanisms to achieve this. The first is characterised as “sub-letting” and the second is achieved via a title transfer following its resale.
- 2.10 Sub-letting involves the reassignment of capacity to another eligible User where the original User retains the obligation to pay for that capacity. This is facilitated under E9 of the IFA Access Rules.
- 2.11 A title transfer can be realised through the resale of capacity (via the auction process) to another eligible User where the proceeds of the resale are returned to the original User. This is facilitated under E3 of the IFA Access Rules. No charge is made by the Interconnector Operators for this service.

Existing Use It or Lose It Arrangements

- 2.12 The IFA access rules contain a UIOLI provision based upon the requirement for a User to declare his intention to use or reallocate his capacity rights no later than 06:00 on D-1 or the day of the auction for the contract day in question. Any capacity that remains unused at this point is deducted from the Users entitlement and made available to the daily auction process.
- 2.13 National Grid and RTE monitor compliance with this rule to determine whether Users are abusing the process by effectively sterilising capacity through non-utilisation following the declaration of its use. In practice the rule is operated at high level and in exceptional circumstances to determine where such an abuse constitutes a breach of the Users obligations under the IFA access rules.
- 2.14 In developing the proposals set out in this consultation document National Grid and RTE have considered how the current Use It or Lose It arrangements operative within the Access Rules can be reinforced whilst achieving a reasonable balance between the sometimes conflicting concerns that arise between the legitimate rights of Users who have secured long term capacity and the adoption of more rigorous, rules based approaches to achieving optimum real time capacity utilisation. An important consideration has been the implementation of a sequential approach to the release of capacity such that long-term capacity holders rights are not unduly prejudiced in comparison to the opportunities available to Users acquiring rights in the Day Ahead auctions. This can be achieved in in two successive steps toward optimum utilisation whereby capacity is released, in the first instance (two different options are proposed), into a day ahead timeframe, followed by an the implementation of an Intraday allocation mechanism.

Step 1 - Option 1

- 2.15 This proposal (diagrammatically represented in Appendix 1) considers a first step, whereby holders of long term capacity rights (i.e. those secured in either the Annual or Periodic Auctions) are contractually obliged to firmly declare use by a pre-determined time on D-1 prior to the Daily Auction for the Contract Day in question. This declaration would be contractually binding in terms of the users capacity entitlement, thereby releasing any capacity over and above the Users declared utilisation in to the day ahead auction. The timing of this “contractual gate” would optimally be between 06:00 and 07:00 (GMT) on D-1. All long term capacity not declared for use at this stage would be automatically made available for resale in the

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Day Ahead Auction which follows. At this stage holders of long term capacity rights may be reasonably incentivised to release capacity which they do not intend to use by the potential implementation of a Use It or Sell It principle whereby they would receive payments derived from the proceeds of the Day Ahead auction process.

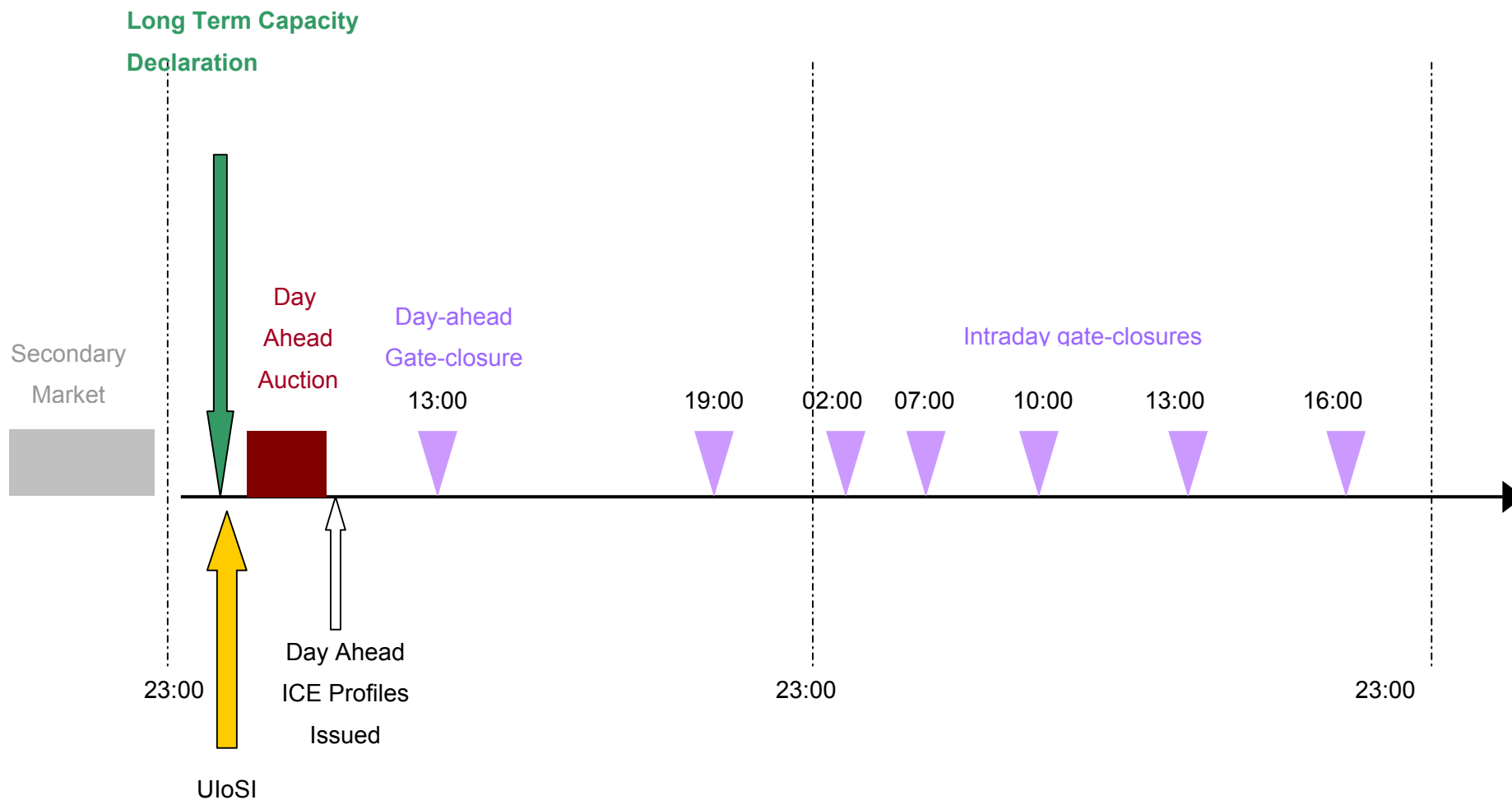
Step 1 - Option 2

- 2.16 This proposal (diagrammatically represented in Appendix 1) considers a first step, whereby holders of long term capacity rights (i.e. those secured in either the Annual or Periodic Auctions) are contractually obliged to firmly nominate them by a pre-determined time on D-1 prior to the Daily Auction for the Contract Day in question. This nomination would be contractually binding in terms of the users capacity entitlement, thereby releasing any capacity over and above the Users nominated capacity into the day ahead auction without compensation (UIOLI principle). The timing of this “periodic” gate would optimally be between 06:00 and 07:00 (GMT) on D-1.

Step 2

- 2.17 This proposal (diagrammatically represented in Appendix 2) builds upon Step 1 whereby day ahead capacity not nominated following the Day Ahead Gate Closure at 13:00 (GMT) is subject to the implementation of a Use It or Lose It principle. All capacity released from this process would be subject to a Market-based allocation mechanism designed to allocate capacity prior to the first Intra-day gate at 19:00. This mechanism, details of which are yet to be developed, may operate to optimally allocate capacity at half hourly, hourly or block resolution for the day in question.

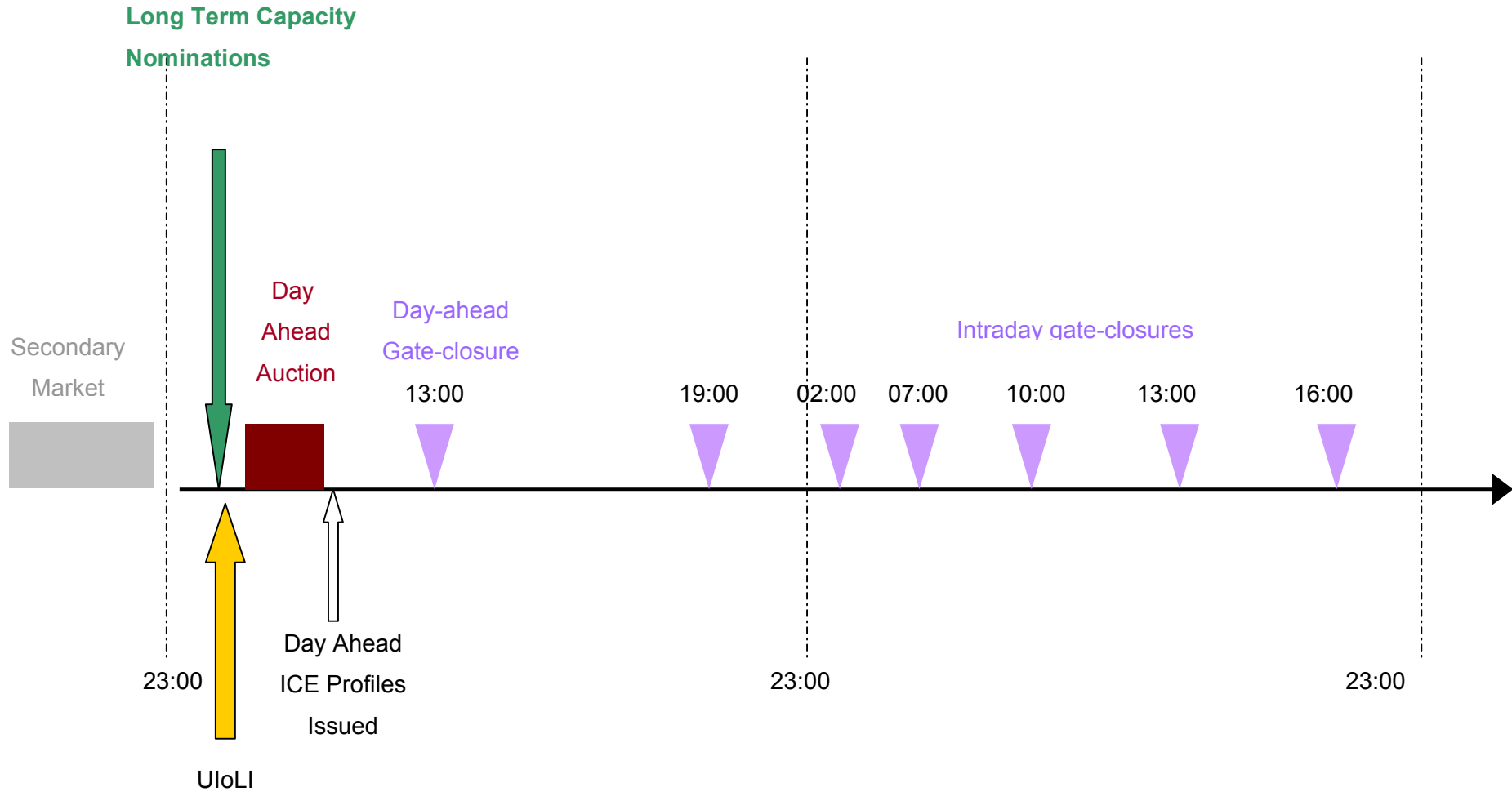
APPENDIX 1 – STEP 1 – OPTION 1



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Proposals for the implementation of revised Use It or Lose It arrangements

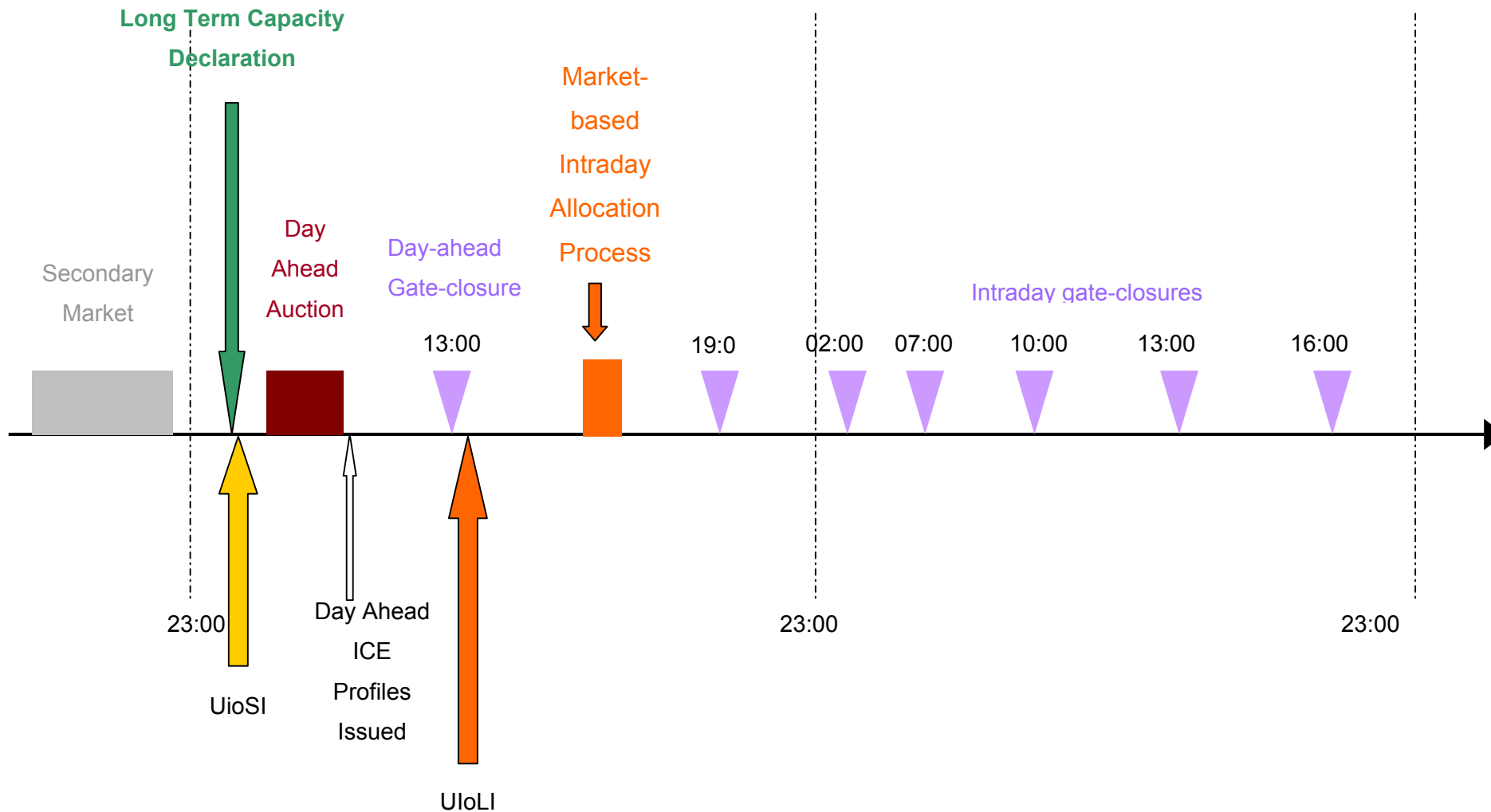
APPENDIX 1 – STEP 1 – OPTION 2



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APPENDIX 2 – STEP 2



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