

## **Summary of Consultation Responses Proposals for the implementation of revised Use It or Lose It arrangements**

### **Introduction**

On 26 May 2006, National Grid and RTE published a joint consultation seeking views regarding two possible options that may address the requirements of the Congestion Management Guideline that was published by the European Commission in January 2006. The consultation document was issued to approximately 30 existing and prospective IFA customers and to industry representative bodies. 13 responses were received representing a response rate of over 40%. A summary of the views shared by the consultation respondents is set out below.

### **Summary – General Views (Existing Arrangements vs. Options 1 & 2)**

Most respondents support an access regime that promotes efficiency and anti-hoarding. The majority of respondents (42%) preferred the retention of the existing IFA Access Rules citing that there is little evidence of capacity hoarding. Many respondents supported further consultation and development of existing secondary trading arrangements in preference to the options put forward.

The majority of respondents believe that current levels of participation and liquidity in IFA auctions means that no single market participant has undue market influence and existing secondary trading provisions allow the reallocation of IFA capacity that market participants do not intend to use. Coupled with this, current levels of market transparency provide the IFA Operators and regulators with sufficient information to identify and take action to restrain anti-competitive behaviour.

Further development of anti-hoarding provisions needs to allow market participants to take commercial positions regarding the use of their capacity in consideration of the most accurate and up to date price signals, as the timescales for trading moves closer to real time. Many respondents suggest that the proposed options are likely to reduce the flexibility of the existing long-term capacity products by forcing decisions to be made regarding capacity usage prior to adequate information being available from the relevant energy exchanges. It is considered that this would force sub-optimal use of the IFA and reduce competition for IFA capacity.

While not in support of the options included in the consultation, several respondents commented that increased flexibility in capacity allocation is needed and suggested that intraday allocation could address these concerns.

### **Summary – Option 1**

75% of respondents did not support Option 1 for the reasons stated above.

However, and as a direct comparison, a small number of respondents considered Option 1 to be preferable to Option 2 as this would allow long term capacity holders an opportunity to recoup some of the value of their capacity rights. There would also be an opportunity to acquire within day rights subject to the outcome of an intra-day auction. One respondent commented that Option 1 could encourage the release of capacity particularly at a time when spreads are tight.

## **Summary – Option 2**

100% of respondents were not in favour of Option 2. In many instances, option 2 was considered to share the same down sides as Option 1. However, another main consideration was the lack of compensation that Option 2 would provide for long-term capacity holders. Many respondents expressed the view that 'UIOLI without compensation' would increase IFA capacity pricing risk and discourage participation in the longer and medium term capacity auctions. The effect of this may be more acutely felt by smaller traders and increase the burden of market entry.

## **Summary – Step 2**

Although there was a lack of support for Options 1 & 2, Step 2 did receive some support in principle, in the event that revised use it or lose it arrangements were introduced. Although a small number of respondents commented that there was insufficient detail to determine how this would be applied.

The perceived benefit of Option 2 is the flexibility it would offer traders in aligning decisions regarding the acquisition of capacity and energy trades. This could increase efficiency of IFA use. However, one respondent noted that intraday capacity allocations could be cumbersome and difficult to manage. Other respondents noted that the perceived flexibility of intraday trading would be restricted due to limited intraday trading opportunities in France.

## **Alternative Suggestions**

A range of alternatives to Options 1 and 2 were raised which indicated a level of support for further development of the secondary market and a move towards more flexibility and intraday trading. These suggestions included:

- A voluntary statement of intention of use of capacity day ahead would allow long-term capacity holders to retain the beneficial flexibility of the longer term capacity products while facilitating the release of capacity that they were certain not to use.
- The proposed rules could be refined to allow nominations closer to gate closure.
- Information regarding IFA use could be made available by RTE and National Grid in a timely and non-discriminatory manner.
- A limit could be applied on the maximum capacity entitlement any single IFA customer could be allocated.
- The intraday Transfer Limits are reducing the intraday trading possibilities and could be eliminated for trading to develop.
- Secondary trading could address congestion management, however, this would require increased liquidity which could be boosted if secondary trading was possible intraday.
- Reductions in IFA availability below target should be compensated at the full market spread rather than the paid price. This would allow market players to hedge their transmission price exposure.
- At the day-ahead stage, multiple hourly products could be auctioned instead of the current daily products.